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FILE TITLE: LONDON ECONOMIC SUMMIT 9-10 JUNE 1984		SERIES ECONOMIC POLICY
PART BEGINS: 2 <sup>ND</sup> JUNE 1984		PART: 16 C
PART ENDS: 7 <sup>TH</sup> JUNE 1984		CAB ONE: 

Annex: BRIEFING PAPER

PREM 19/12/10

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PART 16 ends:-

RTIA to AJC A084/1667 7.6.84

PART 17 begins:-

E. Lanson to DB 8.6.84




TO BE RETAINED AS TOP ENCLOSURE

## Cabinet / Cabinet Committee Documents

Reference	Date
CC(84)21 <sup>st</sup> Item 2	07/06/1984

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

Signed 

Date 17/09/2013

PREM Records Team



Ref. A084/1667

MR COLES

WR 5/6  
h.a.London Economic Summit: Draft Declaration on Democratic Values

Thank you for your minute of 6 June.

2. I note the arrangements which the Prime Minister proposes for discussion of the Draft Declaration by Heads of State and Government and for issue to the press.
3. As to the drafts being prepared by the Foreign and Commonwealth Office on East-West Relations, Arms Control and The Gulf, I think it is envisaged that they should be given to the press by whoever is the official on the records spokesman for the Prime Minister after the afternoon session on Friday 8 June. They will have to be on the record, and therefore they could be prepared to be put out as a press release. I can see some advantage in that, in that that will make it more difficult for other countries to put different nuances; but it is likely to make it certain that other countries will wish to see the texts before they are cleared for issue.
4. I have amended the Draft Declaration as indicated at (a), (b), (d) and (e) of your minute. The phrase "our will to act with all countries in order to foster their prosperity" is a French draft, and the French may press for its reinsertion. Though it is fairly meaningless, I think it is also fairly harmless, and if other countries support the French Delegation on this, I do not think that it will be necessary to resist reinsertion.
5. I have for the time being left in the sentence "We respect genuine non-alignment" because it is a point to which I know the Japanese Prime Minister attaches the highest importance. When we come to discuss the draft among Personal Representatives, I will seek to secure its deletion; but the Japanese will attach much importance to it, and there may be others who support them.
6. I am sending copies of this minute to the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

7 June 1984

Approved by  
ROBERT ARMSTRONG

CONFIDENTIAL

and signed in his absence



CONFIDENTIAL

DECLARATION ON DEMOCRATIC VALUES

(Text of 7 June 1984)

We, the Heads of State or Government of seven major industrial democracies 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 and capacity to respond and adapt to change in all its aspects.

4. We believe that political and economic freedom are interdependent. 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, and personal initiative; in which all can share in the benefits of growth 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. Our countries have the resources and will jointly to master the tasks of the third industrial revolution.

5. We believe in close partnership with each other in the conviction that this will reinforce political and economic stability and solidarity 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 respect genuine non-alignment. We acknowledge the moral responsibilities that go with economic success. We reaffirm our keen concern about the problems of hunger and poverty in the world; and our determination to help those who most need it.

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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 responsibilities for effective defence.

7. We believe that, as we stated at Williamsburg, our security is indivisible and must be approached on a global basis. We are convinced that international problems and conflicts can and must be resolved through reasoned dialogue and negotiation and we shall support all efforts to this end.

8. 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.

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From: THE PRIVATE SECRETARY

✓ CC PC



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HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

AA 9/b  
f.a.

7 June 1984

Dear Richard,

ECONOMIC SUMMIT: DRAFT STATEMENT ON INTERNATIONAL TERRORISM

The Home Secretary has seen Sir Robert Armstrong's minute of yesterday to Mr Coles covering a revised draft press statement on the discussions on international terrorism.

The Home Secretary was generally content with the statement, but thinks that it would be very desirable to bring out more specifically than paragraph (f) does at present the suggestion that diplomats declared persona non grata in any one country on terrorist grounds might be declared persona non grata in all countries represented at the Economic Summit. The Home Secretary thinks that this suggestion will have considerable public appeal and is worth making the most of in the press release. This was, of course, the proposal made, after consultation with the Foreign & Commonwealth Office, by the Home Secretary at the Council of Europe Ministers of Justice Conference in Madrid last week. It was also referred to by the Home Secretary in Cabinet this morning.

I am sending a copy of this letter to John Coles (No 10), Peter Ricketts (FCO) and David Peretz (Treasury).

I am ever,  
Nigel

N A PANTLING

Richard Hatfield, Esq.

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Econ Pol: LES Pt 16



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Foreign and Commonwealth Office

London SW1A 2AH

7 June 1984

AD 2/6.

Dear John,

Economic Summit:  
Discussion at Dinner: Iran/Iraq

As requested, I enclose a self-contained Sitrep on the Gulf War, together with half a dozen points which the Prime Minister could draw from at dinner tonight.

I am copying this letter to Richard Hatfield (Cabinet Office).

Yours ever,  
Peter Ricketts

(P F Ricketts)  
Private Secretary

A J Coles Esq  
10 Downing Street

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ECONOMIC SUMMIT : DISCUSSION AT DINNER : 7 JUNE  
IRAN/IRAQ

POINTS TO MAKE

1. Immediate aim must be to contain the dangerous situation in the Gulf. Longer term objective is to end the conflict.
2. Little prospect of successful mediation but international community must do all they can to urge restraint on both sides.
3. Pleased that Gulf States took problem of attacks on shipping to UN. Security Council Resolution was more helpful than might originally have been expected. Important to preserve principle of freedom of navigation and end attacks on shipping by both sides.
4. Oil market calm. Supplies from Gulf not seriously affected so far. Current level of world oil stocks and excess capacity mean that we can avoid destabilising price movements if there is a disruption.
5. In the event of a serious escalation which threatens our joint interests we could not rule out some form of military action. But we would first have to exhaust all diplomatic efforts before this could be considered.
6. Need to keep in close touch over developments and co-ordinate action if necessary.

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ECONOMIC SUMMIT

38

1) Mr Butler  
2) Mr Coles  
Mr 7/6

PS  
PS/LADY YOUNG  
PS/MR RIFKIND  
PS/MR WHITNEY  
PS/MR RAISON  
PS/PDS  
SIR C TICKELL  
MR ~~KEWICK~~  
MR J THOMAS  
MR ~~KEWICK~~  
HD/ECONOMIC SUMMIT  
MR BARRINGTON

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ED/ECD (4)  
ED/ES & SD (2)  
ED/NAD  
ED/WED  
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ED/ESID (2)

RESIDENT CLERK

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EXCHEQUER ) TREASURY  
MR LITTLER )  
MR BOTTRILL )

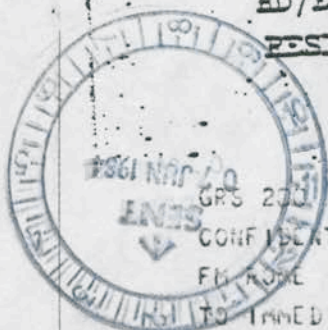
SIR R ARMSTRONG ) CABINET OFFICE  
MR COLVIN )

MR J CAINES ) DTI  
MR M BOURKE )

MR MCMAHON BANK OF ENGLAND

MR BUIST ODA

MS BOYS DEPT OF ENERGY



IMMEDIATE

ADVANCE COPY

TELNO 403  
OF 070930Z JUNE 1984

ITALY AND THE LONDON ECONOMIC SUMMIT

1. BEFORE CRAXI AND ANDREOTTI ARRIVE IN LONDON THIS EVENING YOU SHOULD KNOW THAT A ROW HAS BROKEN OUT HERE WHICH INVOLVES ANDREOTTI PERSONALLY AND WHICH HAS INCREASED TENSION BETWEEN THE SOCIALISTS AND THE CHRISTIAN DEMOCRATS (DC). ON 5 JUNE THE LEADER OF THE SOCIALIST GROUP IN THE CHAMBER OF DEPUTIES, FORMICA, CAME CLOSE TO ACCUSING ANDREOTTI BY NAME OF BEING THE BRAIN BEHIND THE P2 MASONIC LODGE (MYTELNO 336) AND OF HAVING PROFITTED FROM THE MURDER OF THE FORMER DC LEADER, ALDO MORO, IN 1978. COMING ON TOP OF EARLIER, THOUGH LESS CONTROVERSIAL, REMARKS BY CRAXI ABOUT THE MORO MURDER, THE INCIDENT HAS REOPENED WOUNDS WITHIN THE DC. FORMICA HAS NOT (NOT) APOLOGISED, AND CRAXI'S OWN COMMENTS ON THE AFFAIR ARE JUDGED LESS THAN SATISFACTORY BY THE DC. ANDREOTTI HIMSELF HAS DISMISSED THE MATTER WITH HIS CUSTOMARY SANG-FROID.

2. THERE IS PRESS SPECULATION TODAY THAT THE GOVERNMENT MIGHT EVEN FALL BEFORE THE EUROPEAN ELECTIONS. THIS ALMOST CERTAINLY RUNS AHEAD OF THE GAME, BUT CRAXI AND ANDREOTTI WILL HAVE DOMESTIC CONCERNS STILL MORE ON THEIR MINDS IN LONDON THAN THEY HAD ALREADY BEFORE THIS LATEST STORM.

BRIDGES

RRR





10 DOWNING STREET

THE PRIME MINISTER

7 June 1984

Dear Mr. Ramphal.

Thank you for your letters of 24 May. It was most helpful to have this expression of Commonwealth views. Congratulations to you on your appointment as Chairman of the United Nations Committee for Development Planning.

I can assure you that the questions you raise - such as debt, the functioning of the international monetary system and the problems of the poorest countries - will be very much on our minds at the London Economic Summit. We shall be briefing Commonwealth representatives in London on the results of the Summit.

One small practical point: our recollection of the outcome of discussion at the Commonwealth Consultative Group was that the conclusions were slightly less clear-cut than the enclosure to your letter of 24 May indicates. I have asked officials to be in touch on this point.

Yours sincerely  
Margaret Thatcher

His Excellency Mr. Shridath Surendranath Ramphal, A.C.,  
Kt., C.M.G., Q.C.

BM



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*file policy*

10 DOWNING STREET

*From the Private Secretary*

7 June 1984

London Economic Summit:  
Messages

Thank you for your letter of 5 June.

The Prime Minister has approved the reply to the UN Secretary-General and to Mr Hawke, as well as to the Interaction Council - subject to certain drafting amendments in each case.

I enclose copies of the amended versions and should be grateful if you would arrange for their despatch.

Peter Ricketts, Esq.,  
Foreign and Commonwealth Office

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Foreign and Commonwealth Office

London SW1A 2AH

7 June 1984

Dear John,

London Economic Summit: Political Questions

// Further to your exchange of minutes with Sir Robert Armstrong yesterday, I enclose two drafts for statements to the press on: East/West and Arms Control; and Regional issues. They take account of what we know of the views of participants, including those of Mr Trudeau as set out in his recent letter to the Prime Minister. They also include points put to us by various participants for inclusion in the draft Declaration on Democratic Values but thought to be more appropriate for separate treatment.

I am sending copies of this letter to David Peretz (HM Treasury) and Richard Hatfield (Cabinet Office).

Yours ever,

Peter Ricketts

(P F Ricketts)  
Private Secretary

A J Coles Esq  
10 Downing Street

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REGIONAL CONFLICTS, INCLUDING THE GULF WAR - POINTS FOR INCLUSION  
IN POSSIBLE PRESS STATEMENT OR BRIEFING

(General Points)

1. Grave concern at regional conflicts in various parts of the world, and at the threat they could pose to world peace.
2. Hope that all states, whether developed or developing, aligned or non-aligned, will join us in working for peaceful solutions through dialogue and cooperation.

(Specific Points on Gulf War)

3. Concern at mounting toll in human suffering, physical damage and political bitterness.
4. Concern at breaches of international humanitarian law during the conflict.
5. Call on both sides to cease attacks on each other and on the shipping of other states.
6. Reaffirm commitment to freedom of navigation.
7. Reemphasise need to take mutually reinforcing actions to make best use of the substantial oil supplies available and of other means to help limit the effects of a possible disruption in supplies from this region.
8. Believe peaceful and honourable settlement is within reach of the parties if political will exists.
9. Support any activities that might help to bring this about, particularly the efforts of the United Nations Secretary-General.

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EAST WEST RELATIONS AND ARMS CONTROL - POINTS FOR INCLUSION  
IN POSSIBLE PRESS STATEMENT OR BRIEFING

1. Desire for more stable and constructive relationship with the Soviet Union and other Warsaw Pact states in spirit of reciprocity, restraint and respect for everyone's legitimate security interests.
2. Ready for extended political dialogue and long-term cooperation with the Soviet Union and all Warsaw Pact states.
3. Believe East and West have important common interests:
  - in preserving peace: a nuclear war cannot be won and must never be fought;
  - in enhancing confidence and security: work to reduce risks of surprise attack or war by accident, and to improve crisis management techniques;
  - in security at the lowest possible level of forces: this requires balanced, equitable and verifiable arms control agreements;
  - in preventing the spread of nuclear weapons to other countries: strengthen Non-Proliferation Treaty.
4. Seek early and positive results in existing arms control negotiations: look to the Soviet Union to respond to proposals made to it, and to return to negotiating tables which it has quitted.
5. Peace and stability require a united effort: each of us ready to make our contribution.

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07 JUN 1964





ECONOMIC SUMMIT : DISCUSSION AT DINNER : 7 JUNE

IRAN/IRAQ

BACKGROUND

Land War

1. No sign yet of major Iranian offensive which may be launched during this holy month of Ramadhan. Iraq should be able to withstand an offensive as long as morale holds.

Attacks on Shipping in the Gulf

2. No reports of air attacks damaging shipping since 3 June when Turkish vessel was hit by Iraqis south of Kharg Island. However, reports are coming in that a Liberian-registered bulk carrier, damaged by an explosion on 7 June, may have hit a mine. The incident occurred on the Iranian side of the Gulf, about 200 miles south of any previous air attacks. A number of mines laid by Iraq in the northern Gulf some time ago are known to have been washed down the Gulf.

Saudi Attack on Iranian Aircraft

3. There is little further information from Saudi Arabia to add to their statement that a 'target' was shot down on 5 June in Saudi air space, having ignored warnings. Iran has now admitted that one F4 Phantom was shot down and has protested to Saudi Arabia. Iran claims that the aircraft was flying over international waters when it was shot down. They say the Saudis should refrain from any measures that might set the Gulf ablaze and that they will react severely in the event of further incidents. This response is relatively moderate and implies that Iran will be taking no overt action in retaliation for the incident.

Attacks on Civilian Targets

4. Iraq bombed the north-western Iranian town of Baneh on 5 June and the Iraqis claim that there were several hundred casualties. In retaliation, the Iranians shelled Basra and other Iraqi border towns on 6 June. The Iranians claim that 21 were killed in Basra and said they in turn had attacked Iranian towns in reply. Iran confirmed



this, saying that Iraqi bomb and missile attacks had caused casualties in three of their towns. A large number of towns have been named in threat and counter-threat by both sides.

Iraqi Appeal to Economic Summit

5. The Iraqi Foreign Minister has sent a message to the Foreign Ministers of Summit participants, asking for effective efforts to end the conflict. This includes a call for a commercial embargo and a ban on arms supplies to Iran. Iraq says it is willing to co-operate with the international community to reach a peaceful solution.

Oil Market

6. Spot rates normal. No response to Saudi attack on Iranian aircraft.

The Prime Minister may wish to draw on the general Points to Make at Annex A.



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10 DOWNING STREET

*From the Private Secretary*

SIR ROBERT ARMSTRONG

London Economic Summit:  
Draft Economic Declaration

Thank you for your minute of 6 June.

The Prime Minister is content for the latest revised draft of the Economic Declaration, which you attached to your minute, to be placed before Personal Representatives when you so choose.

With regard to your paragraph 5. the Prime Minister's intention is indeed to return from the National Portrait Gallery to 10 Downing Street via Lancaster House to look in on the Personal Representatives. But it might be best if this was conveyed to other Personal Representatives as a plan rather than a firm decision, in case developments during the Summit make it impossible.

I am copying this minute to Mr. Ricketts (Foreign and Commonwealth Office), Mr. Peretz (HM Treasury) and Mr. McCarthy (Department of Trade and Industry).

A. J. COLES

7 June 1984

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BR



Subject

OUT TELEGRAM

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LONDON ECONOMIC SUMMIT: MESSAGE FROM MR HAWKE TO THE PRIME MINISTER

**PRIME MINISTER'S**  
**PERSONAL MESSAGE**  
**SERIAL No.** *100-193/84*

*Prime Minister.*  
*Agree message to Mr. Hawke:*  
*A.J.C. 9/6.*

JUNE 84

1. Please deliver the following message to Mr Hawke from the Prime Minister in reply to his message about the Summit.

BEGINS:

Thank you for your message about the London Economic Summit. It was useful to have this further expression of Australian views as the Summit approaches.

Trade issues will certainly be at the core of our concerns at the Summit. I doubt if the Summit <sup>'s conclusions</sup> will be as specific as your own views in some areas. But I hope we can endorse completion of the existing commitments <sup>on</sup> liberalisation, perhaps on an accelerated timetable. I <sup>also</sup> hope that we shall ~~also~~ agree to explore the openings for a new GATT round, with a possible decision on it in 1985.

As you know I am making arrangements to send Sir Crispin Tickell to Australia to brief you on the outcome of the Summit. I want to be sure that you have a full account of the discussions.

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JUNE 84  
TO IMMEDIATE UKMIS NEW YORK  
TELEGRAM NUMBER

Prime Minister  
Apex message to Mr.  
Perez de Cuellar?  
A.S.C. 4/6  
Yes not

YOUR TELNOS 556 AND 557: LONDON ECONOMIC SUMMIT  
1. Please deliver the following message from the Prime Minister to Mr Perez de Cuellar:

BEGINS  
Thank you for your message about the London Economic Summit.  
I share the concerns you express and I assure you that the issues of trade and international debt and the plight of the poorest countries, particularly those in Africa, will be very much in our minds during the discussions at the Summit. I hope the Summit will give a clear message on how these countries can benefit from the world economic recovery.

I am making arrangements for you to receive the Declaration from the London Economic Summit as soon as possible.

ENDS  
2. Grateful if in due course you would take the action envisaged in the Prime Minister's final sentence.  
ENDS

///  
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Telephone number		
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Comcen reference	Time of despatch	



Prime Minister.

See questions in margin.

Ref. A084/1647

MR COLES ✓

*Mr G*  
I have highlighted the additional words in this draft compared with the previous draft.

London Economic Summit: Draft Economic Declaration

*FERB*  
6.6.

We have now received comments from most of the participants on the version of the Draft Economic Declaration circulated on 24 May.

2. Some of the drafting suggestions are improvements or are clearly uncontroversial, and we have incorporated them in a revised version of the draft, a copy of which I attach herewith. Others are not acceptable to us or are likely to be unacceptable to other participants. We have not incorporated these in the revised draft.

*Prime Minister.*  
*Agree?*  
*Mr G*  
*Yes no*

3. When the Personal Representatives meet on the evening of Friday 8 June, they will have before them (if the Prime Minister agrees) this latest revised draft, subject to any amendments which need to be made as a result of the day's discussions, together with a schedule of all the amendments proposed. Personal Representatives will then be able to go through the draft: I shall be able to explain why we have accepted those amendments we have accepted and why we have not accepted those which we have not; and Personal Representatives will be able to discuss what further amendments to make to the draft and to argue among themselves about the amendments which are controversial. It is intended that the outcome should be an agreed text, possibly with some sections in square brackets where Heads of State or Government will be asked to take decisions, for circulation to Heads of State or Government in time for discussion at their meeting on the morning of Saturday 9 June.

4. Until 1981 it was the custom for the Prime Minister, after her dinner, to descend upon Personal Representatives as they laboured away at the Draft Declaration, to give them encouragement and renewed enthusiasm for their task. Geography made this





impossible at Versailles, and the Prime Minister had already departed by the time Personal Representatives were discussing the Declaration at Williamsburg. If this year the Prime Minister felt able to come back from the National Portrait Gallery to 10 Downing Street via Lancaster House and look in on the Personal Representatives, they would all be thrilled and delighted.

Prime Minister

Agree?

MB

Yes no

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

RTA

ROBERT ARMSTRONG

6 June 1984

CONQUEROR



(Draft of 6 June 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 bring down fiscal deficits, and to control monetary growth.

4. But its continuation 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 and the creation of new jobs. 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.



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 and employment opportunities, we must make sure that the industrial economies adapt and develop in response to market needs and technological change. We must encourage active job training policies and 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. In our strategy for dealing with the debt burdens of many developing countries, 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, despite the painful and courageous efforts it requires. 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 continuously high or even further growing levels of international interest rates could both exacerbate the problems of the debtor countries and make it more difficult to sustain the strategy. This underlines the importance of 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 and where necessary reduce 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 encouraging flexibility in the organisation of working time;
- 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 of convergence of economic performance toward lower inflation and higher growth; ✓



(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;

(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 for the mutual benefit of all economies, industrial and developing; and, building on the 1982 GATT work programme, 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 great concern, the deterioration of the economic situation in Africa. We attach major importance to the special action programme for Africa which is being prepared by the World Bank. This programme should provide renewed impetus to the joint efforts of the international community in favour of this continent under threat.

