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Part 19.

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The Bonn Economic Summit

2 - 4 May 1985

Economic  
Policy

Part 1: May 1979

Part 19: May 1985

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>4-85</del>							
<del>5-85</del>							
<del>5-5-85</del>							
<del>7-5-85</del>							
<del>11-5-85</del>							
<del>5-6-85</del>							
<del>2-6-85</del>							
<del>20-6-85</del>							
<del>21-6-85</del>							
<del>22-9-85</del>							
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COPY NO 1

BONN ECONOMIC SUMMIT  
2-4 MAY 1985

LIST OF BRIEFS TO BE ISSUED IN THE PMVI(85) SERIES

1. STEERING BRIEF  
Brief by Foreign and Commonwealth Office
2. THEMATIC PAPER AND SPEAKING NOTE ON ECONOMIC ISSUES  
Brief by Foreign and Commonwealth Office
3. POLITICAL DECLARATION  
Brief by Foreign and Commonwealth Office

*This set of briefs destroyed. Please refer to CAB 133 where a full set is preserved.  
Wayland  
23/1/14*

ECONOMIC ISSUES

4. WORLD ECONOMY — includes note on President Mitterand's ideas on currency reform.  
Brief by Treasury
5. TRADE — includes examples of protectionism in other countries.  
Brief by Department of Trade and Industry
6. DEVELOPING COUNTRY ISSUES  
Brief by Foreign and Commonwealth Office
7. ENVIRONMENT  
Brief by Department of the Environment
8. ENERGY  
Brief by Department of Energy
9. SCIENCE AND TECHNOLOGY — including Eureka  
Brief by Cabinet Office

DRUGS brief at back of folder.

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POLITICAL ISSUES

10. TERRORISM

Brief by Foreign and Commonwealth Office

11. ARMS CONTROL QUESTIONS

Brief by Foreign and Commonwealth Office

12. NON-PROLIFERATION

Brief by Foreign and Commonwealth Office

EAST/WEST RELATIONS

13a. NEW LEADERSHIP IN SOVIET UNION

Brief by Foreign and Commonwealth Office

13b. POLITICAL DIALOGUE WITH USSR AND EASTERN EUROPE

Brief by Foreign and Commonwealth Office

14a. MIDDLE EAST, INCLUDING IRAN/IRAQ WAR

Brief by Foreign and Commonwealth Office

14b. ARAB/ISRAEL, LEBANON

Brief by Foreign and Commonwealth Office

14c. AFGHANISTAN AND THE SUB-CONTINENT

Brief by Foreign and Commonwealth Office

14d. ASIA (KOREA, CAMBODIA, SINO-SOVIET RELATIONS)

Brief by Foreign and Commonwealth Office

14e. SITUATION IN AFRICA, PARTICULARLY SECURITY AND POLITICAL IMPLICATIONS

Brief by Foreign and Commonwealth Office

14f. CENTRAL AND SOUTH AMERICA

Brief by Foreign and Commonwealth Office

14g. MEDITERRANEAN ISSUES (DEFENSIVE)

Brief by Foreign and Commonwealth Office

Cabinet Office

26 April 1985

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FILE

10 DOWNING STREET

*From the Private Secretary*

22 September, 1985

**BONN ECONOMIC SUMMIT: AFRICAN EXPERT GROUP**

I have seen a copy of Sir Robert Armstrong's letter A085/2393 to you about the handling of this report.

I think that the Prime Minister would agree that it should be for Foreign Ministers to report to Heads of Government with a recommendation on the handling of the report. We can consult the Prime Minister at that stage.

I am copying this letter to Sir Robert Armstrong.

(C.D. Powell)

The Honourable Humphrey Maud, CMG.

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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. A085/2393

20 September 1985

Bonn Economic Summit: African Expert Group

Thank you for your letter of 18 September, <sup>at the end</sup> in which you asked for advice on how to brief the Foreign and Commonwealth Secretary for his meeting in New York on 25 September.