10. 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. *This is rather open.*

11. We welcome the further 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.

12. 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 include a section on these matters in the report which it will make to Personal Representatives in time for the next Economic Summit. We welcome the invitation from the Government of the Federal Republic of Germany to certain Summit countries to a multilateral conference on the environment in Munich on 24-27 June 1984.

13. 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.



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14. We welcome the invitation from the President of the United States 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 invitation, having regard to their own space programmes. We welcome the intention of the United States to report at the next Summit on international participation in the programme.

[15. 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



Prime Minister.

This is Robert's Fraser's group.

Agree reply?

MLG

TELEX

VIENNA (UNDP)

Please forward the following message to the Interaction Council from the Prime Minister of the United Kingdom the Right Honourable Margaret Thatcher MP FRS:

BEGINS

"Thank you for your message of 25 May. I can assure you that the stability of the international banking system and the question of lower interest rates will be points of particular interest in our consideration of the world economic <sup>situation</sup> ~~scene~~ and the means by which the recovery can be best sustained."

ENDS

MLG



CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

ms  
9/8  
h.c.

Sir Robert Armstrong

London Economic Summit: Draft Declaration on  
Democratic Values

Thank you for your minute of 6 June. As you will have seen from my separate minute today on the order of discussion at the Summit, the Prime Minister wishes the Heads of State and Government to discuss the Declaration at about noon on Friday, 8 June, so that it can be issued to the Press at a suitable moment later in the day, probably at lunchtime.

Mrs. Thatcher will emphasise the importance of following this procedure at the working dinner at No.10 Downing Street tomorrow night.

With regard to your paragraph 8, I take it that the drafts which the Foreign and Commonwealth Office will prepare on East/West relations, arms control and the Gulf will be for the purpose of a press release. As you know, the Prime Minister will not be giving a press conference on the afternoon of 8 June.

The Prime Minister has looked at the revised text of the Declaration annexed to your minute. She has made the following comments:-

- (a) In paragraph 4 the phrase "standards of living can rise" is redundant, the sense being expressed in the previous phrase. She would prefer this to be deleted.
- (b) She would like the last sentence of that paragraph to read: "Our countries have the resources and will jointly to master the tasks of the third industrial revolution."

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- (c) In paragraph 5, the Prime Minister would much prefer the sentence "We respect genuine non-alignment" to be deleted. She believes that this sentence runs counter to the spirit of the Declaration which emphasises the basic beliefs and values of the Western democracies.
- (d) Also in paragraph 5, the Prime Minister would like the reference to "our will to act with all countries in order to foster their prosperity" to be deleted. She believes that this phrase is rather empty of meaning.
- (e) In paragraph 6, Mrs. Thatcher has queried whether the third sentence can appropriately find a place in this Declaration. She also believes that the last sentence largely repeats the sentiments in the second sentence of paragraph 5, and that it is desirable that it should be deleted.

I should be grateful if you would take these comments into account before the draft is circulated to other Personal Representatives and Political Directors.

I am copying this minute to Mr. Ricketts and Mr. Peretz.

*A. J. Cole.*

6 Juen, 1984.

CONFIDENTIAL



cc. Sir P. Cradock  
Mr. Ingham



10 DOWNING STREET

*From the Private Secretary*

SIR ROBERT ARMSTRONG

LONDON ECONOMIC SUMMIT: ORDER OF DISCUSSION

The Prime Minister has given further thought to the order in which she wishes matters to be discussed by Heads of State or Government at the Summit. She considered certain changes with the Foreign and Commonwealth Secretary this afternoon. The changes decided upon do not alter greatly the proposals contained in your letter to your Sherpa colleagues. The main alterations are:-

- A The addition of the Gulf to the political matters which will be discussed at dinner on Thursday, 7 June.
- B The deletion of international terrorism from the items to be discussed on the morning of Friday, 8 June.
- C The Prime Minister hopes that it will be possible at lunch on 8 June not only to continue the discussion of political issues but to approve the conclusions for release to the press.
- D At about 5 o'clock on Friday, 8 June, the Prime Minister will invite the plenary session to approve the political conclusions, if this has not been done earlier. The meeting will then proceed to discuss international terrorism (the Americans made it clear when they were at No. 10 Downing Street last night that they were looking for a substantive discussion of this subject - and were much less concerned about the content of any press release). The aim will be to approve a press release on this subject but if there is not time at the plenary session the press release might be considered over dinner at the National Portrait Gallery or first thing in the morning of Saturday 9 June.

For ease of reference for you and all other recipients of this minute, I annex a new order of discussion reflecting the Prime Minister's latest decisions.

/ I am

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CONFIDENTIAL

- 2 -

I am copying this minute, with its annex, to  
Mr. Ricketts, Mr. Peretz, Mr. Barrington and Mr. Ingham.

*A. J. Cole.*

6 June 1984

VSCACD

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ANNEX

ORDER OF DISCUSSION

Thursday 7 June

8.00 pm	Dinner at 10 Downing Street	Agenda for the Summit Political Issues: Statement of Democratic Values East-West Relations Arms Control and Disarmament The Gulf
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Friday 8 June

9.30 am	Restricted session at Lancaster House	Economic discussion: first round Approve statement on democratic values
1.00 pm	Lunch with Foreign Ministers at Lancaster House	Continue discussion of political issues and aim to approve con- clusions for release to press. Sir Geoffrey Howe to report on Foreign Ministers' discussions
2.30 pm	Plenary Session at Lancaster House	Continue economic discussion Mr. Lawson to report on Finance Ministers' discussion
5.00 pm		Either approve political conclusions (see above) or discuss international terrorism
8.00 pm	Dinner at National Portrait Gallery	Continue political discussions

Saturday 9 June

9.30 am	Plenary Session at Lancaster House	Continue economic discussions Consider draft economic declaration
1.00 pm	Plenary Lunch at Lancaster House	

/ cont.



(2.30 pm	Plenary Session	Complete consideration of draft economic declaration and approve it, if not completed and approved at morning session.)
4.00 pm	Guildhall	Prime Minister to read economic declaration
8.30 pm	Buckingham Palace	The Queen's Banquet



My dear Colleague,

You may find it helpful to have this account of the Prime Minister's proposals for ordering discussion by Heads of State or Government at the London Economic Summit.

Thursday 7 June

8.00 pm Dinner at 10 Downing Street

Agenda for the Summit  
Political issues:  
Statement of Democratic Values  
East-West relations  
Arms control and disarmament

Friday 8 June

9.30 am Restricted session at Lancaster House

Economic discussion: first round

~~11.45 and 12.15~~

Approve statement on democratic values

International terrorism

1.00 pm Lunch with Foreign Ministers at Lancaster House

Continue discussion of political issues.

and aim to approve conclusion to be released to press

Sir Geoffrey Howe to report on Foreign Ministers' discussions

2.30 pm Plenary session at Lancaster House

Continue economic discussion.

5.00

Either approve political conclusion (see above) or discuss international terrorism

Mr Lawson to report on Finance Ministers' discussion

8.00 pm Dinner at National Portrait Gallery

Continue political discussions

Saturday 9 June

9.30 am Plenary session at Lancaster House

Continue economic discussions

Consider draft economic declaration

1.00 pm Plenary lunch at Lancaster House

[2.30 pm] [Plenary session]

[Complete consideration of draft economic declaration and approve it, if not completed and approved at morning session]



4.00 pm Guildhall

Prime Minister to read  
economic declaration

8.30 pm Buckingham Palace

The Queen's Banquet

With best wishes,

Robert Armstrong



cc PC.

FROM: A R H BOTTRILL  
DATE: 6 JUNE 1984

MR PERETZ

cc ~~Mr Coles (No 10)~~ <sup>MR 76</sup>

PS/Foreign Secretary (FCO)  
Mr Tait (FCO)

Mr Hatfield (Cabinet Office)  
Mr Colvin " "

SUMMIT: INTERNATIONAL MONETARY MATTERS

Mr Littler has suggested that the Chancellor and others might find it helpful to have a copy of the G10 Ministers' communique with them. It goes with brief No 4 in the Summit series.

for Marie Halcrow  
A BOTTRILL

ENC



FOO

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TO WASHINGTON TELNO | SAVING OF 24 MAY 1984  
AND SAVING TO PARIS, ROME, TOKYO, OTTAWA, BONN, BRUSSELS,  
STOCKHOLM, THE HAGUE, BERNE, OSLO, CANBERRA, WELLINGTON,  
UKDEL IMF/IBRD WASHINGTON, UKREP BRUSSELS, UKMIS NEW YORK,  
UKMIS GENEVA, UKDEL OECD PARIS

2412700  
H/14

for d.k.

COMMUNIQUE OF G10 MINISTERIAL MEETING, ROME, 19 MAY 1984

1. The Ministers and Central Bank Governors of the countries participating in the General Arrangement to Borrow (GAB) met in Rome on May 19, 1984 under the Chairmanship of Mr. Giovanni Goria, Minister of the Treasury of the Italian Republic. The Managing Director of the International Monetary Fund, Mr. J. de Larosière, took part in the meeting, which was also attended by Mr. E. van Lennep, Secretary-General of the Organisation for Economic Co-operation and Development, Mr. A. Lamfalussy, Assistant General Manager of the Bank for International Settlements, and Mr. F.-X. Ortoli, Vice-President of the Commission of the European Communities.

2. The Ministers and Governors heard a report by the Chairman of their Deputies, Mr. Lamberto Dini, on the progress of the Deputies' work devoted to an examination of the conditions necessary to improve the functioning of the international monetary system. As agreed by the Ministers and Governors, that work has focused on four themes: (1) the functioning of floating exchange rates; causes of volatility and trend movements in exchange rates; (2) ways to strengthen multilateral surveillance, with a view to promoting greater policy coordination and exchange rate stability; (3) the management of international liquidity; and (4) the future role

1/4



of the IMF. The Ministers and Governors expressed satisfaction with the progress made to date and instructed their Deputies to continue their work in an urgent and thorough manner, with a view to submitting a final report during the first half of 1985.

3. With respect to the functioning of the floating exchange rate system, the Ministers and Governors noted that it had made a positive contribution to the maintenance of international trade and payments and to the adjustment process in a difficult global environment. They were of the view that a return to a generalised system of fixed parities was unrealistic at the present time. They expressed varying degrees of dissatisfaction with some aspects of the working of the system and they were convinced that it should be improved. The Ministers and Governors agreed that greater convergence of economic performances and compatibility of sound non-inflationary policies would make an essential contribution to growth and exchange rate stability. They also recognised the useful role that can be played by co-ordinated intervention in countering disorderly exchange market conditions.

4. The Ministers and Governors affirmed the need to strengthen multilateral surveillance over countries' policies, particularly within the context of the IMF, and make its mechanisms and procedures more effective. A number of suggestions to that effect have been made, and it will be necessary



to examine them in more detail before agreeing on specific measures and actions.

5. The Ministers and Governors noted that the area of international liquidity has received only preliminary consideration, and that a number of important questions remained to be addressed. Among these were the process of creation, control, and distribution of international liquidity, the role of the international financial markets, and that of the SDR. As regards allocations of SDRs they recalled that at the recent IMF Interim Committee meeting they had agreed to consider the matter again in September.

6. The Ministers and Governors noted that their Deputies' work on the future role of the IMF was also at a preliminary stage. They agreed that it was essential to maintain and safeguard the monetary character of the IMF, and they attached particular importance to the revolving nature of its financing. They emphasized the principle that Fund financing was available with appropriate conditionality to support balance of payments adjustment in member countries. They also stressed the need for closer cooperation between the IMF and the IBRD, and noted the valuable contribution that the latter institution can make in fostering structural adjustment.

7. The Ministers and Governors expressed their gratitude to the Italian authorities for their most cordial hospitality and for the excellent meeting arrangements.

HOWE

MONETARY  
ERD

COPIES TO: MR LAVELLE,  
HM TREASURY



Philadelphia  
(Mexico)

GR 160

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FM UKDEL IMF/IBRD WASHINGTON 070022Z JUN  
TO PRIORITY FCO  
TELEGRAM NUMBER 111 OF 6 JUNE  
INFO MEXICO CITY

PHILADELPHIA MONETARY CONFERENCE: ADVISORY COMMITTEE STATEMENT  
ON MEXICO

1. TEXT OF STATEMENT REFERRED TO IN MIPT FOLLOWS:  
QUOTE SENIOR REPRESENTATIVES OF THE COMMERCIAL BANKS FORMING THE  
ADVISORY COMMITTEE FOR MEXICO MET YESTERDAY IN PHILADELPHIA TO  
RECEIVE A REPORT FROM THE MANAGING DIRECTOR OF THE INTERNATIONAL  
MONETARY FUND, COVERING MEXICO'S PERFORMANCE IN THE SECOND  
YEAR OF ITS PROGRAM WITH THE FUND. ON THE BASIS OF THE SUBSTANTIAL  
PROGRESS MEXICO HAS MADE UNDER ITS ADJUSTMENT PROGRAM, THE  
ADVISORY COMMITTEE HAS AGREED TO NEGOTIATE WITH THE PERTINENT  
MEXICAN AUTHORITIES SPECIFIC ARRANGEMENTS FOR A RESCHEDULING OF  
ITS PUBLIC SECTOR DEBT ON A MULTI-YEAR BASIS COMPATIBLE WITH ITS  
MEDIUM-TERM FINANCIAL OUTLOOK. THIS MULTI-YEAR APPROACH SHOULD  
FACILITATE MEXICO'S PLANS FOR AN EARLY RETURN TO NORMAL MARKET  
ACCESS. UNQUOTE

2. FCO PLEASE ADVANCE TO PS/CHANCELLOR, LITTLER, LAVELLE (FOR  
WICKS) AND DIGGLE (HMT), PS/GOVERNOR, LOEHNIS AND GILCHRIST  
(BOE) AND TAIT (ERD).

CLARK  
MONETARY  
ERD  
MCAD

COPIES TO:-  
ADVANCE ADDRESSEES

(ADVANCED AS REQUESTED)





NOT FOR RELEASE BEFORE DELIVERY  
at 2:00 P.M. EDT  
Monday, June 4, 1984

Remarks by J. de Larosière  
Managing Director of the International Monetary Fund  
before the International Monetary Conference  
Philadelphia, June 4, 1984

I greatly welcome the opportunity to participate in this year's International Monetary Conference. The theme of this session--the Role of the Commercial Banks in the Prospective World Environment--is a broad and important one. I shall begin my remarks by taking stock of the progress--the very considerable progress--that has been achieved over the past year and a half in managing the debt problems. Next, I shall explain why the resolution of these problems can be viewed today with greater confidence than a year ago, in spite of some important difficulties which need to be tackled. Finally, I want to draw the lessons of recent experience for future policies and action on the part of governments and the commercial banks.

I. Managing the debt problems: progress to date

I need hardly remind this audience that the debt crises that erupted less than two years ago posed a real threat to the integrity of the international financial and trading system. There was a great deal of pessimism at that time. Some people felt that the burden of debt servicing facing a number of countries--including some of the largest debtors--simply could not be managed in a world marked by deep recession, historically high interest rates, and a sharp curtailment of commercial lending.

But the skeptics have been proved wrong. Developments over the past eighteen months have been encouraging. The various authorities and institutions responsible for international finance responded swiftly and decisively to the crisis. A cooperative strategy was set in place comprising two essential elements:

- concrete steps on the part of indebted countries to address the root causes of their financial difficulties by means of what we call "adjustment programs,"

- and concerted action on the part of the international financiers to maintain financial flows in support of those adjustment efforts.

The strategy has worked well. Let me give you the highlights.

1. Adjustment

Nearly all of the problem countries have sought the assistance of the Fund in drawing up and helping to finance adjustment programs. These programs are designed to correct the weaknesses in demand management and



to remove or reduce the rigidities and distortions that have contributed to the problems. They have to be carefully tailored to the specific circumstances of each case. But they have one objective in common: that is, to restore a viable external payments position within a few years.

The external adjustment that has taken place has been dramatic. Take the Latin American countries, for example, where much of the attention and concern has been directed: countries in that region with Fund-supported programs saw their combined external current account deficit coming down from \$41 billion in 1981 to \$11 billion last year while their trade accounts shifted from a deficit of \$7 billion to a surplus of \$24 billion. More generally, all the non-oil developing countries taken together cut their combined external deficit by half during those two years--from a record high of nearly \$110 billion in 1981 to \$56 billion last year. It is true that much of this external adjustment involved sharp cuts in imports and growth for many countries that are not sustainable. But a much more severe adjustment would have been inevitable in the absence of the Fund's programs; and the actions of the governments concerned with the Fund's support have helped to bring about the reduction in external deficits to more viable levels in a much more orderly manner than would otherwise have been possible. And it has been achieved without a further increase in trade restrictions which would have been detrimental to the prospects for growth in these countries. In fact, in some cases such restrictions have begun to be scaled down and these countries are now in a better position to resume growth.

## 2. Financing

The second element has been to keep financial flows moving. The greatly increased activity of the Fund in negotiating adjustment programs has involved a substantial growth in its financing. Since the middle of 1982, the Fund has lent some \$22 billion in support of adjustment in 66 member countries. A further \$8 billion of commitments are outstanding in support of the 34 programs that are presently in place. Because they have been linked to adjustment, these amounts have catalyzed additional financing on a much larger scale as well as rescheduling.

Rescheduling of official and commercial debt has had to be arranged for an unprecedented number of countries and on an unparalleled scale. In all, during 1983 alone, some 30 developing countries including 11 of the 25 largest borrowers completed or were engaged in debt rescheduling with official or commercial creditors. We estimate that debt restructuring arrangements eased the cash flow situation of the non-oil LDCs by some \$40 billion in 1983, equivalent to 8 percent of their exports of goods and services. In virtually all cases the agreements were anchored to a Fund-supported adjustment program.

It has also been possible to muster the essential commercial bank lending to support countries' efforts to adjust--a prospect that was in real jeopardy in late 1982. The indications are that commercial bank exposure in non-oil developing countries increased by some \$25 billion in 1983. That amount was broadly consistent with an orderly scaling



down of bank lending as well as with manageable adjustment in deficit countries. New bank financing commitments were closely integrated with rescheduling agreements, particularly in the case of the major borrowers.

Net new lending, together with restructuring, has helped to bring about a considerable improvement in the maturity profile of outstanding debt. The share of short-term debt in total external debt for the non-oil developing countries declined to some 15 percent at the end of 1983 from almost 20 percent at the end of 1982. As a result, we have seen the debt service ratio of the non-oil developing countries fall from 24 1/2 percent in 1982 to 21 1/2 percent in 1983. For the Latin American countries the debt service ratio fell from 54 percent to 44 percent over the same period.

II. The debt problems can be viewed with greater confidence today than a year ago

Thus, the strategy has been working, and working well. Better indeed than many had thought possible. And a number of encouraging developments have taken place that are helping to sustain this progress.

1. The Fund's resources have been reinforced

As you know, a number of steps have recently been taken to increase the resources of the Fund. At the end of last year member countries completed action to bring into effect an increase of nearly 50 percent in the Fund's basic capital resources. Agreement has also been reached on a threefold increase in the resources available to the Fund under the General Arrangements to Borrow (GAB), which is a line of credit with the major industrial countries; also, Saudi Arabia has agreed to lend to the Fund under an associated arrangement with the GAB. What is more, the GAB may now be used by the Fund not only for the benefit of Fund members among the Group of Ten major industrial countries but, under certain circumstances, for the benefit of any member country. Finally, the Executive Board has very recently approved other borrowing arrangements, totalling \$6.3 billion, with the Saudi Arabian Monetary Agency and a number of industrial countries with the assistance of the BIS. These steps have strengthened the Fund's financial position considerably and thereby its capacity to carry on its role as the agent of orderly and cooperative adjustment in the system. These important decisions were not easy to reach given the difficulties of the time. They are an expression of confidence in the IMF and of commitment to a liberal and open world economy.

2. Other institutional mechanisms have functioned well

The commercial banks, with the assistance of central banks, have developed and expanded their cooperation through advisory committees and their regional groupings in an exemplary manner. As for the Paris Club, it has demonstrated remarkable efficiency in handling the reschedulings of loans from official sources.



- 4 -

3. The world economic setting has significantly improved

With the strong performance of the U.S. economy, the recovery has proved to be stronger than many had anticipated. Growth in the industrial countries in 1983 turned out to be higher than expected and, even on the higher base, the Fund staff now expects a stronger expansion of economic activity in the industrial countries in 1984 than it did last fall. For the industrial countries as a group, we estimate that real output expanded by about 2 1/4 percent in 1983 (on a year-on-year basis) and should grow by 3 1/2 percent this year. Growth in the European countries in 1984, at about 2 percent, would still be behind that of North America and Japan, though it would represent a considerable improvement over last year. The international trade aspects of the picture are also encouraging. According to our projections, world trade will expand quite strongly this year--by over 5 percent in volume terms--after four years of stagnation.