In her absence abroad I have not been able to consult the Prime Minister about this. My own view is that, since the Group's report was commissioned by Heads of Government, the right course would be for Foreign Ministers to put the report to Heads of Government with a recommendation (if they are so minded) for early publication. Such indications as I have received suggest that that is how at least some of the other countries concerned are expecting to deal with the matter.

I am sending a copy of this letter to Charles Powell, together with a copy of your letter to me and its enclosure.

The Hon Humphrey Maud CMG

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Foreign and Commonwealth Office

London SW1A 2AH

18 September 1985

Sir Robert Armstrong GCB CVO  
CABINET OFFICE

*Dear Robert,*

*c - Mr Jago*

CABINET OFFICE	
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BONN ECONOMIC SUMMIT: AFRICAN EXPERT GROUP

1. You will remember that Heads of Government agreed at Bonn to 'set up an expert group to prepare proposals for follow-up measures to be reported to Foreign Ministers by September 1985'.

2. This report has now been completed and I attach a final draft version. The as-yet-unspoken sentiment within the group is that the report should be made public and it seems likely that the Germans will press for this. Foreign Ministers will consider the report at their meeting in New York on 25 September and we need to brief the Foreign and Commonwealth Secretary on our attitude towards publication.

3. Our representative at the expert group has been Ian Buist, Under-Secretary at the ODA, and we in the Diplomatic Wing of the FCO would be content for the report to be published as it is. We would be particularly opposed to any dilution of the 'final remarks', which contain the best language we were able to negotiate on population control.

4. As Heads of State and Government set the group up, it is presumably for them to decide on the action which they would like taken on the report. On the other hand, they asked the group to report to Foreign Ministers. It is therefore quite possible that on 25 September the Foreign and Commonwealth Secretary's colleagues will decide that the report should be published.

5. I should be grateful for your advice on whether we can brief the Foreign and Commonwealth Secretary to agree to publication forthwith, Heads of State and Government being informed that they (Foreign Ministers) have so acted, or whether he should limit himself to agreeing merely that the report should be forwarded to Heads of State and Government with a recommendation that it be published. The latter would seem formally to be the correct course. But I would hope that, if the Foreign and Commonwealth Secretary's colleagues are moved to opt for publication now, he could be briefed to concur and would not be obliged to hold things up.

*Yours ever,*  
*Humphrey*

H J H Maud

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Bonn, 9 September 1985

Report by the Group of Experts on Aid to Africa  
appointed by the Bonn Economic Summit

Preface

The May 1985 declaration of the Bonn Summit voiced the concern of our Governments over the critical economic situation in Africa and renewed their commitment to the provision of assistance for emergency relief, recovery, and long-term development.

In July, at a meeting of the Organization of African Unity held in Addis Ababa, Heads of State and Government of African nations concluded that external factors and domestic policy shortcomings had brought most of their countries close to economic collapse. They set down priorities for action and committed their governments to the gradual increase in the share of agriculture in national total public investment to between 20 to 25 percent by 1989.

Recent world economic developments have impaired the capacity of many African countries to build, and indeed in some cases to sustain, momentum. In certain parts of the continent destabilizing conflicts are disrupting and compromising progress. It is proposed that the Summit Countries and the European Community maintain and strengthen their efforts towards world economic recovery and collaborate with African nations on measures to ensure that they benefit fully from that recovery.

The magnitude of the challenge calls for a renewed and strengthened international partnership with Africa. The environmental degradation and food shortages must be checked and reversed. Decisive action is required on the part of African governments and peoples, who have primary responsibility for their recovery and development; international action to supplement their efforts is essential. It is proposed that the Summit Countries and the



European Community pursue and deepen consultations and collaboration with African nations leading to a true partnership in recovery and development.

The emergency in Africa has brought our peoples closer together. It has drawn large number of voluntary organizations and ordinary citizens into direct action. Their further involvement and the direct contacts they have developed with their counterparts in Africa should be stimulated. International co-operation must translate into people helping people. The objective is to meet a priority set by Africans: to promote self-reliant, self-sustaining development that will be durable and solid.