4. Growth is picking up in the debtor countries in the developing world

Higher levels of activity and trade are not limited to the industrial world. The adjustment efforts of the developing countries are now beginning to pay off. Many of these countries are already experiencing a resumption of growth with activity in some sectors accelerating sharply. This is true not only of some of the smaller countries but of large countries too, like Mexico and Brazil, both of which are likely to record positive growth rates this year after a period of stagnant or falling output. In line with these trends, a resurgence of imports is projected for the great majority of countries implementing Fund-supported programs. For the nine largest program countries, the value of imports is projected to increase by 12 percent in 1984, compared with a decline of 9 percent last year. This amounts to a turnaround of nearly \$25 billion--an impressive potential stimulus for world trade.

5. The paradox of the present situation

It is therefore somewhat paradoxical that, in spite of the encouraging developments I have just outlined, some observers are showing renewed pessimism as to the manageability of the debt problems. I think that one of the reasons for this paradox is to be found in the lags that always exist between action being taken by debtor countries and positive results becoming known and recognized. The rigor of adjustment which has just taken place still tends to divert attention from the underlying improvements that are being brought about. Another factor has been the recent increase in interest rates. Clearly that is a troubling development. We all know that every additional percentage point on interest rates adds \$3 1/2 - 4 billion a year to the interest bill of developing countries. But this turn of events, which is hardly surprising in current conditions, has to be seen in perspective. The stronger-than-expected recovery and the large U.S. trade deficit have meant that many program countries are reaping unanticipated gains in export earnings. And the



countries are reaping unanticipated gains in export earnings. And the projections underlying most of our programs had left room for some increase in interest rates in 1984. The external position of debtor countries must be evaluated in the light of all of these elements. In our view, their balance of payments position is, on the whole, better today than our assessment of only six or eight months ago upon which the programs being drawn up at that time were based. What is of concern, however, is the uncertainty regarding the future evolution of interest rates. I shall have more to say on that subject in a moment.

III. What are the lessons to be drawn?

I have outlined the progress that has been made and I have noted that recent developments and the outlook are, on balance, encouraging. All this is not to say that there is any room for complacency: quite the opposite. What is needed now is vigilance and determination to consolidate and extend the progress to date. There are difficult issues that still confront us and uncertainties that will pose new challenges in the period ahead. I now want to draw the lessons of recent experience for future action.

1. We must avoid pessimism and wishful thinking

We are clearly going to have to avoid pessimism and wishful thinking. I have said it before and I shall say it again: there are no magical solutions to the problems we have been facing. Proposals have been made for panaceas such as writing off part of the debts or transferring them wholly or in part to official institutions, for official guarantees, or for techniques for linking debt servicing to one economic variable or another. But these proposals have attracted little support. One reason for this is that each country's debt situation has its own specific features that cannot adequately be taken into account in generalized approaches. Another reason is that these proposals involve financial support, subsidies, or losses to be assumed or provided by entities which the proponents have no power to control. In some ways such ideas tend to raise unjustified expectations and can, therefore, complicate the adjustment process. Also they could well cause certain lenders to turn away from the cooperative process and make it more difficult to maintain the cohesion that is needed to organize new financial packages. Indeed, these techniques must each be judged by their effectiveness and their capacity to keep the various financiers actively involved in the task of strengthening the international financial system.

I am confident that the most productive strategy--which does not preclude imagination and improvements--lies in the present country-by-country approach of the Fund, in collaboration with all the interested parties--governments, central banks, the BIS, commercial banks, and the World Bank--directed toward putting together realistic financial packages linked to adjustment programs that are both forceful and adapted to each country's situation.



- 6 -

## 2. More needs to be done by all parties

The second lesson is that a lot more needs to be done by all parties--debtor countries, the commercial banks, and the industrial countries--to consolidate the progress made so far and to bring about a lasting solution to the problems.

### a. Debtor countries

The implementation of adjustment programs by debtor countries will have to continue. This is obviously a first and paramount necessity. The impressive gains that have been realized in bringing down external deficits to more viable levels need to be followed up by more vigorous and determined efforts to remove the obstacles to domestic growth. There is considerable scope for developing countries to do more in the way of tackling rigidities in their economies that have for years been stifling growth and increasing their vulnerability to external shocks. Though progress has been made, much more flexibility is needed in prices, particularly interest rates and exchange rates, and wages. It is only through such policies, backed by counter-inflationary demand management, that we can expect to see debtor countries achieve the expanded savings, investment, and exports they need to generate productive employment and to fuel their growth and development.

It is also very much in the interest of debtor countries to do more to attract foreign capital especially in the form of direct investment. Clearly, better domestic economic policies are an important step in this direction. But many countries also need to dismantle or relax administrative controls on such flows. Expanded flows of direct investment to the developing countries are in everybody's interest. From the point of view of potential investors, it opens up new opportunities for investment in areas frequently offering high commercial rates of return. From the standpoint of the recipient countries, direct investment represents a more secure form of external finance, and one that does not involve the accumulation of external debt. Also, it carries the advantage of being tied to productive capital formation as well as forming part of a package that includes the transfer of technology and skills. Thus, the developing countries should be encouraged to remove obstacles to such flows and to place greater emphasis on policies designed to attract foreign direct investment as part of their development strategy.

### b. The commercial banks

There is also a crucial role for the commercial banks in the future, as in the past, in helping to cope with debt problems and in the provision of new finance. While fully consistent with the basic framework of a country-by-country approach, their role involves a new stage of the effort with a medium-term perspective.



(i) Reschedulings

A longer perspective may be particularly desirable in cases where heavy amortization payments due by some debtor countries over the next few years--countries that otherwise are performing well--impede a return to more normal market conditions. If problems are to be avoided and if we are to foster the conditions for a return to more spontaneous financing, restructuring will need to be looked at more closely in a medium-term context in the light of the resources that individual debtor countries might reasonably be expected to devote to debt servicing. Mexico, for example, faces repayments of principal that average about \$12 billion a year over the period 1985-90. Those amounts represent close to a third of its exports of goods and services, not to mention the very heavy interest burden.

In my view, a longer time frame for bank rescheduling arrangements for countries that have made or are making substantial progress towards adjustment would have several advantages. It would be a way in which to reward good performers, while avoiding the necessity for repeated annual rescheduling: it would also help to restore the conditions needed for a return to market access and serve to rebuild confidence in the system. Given the outstanding performance of Mexico, I believe that it would be an ideal time to start tackling this case in a multi-year framework. Other countries, like Brazil whose performance is improving steadily could also qualify if progress is sustained. The periods of consolidation as well as grace would have to be long enough and tailored according to each case.

(ii) New money

In the period ahead the commercial banks will also have a vital role to play in channeling new money to debtor countries implementing adjustment policies. Projections in the Fund's World Economic Outlook envisage a rate of growth of such lending that is much lower than in the years leading up to the 1982 crisis, and one which is consistent with a gradual decrease in the proportion of banks' assets committed to developing countries and a significant decline in their capital exposure to those countries. In addition, reliance on "non-spontaneous" flows will decline as the adjustment process continues in debtor countries. Again, Mexico provides a striking example of how a country making impressive progress toward adjustment is paving the way back to normal access to financial markets. This is reflected in its reduced reliance on organized bank financing: this year's financial package arranged with Mexico's bank creditors amounts to \$3.8 billion, compared with a package of \$5.0 billion that had to be put together in 1983. Progress is expected to continue and I am hopeful that Mexico will have to raise little or no new money from banks next year, and will be able to look forward to resuming normal market borrowing for what limited amounts may be necessary thereafter--assuming existing debt can be restructured.



Until such time as borrowing countries can regain access to the markets, it is important that all the banks--whether large or small and whether or not their foreign exposure is large-- participate in the provision of new financing justified by sound adjustment programs; this was managed successfully in 1983. The very integrity of the system depends on such cohesion. This is not to ask the banks to cast prudence aside. Quite the contrary. For sure, prudence involves covering risks and maintaining a solid capital base. But it also consists of helping to strengthen one's clients by giving them time to adapt to new circumstances and tackle their balance of payments problems. It would be highly illogical and harmful to the stability of the system if some banks sought to evade the obligations of solidarity at the very time when the strategy adopted in 1982-83 is beginning to bear fruit, as revealed by the progress of the major debtor countries in strengthening their economies and their external positions as well as by the medium-term prospects for a far-reaching improvement in their debt situation.

To achieve the broadest possible participation in the new financing packages, the time may well have come to increase the options open to the banks. One of the approaches that has been suggested deserves careful consideration. That is to allow greater scope for increased trade finance or other medium-term lending to the private sector. Provided that this could be handled in such a way that it would not frustrate the efforts to assure enough new financing to meet the requirements of the public sector that are not directly related to projects, this approach could well be a useful one.

(iii) Terms

It will also be important to see that the terms and conditions of restructuring and new lending are such that a self-defeating impact on the balance of payments and debt service capacity of debtor countries is avoided. Obviously, the demonstrated performance of countries under adjustment programs should be a key factor in the determination of terms. Indeed, there is an underlying logic to this: risk is reduced to the extent that countries perform well, and this should be reflected in appropriately improved terms. We have already seen encouraging moves in that direction with the recently concluded Mexican financial package.

Beyond that, there is the more difficult matter of the uncertainty surrounding the future course of the world economy in general and interest rates in particular. The interest burden is already very heavy indeed, and the banks will have to continue to show flexibility, realism, and pragmatism as the situation evolves.

3. The industrial countries

There is also an indispensable role for the industrial countries in the resolution of the current problems.



(a) Reduce structural budget deficits

In the first place, these countries need to strengthen their financial policies in order to bring about a lowering of interest rates on a non-inflationary basis. Essentially this means keeping a firm rein over monetary policy combined with action, now long overdue, to reduce structural fiscal deficits in a number of cases. Large budget deficits are contributing to keeping interest rates at abnormally high levels, and the most recent trends indicate that the clash between public and private credit demands is intensifying. Over time, this can pose a threat to investment and, hence, to sustained growth. From the standpoint of most of the developing countries, a faltering in the world recovery combined with the direct impact of higher interest rates on their debt service would make the task of adjustment significantly more difficult. Action to deal with budget deficits must, therefore, be taken as a matter of urgency, especially in the United States where the present fiscal situation is of special significance for the entire world economy.

(b) Roll back trade restrictions

Protectionism has been creeping up everywhere particularly over the past two years. The time has come to act to reverse these tendencies. In the present environment of rising growth rates, the industrial countries are now better placed to make good on their commitment to roll back protectionist barriers. At the same time, the developing countries have to be able to export more if they are to meet their debt service payments and to increase their imports. If their imports are to start rising again, debtor countries, many of which are still traumatized by the debt crisis, need a change in the trading environment. They must have a more secure future for their exports to encourage them to persevere with outward-looking adjustment strategies.

In my view, the time is ripe for action in the trade field. A new round of trade negotiations in the framework of the GATT would offer a promising avenue for securing the benefits of trade liberalization on a lasting basis. However, such negotiations are sure to require extensive preparation and complex trade-offs. In the meanwhile, we must get early action to roll back trade barriers as undertaken at Williamsburg and on pragmatic measures to open up access to industrial markets for LDC exports.

(c) Industrial countries must provide the necessary financial backing for adjustment

Governments of industrial countries must also provide the necessary financial backing for adjustment efforts, particularly in the form of guaranteed export credits and long-term capital either bilaterally or channeled through the multilateral development agencies like the World Bank. During the 1970s, too much emphasis was placed on commercial bank borrowing to cover the external payments gaps of developing countries. It is essential that official flows play their role in contributing to



- 10 -

the stability of the system and, where possible, to support programs arranged with the Fund. This is essential to facilitate the handling of structural adjustment in a medium-term context. I am convinced that the balance of payments adjustment programs that are being implemented, often at high social cost, must receive greater backing by long-term capital in order to tackle the fundamental obstacles to growth. To this end, continued close cooperation between the Fund and the World Bank is essential.

\* \* \* \* \*

In the Fund, we have made a careful assessment of the evolution of the debt problems in a medium-term context. That analysis demonstrates that with the right policies, the problems are manageable in the aggregate and in a manner that is consistent with strengthening the international financing and trading system. The prescription is to press ahead with the strategy now in place. That strategy has been working: it must be reinforced. This is not to say that the mechanisms cannot be improved by innovations that are acceptable to the interested parties. Creditors have shown a sense of flexibility and adaptation to changing circumstances. I am confident that they will continue to rise to the challenges with a broad and constructive vision. But let us not forget that it was weaknesses in national policies and undisciplined financing, by borrowers as much as by creditors, that produced the problems. And it is only by continuing to grapple with those fundamentals that we can look forward to re-establishing the underlying conditions for renewed financial stability and a more dynamic and prosperous world economy.



ECONOMIC SUMMIT

38

PS/NO 10 DOWNING STREET

PS  
 PS/LADY YOUNG  
 PS/MR RIFEIND  
 PS/MR WHITNEY  
 PS/MR RAISON  
 PS/PS  
 SIR C TICKELL  
 MR ~~KEWICK~~  
 MR J THOMAS  
 MR ~~KEWICK~~  
 HD/ECONOMIC SUMMIT  
 MR BARRINGTON

PRES UNIT  
DAB SE/117

PS/CHANCELLOR OF THE )  
 EXCHEQUER )  
 MR LITTLE ) TREASURY  
 MR BOTTRILL )

SIR R ARMSTRONG )  
 MR COLVIN ) CABINET OFFICE

MR CW ROBERTS )  
 MR H BOURKE ) DTI

MR MCMAHON BANK OF ENGLAND

MR BUIST ODA

MS BOYS DEPT OF ENERGY

ED/ED (2)  
 ED/ECU (4)  
 ED/ES & SD (2)  
 ED/NAD  
 ED/WED  
 ED/FED  
 ED/NEWS D  
 ED/ESID (2)

PRESIDENT CLERK

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FM PANAMA CITY 072230Z JUN 84  
 TO IMMEDIATE FCO DESKBY 080700Z  
 TELEGRAM NUMBER 70 OF 7 JUNE

MESSAGE FROM PRESIDENT OF THE REPUBLIC OF PANAMA TO MRS THATCHER

1. A MESSAGE IN SPANISH WAS HANDED TO ME THIS AFTERNOON BY THE VICE MINISTER ON THE PRESIDENCY FROM DR JORGE ILLUECA, PRESIDENT OF THE REPUBLIC OF PANAMA, FOR IMMEDIATE TRANSMISSION TO MRS THATCHER AND THE OTHER PARTICIPANTS IN THE ECONOMIC SUMMIT CONFERENCE. MY TRANSLATION IS AS FOLLOWS:-

PANAMA, 7 JUNE 1984

YOUR EXCELENCY  
 MARGARET THATCHER  
 PRIME MINISTER OF THE UNITED KINGDOM OF GREAT BRITAIN  
 AND NORTHERN IRELAND

YOUR EXCELENCY  
 PIERRE ELLIOT H. TRUDEAU  
 PRIME MINISTER OF CANADA

YOUR EXCELENCY  
 M. FRANCOIS MITTERRAND  
 PRESIDENT OF FRANCE

YOUR EXCELENCY  
 BETTINO CRAXI  
 PRIME MINISTER OF ITALY

YOUR EXCELENCY  
 YASUHIRO NAKASONE



YOUR EXCELENCY  
YASUHIRO NAKASONE  
PRIME MINISTER OF JAPAN

YOUR EXCELENCY  
HELMUT KOHL  
FEDERAL CHANCELLOR  
FEDERAL REPUBLIC OF GERMANY

YOUR EXCELENCY  
RONALD REGAN  
PRESIDENT OF THE UNITED STATES OF AMERICA

YOUR EXCELENCIES,

I HAVE THE HONOUR TO APPROACH YOUR EXCELENCIES TO SEND YOU MY BEST WISHES FOR THE SUCCESS OF YOUR 10TH SUMMIT CONFERENCE, EXPRESSING AT THE SAME TIME THE HOPE THAT YOUR IMPORTANT DELIBERATIONS BE TRANSLATED INTO URGENT DECISIONS WHICH WILL ALLEVIATE THE SHORT TERM PROBLEMS AND AT THE SAME TIME GIVE RISE TO WORLD WIDE NEGOTIATIONS OF HIGH POLITICAL CONTENT WHICH ASSURE A JUST AND BALANCED DEVELOPMENT OF THE INTERNATIONAL ECONOMY AND IN PARTICULAR THE ECONOMY OF DEVELOPING COUNTRIES.

AS PRESIDENT OF THE REPUBLIC OF PANAMA IN THE HEART OF LATIN AMERICA, I WISH TO ASSOCIATE MYSELF WITH THE TRANSCENDENTAL MESSAGE OF THE PRESIDENTS OF ARGENTINA, BRAZIL, ECUADOR, MEXICO, PERU AND VENEZUELA, SYMMSQH YOUR EXCELENCIES AS THE POLITICAL LEADERS OF THE SEVEN MAIN INDUSTRIAL COUNTRIES AND TO INVOKE ALSO THE IMPORTANCE THAT IN YOUR WORK, CONSIDERATION IS GIVEN TO THE DECLARATION AND PLAN OF ACTION OF QUITO PROCLAIMED AT THE LATIN AMERICAN ECONOMIC CONFERENCE ON 13 JANUARY 1984 OF WHICH I HAVE THE HONOUR TO HAVE BEEN ONE OF THE SIGNATORIES.

THE SITUATION OF LATIN AMERICA CAN BE VISUALISED THROUGH A DEEP AND PROGRESSIVE SOCIAL AND ECONOMIC DETERIORATION WHICH IS CLOSELY REFLECTED BY THE FACT OF POLITICAL AND INSTITUTIONAL INSTABILITY.

THE FINANCIAL DEMANDS TO WHICH LATIN AMERICA HAS BEEN SUBJECTED HAVE BEEN EXTREMELY SEVERE AND HAVE BROUGHT TO THE COUNTRIES IN THE REGION A DRASTIC REDUCTION OF THEIR LEVELS OF INCOME AND STANDARD OF LIVING OF THE PEOPLE, ESPECIALLY IN THE LOWER INCOME GROUP. THUS IT IS CLEARLY NOTICEABLE THROUGH:-

- A) THE PRODUCT PER HEAD IN THE REGION BEING REDUCED BY 11 PER CENT IN THE PERIOD 1980-83
- B) UNEMPLOYMENT AND UNDEREMPLOYMENT WHICH HAS GROWN IN A PROPORTION UNKNOWN SINCE 1945
- C) THE INFLATIONARY PRESSURES WHICH ARE THE HIGHEST IN THE WORLD WHICH ARE NOT LETTING UP.

THE INDICES OF EXTERNAL DEBT, DESPITE THE STRONG REDUCTION OF THE NET INFLOW OF CAPITAL IN 1982/83, EXCEED US DOLLARS 310 THOUSAND MILLION. IN OTHER WORDS, MORE THAN THREE TIMES THE ANNUAL VALUE OF



~~THE INDICES OF EXTERNAL DEBT, DESPITE THE STRONG REDUCTION OF THE NET INFLOW OF CAPITAL IN 1982/83, EXCEED US DOLLARS 310 THOUSAND MILLION, IN OTHER WORDS, MORE THAN THREE TIMES THE ANNUAL VALUE OF EXPORTS FROM THE REGION.~~

IT SHOULD BE NOTED THAT THE SERVICE OF THIS DEBT COMMITS LARGE PROPORTIONS OF INFLOW OF FOREIGN CURRENCY EARNED THROUGH EXPORTS. AS AN ILLUSTRATION, IN 1983 THE PAYMENT OF INTEREST OF THE DEBT REPRESENTED MORE THAN 50 PER CENT OF ITS EXPORTS. THIS YEAR LATIN AMERICA TRANSFERRED US DOLLARS 31 THOUSAND MILLION IN RESPECT OF INTEREST AND PROFITS WHICH IS EQUIVALENT TO 3.97 PER CENT OF THE GROSS NATIONAL PRODUCT OF THE REGION AND ALMOST 50 PER CENT OF THE NET SAVINGS OF LATIN AMERICA.

IN SHORT, THE COUNTRIES OF THE REGION FIND THEMSELVES OBLIGED TO REMIT ABROAD MORE RESOURCES THAN THEY RECEIVE, THEREBY FINDING THEMSELVES OBLIGED TO REDUCE THE VOLUME OF RESOURCES TO BE USED TO SATISFY THE BASIC NEEDS OF THEIR POPULATION.

THE CHALLENGE WHICH CONFRONTS THE REGION CANNOT THEREFORE BE LIMITED TO REDUCING THE RATES OF INFLATION BUT MORE TO THE PROMOTION OF AN INTEGRAL SYSTEM OF DEVELOPMENT OF THE COUNTRIES WHICH WILL ALLOW THEM TO USE THE INTERNAL POTENTIAL OF THEIR ECONOMIES AND TIED TO A MORE DYNAMIC AND SELECTIVE INTERNAL DEVELOPMENT. THIS EFFORT OF ECONOMIC AND SOCIAL DEVELOPMENT WITHOUT DOUBT URGENTLY REQUIRES THE SOLID SUPPORT OF THE INTERNATIONAL COMMUNITY, BEARING IN MIND THAT THE MAIN RESPONSIBILITY FOR THIS EFFORT WILL FALL TO THE LATIN AMERICAN COUNTRIES THEMSELVES.

THERE IS NO DOUBT THAT THE INTEGRAL DEVELOPMENT OF LATIN AMERICA WILL REQUIRE AN EFFECTIVE SOLUTION TO THE PAYMENT OF THE EXTERNAL DEBT, WHICH IN THE PRESENT CIRCUMSTANCES IS CAUSING THE BIGGEST DETERIORATION IN THE SOCIAL AND ECONOMIC CONDITIONS IN THE REGION.

IN THE RENEGOTIATION OF THE EXTERNAL DEBT NO COUNTRY IN LATIN AMERICA OUGHT TO COMMIT ITS NATIONAL INCOME BEYOND A PERCENTAGE WHICH COMPROMISES THE STABILITY OF ITS SOCIAL DEVELOPMENT. IT IS ESSENTIAL TO FIGHT THE DETERIORATION OF SOCIAL AND ECONOMIC DEVELOPMENT AND EVEN LESS EXPOSE THE DEBTOR COUNTRIES TO INSTITUTIONAL AND SOCIAL INSTABILITY WHICH NOT ONLY WOULD AFFECT ITS ABILITY TO PAY BUT AT THE SAME TIME WOULD CAUSE UNPRECEDENTED MAJOR CHAOS.

AS PRESIDENT OF THE 38TH GENERAL ASSEMBLY OF THE UNITED NATIONS AND PRESIDENT OF THE PREPARATORY COMMISSION FOR THE COMMEMORATION OF THE 40TH ANNIVERSARY OF THE WORLD ORGANISATION, I AM CONFIDENT THAT YOUR EXCELENCIES WILL HAVE PRESENT IN YOUR MINDS DURING YOUR DELIBERATIONS, THE MOTIVES WHICH DROVE THE GENERAL ASSEMBLY TO APPROVE RESOLUTION 34/138, IN WHICH IT WAS DECIDED TO LAUNCH GLOBAL NEGOTIATIONS ON INTERNATIONAL ECONOMIC COOPERATION FOR DEVELOPMENT, WHICH SHOULD INCLUDE IMPORTANT MATTERS IN THE FIELD OF BASIC PRODUCTS, ENERGY, TRADING, DEVELOPMENT, MONEY AND FINANCING.

THIS FORTUNATE DEVELOPMENT MEETS THE PROFOUND CONCERN OF



~~THIS FORTUNATE DEVELOPMENT MEETS THE PROFOUND CONCERN OF~~  
THE INTERNATIONAL COMMUNITY, IN PARTICULAR THE DEVELOPING COUNTRIES,  
BECAUSE OF THE LACK OF CONCRETE PROGRESS IN THE ESTABLISHMENT OF A  
NEW INTERNATIONAL ECONOMIC ORDER.

WITH TIME THE SITUATION HAS GROWN WORSE SINCE THE INTERNATIONAL  
MEETINGS AND CONFERENCES WHICH HAVE TAKEN PLACE TO DATE HAVE  
NOT MADE ANY SIGNIFICANT PROGRESS THROUGH THE ACTIONS OF THE  
INTERNATIONAL COMMUNITY TO REPRESENT COUNTRIES IN AFRICA, LATIN  
AMERICA AND ASIA IN THEIR EFFORTS TO PROMOTE THEIR DEVELOPMENT.

THE GRAVE ECONOMIC CRISIS FROM WHICH THE WORLD HAS BEEN  
SUFFERING IN THE LAST THREE YEARS HAS HAD SERIOUS REPERCUSSIONS  
ON THE GREAT MAJORITY OF DEVELOPING COUNTRIES AS MINISTERS OF  
THE GROUP OF 77 POINTED OUT IN BUENOS AIRES. THE STAGNATION OF  
THE GROSS INTERNAL PRODUCT, DEBT, THE DETERIORATION IN THE TERMS OF  
TRADE, THE IMPOSSIBILITY OF OBTAINING FINANCIAL RESOURCES ON SOFT  
TERMS, THE RAVAGES CAUSED BY GROWING PROTECTIONISM, INADEQUATE  
INTERNATIONAL LIQUIDITY, HAS DRIVEN MANY OF THESE COUNTRIES INTO  
A SITUATION OF DEEP SOCIAL AND ECONOMIC DEPRESSION.

I MUST INSIST THEREFORE, AS I DID BEFORE THE GENERAL ASSEMBLY,  
THAT IF TO THIS PICTURE IS ADDED THE DIFFICULT SITUATION IN  
WHICH THE POOREST COUNTRIES FIND THEMSELVES WITH PROBLEMS OF  
UNEMPLOYMENT, HUNGER, MALNUTRITION AND HEALTH, I DO NOT THINK I  
AM WRONG IN EMPHASISING THAT IF SUCH CONDITIONS CONTINUE THE SOCIAL  
REPERCUSSIONS OF THE ECONOMIC CRISIS CAN DRAG MANY OF THESE  
COUNTRIES INTO INCALCULABLE POLITICAL DISASTERS WHICH WOULD AFFECT  
INTERNATIONAL PEACE AND SECURITY.

THESE FACTS UNDERLINE THE URGENT NEED TO BRING TO ITS  
CULMINATION THE PROCESS UNDERTAKEN IN THE 38TH GENERAL ASSEMBLY  
WITH THE POSITIVE PARTICIPATION OF THE DISTINGUISHED REPRESENTATIVES  
OF THE COUNTRIES OF YOUR EXCELENCIES. THESE EFFORTS HAVE BEEN  
DIRECTED TOWARDS THE FORMULATION BY CONSENSUS OF A FOCUSING OF  
ATTENTION AND SENSIBLE AND PRAGMATIC PROCEDURES WHICH MAKE  
COMMENCEMENT OF GLOBAL NEGOTIATIONS WITHIN THE FRAMEWORK OF THE  
UNITED NATIONS VIABLE. I BELIEVE I AM ACTING IN ACCORD WITH THE  
PRINCIPLES AND AIMS OF THE CHARTER OF SAN FRANCISCO BY INVITING  
YOUR EXCELENCIES TO CONSIDER FAVOURABLY AND I HOPE OF COMMENCING  
A NEW HIGH LEVEL NORTH/SOUTH DIALOGUE TO MOTIVATE GLOBAL  
NEGOTIATIONS, CONSIDERING THE INTEREST SHOWN BY THE HEADS OF  
GOVERNMENT OF DEVELOPING COUNTRIES.

NOTHING WOULD BE MORE HOPEFUL FOR HUMANITY THAN ON THE  
OCCASION OF THE CELEBRATION OF THE 40TH ANNIVERSARY OF THE BIRTH OF  
THE UNITED NATIONS FOR A NEW PATH TO BE OPENED TOWARDS A NEW  
NORTH/SOUTH SUMMIT TO MEET THE EXPECTATIONS WHICH THE INTERNATIONAL  
COMMUNITY NURTURES DURING YOUR MEETING IN LONDON.

IT IS A PLEASURE FOR ME TO REITERATE TO YOUR EXCELENCIES  
MY FERVENT WISHES FOR THE SUCCESS OF YOUR TASKS, AND AT THE  
SAME TIME I TAKE THE OPPORTUNITY TO RENEW TO YOU THE ASSURANCES  
OF MY MOST DISTINGUISHED CONSIDERATION.



IT IS A PLEASURE FOR ME TO REITERATE TO YOUR EXCELENCIES  
MY FERVENT WISHES FOR THE SUCCESS OF YOUR TASKS, AND AT THE  
SAME TIME I TAKE THE OPPORTUNITY TO RENEW TO YOU THE ASSURANCES  
OF MY MOST DISTINGUISHED CONSIDERATION.

JORGE E. ILLUECA  
PRESIDENT OF THE REPUBLIC OF PANAMA

PRESIDENT OF THE XXXVIII GENERAL ASSEMBLY  
OF THE UNITED NATIONS

2. THE ORIGINAL TEXT IN SPANISH FOLLOWS BY NEXT WEEK'S BAG.

STEGGLE

NNNN





10 DOWNING STREET

THE PRIME MINISTER

Intro. - Signor Cossu - newscaster  
Hope to achieve agreement & understanding

RECOVERY OF ECONOMY

Progress - market sustained  
- still problems to tackle  
not easy need MT strategy

Sustain - reduce inflation  
restrain public expenditure  
" borrowing  
" monetary growth

Not easy or comfortable  
but basis to sustain

Strategy right one - first message -  
intend to stick to it





21

10 DOWNING STREET

THE PRIME MINISTER

Problems to tackle - inflation not yet  
out of system

- unemployment
- high level of I.R. (Recovery with  
heavy deficit)
- restoring public expenditure  
difficult because of pressures  
- expectations still powerful

Need to limit amounts to those which  
can be financed by tolerable levels of  
tax on working popl:

Need to curb unrealistic expectations





10 DOWNING STREET

THE PRIME MINISTER

# INTERNATIONAL DEBT

Level - serious - pressing problem  
- need to discuss strategy.

Debt countries - adjustment  
unavoidable.

No easy or painless sol<sup>n</sup>

- can talk about ways in which  
international financial institutions  
often can help.

∴ Problem manageable that way.

e.g. South Korea, Indonesia

Peru.

Now (while earlier times)

(i) EFFECTIVE INTERNATIONAL INSTITUTIONS





4

## 10 DOWNING STREET

THE PRIME MINISTER

and (iii) through the many summits  
- means to develop common  
understanding of problems  
and co-operation needed to  
resolve them.

∴ opportunity to pool & discuss  
ideas

a) where doubts beginning to erode  
confidence  
COMMERCIAL BANKERS willing to  
contemplate larger loan  
rescheduling of debt. - eg. Mexico.  
Emergency.

b) and - banks to explore ways  
in which own balance sheets  
could strengthen





10 DOWNING STREET

THE PRIME MINISTER

- c) debtor countries - substantial  
reduced reserves  
Foreign markets - equity stakes  
Need international agreement on  
investment protection.  
Such investment - help ease  
burden of debt. - also  
healthier than short term bank  
finance. and brings technological  
expertise worldwide through  
connection  
Countries which have welcomed  
lenders to be among those  
developing most rapidly
- d) - If debtor countries to undertake  
way leads to sound position  
problems must be discouraged  
among our countries





61

10 DOWNING STREET

THE PRIME MINISTER

e) active / financial intervention  
from leading more closely to  
performance of borrowers -  
act as catalyst to attract  
private capital.

Each country different - must  
be dealt with on a case-by-case  
basis.

Joint concern by creating framework  
for action which gives hope to  
debtor & creditors that problems  
can be overcome & confidence  
restored.

Need adequate flow of aid  
help to enhance dev. countries  
production.



## TECHNOLOGICAL CHANGE

Need to adjust.

U.S. - Japan - needed more new jobs.

Lessons → (i) Pub. exp. smaller prop.  
 They (ii) - more scope to industry  
 + enterprise to promote change?

We - less enthusiasm for change  
 legacy of restrictive practices  
 job reserves to protect jobs - still not dedicated  
 them.

Explore - how to stimulate  
 wider industrial response to  
 tech. change  
 new market demands



10 DOWNING STREET

How - encourage people  
adapt to new methods  
totally different jobs.

Adaptive measures to encourage  
new innovative business

? Remove or Reduce measures  
to prop up declining industries.

Alert on change - message.

International Trade



CONFIDENTIAL

ASC

2



Foreign and Commonwealth Office

London SW1A 2AH

6 June, 1984

Prime Minister.

A. J. C. G.

Dear John,

Economic  
Folder  
mb

Call by Six Latin American Ambassadors on Sir Crispin Tickell,  
Wednesday, 6 June 1984

The Ambassadors of Brazil, Colombia, Ecuador, Mexico, Peru and Venezuela called on Sir Crispin Tickell today to hand over a pre-Summit message from their Presidents (and from the President of Argentina - represented by the Ambassador of Brazil) to the Prime Minister in her capacity as both Head of Government and host of the London Economic Summit. I enclose a copy of the message and a translation, together with the official text of the Joint Declaration of 19 May by the Presidents of Argentina, Brazil, Colombia, and Mexico, which the Ambassadors also handed over.

The Brazilian Ambassador said that copies of the message were being handed over to the Foreign Ministries of other Summit participants in their respective capitals. He hoped that the message would be in the hands of Heads of Government in time for the Summit.

Sir Crispin Tickell offered to brief the Latin American Ambassadors on the outcome of the Summit, probably on 13 June, after the Prime Minister's statement in the House. The Ambassadors welcomed this.

We will advise the Prime Minister after the Summit on whether and, if so, how she might respond to the message. But it is notable for its moderation and concentrates on the need for a constructive dialogue between all concerned in tackling the debt problem. The message underlines the Latin American concern about the effects of interest rates and protectionism. There is no hint of a debtors' cartel.

I am copying this letter, and enclosures, to Richard Hatfield (Cabinet Office) and David Peretz (HM Treasury).

Yours ever,  
Peter Ricketts

(P F Ricketts)  
Private Secretary

A J Coles Esq  
10 Downing Street

CONFIDENTIAL



6th June 1984

UNOFFICIAL TRANSLATION

The Prime Minister,  
The Rt. Hon. Margaret Thatcher, MP

We hereby address Your Excellency on the days immediately preceding a new Summit Meeting of the political leaders of the seven main industrialized countries. We are convinced that the situation and perspectives of the Latin American economies, especially in what concerns trade matters, financing and the external debt, should be considered during the discussions to take place in London.

For that purpose, the Quito Declaration and Plan of Action, prepared by the Latin American Economic Conference, were delivered to Her Majesty's Government in due time. On May 19th last, four Latin American Heads of State signed a Declaration which was widely publicized and to which other Latin American Presidents expressed their agreement.



As stated in these documents, Latin America has experienced a severe reduction in its economic activity and is going through an acute financial crisis. During the last three years its real economic product has decreased and so has its per capita income. Social development has consequently deteriorated. An untenable position has now been reached.

The increased interest rates, the difficulties to raise additional financial resources and the strengthening of protectionism are factors which have prevented the benefits of economic recovery in industrialized countries to reach our economies.

Furthermore, this circumstance reduces the possibilities for this recovery to consolidate and to lead to a non-inflationary and sustained expansion.

We would like to stress the Latin American belief that the international community should urgently tackle the problems of the world economy in a coherent and consistent manner, thereby taking into account their interdependence in an attempt to find satisfactory solutions in an interdependent world.

The urgent need for the adoption of concerted action is evident, above all in what concerns indebtedness. It is not possible to imagine that those problems can be sorted out solely through contacts with Banks or through the isolated participation of the



international financial organizations. It is essential that a constructive dialogue between creditor and debtor countries be established so that concrete measures can be taken in order to alleviate the burden of external debt, taking into consideration the interests of all parties concerned.

In accordance with the principles of justice and fairness it is necessary to define a series of policies and measures in the fields of financing, debt and commerce. The establishment of an atmosphere of open cooperation, corresponding to a scheme of shared responsibilities which may express the common interests of the international community, is of paramount importance.

An expression of the political will of the main industrialized countries towards the attainment of such goals would be particularly welcome at this moment.

We avail ourselves of this opportunity to present to Your Excellency the assurances of our highest consideration.



ARGENTINA

Doctor Raul Alfonsin  
Presidente de la República Argentina

BRASIL

João Baptista de Oliveira Figueiredo  
Presidente da República Federativa do Brasil

COLOMBIA

Doctor Belisario Betancur  
Presidente de la República de Colombia

ECUADOR

Oswaldo Hurtado  
Presidente Constitucional del Ecuador

MEXICO

Miguel de la Madrid  
Presidente Constitucional de los  
Estados Unidos Mexicanos

PERU

Arquitecto Fernando Belaunde-Terry  
Presidente de la República Peruana

VENEZUELA

Jaime Lusinchi  
Presidente de la República de Venezuela



6 de junio de 1984

Excelentísima Señora Primer Ministro:

Nos dirigimos a Vuestra Excelencia en vísperas de una nueva reunión de los líderes políticos de los siete principales países industriales. Estamos convencidos de que la situación y perspectivas de las economías de América Latina, en especial las cuestiones del comercio, el financiamiento y la deuda externa, deberían ser consideradas en las deliberaciones de Londres.

Para contribuir a esta consideración, la declaración y plan de acción de Quito, elaborados por la Conferencia Económica Latino-americana, fueron entregados oportunamente a vuestro Gobierno. El 19 de mayo último, cuatro Jefes de Estado de América Latina emitieron declaración cuyo texto fué ampliamente divulgado. Otros Presidentes latino-americanos han expresado su coincidencia con este planteamiento.

Como se expresa en esos documentos, América Latina ha experimentado una severa reducción de su actividad económica y una aguda crisis financiera. En los últimos tres años ha disminuido el producto real y el ingreso por habitante. Ha tenido que relegarse el desarrollo social. Se ha llegado a una situación difícil de sostener.

Los aumentos en las tasas de interés, las dificultades para obtener recursos financieros adicionales y el fortalecimiento de las acciones proteccionistas, son factores que han impedido que los beneficios de la reactivación en países industrializados alcancen a nuestras economías. Esta circunstancia, a su vez reduce las posibilidades de que la reactivación



se consolide y desemboque en una expansión sostenida y no inflacionaria.

Reiteramos la convicción latino-americana de que es urgente que la comunidad internacional aborde, de manera integrada y coherente, los problemas de la economía mundial, reconociendo las interrelaciones que los vinculan, y encuentre soluciones satisfactorias, en un mundo interdependiente.

La necesidad urgente de adoptar acciones concertadas es evidente, sobre todo, en materia de endeudamiento. No es posible pensar que los problemas puedan resolverse solo a través del contacto con los bancos o con la participación aislada de los organismos financieros internacionales. Se requiere llevar adelante un diálogo constructivo entre países acreedores y deudores, para la identificación de medidas concretas que alivien la carga del endeudamiento externo, teniendo en cuenta los intereses de todas las partes involucradas.

Con arreglo a criterios de justicia y equidad, es preciso definir un conjunto de políticas y acciones integradas en los campos del financiamiento, la deuda y el comercio. Es indispensable establecer un ambiente franco de cooperación, que corresponda a un esquema de responsabilidad compartida y que refleje los intereses del conjunto de la comunidad internacional.

Una manifestación de la voluntad política de los principales países industriales para avanzar hacia la consecución de estos objetivos sería, en estos momentos, particularmente oportuna.

Presentamos a Vuestra Excelencia el testimonio de nuestra más alta consideración.



ARGENTINA

Doctor Raul Alfonsin  
Presidente de la República Argentina

BRASIL

João Baptista de Oliveira Figueiredo  
Presidente da República Federativa do Brasil

COLOMBIA

Doctor Belisario Betancur  
Presidente de la República de Colombia

ECUADOR

Oswaldo Hurtado  
Presidente Constitucional del Ecuador

MEXICO

Miguel de la Madrid  
Presidente Constitucional de los  
Estados Unidos Mexicanos

PERU

Arquitecto Fernando Belaunde-Terry  
Presidente de la República Peruana

VENEZUELA

Jaime Lusinchi  
Presidente de la República de Venezuela



Joint Declaration by the Presidents of Argentina,  
Brazil, Colombia and Mexico (May 19, 1984)

UNNOFFICIAL TRANSLATION

We, the Presidents Raul Alfonsin of Argentina, João Figueiredo of Brazil, Belisario Betancur of Colombia and Miguel de la Madrid of Mexico, express our concern over the fact that the aspiration of our peoples for development, the progress of democratic trends in the region and the economic security of our Continent are being seriously affected by external factors beyond the control of our Governments.

We note that successive increases in interest rates, the prospect of new increases, and the proliferation and intensity of protectionist measures have created a sombre panorama for our countries and for the region as a whole.

Our countries cannot indefinitely accept these risks. We have expressed our firm determination to overcome the disequilibriums and to re-establish the conditions for the resumption of economic growth and the process of raising the standard of living of our peoples.

We were the first to demonstrate our diligence in fulfilling our financial commitments in ways compatible with the interests of the international community. We do not accept being pressed into a situation of forced bankruptcy and of prolonged economic paralysis.



We consider indispensable that the international community initiates, without delay, a concerted effort which would permit a resolution of these problems, particularly in the interrelated sectors of international commerce and finance.

In consequence, we, the Presidents, propose the adoption of concrete measures in order to promote substantial changes in international financial and commercial policies, which would enlarge the possibilities of access for our countries' products to the markets of the developed countries, represent a substantial and effective relief from the weight of indebtedness, and ensure renewed financial flows to development.

In particular, adequate amortization and grace periods, and a reduction in interest rates, margins, commissions and other financial charges must be obtained.