A. Introduction

I

The situation in sub-Saharan Africa

Over one hundred million people in sub-Saharan Africa suffer from hunger and malnutrition. Per capita food production has dropped by some 20 % over the last 20 years. While the population increased annually by 3 %, food production merely increased by 1.2 % <sup>a year</sup> Grain imports already absorb approximately 20 % of the total foreign exchange earnings of sub-Saharan Africa.

The favourable macro-economic conditions observed in the early 1970s dramatically deteriorated in the early 1980s. The previously stagnant per capita income has declined by 2 to 3 % per annum, the current account situation is worsening, and debt servicing already consumes approximately one quarter<sup>1</sup> of current export proceeds. This has further reduced the flexibility of already vulnerable African states to respond to the additional burden of successive years of drought and production failures.

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1 excluding Nigeria



The present crisis is characterized not only by general shortages of food in the worst affected countries but also by the inability of the rural populations in arid and semi-arid zones to survive successive years of drought, that triggered environmental and social collapse for hundreds of thousands who were already living at the economic margin.

The main causes of the crises are:

- the destruction of the eco-system by persistent drought and environmental degradation;
- inappropriate macro-economic and sectoral policies such as insufficient incentives for the agricultural and livestock sector, including inadequate marketing and pricing arrangements;
- lack of means of transportation;
- inadequate attention to improving and disseminating agricultural technology for Africa's key crops;
- population growth generally in excess of 3 %;
- unfavourable economic conditions which have included not only deteriorating terms of trade and declining commodity prices but also a growing debt burden together with liquidity shortfalls and budget constraints;
- armed conflicts.

Although the economic problems facing sub-Saharan developing countries are likely to persist in coming years, we are confident that there is a chance of mastering the situation if sound policies on the part of African governments go hand in hand with increased support by the whole international community comprising all countries in a position to contribute to this effort.



The last Summit Conference of OAU in Addis Ababa in July 1985 has demonstrated that African states are aware of the critical nature of the crisis and of approaches needed to tackle it. Courageous efforts have already been undertaken by certain African countries concerned.

We must commend the difficult - indeed painful - adjustment processes many African states have undertaken to bring their internal and external accounts into closer balance.

## II

### Action required

1. The first priority must continue to be short-term emergency aid of all kinds, reaching those who are most vulnerable and most affected. This demands continued efforts by African States and by the international community well into 1986, both in supplying and in distributing the means of life to all drought and famine victims.
2. A vital role has already been played in co-ordinating international aid to reinforce African efforts by the international agencies, and especially the Office for Emergency Operations in Africa set up by the UN Secretary General/ and by the World Food Programme. The Summit Countries and the European Community will continue strongly to support this work.
3. The next phase, which has fortunately already arrived in some of the affected countries, is the recovery phase of those populations affected, so that they can resume a productive and self-reliant life.
4. But it is necessary for African Governments to look beyond immediate needs to the more fundamental problems that have made this crisis so severe. The longer-term climatic and demographic trends plainly show that the risks of recurrence are increasing. It is urgent to foresee these problems now and to help them do what is possible to confront them.



5. The Summit Countries and the European Community believe that it will be essential for themselves and other donor countries and institutions to reinforce the actions that have already been taken, preferably by participating with each affected country in an examination of the experience gained from the present crisis but also by concentrating on the following main themes in which specific follow-up action seems required:
6. First, there should be much better arrangements for monitoring crops and the access to food of vulnerable groups. This will require collaboration with African countries and international organizations to improve early warning systems and distribution of emergency food supplies.
7. It also implies assistance to African Governments to improve transport systems, whose weakness has impeded food distribution, as well as to improve national and regional preparedness plans.
8. Increased agricultural and food production lies at the heart of the problem, and in this context we should respond to the important decisions now taken by the OAU Summit at Addis Ababa to raise the volume of their domestic resources going to agriculture. Emphasis therefore should be placed on the formulation and implementation of agriculture and food policies which would give priority to smallholder farmers, particularly women, who produce the vast majority of subsistence food crops: this also implies much improved institutions for extension, marketing and research, including encouragement for the non-governmental and private sector.
9. It is essential to the realization of a "green revolution" in Africa to improve international assistance towards long-term agricultural research and make such research more relevant to <sup>the</sup> African needs <sup>of the small producer,</sup> with particular emphasis on measures, including reforestation, to prevent further environmental degradation.



10. Human resource development is an indispensable condition for any rural development programme in Africa. Moreover the impact of population growth and rapid urbanisation on environmental protection, food security and economic development prospects also need to be taken into account.

B. Recommendations for follow-up measures by the Summit Countries

The following individual measures are proposed for the priorities specified ~~under A-III above:~~

~~Improved conditions for crop monitoring and availability of food products in line with needs~~

1. Improvement of crop monitoring and early warning systems

- 1.1 The improvement of early warning systems cannot be disassociated from the wider task of restoring or building-up of the national capacity to collect, interpret and disseminate meteorological information, monitor crop evolution, data on ~~the~~ food stock situations <sup>and</sup> other relevant social and economic indicators of food crises.

The Summit Countries and the European Community recognize / that / without successful development of national and regional capacities in Africa itself / no adequate overall early warning system is possible.

Although necessarily emphasis must be placed on the revival and/or reinforcement of national agro-meteorological services, regional organizations such as Centre Régional de la Télédétection, Ouagadougou (CRTO), Regional Remote Sensing Facility (RRSF) <sup>in Nairobi</sup> or Agrhymet <sup>(\*)</sup> have an important role to play to improve knowledge on natural resources and its utilization by the farming populations.

(\*) to be spelt out



As a complement to national and regional efforts, <sup>the</sup> Food and Agricultural Organization has operated an early warning system on the basis of on-the-spot information collected in member states and of remote sensing data. This FAO system plays a valuable role in many respects and has drawn attention to the drought and emerging famine in Africa.

1.2 It is proposed that Summit Countries and the European Community support the efforts for improving existing crop monitoring and early warning systems

- by ensuring that primary attention is focused on developing and/or restoring the basic agricultural data systems within Africa itself. This effort will include attention to the national agricultural systems themselves as well as support of regional efforts such as those encompassed in the Sahel and the Southern African Development Co-ordination Conference (SADCC) regional food security programmes,
- by helping to establish or reinforce agro-meteorological and crop reporting services at the country level. This will include contributing to the improvement and support for the functioning of these services through institution building, training, development of agro-meteorological stations and access to remote sensing facilities,
- by making regional organizations such as CRTO, RRSF, <sup>and</sup> Agrhymet more effective, and by improving the co-ordination and collaboration between these organizations and <sup>the</sup> FAO early warning system,
- by helping to standardize the physical, social and environmental criteria for the early detection of food shortages, including shortages in particular regions of individually affected countries,



- by encouraging FAO in the improvement of its early warning system,
- by increasing the basic and advanced training facilities available in this sphere. In this context the September 1986 Berlin Conference on user assistance and training should be encouraged to give priority to the requirements of African countries,
- by recommending that the panel on remote sensing established as a result of the Versailles Summit be charged to formulate technical guidelines on the use of remote sensing with particular attention to African countries, also taking into account the financial and management constraints affecting various African countries to enhance early warning capacities regarding drought conditions in sub-Saharan Africa in their meetings.

2. Assistance to African Governments to improve transport <sup>and</sup> ~~as well as~~ national and regional preparedness plans

- 2.1 There is a need to build on and enhance existing efforts to set up and implement national preparedness plans spelling out the various phases of crisis monitoring and management and associated administrative arrangements to be taken to make best use of local resources, calling on neighbouring countries and integrating external donor support with domestic action.

Owing to the overburdening of numerous African ports, inadequate storage facilities, bottlenecks in railway or road systems and administrative problems in the recipient countries, the assistance supplied either fails to reach many of the needy or reaches them too late. Bottlenecks have sometimes been exacerbated by the inappropriate phasing of relief supplies. Compounding the difficulty of effective relief distribution has been past neglect of investment in the management of, and improved policies for, basic transport infrastructure



including ports, related storage, and especially continued neglect of road and railway systems.

Co-ordinated efforts to date and the role of <sup>the</sup> WFP Africa Emergency Task Force have helped to ease logistical bottlenecks. However further and even more closely co-ordinated action is required to tackle underlying constraints.