In view of the above, we are calling a meeting of Foreign Ministers and Ministers responsible for the Finances of our countries, to be held as soon as possible, and to which Ministers from other Latin American countries will be invited, aimed at defining the most proper initiatives and means of action with a view towards reaching solutions satisfactory to all interested parties.



Ref. A084/1646

MR COLES

ms

London Economic Summit: Draft Declaration on Democratic Values

You asked for advice on how to handle this subject at the Summit meeting.

2. I presume that it is still the Prime Minister's intention to issue the Declaration on Friday 8 June, presumably at the end of the afternoon's session (though I suppose that we might be able to have it ready to issue at lunch-time on Friday, if all went well).
3. I suggest that the objective should be to minimise detailed discussion of the text at Ministerial level.
4. I therefore suggest that, at her dinner on Thursday 7 June, the Prime Minister might say that she understands that there is general agreement that a Declaration on Democratic Values should be issued from this Summit, not least (in the light of the very recent celebrations of D-Day) to emphasise that those who were enemies in the Second World War are now united by shared values and common causes. A draft text was circulated a fortnight ago, and comments were invited and received. Personal Representatives, accompanied by Political Directors, will be meeting that evening to consider a revised text taking account of the comments received. The Prime Minister hopes that that will enable her to circulate to her colleagues the following morning an agreed text, which Heads of State or Government can approve. She would then propose that it should be issued to the press either at lunch-time or at the close of the afternoon session.
5. The Prime Minister could go on to say that two or three of her colleagues had suggested that additional paragraphs should be included in the Declaration to cover East-West relations, arms control and the problems of the Gulf.

lunch time,  
3 lines.  
A084/1646.



Her view is that, important though these current political issues are, paragraphs dealing with them do not sit easily alongside the more timeless statement of values and aspirations which was envisaged. We shall therefore be proposing that the Declaration should deal only in the most general terms, if at all, with those issues. Clearly, however, Heads of State or Government and Foreign Ministers will be discussing those issues, and it would be appropriate for her, when she meets the press on the afternoon of Friday 8 June to say that those subjects have been discussed and to give some indication of the tenor of the discussion. She will of course be clearing with her colleagues the kind of thing she expects to say.

6. Personal Representatives and Political Directors will then hope to agree a text of the Declaration later that evening, and circulate it either immediately or very early the following morning to delegations, so that it can be in the hands of Heads of State or Government when they meet on the morning of Friday 8 June.

7. I have agreed with the Foreign and Commonwealth Office a revised draft of the Declaration on Democratic Values, taking account as seems appropriate of the comments made by other countries. If the Prime Minister agrees, this is the text which we will circulate as a basis for discussion by Personal Representatives and Political Directors on the evening of Thursday 7 June.

8. I have asked the Foreign and Commonwealth Office to prepare drafts of <sup>conclusions to be released to the press</sup> ~~of what the Prime Minister might say at her press conference~~ on the afternoon of Friday 8 June about peace, East-West relations, arms control and the Gulf. The Prime Minister will wish to consider whether to circulate drafts for consideration by other Heads of State or Government, or simply to read out to her colleagues what she proposes to say to the press. I think that it has to be said that there will be considerable interest in what she says on these subjects, and some delegations - notably the French - are likely to want to scrutinise a text in writing.





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

RIA

ROBERT ARMSTRONG

6 June 1984

CONQUEROR



DECLARATION ON DEMOCRATIC VALUES

(Draft of 6 June 1984)

We, the Heads of State or Government of seven major industrial democracies 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 and capacity to respond and adapt to change in all its aspects.

4. We believe that political and economic freedom are interdependent. 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, and personal initiative; in which all can share in the benefits of growth, (standards of living 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. Our countries have the resources and will to master jointly the tasks of the third industrial revolution (to the benefit of all.)

5. We believe in close partnership with each other in the conviction that this will reinforce political and economic stability and solidarity 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 respect genuine non-alignment. We acknowledge the moral responsibilities that go with economic success. We reaffirm our will to act with all countries in order to foster their prosperity; our keen concern about the problems of hunger and poverty in the world; and our determination to help those who most need it.



CONFIDENTIAL

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 responsibilities for effective defence. [We are committed to effective arms control and we shall do our utmost to bring about a balance of forces at the lowest possible level. Our dedication to the rule of law, democracy and individual freedom is a guarantee of our commitment to work for a constructive relationship with all states on a basis of restraint and reciprocity.

in place  
5

7. We believe that, as we stated at Williamsburg, our security is indivisible and must be approached on a global basis. We are convinced that international problems and conflicts can and must be resolved through reasoned dialogue and negotiation and we shall support all efforts to this end. *Security in 63*

8. 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. A084/1645

MR COLES

See my minute to  
 Sir R. Armstrong today  
 about the order of events.

ASG  
 16.

London Economic Summit: International Terrorism

You asked for advice for the Prime Minister about the handling of international terrorism at the Economic Summit. I have discussed this with Sir Julian Bullard, who agrees with the following recommendations.

2. It is proposed that the Foreign and Commonwealth Secretary should raise the general subject of international terrorism at the dinner of Foreign Ministers on Thursday 7 June. That discussion should not have before it any texts; but the Foreign and Commonwealth Secretary will have in his mind the points which we should like to see in any statement made to the press, and will seek to ensure that they feature in the discussion.
3. After dinner that evening I will circulate to Personal Representatives and Political Directors (who will be meeting to discuss the Draft Declaration on Democratic Values) a proposed statement for the press on international terrorism, inviting them to take it away and let us have comments as soon as possible the following morning. We would then produce a revised text, taking account of comments made, which could be circulated either to Heads of State or Government towards the end of Friday morning or to the plenary meeting on Friday afternoon.
4. It should thus be possible to have a text cleared in time for the Prime Minister to give it to the press either at the close of play on Friday 8 June or possibly at lunch-time on Saturday 9 June.
5. I am sending copies of this minute and of the draft to the Private Secretaries to the Foreign and Commonwealth Secretary, the Home Secretary and the Chancellor of the Exchequer.

RIA

ROBERT ARMSTRONG

6 June 1984



PRESS STATEMENT ON INTERNATIONAL TERRORISM

(Draft of 6 June 1984)

1. During the course of our discussions, we considered the continued menace of international terrorism. We recalled the undertakings in the Bonn, Venice and Ottawa Declarations. Hijacking and kidnapping have declined because of improved security measures but terrorists have now found new ways of seeking to achieve their aims. We acknowledged the need for states to take action, both nationally and in conjunction with others, to combat this threat. We all viewed with serious concern the increasing involvement of states and governments in terrorist acts, including the abuse of diplomatic immunity, as in the recent murder of a policewoman in St James's Square, London. We were disturbed to note the ease with which terrorists move across international boundaries, and gain access to weapons, explosives, training and finance. We recognise the importance which must attach to the inviolability of diplomatic missions and to the requirements of international law. But that law brings obligations as well as rights. We will be seeking to strengthen existing measures against international terrorism and to develop effective new ones.

2. Among the ideas canvassed in our discussion were suggestions for -

a. closer co-operation in the exchange of information on threatened acts of terrorism and on those engaged in international terrorism;

b. exchange of information on domestic legislation in the search for gaps which might be exploited by terrorists;

c. strict application of the Vienna Convention as it affects the status of diplomats, the size of diplomatic missions and the number of buildings enjoying diplomatic immunity;



- d. reviewing the sale of weapons to states supporting terrorism;
- e. reviewing the level of diplomatic relations and the scale of political contacts with states which sponsor terrorist acts;
- f. the expulsion or exclusion from our countries of known terrorists including persons of diplomatic status suspected of involvement in terrorism;
- g. a study of the implications of international terrorism for the rules of the Vienna Convention.

3. We intend to take the lead in pursuing these suggestions and in developing action among the international community as a whole to prevent and punish terrorist acts and to identify and condemn those states which sponsor them. In our view, this is a problem which affects the international community as a whole and not only those assembled here.



*Prime Minister informed.**AR 9/6*

Ref. A084/1643

MR COLES ✓

London Economic Summit: Draft Declaration on Democratic Values

I had a call from Monsieur Attali, President Mitterand's Special Adviser, this morning, which very much confirmed the apprehensions which I expressed in paragraph 5 of my minute of 5 June. *attached.*

2. Monsieur Attali was not aware of the American proposals, but he was aware of the German redraft proposed in telegram number 550 from Bonn (copy attached), which covers much of the same ground. Monsieur Attali said that the President could agree with the original draft which we had circulated, subject to one or two points which he had mentioned to me on 2 June, but could absolutely not go along with the references to East-West relations and arms control in the German proposals. President Mitterrand saw a great danger that the London Summit was going to go the same way as the Williamsburg Summit had gone.
3. I told Monsieur Attali that we had received from the United States delegation proposed amendments with the same general effect. We had it in mind to propose that references to current political issues sat uneasily with the earlier part of the text of the Declaration, which was intended to be timeless, and that anything that was to be said about East-West relations and arms control should take the form of a report to the press on the evening of the first day of the conference about the discussion of international political issues.
4. Monsieur Attali thought that the President would be able to go along with that, though it would be important that there should be a clear understanding with other Heads of State or Government about what the Prime Minister was going to say.

*RA*

ROBERT ARMSTRONG

6 June 1984



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GRS 400  
CONFIDENTIAL  
DESKBY 041200Z  
FM BONN 040915Z JUN 84  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 550 OF 4 JUNE  
INFO IMMEDIATE PARIS, ROME, TOKYO, UKREP BRUSSELS, WASHINGTON,  
OTTAWA

MIPT: DRAFT STATEMENT ON DEMOCRATIC VALUES

FOLLOWING IS GERMAN REDRAFT OF PARAS 3-7.

*C. M. Colvi*

PARA 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. WE BELIEVE THAT THERE CAN BE NO POLITICAL FREEDOM WITHOUT ECONOMIC FREEDOM.

PARA 4:

WE BELIEVE IN THE NEED FOR PEACE WITH FREEDOM AND JUSTICE. EACH OF US REJECTS THE THREAT AND 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 WISH TO BRING ABOUT BY ARMS CONTROL AND DISARMAMENT AGREEMENTS A BALANCE OF FORCES AT THE LOWEST POSSIBLE LEVEL. WE REAFFIRM THE STATEMENT MADE AT WILLIAMSBURG IN MAY 1983. WE ARE DETERMINED TO DO OUR UTMOST TO ACHIEVE PROGRESS IN THE TALKS IN WHICH WE PARTICIPATE. WE APPEAL TO THE SOVIET UNION TO RESUME THE NEGOTIATIONS ON NUCLEAR WEAPONS.

PARA 5:

A COMPREHENSIVE POLITICAL DIALOGUE, CONFIDENCE-BUILDING AND LONG-TERM COOPERATION ON THE BASIS OF MUTUAL ADVANTAGE ARE MEANS OF STABILIZING EAST-WEST RELATIONS. WE CALL ON THE SOVIET UNION AND ITS ALLIES TO CONTRIBUTE TOWARDS CONSTRUCTIVE EAST-WEST RELATIONS IN A SPIRIT OF EQUALITY AND RESPECT FOR EVERYONE'S LEGITIMATE SECURITY INTERESTS.

PARA 6:

WE LOOK FOR COOPERATION WITH ALL COUNTRIES ON THE BASIS OF RESPECT FOR THEIR INDEPENDENCE AND TERRITORIAL INTEGRITY, REGARDLESS OF DIFFERENCES BETWEEN POLITICAL, ECONOMIC AND SOCIAL SYSTEMS. WE RESPECT GENUINE NON-ALIGNMENT. 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.

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/ PARA 7



PARA 7:

**CONFIDENTIAL**

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. OUR COUNTRIES HAVE THE RESOURCES AND WILL TO MASTER JOINTLY THE TASKS OF THE THIRD INDUSTRIAL REVOLUTION TO THE BENEFIT OF ALL AND TO CREATE CONDITIONS IN WHICH THE LIVES OF ALL CAN BE ENRICHED BY THE FRUITS OF INNOVATION, IMAGINATION AND SCIENTIFIC DISCOVERY.

FORMER PARA 7 BECOMES PARA 8.

FCO PLEASE ADVANCE TO :  
CABINET OFFICE - SIR R ARMSTRONG  
FCO - SIR J BULLARD, SIR C TICKELL,  
MISS NEVILLE-JONES (PLANNING STAFF)

TAYLOR

LIMITED

H/O PLANNING STAFF

H/O PUSD

SIR J. BULLARD

SIR C. TICKELL

COPIES TO

SIR J ARMSTRONG  
CAB OFFICE

**CONFIDENTIAL**





Prime Minister

Foreign and Commonwealth Office

To note X and to  
see enclosed summary.

London SW1A 2AH

5 June, 1984

A.S.C. 6/6.

Dear John,

London Economic Summit: Messages

In your minute of 24 May to Richard Hatfield in the Cabinet Office, you wrote about messages to the Prime Minister about the Summit.

I enclose a self-contained note containing a summary of the main points in these messages. The originals of the messages from the UN Secretary-General and the European Employers are also enclosed. The Cabinet Office is content that our note should form an annex to the Steering Brief for the Summit. We do not suggest that prominence should be given to these messages, but the Prime Minister may wish to tell her Summit colleagues that she has received messages from the UN Secretary-General, the Commonwealth Secretary-General, the Prime Ministers of India and Australia, and from several organisations. Copies of those not already sent to Summit partners will be made available through Personal Representatives.

We think that it would be appropriate for the Prime Minister to send replies to the various messages in advance of the Summit. This would avoid the need to send substantive replies afterwards. But it would not rule out a substantive reply to any of those to whom the Prime Minister wished to devote more attention. Where, for example, we are making special arrangements to brief the originator of a message (eg the Australians, the Indians and the Commonwealth) a substantive reply would seem unnecessary.

As far as the United Nations is concerned it is customary for the Summit host's Permanent Representative at the United Nations to circulate the Summit documents. We propose to do the same this year. No other substantive reply would seem necessary.

The Prime Minister has already sent a reply to Mrs Gandhi. You have acknowledged the approach from the International Chamber of Commerce. I enclose draft acknowledgements for the remainder.

The Prime Minister has also received approaches from the Trade Union Advisory Committee to the OECD and, in February, the Chairman of the Latin American Economic Conference in Quito. We do not consider that any further action is needed.

Submitted  
separately.  
AA 6/6

X

/

/

etc



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Sir Geoffrey Howe has also received a message from the Indonesian Foreign Minister in his capacity as Chairman of the Standing Committee of ASEAN. (This is presumably the ASEAN message to which Mr Hawke's message refers). The Foreign Secretary has sent an acknowledgement. We are making arrangements to brief ASEAN after the Summit. With this in mind we do not consider that a further personal message is necessary.

Both the Mexicans and Algerians have approached our missions and those of other Summit partners in the name of the G77 calling for the Summit to consider Global Negotiations and their relaunching. Our missions have provided discouraging replies.

I am copying this letter and its enclosures to Richard Hatfield (Cabinet Office) and David Peretz (HM Treasury).

*Yours ever,*  
*Peter Ricketts*

(P F Ricketts)  
Private Secretary

A J Coles Esq  
10 Downing Street

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MESSAGES TO THE PRIME MINISTER ABOUT THE LONDON ECONOMIC SUMMIT

(a) UN Secretary-General

The focus of Mr Perez de Cuellar's message was developing country issues. After making clear his rather formal support for the reduction of protectionist barriers, he examined in detail the "dramatic situation" in Africa. He called for an urgent response to the need for additional emergency resources, for arrangements to overcome the shortfall on IDA funding and for action to stabilise and strengthen commodity markets and earnings. On the debt issue he called for a longer period to allow debtor countries to adjust their economy supported by additional liquidity and long-term finance. Finally he wanted the Summit to overcome the remaining obstacles to the start of Global Negotiations, although he did not use that phrase.

(b) The Commonwealth Secretary-General

Mr Ramphal sent 2 messages to the Prime Minister. The first concerned the Summit in the context of the Commonwealth Heads of Government meeting in New Delhi in November and the follow-up work. There was a need for international monetary reform and endorsement by the Summit of the work of the Commonwealth Consultative Group. Mr Ramphal liked the idea of a group on the lines of the Committee of 20 to pursue monetary reform. He also sought an authoritative statement on indebtedness from the Summit. Finally he urged a top level impetus to these issues and on aid to the poorest.

The second message contained the text of the statement at the conclusion of the 20th meeting of the United Nations Committee for Development Planning of which Mr Ramphal has just been made Chairman. It covered much the same areas as the Commonwealth Secretary-General's direct message to the Prime Minister.





(c) Prime Minister of India

Mr L K Jha, Mrs Gandhi's special adviser on international affairs, delivered a pre-Summit message to the Prime Minister on 18 May. The thrust of Mrs Gandhi's message was a call for a renewal of the dialogue between developed and developing countries and in particular for an international monetary conference. The Prime Minister told Mr Jha that before setting up another forum we needed to work on the solutions. She said Summit leaders would discuss the message and that the UK would be sending an emissary to India afterwards. A reply has already been sent to Mrs Gandhi.

(d) Prime Minister of Australia

Mr Hawke's message was mainly about trade issues, urging all Summit participants to be quite specific in their commitment to multilateral trade liberalisation; the Summit should adopt a responsible long-term perspective which recognised global interdependence and the interests of non-Summit countries. He referred to the deliberations of the Western Pacific countries at the end of April/beginning of May on the approach to a new round of trade negotiations and to the recent meeting of the US Trade Representative. Mr Hawke's views on completing existing liberalisation commitments unimpeded by any new trade round are close to our own. But he is more specific on what a new round should contain.

(e) The Union of European Employers (UNICE)

A UNICE resolution called for the major industrial countries to pursue policies to ensure that the recovery is sustained and spread more widely. Policies should be based on medium-term objectives and designed to maintain the open trading system. UNICE's approach is close to that of the British Government. UNICE pointed out that there was a close similarity between the recommendations of the European Employers before Williamsburg and the outcome of that Summit itself.



(f) Interaction Council

Among the signatories of the telex to the Prime Minister from the Interaction Council were former Prime Ministers of Australia, Japan and West Germany together with Dr Waldheim. They focused on financial issues and urged that a statement be made now indicating that these were high on the agenda for the Summit. They wanted a comprehensive approach to debt to maintain confidence in the international banking system and to reduce interest rates.

(g) International Chamber of Commerce

The ICC's submission was that economic recovery was the key to resolving debt problems. Protectionism and high interest rates (by implication the result of high fiscal deficits) were threats both to recovery and to the position of debtors. The Summit should recognize the linkages between these issues and develop a comprehensive and integrated approach.



CONFIDENTIAL

2



Prime Minister.

Foreign and Commonwealth Office

London SW1A 2AH

You should be aware of  
the in case it is raised  
during the Summit meeting.

5 June, 1984

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

Dear John,

Following the Libyan shooting incident, we are proposing to take steps to put an end to the illegal possession of weapons by certain diplomatic missions, and in particular the carriage of arms by the US Marines at the American Embassy.

Hitherto the police have been content to turn a blind eye to this practice, although it is in fact contrary to British law. However, in the new circumstances we believe that it would be very much harder to defend making an exception for the Americans, especially since to do so would seriously prejudice the prospect of bringing into line other diplomatic missions which we know or suspect likewise illegally hold weapons. Accordingly, after discussion with the police, who agree that we should now seek to enforce the law uniformly with all missions, we have told the American Embassy that henceforth the US Marines may not be armed. Mr Streater responded that it would create considerable difficulty for his Government and that he expected to be instructed to come back to us in an attempt to find some compromise.

It is therefore possible that the issue might be raised in bilateral talks during the course of the Summit. Sir Geoffrey Howe recommends that if the subject is raised with the Prime Minister, she should emphasise the importance of a consistent application of British law to all Diplomatic Missions. The Prime Minister's decision to grant the American request that two of the President's protection officers should be armed at the Summit does not alter the position. The US Ambassador said in making this request that it was wholly exceptional and would not be taken as setting a precedent. He is clear that approval was given on that basis.

I am copying this letter to High Taylor (Home Office).

Yours ever,

Peter Ricketts

(P F Ricketts)  
Private Secretary

A J Coles Esq  
10 Downing Street

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CONFIDENTIAL

*Prime Minister informal*

*AB 6/6*

Ref. A084/1619

MR COLES

London Economic Summit: Draft Declaration on  
Democratic Values

I sent you a copy of my letter of 4 June to Sir Julian Bullard about the American proposal that the draft Declaration on Democratic Values should include paragraphs on East-West relations and the Gulf.

2. We now have a suggested American text, a copy of which I attach. You will see that the first six paragraphs are virtually identical with the text which we circulated. The Americans then add four new paragraphs: the first about relationships with the Soviet Union, the second about arms control, the third about the Gulf and the fourth a general signing-off paragraph promising co-operation and solidarity with those who agree with us and readiness to try to reduce tensions and armaments with those who do not.

3. In proposing these amendments, the Americans argue that these specific subjects, of East-West relations, arms control and the Gulf, are all matters which Heads of State or Government will be expected to have discussed and on which they should therefore have something to say. They also argue that we should not lose the opportunity offered by the Japanese desire to build on the Williamsburg Declaration and the positive attitude of the present Japanese Government to continue to involve Japan in the mainstream of Western thinking on international political and security issues.