2.2 It is therefore proposed that the Summit Countries and the European Community

- help to improve national systems for emergency monitoring and relief, including food security arrangements, by providing, as appropriate, assistance for contingency planning, stock management, and food stocks in the framework of storage capacities by African countries concerned to supplement local crop production,
- ~~contribute to the constitution and efficient management of emergency security stocks in the framework of existing storage capacities by African countries concerned as soon as information is available on local crops.~~
- contribute to the reconstitution of such stocks when emergency requirements are foreseen,
- provide logistic means necessary to efficiently transport the aid: supply of lorries, spare parts and maintenance workshops which should function beyond the short period of emergency; make available air transport capacity particularly for remote areas in the absence of appropriate road and/or rail capacity,
- support African countries, within the scope of existing bilateral security co-operation, in the deployment of their military logistical means to participate in ~~the~~ food distribution, as well as making available - where possible and cost-effective - ~~of~~ the material



and human resources of the armed forces of the Summit Countries,

- co-ordinate even more closely their supplies of food aid, with due regard for the port, storage and distribution facilities available in the recipient countries, and in this connection advocate an even stronger co-ordinating role for WFP, including its computerized information system for Africa (WISA),
- request, jointly and in collaboration with WFP, the governments of recipient countries to remove any administrative bottlenecks, e.g. as regards import formalities,
- support the task force sent by WFP to help <sup>African</sup> governments resolve logistical problems in the most heavily frequented and overburdened African ports,
- contribute to the protection of food and seed, including stores in ports, so as to prevent food supplies awaiting forwarding from being spoiled by adverse weather conditions,
- give attention to the long-term requirements for strengthening management and maintenance of transport systems through bilateral programmes on a regional and country-by-country basis. Attention needs <sup>to</sup> be placed not only on rehabilitation of systems degraded through long-term neglect and extra services to support emergency transport requirements, but also on broader management and recurrent cost issues to be addressed by improvements in tariff policies, rates and maintenance plans. The recent meeting on road maintenance convened by the World Bank in London is an important step in this direction. The railway systems require similar attention, as their important role in long-term economic development and possible future emergencies will be determined by timely investment before the onset of the crisis.



3. Increased agricultural and food production

- 3.1 The present emergency, which requires the provision of subsistence food for famine victims should not distract attention from the need to provide them with assistance for relaunching productive activities in the recovery phase.

Owing to a lack of foreign exchange, the sub-Saharan countries affected are not able to provide most of the requisite agricultural inputs, such as seed, fertilizers, pesticides and ~~small equipments~~ <sup>farm implements</sup>, in order to rehabilitate their ailing agriculture rapidly and ensure the next harvest. The Summit Countries and the European Community are already making emergency contributions in this field within the scope of their bilateral co-operation.

But for longer-term famine prevention it is generally recognized that comprehensive food strategies are needed to ensure lasting improvements in food production, distribution etc. and hence food security. African governments have acknowledged the need for greater priority to the agricultural sector, and their responsibility for designing and overseeing the implementation of comprehensive and appropriate food strategies, which take account of the need to improve incentives and services for producers and the efficiency of agricultural marketing systems (OAU summit in 1984 and 1985, ECA meeting in 1985).

A successful agricultural strategy would include particular attention to the needs of smallholder producers, especially women, and their complete access to the various institutional, legal and economic support services.

Improved agricultural and food production is given priority attention by the Summit Countries, the World Bank and by the International Fund for Agricultural Development (IFAD). The European Community in co-operation with other bilateral and multilateral donors has, to start with, promoted food strategies in four African countries in the



framework of a constant dialogue with recipient countries and as part of its Special Programme to combat hunger in the world. The Lomé III Convention recognizes the need to intensify and generalize these efforts.

Losses of both crops and stock from pests and diseases assume unacceptable proportions and contribute greatly to the overall food deficit.