4. The inclusion of the material now proposed by the Americans would change the nature of the Declaration. It would cease to be a timeless statement of values and aspirations and would become a combined general statement of values and a position statement on certain current political and security issues.

5. I would judge that the American proposals will be unwelcome to President Mitterrand, who may want to say that this is a repetition of the kind of thing that happened at Williamsburg

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last year and that, if the Declaration is to be altered in the sense proposed by the Americans, he will wish to have nothing to do with it. So I think that we are at some risk of starting the Summit with a measure of acrimonious political disagreement, as indeed we did at Williamsburg.

6. It seems to Sir Julian Bullard and to me that the best course might be to persuade the Americans that, if there is to be any public language out of the Summit on East-West relations, arms control and the Gulf, that should come in the form of a report to the press by the Prime Minister on the evening of the first day of the conference. The text from which she is to speak would still have to be cleared with the other countries; but they would not be so committed by what she said as by a formal Declaration. It is less likely that the French would make trouble about that; and the Declaration on Democratic Values could be left to stand as the timeless statement it was originally intended to be.

7. Sir Julian Bullard and I think that it would be useful if the Prime Minister could discuss this question with President Reagan when she meets him this evening, in the hope of persuading him to agree that it should be dealt with in the way which I have suggested in the immediately foregoing paragraph.

8. In the meantime it is clear that, whether or not the Declaration is enlarged as proposed by the Americans, there will need to be a drafting session on the evening of Thursday 7 June to deal with the amendments proposed by other countries. The French are likely to insist that this drafting session should be undertaken by Personal Representatives. The Americans are known to feel that the President's Personal Representative is not qualified to deal with political subjects like East-West relations. We propose to get round this by means of a joint session of Personal Representatives and Political Directors on the evening of Thursday 7 June. We shall prepare a Presidential text incorporating amendments proposed to an extent and in a manner compatible with the intention and style of the original draft, as a basis for drafting discussion.

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9. I am sending copies of this minute 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

5 June 1984

CONFIDENTIAL



SECRET

REVISED TEXT OF LONDON CHARTER

We, the heads of state and government of seven major industrial democracies 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.

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

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

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 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.

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 cooperation 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.

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 defense.

Our partnership is central to the maintenance of an open and secure international system. As we stated in

SECRET



Williamsburg, our security is indivisible and must be approached on a global basis. We seek a more stable and constructive relationship with the Soviet Union based on the principles of restraint and reciprocity. We will thus maintain the military balance while seeking the expansion of political dialogue.

We are dedicated to the achievement of a more stable and secure peace and are committed to effective arms control as an essential means to that end. We seek early and positive results in ongoing arms control negotiations. We also call upon the Soviet Union to return to the nuclear arms negotiations in order that the search for significant and stabilizing reductions in these most destructive armaments can be advanced.

We are also concerned about threats to international peace and welfare in other regions of the globe. In this regard, we are especially concerned at the terrible toll being exacted by the war between Iran and Iraq. We call upon both nations to cease attacks upon one another and upon the shipping of other states, and renew our commitment to maintain freedom of navigation. We recognize the need to take mutually reinforcing actions to reduce our vulnerability to a major disruption in oil supplies from this volatile part of the world.

We seek constructive relations with all states, whatever our differences, on the basis of mutual respect. To those who share our values and principles, we pledge our cooperation and our solidarity. To those with whom we may differ on values and institutions, we pledge our willingness to work diligently in support of our common interest in the reduction of global tensions and armaments.

END REVISED TEXT.



000  
CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

5 June 1984

R Hatfield Esq  
PS/Sir R Armstrong  
Cabinet Office  
LONDON SW1

A. J. C. G.  
/c.

h-c.

Dear Hatfield,

LONDON ECONOMIC SUMMIT: PRESS STATEMENT ON TERRORISM

... 1. As agreed between you and Nick Browne over the telephone this morning, I enclose a copy of the suggested final draft of the press statement on terrorism. This has been cleared with Sir Julian Bullard and with David Hilary in the Home Office (in Michael Partridge's absence). It is basically the draft of 31 May (Annex to FMV 84/1); but we have taken the opportunity to work in the following points:

a) a reference to the Bonn, Venice and Ottawa Summits (all of which produced statements on terrorism);

b) reference to the change of emphasis in terrorist activities from hijacking and kidnapping to new methods; and to the ability of terrorists to move across international boundaries. These amendments reflect acceptance of some of the American suggestions for changes in earlier papers shown to them;

c) new sub-paragraphs on diplomatic and political reactions to terrorist acts and on the sale of weapons to states supporting terrorism. These changes bring the press statement into line with current suggestions for action among the Ten.

Yours sincerely,  
J W D Gray

J W D Gray  
Maritime, Aviation and  
Environment Department

/Copied





Copied to: John Coles Esq No 10  
David Colvin Esq Cabinet Office  
David Hilary Esq Home Office  
Sir J Bullard  
Mr Tait ERD  
Miss A Bailies Planning Staff

77



## ECONOMIC SUMMIT: DRAFT PRESS STATEMENT ON INTERNATIONAL TERRORISM

1. During the course of our discussions we considered the continued place of international terrorism. We recalled the undertakings in the Bonn, Venice and Ottawa Declarations. Hijacking and kidnapping have declined because of improved security measures but terrorists have now found new ways of seeking to achieve their aims. We acknowledged the need for states to take action both nationally and in conjunction with others to combat this threat. We all viewed with serious concern the increasing involvement of states and governments in terrorist acts, including the abuse of diplomatic immunity, as in the recent murder of a policewoman in St James's Square. We were disturbed to note the ease with which terrorists move across international boundaries, and gain access to weapons, explosives, training and finance. We recognise the importance which must attach to the inviolability of diplomatic missions and to the requirements of international law. But that law brings obligations as well as rights. We will be seeking to strengthen existing measures against international terrorism and to develop effective new ones.

2. The sort of ideas we discussed were;

- a) to cooperate closely in the exchange of information on threatened acts of terrorism and on those engaged in international terrorism;
- b) to exchange information on domestic legislation in the search for gaps which might be exploited by terrorists;
- c) to apply strictly the Vienna Convention as it affects the status of diplomats, the size of diplomatic missions and the extent of buildings enjoying diplomatic immunity;
- d) to review the sale of weapons to states supporting terrorism;
- e) to review the level of diplomatic relations and the scale of political contacts with states which sponsor terrorist acts;
- f) to expel or exclude from our countries known terrorists including persons of diplomatic status suspected of involvement in terrorism;
- g) to study the implications of international terrorism for the rules of the Vienna Convention.

3. In ways such as these we intend to take the lead in developing action among the international community as a whole to prevent and punish terrorist acts and to identify and condemn those states which sponsor them. In our view, this is a problem which affects the international community as a whole and not only those assembled here.



CONFIDENTIAL



10 DOWNING STREET

*From the Private Secretary*

SIR ROBERT ARMSTRONG

London Economic Summit: Draft Declaration on  
Democratic Values

Thank you for your minute of 5 June.

The Prime Minister read this before her talks with President Reagan this evening but did not have an opportunity to raise the question of how the American proposals for amendments to the Declaration should be handled.

However, I explained in general terms to Mr. Baker, Mr. McFarlane and Mr. Sommer that the Prime Minister's objective was that the Summit should issue early in its proceedings a simple Declaration on Democratic Values on the lines of the British text. I added that while we saw little difficulty in the substance of the proposed US additions, we thought that they would cause difficulties with other participants, especially the French, and would also sit uneasily with our own text. I therefore believed (and I had discussed this point earlier with the Prime Minister) that the Prime Minister would prefer to incorporate the substance of the American additions in a report to the press on the evening of the first day of the Conference about the discussion of international political issues.

My impression is that the US delegation will be reasonable receptive to these arguments. You may therefore wish to pursue them in the drafting session on the evening of Thursday 7 June.

I am copying this minute to Mr. Ricketts (Foreign and Commonwealth Office) and Mr. Peretz (HM Treasury).

*A. J. Wals.*

5 June 1984

MFJAAU

CONFIDENTIAL



4 June



LONDON SUMMIT

8 JUNE

AR  $\frac{7}{6}$

SCENARIO FOR THE PRIME MINISTER

Bilateral with Mr Trudeau

1. The first item on the Prime Minister's programme will be the bilateral with Mr Trudeau, who is due at No 10 at 8.30 a.m. The Prime Minister is due to arrive at Lancaster House at 9.15 a.m. in order to greet the other heads of Delegation there, so no doubt she would wish to leave No 10 at about 9.10 a.m., perhaps taking Mr Trudeau with her.

Lancaster House

Arrivals

2. At Lancaster House most officials will have arrived before 9.00 a.m. and dispersed, we hope, to their offices. Ministers will also have arrived, been greeted by the Foreign and Commonwealth Secretary and taken to the State Dining Room on the ground floor, which will be set up as a reception room and where coffee will be served.

3. Heads of Delegation are due to arrive from 9.18 to 9.30 a.m. in reverse protocol order, starting with M. Thorn. They would be greeted by a Private Secretary outside the portico and by the Prime Minister in the main hall. They will then be escorted one by one to join the Ministers in the State Dining Room.



4. When the last of them arrives - once again it should be President Reagan - the Prime Minister will take him to join the others.


#### First Group Photograph

5. The doors to the terrace will then be opened and the Prime Minister will lead the Heads of Delegation (only) out on to the terrace for the main group photograph of the Summit. Photographers and television cameras will be ranged in the garden and the Prime Minister and her colleagues should go to the top of the steps for the photograph.

6. After a few minutes, when we get the word, the doors will be opened again so that the Ministers can come out and be photographed behind the Heads of Delegation. It will work quite well if the Heads of Delegation go down a step or two so that the Ministers can be seen behind. We have allotted 8 minutes for these photographs. The Prime Minister will then lead her colleagues back into Lancaster House, up the main staircase, branching left at the urn, and into the Music Room. The Foreign and Finance Ministers will follow and go to their own separate meeting rooms. In the Music Room the Prime Minister's place is facing the door. When she and her colleagues have sat down we shall bring in, in quick succession, 3 waves of photographers and journalists to take pictures of the group sitting round the table. This is something to which some of our visitors, particularly the Americans, attach tremendous importance. We shall get the 3 waves out in 10 minutes, as agreed by the Prime Minister, which should mean that substantive talks can start well before 10.00 a.m.

Morning discussions





Morning discussions and lunch

7. Sherpas will already be in place at their tables at the sides of the room. They will be able to communicate to national offices outside by a system of message pads and electronic writing so that there should be no need for aides or any others to interrupt the session.

8. At about 11.00 a.m. (the Prime Minister will no doubt wish to check this before with Sir Robert Armstrong) coffee will be served at the table.

9. This first session is due to end at around 12.30 p.m. The Prime Minister's first task will then to be brief Sir Geoffrey Howe (on the basis of a line agreed with her colleagues before the meeting breaks up). This would best be done in the Chairman's Room. Mr Ingham and others would no doubt wish to be present. On the basis of this briefing, which should at least cover the subjects discussed and atmosphere, Sir Geoffrey Howe, as agreed, will give a short host country briefing on closed-circuit television to the journalists at the Press Centre. (Mr Ingham should be able to hand out the Declaration on Democratic Values shortly afterwards at the Connaught Rooms.)

10. Most Heads of Delegation will also wish to go to their delegation offices (on the second floor) to brief their Ministers, aides and officials, in particular their spokesmen.

11. There will be little time available, because Heads of Delegation and Ministers are due to meet for drinks at 12.45 p.m. for working lunches at 1.00 p.m. If it is fine drinks for everyone will be on the terrace, if wet in the State Dining Room. The Heads of Delegation and their Foreign Ministers will lunch together in the Gold Room, to the right, while Finance Ministers will eat in the Eagle Room to the left.



### Walkabout and Plenary Photograph

12. After lunch, say between 2 and 2.15 p.m., provided that it is not raining, the Prime Minister will take her guests out on to the terrace and into the garden where a large number of eager photographers will be brought in to position to take informal photographs of the group. To make this more natural, the Prime Minister might wish to take her guests sufficiently far out into the garden to be able to look back and see the facade of the House.

13. When the Prime Minister thinks the photographers have had enough (and this is one of the few occasions when we can allow a reasonably large number of photographers to take photographs of the Summit leaders) she will take her guests back into Lancaster House and up to the Long Gallery where the plenary session is to be held. When everyone is in place we shall bring in two quick waves of photographers to take shots of the Heads of Government and their Ministerial colleagues sitting at the large table.

### Afternoon discussions

14. The afternoon session is scheduled to continue until 5.30 or 6.00 p.m. The Prime Minister will wish to indicate what time she would like tea served - perhaps at 4.00 p.m. It is possible for tea to be served away from the table in the area of the room overlooking the garden, but the trouble is that if non-English speakers get away from their headphones they feel uneasy (as their staffs have told us) and will want immediately to bring in a number of personal interpreters so that they can converse. There is thus a fairly strong case for staying at the table for refreshments.

/Bilateral with





Bilateral with President Mitterrand

15. At the end of the afternoon session Heads of Delegation will once again wish to talk to their officials and aides in their separate offices on the second floor. Some of them will have bilateral meetings. The Prime Minister has a bilateral meeting with President Mitterrand scheduled for 6.15 p.m., though she might agree with him to have this slightly earlier if the session breaks up earlier. This meeting could take place either in the Chairman's room or in the Gold Room downstairs. The latter would allow a larger number of press to take the traditional bilateral photograph.

16. The meeting with the French President should not take longer than 45 minutes, which would mean the Prime Minister getting back to No 10 at the latest by 7.05 p.m.


Dinner at the National Portrait Gallery

17. At 8.00 p.m. the Prime Minister's guests are due to arrive for dinner at the National Portrait Gallery. She will wish to arrive by 7.50 or 7.55 p.m. - the earlier time if she wishes to have a preliminary look at the table. She will be met at the Portrait gallery by the Director, Dr John Hayes, and myself.

18. Drinks before dinner will be on the mezzanine landing with modern portraits of the Royal Family, up two shallow flights of stairs. As Heads of Delegation arrive, ideally once again in reverse protocol order, they will be met outside the door by a Private Secretary from No 10 and conducted to the area for drinks, where they will be greeted by the Prime Minister.

19. When all have arrived the Prime Minister will take her guests up for dinner at the Elizabethan Room on the top floor. This involves going up another shallow flight of stairs and then taking a large but





slow lift up to the top floor. We are told that President Reagan, for one, always prefers to walk upstairs so he will probably go by foot. Whatever routes are chosen the guests will meet up in front of the large painting of Sir Thomas More and his family on the top floor and go through the archway into the Elizabethan Room surrounded by the Elizabethan paintings. The Prime Minister's seat is at the centre of the table on the right. One of the specially syndicated photographers will take some pictures and then disappear.

20. If dinner starts just before 8.30 p.m. it should be over an hour later, though the Prime Minister may wish to continue discussions over coffee at the table. When the party rise from the table, say at about 9.45 to 10.00 p.m., Dr Hayes will be on hand so that the Prime Minister can introduce him to her guests. If they wanted he could answer any questions there about the Elizabethan paintings but otherwise he will lead the party down, by stairs and lift, to the ground floor to a special exhibition area by the Twentieth Century Gallery where a number of paintings from the collection will be displayed which have relevance to each of the participating countries. There will also be the latest portrait of the Prime Minister by Rodrigo Moynihan (this will be very much a private viewing since the painting is not to be officially unveiled until about a week after the Summit). At this stage Dr Hayes will be prepared to give an extremely brief account of the National Portrait Gallery, which is an institution which most of the Summit participants do not have in their own capitals. If the Prime Minister wishes he will no doubt answer questions, but the idea then would be that the Prime Minister and her guests would be free to wander round the exhibition area and

/the





the Twentieth Century Gallery area nearby where a range of portraits and photographs of prominent Britons of this century in all fields have recently been displayed in an imaginative way. Drinks, liqueurs and further coffee will be served as required. Guests will be expected to leave, normally in protocol order, around 10.30 p.m.

N J Barrington

Economic Summit Co-ordinator  
Lancaster House

4 June 1984





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*CC. Economic St. USA. P+2.*

*u 100*

DEPARTMENT OF TRADE AND INDUSTRY  
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JF6630

PS / Secretary of State for Trade and Industry

*4* June 1984

Andrew Turnbull Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1

G/L.

*Please type note + 2 and  
return to me.*

*AD 4/6.*

*Dear Andrew,*

US PROPOSALS TO LIMIT TAX BENEFITS ON LUXURY CARS

...

As requested in your letter of 4 June, I enclose a note which might be handed over to one of the White House staff in the margins of tomorrow's bilateral discussions with President Reagan on the above subject.

2 I am sending a copy of this letter and enclosure to Peter Ricketts at the Foreign Office and David Peretz at the Treasury.

*Yours ever,  
Ruth*

RUTH THOMPSON  
Private Secretary

Encl





AIDE MEMOIRE

HMG are greatly concerned at legislative proposals now before Congress to limit the tax benefits on passenger cars used for business. The provisions of a bill adopted by the House of Representatives would set the limit at \$21,000; under a similar bill adopted by the Senate the limit would be set at \$15,000.

Whether or not these provisions are protectionist in intent, it is quite certain that they would be discriminatory in effect. Almost all cars costing over \$21,000 are imported. Most such cars are exported to the United States from the United Kingdom and the FRG. Even the lower limit of \$15,000 exceeds the average retail price of a US car. It follows that, in either case, the greater potential loss of tax benefits would bear more heavily upon imported cars.

HMG understand that the US Treasury Department has opposed the provisions on grounds of tax policy, preferring stricter rules for personal use of business assets generally, which, in addition, would be free of objection on grounds of discrimination.

HMG would welcome advice on the steps which the US Administration proposes to take to secure amendments to the bills to remove their discriminatory provisions.



USA : Econ<sup>c</sup> Sit.



*LES - MK Copy to  
W. M. C. Fontainebleau  
file*

Ref. A084/1613

MR COLES

---

On my return from France on Saturday 2 June I broke my journey in Paris to meet Monsieur Attali, the President's Special Adviser, at his request.

2. The main purpose of our meeting was to enable him to give me the French amendments to the draft declarations from the London Economic Summit. I am reporting separately on these.
3. We also had some discussion about the handling of European questions. Monsieur Attali asked me how we saw the future handling of these matters, and particularly the European budget question. I said that we recognised that there was no possibility of resolving them before the European elections, but that we were keen to reach a settlement on the outstanding questions at the European Council at Fontainebleau on 25 and 26 June, so that that meeting could look forward to the future development of the Community. The Prime Minister had been encouraged by her last conversation with President Mitterrand to think that it might be possible to resolve the budget question at Fontainebleau. I was sure that Monsieur Attali would understand that it would be impossible for the Prime Minister to make any move on the percentage limit on "own resources" except in the context of a satisfactory solution of the budgetary questions, including control of expenditure as well as the British contribution. But time was short; and, if there were to be any possibility of a settlement at Fontainebleau, there would need to be further confidential discussions, before the European elections, between the British, French and German Governments. I assured Monsieur Attali that we would try to fit in with anything which the French Presidency might propose on that.
4. Monsieur Attali said that the French President was keen to reach a settlement on these matters quickly at the Fontainebleau meeting, in order that that meeting could look forward to the future development of the Community. He thought that these



matters were most likely to be settled in the French Presidency; and he was in no mood to bequeath the laurels of achieving a settlement to Dr FitzGerald. We could take it that the President would be looking for a settlement. The question in the President's mind was whether the Prime Minister was willing to move.

5. I said that I thought that the Prime Minister had made it clear to the President, at their last meeting, that she did have some limited room for movement. Monsieur Attali interjected that, if that was so, that had not been clear to him at the time. I said that I was in no doubt that the Prime Minister had intended to convey readiness to make some movement, if others were also prepared to move. What she could not contemplate was "salami tactics", whereby she made a move and that move immediately became the basis for demands for a further move. We had to find some way between now and Fontainebleau of discovering whether there was a basis for a settlement in which there was some movement on both sides. The Presidency would find us flexible as to how the settlement should be expressed. It could be expressed in terms of a 1983 reference figure somewhere between the 1,000 mecu which was the final position of others in Brussels and the 1,250 mecu which was the Prime Minister's final position; or, if this seemed preferable, the settlement could be defined in terms of the various limits and percentages involved in the constituent parts of the system. It would be essential from our point of view that the system proposed by the Presidency at Brussels should not be watered down.

6. Monsieur Attali indicated that the French President was prepared to contemplate some movement in the interests of a settlement. As to modalities, he agreed that there would need to be confidential conversations between the British, French and Germans before Fontainebleau and indeed before the European elections. He envisaged that Monsieur Dumas might be in touch with the Foreign and Commonwealth Secretary. I said that I thought that that would be entirely acceptable and welcome to



us. I added that I should myself be visiting Paris again on 12 and 13 June, to report to the OECD on the results of the Economic Summit, and I could use that occasion to come to see Monsieur Attali on European questions, if that seemed to be convenient and useful.