Of special significance are the "universal pests", particularly termites and those migratory pests which are of regional importance and recognize no national boundaries. While the Summit Countries and the European Community have well-developed expertise and institutions to assist with the attempted control of the latter (locusts, weaver birds, army worm, the greater grain borer etc.) the need for regional co-ordination and co-operation is essential if fully effective measures are to be implemented.

**3.2** It is proposed that the Summit Countries and the European Community

- acting in co-operation with the World Bank Group, the African Development Bank and the International Fund for Agricultural Development, maximize their bilateral co-operation funds for providing effective support to comprehensive and appropriate agricultural sector policies and food strategies designed by sub-Saharan countries particularly affected by drought,
- use their aid to support appropriate policy and structural changes introduced by African countries to improve production and marketing and especially to provide incentive prices and goods which will encourage small farmers (including women) and herders to produce for the growing urban markets, and where appropriate, for export,
- utilize remote sensing technology and improved crop reporting systems not only for the early warning system aforementioned



but also for the establishment and monitoring of proper agricultural development plans including food strategies,

- make available, within the framework of their aid programmes and in combination with their support to extension services, to farmers and women's organizations, and to management in developing countries, increasing and continuing support for the development of the agricultural sector (including forestry, fisheries and livestock),
- invite the International Bank for Reconstruction and Development and the African Development Bank to become more actively involved so as to expand and complement the action already taken in regional pest control programmes, which should be more effectively co-ordinated.

#### 4. Support for national and international agricultural research

- 4.1 Agricultural research provides a strategic basis for <sup>achieving</sup> a ~~realization~~ of a sharp increase in agricultural production in Africa, which could be called a Green Revolution for Africa, as shown by the experiences of the Green Revolution in Asia and Latin America.

However, it is a cause for concern that agricultural research services in Africa are not providing adequate answers to farmers' problems. The shortcomings have included failure to develop appropriate new technology packages as well as failure to adequately develop effective linkages to disseminate existing technologies. Remedies are made more urgent by the drought.

These national research services need to be reconstituted and, where appropriate - linked closely to post-secondary educational institutions and to improved systems such as private and national extension services with the sustained support of the African governments and the entire international donor community.



But national research services will not be able to carry out their essential functions - both in terms of basic and adaptive research - without closer collaboration from the wider international research efforts, including the 13 international research centres funded through the Consultative Group on International Agricultural Research (CGIAR), which have achieved their greatest success to date with the development of high-yielding types of wheat and rice. Research into major crops, livestock and other natural resources and farming systems suitable for arid and semi-arid regions deserves more focused support in view of the critical situation in sub-Saharan Africa. Use should be made of the potential of national research institutions and of regional institutions in Africa. Of complementary importance is the multiplication of the best seeds including indigenous varieties on a wide scale. Agricultural research supported by the Summit Countries and the EEC merits higher priority.

Particular action is needed to avoid duplication of efforts, to arrange effective dissemination of new technology, and to keep current the results of past and ongoing research, especially into particular crops in individual and ecologically similar zones.

In addition to the importance of research on the technical aspects of agricultural production, account must also be taken of research into food and food aid policy issues. The questions of the developmental as well as humanitarian use of food aid, its integration into national agricultural development policies, and its possible contribution to the alleviation of balance of payments burdens, in appropriate circumstances, merits ongoing considerations.

4.2 It is proposed that the Summit Countries and the European Community in the context of their development co-operation policies

- continue to support, in co-operation with the World Bank and other donors, the restoration and improvement of national research systems of African countries, on the basis set out above,



- encourage the World Bank to play a more active role in the effective co-ordination of donor support for national research work, taking into account the work of the CGIAR centers,
- support specific work into the growing and processing of major crops, trees and shrubs, pest control, and farming systems especially suited for arid and semi-arid areas and for the local communities living in those areas, including the testing of plants <sup>species</sup> in particular localities,
- promote multiplication of the best types of seeds, and support their dissemination via all possible channels of distribution be it public or private,
- encourage the CGIAR-system and International Agricultural Research Centres (IARCS) to accelerate the redirection of their resources towards basic research needs in Africa and especially of the drier areas,
- support and further develop ~~commodity~~ networks which link national research and educational institutions with each other and with existing IARCS, primarily for ~~the commodities of~~ cereals, especially <sup>for</sup> arid zones, pulses, root crops and forages,
- promote and improve effective donor co-ordination and African regional technical co-operation to strengthen the national research systems through various structures such as Southern African Development Co-ordination Conference, Comité inter-Etats de Lutte contre la Sécheresse dans le Sahel and the Club du Sahel. This should include the expansion and strengthening of third country technical co-operation wherever appropriate.