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

BA

ROBERT ARMSTRONG

4 June 1984



CONFIDENTIAL



70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

*From the Secretary of the Cabinet and Head of the Home Civil Service*

Sir Robert Armstrong GCB CVO

Ref.A084/1602

4 June 1984

*Dear Sir Julian,*

London Economic Summit: Declaration on Democratic Values

The Japanese Ambassador called on me this morning to present his Prime Minister's proposals for amendments to the draft Declaration on democratic values.

Mr Nakasone strongly believes that the Statement should be on peace and democratic values, not just on democratic values: if the Statement is intended to emphasise unity and co-operation among the Summit countries just after the D-day ceremonies, it should also, in Mr Nakasone's view, "stress the call for peace on the basis of our experience and denial of war".

Mr Nakasone has therefore proposed a new second paragraph, calling for peace and progress in disarmament.

He would also like to see a specific reference to the non-aligned countries in paragraph 5 of the Declaration; and amendments to paragraph 6 in effect to take the reference "national and international obligations" and to substitute a reference to "responsibilities". This suggestion is to reflect Japanese constitutional constraints.

I enclose a copy of the draft as amended by the Japanese Prime Minister.

The French President has also suggested a number of amendments. Like Monsieur Gaston Thorn, he wishes to delete "the right to private property" in paragraph 2, which could be quoted against him in the context of the opposition to the French Government's nationalisation measures. He would also

/prefer

Sir Julian Bullard KCMG

CONFIDENTIAL

*A.S.C. 7/6*

*f.a.*



CONFIDENTIAL

to omit from paragraph 6 the reference to the Williamsburg Statement: if the sentence is retained he would wish the Statement to be described as "the Statement on Intermediate Nuclear Forces". He has also suggested a number of other drafting amendments.

I attach a copy of the text of the Declaration with the French amendments noted in manuscript.

I am sending copies of this letter to John Coles and the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer. We shall clearly need to take instructions from Ministers about the Japanese Prime Minister's proposed extension of the ambit of the Declaration on democratic values.

Y  
R. H. Hafford

Approved by Sir Robert Amery  
and signed in his absence.

CONFIDENTIAL



DRAFT OF 24 MAY 1984

THE LONDON CHARTER

1. 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 PEACE AND TO THE VALUES WHICH SUSTAIN AND BRING TOGETHER OUR SOCIETIES.

2. WE CALL UPON ALL COUNTRIES TO MAKE SERIOUS ENDEAVOURS TO ENSURE PEACE THROUGH DIALOGUE AND CO-OPERATION. WE STRONGLY HOPE FOR PROGRESS IN DISARMAMENT, PARTICULARLY NUCLEAR DISARMAMENT, A TASK OF VITAL IMPORTANCE IN TODAY'S WORLD. NUMEROUS REGIONAL CONFLICTS HAVE BEEN ARISING IN VARIOUS PARTS OF THE WORLD, WHICH TREND, SHOULD IT PERSIST OR GROW WORSE, COULD EASILY BECOME A GRAVE THREAT TO WORLD PEACE. WE BELIEVE THAT, IN COPING WITH INTERNATIONAL PROBLEMS AND CONFLICTS, CONTINUOUS EFFORTS SHOULD BE MADE TO LISTEN IN EARNEST TO THE OTHER PARTY'S POSITION AT THE MEETING TABLE AND TO ALLEVIATE AND OVERCOME CONFLICTS OF OPINION BY CONDUCTING REASONED DIALOGUE AND NEGOTIATIONS.

3. 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.

4. 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.

5. 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 CAN RISE AND SOCIETY CAN PROVIDE CARE AND SUPPORT FOR THOSE IN NEED, AND IN WHICH THE LIVES OF ALL CAN BE



5. (cont.)

ENRICHED BY THE FRUITS OF INNOVATION, IMAGINATION AND SCIENTIFIC DISCOVERY.

6. 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, BOTH DEVELOPED AND DEVELOPING, INCLUDING NON-ALIGNED 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.

7. 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: WE WILL MAINTAIN ONLY THE MILITARY STRENGTH NECESSARY TO DETER AGGRESSION AND TO MEET OUR RESPONSIBILITIES 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.

8. 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. ++





*Trench draft*

TEXT OF THE DRAFT STATEMENT ON DEMOCRATIC VALUES

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~~ <sup>define</sup> and bring together our societies.

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, <sup>goes together with the search for well being in conditions of justice,</sup> ~~including the right to private property,~~ and provides the setting in which the human spirit can develop in freedom and diversity.

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.

We believe that ~~there can be no~~ <sup>economic and social</sup> political ~~freedom without economic~~ <sup>freedom</sup> ~~are interdependent~~. It is for Governments to set the conditions in which there <sup>a fair share of the benefits of growth for all,</sup> 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, <sup>and personal initiative</sup> in which standards





of living 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 <sup>(creative)</sup> innovation, <sup>(personal belief)</sup> imagination and scientific discovery.

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~~ <sup>progress</sup>; ~~and reaffirm~~ <sup>therefore, we reaffirm</sup> our keen concern about the problems of hunger and poverty in the world and our determination to help those who most need it.

*our will to act with all countries in order to foster prosperity on all continents and*

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 <sup>on Intermediate Nuclear Forces</sup> 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.

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.





70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

*From the Secretary of the Cabinet and Head of the Home Civil Service*

Sir Robert Armstrong GCB CVO

Ref. A084/1610

4 June 1984

*Dear Sir Julian,*

London Economic Summit: Draft Declaration on  
Democratic Values

When Crispin Tickell and I met Allen Wallis and Bob Morris this afternoon, they told us that the United States delegation were considering amendments to the draft Declaration on Democratic Values. They hoped to let us have texts tomorrow, after further discussion within the United States Administration. They did not show us any texts but, with what was obviously a draft in front of him, Bob Morris said that they wanted to include paragraphs toward the end of the Declaration covering suitable references to issues of current significance, notably East-West relations and the Gulf.

We indicated that the Declaration had been seen on our side as a general statement of values unrelated to current problems. The inclusion of references to current problems might very much complicate the task of reaching agreement on a text. Morris said that he thought that the President would be anxious that it should be made clear to the press and the public that Heads of State or Government had considered East-West relations and the Gulf, with a general indication of any conclusions on which they might have agreed. For that purpose the American Government would favour an agreed text in a Declaration; but he did not exclude the possibility of dealing with these matters by means of a statement to the press, perhaps on the evening of Friday 8 June, by the Prime Minister as the Chairman of the conference. If the matter was dealt with in that way, the text from which she was speaking would obviously need to have been cleared with her colleagues in advance.

I am sending a copy of this letter to John Coles and the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

*Yours*

*R. Platt*

Sir Julian Bullard KCMG

*Approved by Sir Robert Armstrong and signed in his absence*

*MR 4/6  
h-a.*





10 DOWNING STREET

THE PRIME MINISTER

Thursday

Review

Review of W. Gull.

Review of <sup>some</sup> ~~other~~ <sup>value</sup>

Friday

Economy

- Opening Statements.

End of morning.

Clear ~~Review~~ <sup>Value</sup>

lunch - with Foreign Minister Post.

Prepare Statement for Evening.

[Start Int. Review]

Plenary

11

Economy contd. -

Banking.  
I.R.  
Trade  
Environment

Approve Foreign Affairs  
statements

Review

~~Int. Review~~ ~~Chairman~~  
~~Address to~~ ~~Forum~~ - Space.

Saturday

- Clear Int. Review.  
Clear Economic Communication



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TO IMMEDIATE FCO  
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INFO ROUTINE PARIS ROME WASHINGTON OTTAWA TOKYO UKREP BRUSSELS

YOUR TELNO 297: GERMAN APPROACH TO THE LONDON ECONOMIC SUMMIT

SUMMARY

1. CHANCELLOR KOHL WILL ATTEND THE SUMMIT WITH HIS CONFIDENCE INTACT BUT WILL LEAVE AT HOME A GOVERNING COALITION AND AN ECONOMY BOTH SUDDENLY LOOKING LESS GOOD THAN ONLY A FEW WEEKS AGO. HE WILL BE LOOKING FOR SOLID ACHIEVEMENTS ON INTEREST RATES, ON TRADE AND ON THE ENVIRONMENT AND A DECLARATION ON DEMOCRATIC VALUES.

DETAIL

2. THE DISARRAY IN BONN'S GOVERNING COALITION, WHATEVER ITS LONG TERM IMPLICATIONS, SEEMS TO HAVE LEFT KOHL AND GENSCHER ON LESS INTIMATE TERMS THAN BEFORE. THAT MAY BE APPARENT IN THE SUMMIT. THE WEAKNESS OF GENSCHER WITHIN HIS OWN PARTY AND THE FDP'S POOR PROSPECTS FOR THE EUROPEAN ELECTIONS, HAVE STARTED SPECULATION ABOUT THE COHESION, IF NOT THE DURABILITY OF THE COALITION, NOT SEEN IN BONN SINCE THE DAYS OF SCHMIDT'S GOVERNMENT. IT IS NEW AND UNWELCOME FOR KOHL. ON THE ECONOMIC FRONT, THE METAL WORKERS' STRIKE FOR A 35 HOUR WEEK WITHOUT LOSS OF PAY CONTINUES, SOLUTION NOT YET IN SIGHT. IN ADDITION, THE GOVERNMENT'S INABILITY TO MAKE UP ITS MIND ON INCOME TAX REFORM AND ITS SUDDEN SURRENDER TO THE FARMERS IN GIVING THEM EXTRA COMPENSATION FOR THE REDUCTION IN POSITIVE MCAS HAVE SUGGESTED A LESS COHERENT APPROACH TO POLICY THAN HAS BEEN APPARENT HITHERTO. A SUCCESSFUL SUMMIT AND THE CLEAR REGISTERING OF GERMAN VIEWS AT IT WILL BE WELCOME TO KOHL.

3. THE MAIN GERMAN ATTACK WILL BE ON US INTEREST RATES. ECONOMIC GROWTH IN THE FRG HAS, NOTWITHSTANDING HIGH REAL INTEREST RATES, KEPT UP WELL. THE GERMANS BELIEVE THAT THE FUNDAMENTALS IN THEIR ECONOMY ARE CONSISTENT WITH LOWER RATES AND THAT THE 5.5 POINT GAP BETWEEN GERMAN AND US RATES COULD NOT OTHERWISE BE SUSTAINED. BUT THEY FEAR THAT THAT GAP CANNOT BE STRETCHED FURTHER. THEY WANT US RATES TO COME DOWN. THEY ARE LIKELY TO APPROACH THE ISSUE FROM THE POINTS OF VIEW OF THE LDC INDEBTEDNESS PROBLEM AND THE FAILURE TO IMPLEMENT FULLY THE WILLIAMSBURG DECLARATION. KOHL WILL NOT BE AGGRESSIVE BUT WILL MAKE CLEAR THAT RESPONSIBILITY LIES IN WASHINGTON.

4. WILLIAMSBURG CALLED FOR MORE TRADE LIBERALISATION, BUT IN THE GERMAN VIEW THERE HAD BEEN MORE PROTECTIONISM INSTEAD. IT HAD CALLED FOR REDUCTION OF PUBLIC DEFICITS, THE US DEFICIT HAD RISEN. IT WAS IMPORTANT FOR SUMMITS TO GIVE SIGNALS. THE US

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/ BUDGET



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BUDGET DEFICIT CAUSED US INTEREST RATES TO RISE WITH DAMAGING CONSEQUENCES FOR LDCS, LOWER RATES AND FREER TRADE RATHER THAN INCREASED LIQUIDITY WERE NEEDED. SIGNS SUCH AS THE WOBBLING IN THE US BANKING COMMUNITY AND THE RECENT APPEAL BY FOUR LATIN AMERICAN PRESIDENTS FOR AN EASING OF THEIR DEBT BURDENS HAVE BEEN SEEN AS SIGNIFICANT. AS FOR THE LEAST DEVELOPED COUNTRIES, THE GERMANS SEE NO ALTERNATIVE TO WRITING THEIR DEBTS OFF, THIS WILL NOT DO IN THE CASE OF THE RICHER COUNTRIES WHO, WITH THE BANKS WHO LENT TO THEM, MUST NOT BE ALLOWED TOTALLY TO ESCAPE THE CONSEQUENCES OF THEIR OWN FOLLY.

5. ON INTERNATIONAL TRADE THE GERMANS HOPE FOR PROGRESS. THEY RECOGNISE THAT THE FRENCH AND THE ITALIANS WILL MAKE DIFFICULTIES, BUT SEE THE SUMMIT AS AN OPPORTUNITY TO PUT PRESSURE ON THEM, TO TAKE ADVANTAGE OF WHAT THEY SEE AS A BROADENING CONSENSUS AND FOR SUMMIT PARTICIPANTS TO GIVE A FIRM COMMITMENT TO UNDERTAKE MEASURES OF ROLLBACK (PHASES I AND II) WITHIN A SHORT TIME SCALE. SUCH MEASURES WOULD TAKE ACCOUNT OF THE INTERESTS OF DEVELOPING COUNTRIES AND BY BEING ONE OF THE FEW PRACTICAL POSSIBILITIES FOR THE INDUSTRIALISED COUNTRIES TO HELP THE LCDS AT THE PRESENT TIME WOULD BOTH ENCOURAGE THEM AND GIVE A POSITIVE IMPULSE TO NORTH/SOUTH RELATIONS. THE GERMANS SEE NO PROSPECT OF A MORE FORTHCOMING COMMITMENT TO A NEW GATT ROUND THAN WAS REACHED AT THE OECD.

6. THE GERMANS ATTACH IMPORTANCE TO THE PROPOSED DECLARATION ON DEMOCRATIC VALUES, AMONG OTHER THINGS AS A FORWARD-LOOKING ANTIDOTE TO THE BACKWARD LOOK IN NORMANDY WHICH PRECEDES THE SUMMIT. THEY LIKE THE 'TIMELESSNESS' OF OUR DRAFT, THOUGH THEY ARE PROPOSING MORE SPECIFIC REFERENCES TO EAST-WEST CORELATIONS AND ARMS CONTROL.

7. WITH THE MUNICH ENVIRONMENT CONFERENCE LATER IN THE MONTH, KOHL WILL ARGUE THAT THE TIME HAS COME FOR INTERNATIONAL ACTION, FURTHER STUDIES WILL NOT BE ENOUGH.

8. THE AUSWAERTIGES AMT SEEMS TO ACCEPT THAT MUCH CANNOT BE EXPECTED FROM THE SUMMIT ON NORTH/SOUTH RELATIONS. OUR FIRST

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/ SOUNDINGS



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SOUNDINGS CONFIRM THAT MRS GANDHI'S EMISSARY HAD A FRIENDLY HEARING AND A FIRM REJECTION FROM THE FINANCE MINISTRY (TIETMEYER) FOR INDIAN IDEAS ON A PREPARATORY CONFERENCE ON MONEY AND FINANCE FOR TRADE, BUT HE HAD A LITTLE MORE COMFORT FROM THE AUSWAERTIGES AMT.

9. ON ENERGY THE GERMANS HAVE MADE THEIR ATTITUDE PLAIN ON CRISIS MEASURES. THEY SEE NO PRESENT NEED FOR FURTHER DISCUSSION. THEY ARE INTERESTED IN A SUBSTANTIVE DISCUSSION OF TERRORISM AND KOHL MAY BE EXPECTED TO SPEAK HELPFULLY ON THE SUBJECT, THOUGH HE WILL BE CAUTIOUS ABOUT REVIEWING THE VIENNA CONVENTION.

TAYLOR

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TO PRIORITY FCO

TELEGRAM NUMBER 690 OF 1ST JUNE

INFO ROUTINE BONN, ROME, WASHINGTON, OTTAWA, TOKYO, UKREP  
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YOUR TELNO 297 TO BONN: LONDON ECONOMIC SUMMIT.

SUMMARY.

1. MITTERRAND WILL WANT THE SUMMIT TO BE SEEN TO GIVE A PUSH TO MULTILATERAL MEASURES TO COPE WITH THIRD WORLD DEBT. PRESENTATIONALLY HE WILL WANT TO SHOW THAT THE RENEWED FRANCO-GERMAN ALLIANCE IS WORKING WELL.

2. MITTERRAND PROFESSES TO BE SCEPTICAL ABOUT ECONOMIC SUMMITS. HIS OWN VERSAILLES WAS AN EXTRAVAGANT FLOP AND AFTER WILLIAMSBURG HE WAS CRITICISED AT HOME FOR HAVING AGREED TO THE DECLARATION ON SECURITY.

DETAIL.

ECONOMIC STRATEGY.

3. ALTHOUGH HE HAS MODIFIED HIS OWN ECONOMIC POLICY, IT IS STILL A LITTLE AWKWARD FOR MITTERRAND TO ASSOCIATE HIMSELF CLOSELY IN PUBLIC WITH THE MACRO-ECONOMIC STRATEGY OF MOST OTHER SUMMIT GOVERNMENTS. BUT HE WILL CERTAINLY NOT QUARREL IN PRIVATE WITH THE MAIN THRUST OF THE DRAFT ECONOMIC DECLARATION, WHICH COINCIDES WITH HIS MORE RECENT PRONOUNCEMENTS.

DEBT.

4. WITH THEIR MASSIVE LENDING TO THE THIRD WORLD AND HEAVY DEPENDENCE ON THIRD WORLD MARKETS, THE FRENCH FEEL ACUTELY THE COMMON ANXIETY OVER LDC DEBT. THE PRESS IS GIVING PLAY TO THE SPECTRE OF A BANKING CRISIS. THE AUTHORITIES ARE REASONABLY CONFIDENT OF THE CAPACITY OF CENTRAL BANKS TO PREVENT A CRASH, BUT THEY ARE CONCERNED BY THE POLITICISATION OF THE DEBT ISSUE BY THE LATIN AMERICANS, WHOM THEY CRITICISE IN PRIVATE. DELORS IS TELLING MITTERRAND THAT THE SUMMIT SHOULD ENDORSE HIS (DELORS') CALL FOR AN SDR ISSUE. MITTERRAND MAY DO SO BRIEFLY. MORE REALISTICALLY, HE WILL WANT THE SUMMIT TO ENDORSE CLOSER IMF-WORLD BANK COOPERATION, MORE WORLD BANK PROGRAMME LENDING AND A CAPITAL INCREASE FOR THE BANK. MITTERRAND WILL LOOK TO EUROPEAN PARTICIPANTS, PARTICULARLY THE GERMANS, TO JOIN HIM IN PRESSING THE AMERICANS TO CHANGE THEIR STANCE ON THE FAMILIAR NEXUS: US FEDERAL DEFICIT - INTEREST RATES - LDC DEBT. HE WILL NOT EXPECT A QUICK RESPONSE. I DOUBT HE WILL COURT REBUFF BY PUSHING HARD HIS HOBBY-HORSE OF AN INTERNATIONAL SUMMIT ON MONETARY REFORM. HE IS BEING ADVISED THAT AT THIS STAGE MONETARY AND TRADE MATTERS ARE BEST DISCUSSED WITH THIRD WORLD REPRESENTATIVES IN THE INTERIM COMMITTEE, NOT IN A JUMBO GATHERING.

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TRADE



TRADE.

5. WITH THE ADJUSTMENT OF THE FRENCH ECONOMY FAR FROM COMPLETE, MITTERRAND WILL CONTINUE TO TAKE A NEGATIVE STAND ON TRADE LIBERALISATION IN GENERAL AND AMERICAN AND JAPANESE PROPOSALS FOR NEW MULTILATERAL NEGOTIATIONS IN PARTICULAR. HE WILL SAY THE LATTER ARE PREMATURE.

POLITICAL ASPECTS.

6. THE FRENCH ARE ALWAYS AFRAID THAT ECONOMIC SUMMITS WILL LEAVE THEM LOOKING AS THOUGH THEY HAVE BEEN REGIMENTED BY THE US. HENCE THEIR AVERSION AS A RULE TO THE DISCUSSION OF NON-ECONOMIC SUBJECTS AND TO PROLIFERATION OF MEETINGS OF THE SEVEN. MITTERRAND WAS CRITICISED AFTER HE BROKE THIS RULE BY SIGNING THE WILLIAMSBURG DECLARATION ON SECURITY. SIGNIFICANTLY WHEN JOSPIN (FIRST SECRETARY OF THE SOCIALIST PARTY) EMERGED ON 30 MAY FROM A MEETING WITH MITTERRAND TO DISCUSS THE SUMMIT (THE FIRST OF A SERIES MITTERRAND IS HAVING WITH LEADERS OF ALL THE MAIN POLITICAL PARTIES) HE STRESSED THE NEED TO CONCENTRATE ON ECONOMIC SUBJECTS AND CRITICISED THE TEMPTATION CERTAIN COUNTRIES FELT TO TURN THEMSELVES INTO A WORLD POLITICAL DIRECTORATE,

7. THAT SAID, WE HAVE RECEIVED NO INDICATION THAT MITTERRAND WILL MAKE PROBLEMS OVER THE LONDON CHARTER. HE MAY ALSO ACCEPT THE NEED FOR THE SEVEN TO SHOW PUBLICLY THEIR (MODERATE) CONCERN AT THE SITUATION IN THE GULF. HOWEVER, HE WOULD PROBABLY OPPOSE SHULTZ'S SUGGESTION OF MEETINGS OF FOREIGN MINISTERS OF THE SEVEN (WASHINGTON TELNO 1653) AND BE INCLINED TO DOWNPLAY THE QUESTION OF TERRORISM. WHILE, ACCORDING TO CHEYSSON, HE IS READY TO GO ALONG WITH A GENERAL STATEMENT BY THE PRIME MINISTER ON TERRORISM, HE WILL PROBABLY WANT IT TO BE AS NON-BINDING AS POSSIBLE, ESPECIALLY AS REGARDS FOLLOW-UP AMONG THE SEVEN.

SPACE.

8. MITTERRAND IS KEEN ON THE IDEA OF A SPACE STATION WHICH HE REGARDS AS A FAR-SIGHTED CONCEPT IN THE SAME MOULD AS DE GAULLE'S VISION WHICH HAS NOW BORNE FRUIT IN THE SHAPE OF ARIANE AND OTHER SUCCESSES OF THE FRENCH SPACE PROGRAMME. THE NATIONAL PRESTIGE WHICH ATTACHES TO SUCH PROJECTS GIVES THEM AN IMPORTANT POLITICAL APPEAL IN FRANCE. MITTERRAND'S SPEECH AT THE HAGUE ILLUSTRATED THE SYMBOLIC IMPORTANCE WHICH A SPACE STATION WOULD HAVE FOR EUROPE. IF JOINT PARTICIPATION WITH THE US COULD BE ARRANGED IN SUCH A WAY AS TO RETAIN SEPARATE IDENTITY FOR THE EUROPEAN CONTRIBUTION, SUCH A VENTURE WOULD OFFER GREATER SCOPE FOR SYMBOLISM AND PRESTIGE THAN MIGHT BE ACHIEVED BY EUROPE ACTING ALONE AND WOULD THEREFORE BE ALL THE MORE WELCOME TO THE FRENCH.

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/SCIENCE



# CONFIDENTIAL

## SCIENCE.

9. MITTERRAND IS LIKELY TO SEEK FURTHER CREDIT FOR THE DEVELOPMENTS WHICH HAVE STEMMED FROM HIS INITIATIVE AT THE VERSAILLES SUMMIT ON TECHNOLOGY, GROWTH AND EMPLOYMENT. HE SEES HIMSELF AS A MAN WHO UNDERSTANDS THE ASPIRATIONS OF SCIENTISTS AND THE LONG-TERM IMPLICATIONS OF THEIR WORK AND MIGHT WELL SEEK TO USE THE REPORT OF THE WORKING GROUP ON TECHNOLOGY, GROWTH AND EMPLOYMENT AS A PRETEXT FOR FURTHER DISCUSSION OF MODERN SCIENTIFIC DEVELOPMENTS AND HIGH TECHNOLOGY.

## ENVIRONMENT.

10. ENVIRONMENTAL ISSUES COULD COME UP IN THAT CONTEXT OR SEPARATELY. MITTERRAND'S RECENT MESSAGE TO EUROPEAN ENVIRONMENTAL GROUPS (MY TELNO 592) SUGGESTS THAT HE WOULD BE LIKELY TO RESPOND POSITIVELY TO (IF NOT EVEN TAKE CREDIT FOR) ANY SUGGESTION FOR ACTION ON SUCH MATTERS.

## MEDIA.

11. THE MEDIA HAVE NOT YET PUBLISHED MUCH ON THE SUMMIT PROSPECTS. I WILL REVERT NEXT WEEK.

FRETWELL

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PS/MR RAISON  
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SIR J BULLARD  
MR RENWICK  
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TO PRIORITY FCO

TELEGRAM NUMBER 451 OF 1 JUNE

INFO PRIORITY WASHINGTON, OTTAWA, PARIS, BONN, ROME, TOKYO

YOUR TELNO 408: LONDON ECONOMIC SUMMIT:

PRIME MINISTER'S REPLY TO MRS GANDHI

1. I TOOK THE OPPORTUNITY OF A PREVIOUSLY-SCHEDULED CALL ON P C ALEXANDER (MRS GANDHI'S PRINCIPAL SECRETARY) YESTERDAY EVENING TO DELIVER THE PRIME MINISTER'S RESPONSE TO MRS GANDHI'S LETTER OF 16 MAY.

2. I SAID I UNDERSTAND THAT JHA'S VISIT TO LONDON HAD GONE WELL. ALEXANDER HAD AGREED. IN HIS VIEW THE IMPORTANT POINT NOW WAS TO SEIZE THE OPPORTUNITY AFTER THE LONDON SUMMIT, WHEN MRS THATCHER WAS CHAIRMAN OF THE ECONOMIC SEVEN AND MRS GANDHI OF THE NAM, FOR THE TWO OF THEM TO TAKE SOME INITIATIVE IN THIS FIELD. WORLD OPINION WOULD GREATLY WELCOME SUCH A GESTURE. EVEN IF IT SHOULD PROVE UNSUCCESSFUL, THEY SHOULD BE SEEN TO HAVE TRIED. DRAWING ON COLES' LETTER TO RICKETTS OF 18 MAY I STRESSED MRS THATCHER'S VIEW THAT WHAT THE WORLD LACKED WAS PRACTICAL SOLUTIONS RATHER THAN FORA FOR MEETINGS. ONE NEEDED TO THINK OF CONTENT AS WELL AS PROCEDURE. ALEXANDER AGREED BUT REPEATED THAT WORLD OPINION WOULD EXPECT THE TWO LEADERS TO TAKE SOME NEW INITIATIVE.

WADE-GERY

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PS/MR WHITNEY  
PS/MR RAISON  
PS/PUS

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SIR C TICKELL  
SIR J BULLARD  
MR RENWICK  
MR J THOMAS  
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TELEGRAM NUMBER 1735 OF 1 JUNE

ECONOMIC SUMMIT: AMERICAN EXPECTATIONS

1. WHAT THE PRESIDENT WANTS ABOVE ALL FROM HIS VISIT TO LONDON IS AN OUTCOME THAT WILL PLAY WELL IN HIS ELECTION CAMPAIGN. HIS STAFF TELL US THAT HE WILL WANT TO LOOK "PRESIDENTIAL". ON ECONOMIC ISSUES THIS MEANS THAT THEY HOPE FOR GENERAL AGREEMENT THAT THE DOMESTIC POLICY OBJECTIVES WHICH THE PRESIDENT (AND INDEED MOST OF HIS SUMMIT PARTNERS) HAS BEEN PURSUING HAVE PAID OFF IN TERMS OF ECONOMIC RECOVERY. THE WHITE HOUSE IS UNEASILY AWARE THAT THE PRESIDENT MAY BE CROSS-EXAMINED ABOUT THE US DEFICITS AND INTEREST RATES, AND INTERNATIONAL DEBT, AND FEARS THAT THESE ARE INCREASINGLY ATTRACTING UNFAVOURABLE ATTENTION IN THE DOMESTIC POLITICAL PROCESS HERE. THE PRESIDENT WILL BE WELL BRIEFED TO DEAL WITH THE ARGUMENTS AT THE SUMMIT; BUT THE WHITE HOUSE DEFINITELY HOPE THAT HIS COLLEAGUES WILL BE CONTENT TO HANDLE THE ISSUES IN AS UNCONTENTIOUS AND LOW-KEY A MANNER AS POSSIBLE. THEY ARE APPRECIATIVE OF THE EFFORTS THE PRESIDENT'S BRITISH HOSTS HAVE BEEN MAKING TO ACHIEVE THIS.

2. ALTHOUGH PRELIMINARY PRESS COVERAGE OF THE SUMMIT HAS BEEN GROWING OVER THE LAST WEEK, IT HAS BEEN COMPARATIVELY LOW-KEY AND ANALYTICAL. TREASURY SECRETARY REGAN'S REMARKS THAT HE EXPECTS INTEREST RATES, THE DEFICITS, AND THE DEBT ISSUE TO FIGURE LARGELY HAVE BEEN WIDELY REPORTED. THE NEW YORK TIMES ANALYSED ON 29 MAY THE PERFORMANCE OF THE SEVEN SUMMIT COUNTRIES IN MEETING THE COMMITMENTS THEY MADE AT WILLIAMSBURG IN COMPARATIVELY OPTIMISTIC TERMS. BUT SO FAR THERE HAS BEEN NO PARTICULAR ATTEMPT EITHER TO PORTRAY THE SUMMIT AS A CRISIS MEETING, FOR WHICH THERE ARE HIGH EXPECTATIONS, OR ALTERNATIVELY TO DISMISS IT. THE GENERAL TENOR IS PERHAPS SUMMED UP IN THE WASHINGTON POST ON 31 MAY WHICH SAID THAT WHILE THERE WERE NO VERY HIGH HOPES FOR LARGE ACHIEVEMENTS IN LONDON, THE EXERCISE WAS WORTHWHILE SINCE THIS WAS ONE OF THE FEW OCCASIONS ON WHICH THE LEADERS OF THE MAJOR INDUSTRIAL POWERS WERE COMPELLED TO CONFER ON THE STATE OF THE WORLD ECONOMY. THE TONE COULD CHANGE AS THE ELECORAL IMPLICATIONS BECOME CLEARER.

POLITICAL ISSUES

3. THE AMERICANS NOTE THAT A GOOD DEAL OF TIME WILL BE TAKEN UP AT THE SUMMIT WITH INTERNATIONAL POLITICAL ISSUES. THEY WELCOME THIS AS PART OF THE BUSINESS OF BINDING THE JAPANESE INTO THE WESTERN POLITICAL PROCESS. THEY THINK THAT IT WOULD HELP THE JAPANESE, AND ALSO FIT IN WITH THE GENERAL THRUST OF THE PROPOSED POLITICAL DECLARATION, IF LANGUAGE COULD BE ADDED ABOUT THE INDIVISIBILITY OF WESTERN SECURITY. ON PARTICULAR ISSUES, THE AMERICANS HAVE FEW REQUIREMENTS: THEY ARE CONTENT TO LET THE AGENDA IMPOSE ITSELF. NEVERTHELESS, THEY HANKER AFTER SOME PUBLIC LANGUAGE ON EAST/WEST

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RELATIONS.



RELATIONS, ON ARMS CONTROL AND ON THE GULF, AND ARE STILL THINKING OF PROPOSING WORDS TO TACK ON TO THE POLITICAL DECLARATION (ALTHOUGH THEY SEEM OPEN TO THE ARGUMENT THAT IT MIGHT BE NEATER TO DEAL WITH THESE CURRENT SUBJECTS ELSEWHERE). IN PARTICULAR, THE STATE DEPARTMENT (MORRIS) CONSIDER THAT PUBLIC OPINION WILL FIND IT HARD TO UNDERSTAND IF THE SUMMIT LEADERS DO NOT SAY SOMETHING CLEAR ABOUT THE GULF, INCLUDING PERHAPS SOMETHING ABOUT JOINT EFFORTS TO DEAL WITH THE IMPLICATIONS FOR THE WEST'S ENERGY SUPPLIES. THE AMERICANS WILL BE LOOKING FOR EVIDENCE FROM THEIR PARTNERS THAT THEY ARE SERIOUSLY CONSIDERING EFFECTIVE CRISIS MEASURES OF THEIR OWN. THERE WOULD BE MUCH CRITICISM IN CONGRESS AND ELSEWHERE IF THE AMERICAN PUBLIC GOT THE IDEA THAT AMERICA'S PARTNERS WERE CONTENT SIMPLY TO RELY ON THE AMERICANS TO DRAW DOWN THEIR STRATEGIC PETROLEUM RESERVE IN AN EMERGENCY.

4. ON TERRORISM, THE AMERICANS ARE LOOKING FORWARD TO A GOOD DISCUSSION, FOLLOWING BY A BRITISH BRIEFING, BUT THEY DO NOT EXPECT A JOINT STATEMENT.

#### ECONOMIC ISSUES

5. THE ADMINISTRATION HAVE UNTIL RECENTLY BEEN FAIRLY COMPLACENT, ESPECIALLY IN PUBLIC, ABOUT THE PROSPECTS FOR BOTH THE COUNTINUATION OF THE WORLD ECONOMIC RECOVERY AND THE RESOLUTION OF THE INTERNATIONAL DEBT SITUATION. THE GROWTH OF THE DOMESTIC AMERICAN ECONOMY HAS BEEN HIGHER THAN EXPECTED, AND UNEMPLOYMENT AND INFLATION HAVE BEEN REDUCED SUBSTANTIALLY. THEY ALSO SEE THAT ECONOMIC ACTIVITY IN OTHER OECD ECONOMIES HAS BEEN PICKING UP. DEBTOR COUNTRIES HAVE BEEN REGARDED AS SUCCESSFULLY TAKING THE NECESSARY STEPS TO ADJUST THEIR ECONOMIES WITH THE ASSISTANCE OF EXISTING INTERNATIONAL SUPPORT MECHANISMS. BUT THREE INTER-RELATED RECENT DEVELOPMENTS HAVE ALTERED THE POSITION: THE RISE IN US INTEREST RATES, THE DIFFICULTIES OF THE CONTINENTAL BANK OF ILLINOIS, AND THE SIGNS OF A MORE CONCERTED APPROACH BY DEBTOR COUNTRIES. THE ADMINISTRATION ARE NOW SHOWING SIGNS OF NERVOUSNESS, ABOUT THE SUBSTANCE AS WELL AS THE ELECTORAL IMPLICATIONS. BUT IN LONDON THE PRESIDENT IS LIKELY TO CONTINUE WITH HIS LINES THAT FURTHER ACTION ON THE BUDGET WILL HAVE TO WAIT UNTIL NEXT YEAR: THAT THE US AUTHORITIES CAN COPE WITH THE TROUBLES IN THE BANKING SYSTEM; AND THAT ON INTERNATIONAL DEBT THE RIGHT THING IS TO FEND OFF RADICAL OR COSTLY SOLUTIONS, ISOLATE POTENTIAL MAVERICKS (NOTABLY ARGENTINA), WHILE CONSOLIDATING PROGRESS IN THOSE COUNTRIES SUCH AS BRAZIL AND MEXICO WHICH ARE IMPLEMENTING ADJUSTMENT PROGRAMMES.

6. MEANWHILE THE STATE DEPARTMENT ARE HAPPY WITH THE LANGUAGE OF THE DRAFT ECONOMIC DECLARATION WHICH THEY THINK DEALS NEATLY WITH THE DIFFICULT MACRO-ECONOMIC ISSUES. HOWEVER THE OTHER AGENCIES HAVE NOT YET COMMENTED ON THE TEXT: SO THERE MAY BE SOME NIT-PICKING WHEN THE AMERICAN DELEGATION AS A WHOLE CONSIDERS THE TEXT IN LONDON. THE WHITE HOUSE IN PARTICULAR ARE SAID TO BE ANXIOUS TO AVOID TIGHT LANGUAGE ON PROTECTIONISM, SINCE THEY FOUND THAT THE WILLIAMSBURG LANGUAGE WAS EMBARRASSING WHEN THE PRESIDENT SUBSEQUENTLY ACTED AGAINST STAINLESS STEEL IMPORTS: THEY WANT HIM TO HAVE A FREE HAND IF NECESSARY DURING THE CAMPAIGN PERIOD. HOWEVER, THE AMERICANS ARE SATISFIED WITH THE LANGUAGE ABOUT A NEW MULTILATERAL ROUND OF TRADE TALKS, AND PARTICULARLY TO THE REFERENCE TO A DECISION IN 1985. THEY DO NOT WANT THIS TO BE WATERED DOWN.

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Science



# CONFIDENTIAL

## SCIENCE AND TECHNOLOGY

7. THE AMERICANS ARE BROADLY SATISFIED WITH THE LANGUAGE IN THE ECONOMIC DECLARATION ABOUT SCIENTIFIC COLLABORATION. THEIR TECHNICAL EXPERTS ARE HOWEVER WORRIED THAT DISCUSSION ON ENVIRONMENTAL ISSUES WILL ENCOURAGE THE GERMANS AND THE CANADIANS TO COMPLAIN ABOUT ACID RAIN, AND THEY WANT TO AVOID THIS. THE STATE DEPARTMENT BELIEVE THAT THE PROCEDURE WE HAVE PROPOSED WILL AVOID THIS DANGER, AND THAT THE AMERICANS WILL HAVE LITTLE DIFFICULTY IN PARTICIPATING IN A PROGRAMME PROVIDED IT IS GIVEN NO PROMINENCE. BUT SOME NERVOUSNESS REMAINS.

8. ON THE MANNED SPACE STATION THE AMERICANS HOPE THAT THEIR PARTNERS WILL MAKE SOME COMMITMENT TO PARTICIPATE AND CONTINUE TO POINT OUT THAT THE LATER WE JOIN, THE LESS LIKELY WE ARE TO INFLUENCE THE PROGRAMME. THOUGH THEY CLAIM THAT THEY ARE IN NO SENSE ISSUING AN ULTIMATUM, THEY MAY WANT TO STRENGTHEN THE LANGUAGE IN THE DRAFT ECONOMIC DECLARATION ACCORDINGLY.

9. ERD PLEASE ARRANGE FURTHER DISTRIBUTION TO OTHER SUMMIT POSTS AS APPROPRIATE.

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4 June 1984

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Policy

PRIME MINISTER

INTERNATIONAL DEBT CRISIS

There are many solutions on offer:

1. Solutions giving or lending more money to the debtor countries

Reducing interest rates for them.

Offering national loans or loans through international bodies.

Stepping up grants and aid.

Writing off a portion of the debts to ease interest and capital repayments.

In each of these cases, he who makes a bold initiative may end up writing out the first large cheque. These "solutions" do not solve the problem, they merely postpone the day of reckoning. It does not help a drug addict to give him more drugs to keep him going, although it is painful to face up to the need to withdraw from the drug on which he is hooked.



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Encouraging payment of interest and repayment of capital is a poker game. If the West look as if they are softening, they could bring on the very crisis of non-payment they dread.

Some modest strengthening of the IMF/World Bank resources has been and may be necessary, however, if their new lending or replacement lending is firmly linked to policies which encourage adjustment within the borrowing countries.

2. Schemes which encourage adjustment within the debtor countries themselves

Forcing or encouraging domestic austerity in debtor countries, to divert their resources to exporting.

Encouraging more equity financing of new projects within debtor countries from overseas, and encouraging asset sales by debtor countries.

Discouraging Western protectionism against Third World exports, so they can trade their way back to honesty.

These schemes have more to recommend them. Austerity alone can bring political problems in the debtor countries, and limits world economic recovery. More emphasis needs to be placed on encouraging trade and equity investment. Mexico's



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oil is a saleable capital asset (the UK was happy enough to encourage foreign equity capital to finance part of its North Sea development). Brazil's agricultural and lumber resources are also saleable.

3. Policies which encourage adjustments by the Western banks

Creating a market in debt would enable banks, depositors and regulators to determine how serious the problem is. The lack of any precise quantification of bad debts allows rumours to thrive and to threaten the solvency of banks. Quantification would prevent the more silly rumours from running, whilst the market would enable exposed banks to begin selling on some of the debt on their balance sheets to other investors, thereby reducing the bank's risk and raising its liquidity. Syndicated loans could be converted into tradeable bonds, without altering the obligations on the debtors. This can be done gradually, country by country, whilst watching the resulting solvency of the banks. We will then see if the provisions are adequate and banks can come to a better view of what additional capital write-offs they need to make.

What is not to be encouraged is a general move to guarantee all wobbly bank deposits: this can become code for inflating Western money supplies, bringing interest rates down temporarily only to recommence the inflationary process.

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Continental Illinois and other banks now need propping up because the more fundamental issues have been ducked.

The only safe way to bring US interest rates down - and therefore alleviate the problem - is by cutting the US deficit, not by swamping the system with more dollar cash. Of course we could temporarily inflate our way out of the difficulties, but then so much of the anguish of adjustment policies against inflation over recent years would have been lost, and a well-based recovery would be that much more distant a prospect.

Conclusion

Beware solutions which encourage a grand plan for the west to pay off or subsidise debt.

Encourage equity finance of LDCs, asset sales by debtor countries, and a market in debt.

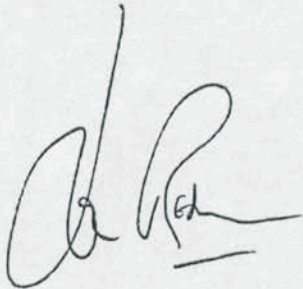
Discourage perpetuation of easy money and deposit guarantees.

Strive for proper adjustment of interest rates in the US by tackling the budget deficit and the tax deductibility of interest for private borrowers.



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Make the bank shareholders carry their burden manfully.

A handwritten signature in dark ink, appearing to be 'J. Redwood', written in a cursive style. The signature is positioned above the printed name.

JOHN REDWOOD

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