5. Desertification

5.1 Desertification is part of a long-term process of sustained environmental degradation which may be accelerated by drought but is caused primarily by overuse of land by humans and livestock, thus threatening the ecological balance in many previously productive areas.

There are no promising short-term or grandiose solutions to this complex process. Longer-term answers depend primarily on those who are the custodians and beneficiaries of the threatened land.

Past experience shows that communities themselves can be mobilized to combat desertification through locally based agroforestry at the farmstead, social forestry at the community level, and soil and water conservation. Serious medium and longer-term efforts must also be undertaken to help make population pressures more manageable, to develop the human resource base and to improve sector policies for rural and urban development.

5.2 In view of the complexity and gravity of the desertification process, it is proposed that the Summit Countries and the European Community should

- support, and help to co-ordinate closely, the efforts made to redress the problem at the initiative of the affected African countries;
- incorporate into all development programmes and projects, where possible, components to safeguard and improve the natural resource base;
- support socio-economic research to establish the best answers to questions such as land tenure, how to mobilize rural communities to activities related to combat desertification; and how to avoid disincentives created by prolonged food aid;



- support action to mobilize local communities and to allow them to tackle effectively, at their level, the problems of environmental protection including in particular by reforestation. In this context work by local and overseas organizations is to be supported, including the mobilization of volunteers, such as international "green corps" movements, to carry out timely and cost-effective assistance in co-operation with the relevant communities under the supervision of expert professionals;
- encourage and support the revision of formal educational curricula so that they better reflect the seriousness of the environmental problem, as part of African countries' own efforts to make education more relevant to life in their societies;
- support research on local and exotic tree species capable of providing fodder, fruit, especially fuelwood and development of alternative energy sources. Help should also be given to develop the capacities of forestry and related administrative services to deal with these problems;
- support the establishment of national networks between government, non-governmental and private agencies to exchange information on factors for combating desertification, act as clearing houses, and stimulate faster and wider action, adapted to the varied needs of different regions and communities;
- support regional initiatives aimed at understanding the factors affecting desert encroachment and spreading knowledge of successful approaches to slowing it. This should include support for disciplined, co-ordinated efforts, in particular from institutions like the Intertropical Network for Research on Resistance against Drought and from regional associations such as the Comité inter-Etats de Lutte contre la Sécheresse dans le Sahel (CILSS), the SADCC and the East Africa Djibouti group, among others, as well as support for other activities in the field;

for communities  
in the drier  
areas; and on



- support activities undertaken by relevant multilateral organizations such as the United Nations Environmental Programme and Food and Agricultural Organization to assist national and regional activities to combat desertification.

The conference which will be organised by France in Paris at the beginning of 1986 / will permit exchanges and discussions necessary for the intensification of the fight against desertification in Africa.

## 6 Final remarks

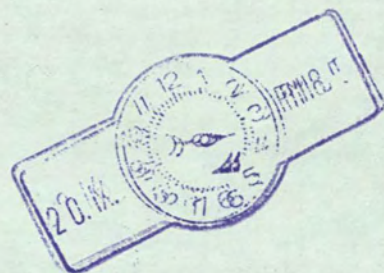
- 6.1 As many African governments increasingly recognize, the inexorable rise in their populations, particularly in the urban areas, places an immense strain both on their ability to provide basic services like education and health, and on the fixed resources represented by their land (and especially their arable land). The severe impact of this present famine has been greatly aggravated by massive migratory movements and the high rate of growth in the population in relation to the rate of growth of food production in the worst affected countries since the previous widespread drought. But the standard projections show far greater rises on the way. Within the lifetime of many born today, the population of the seven worst affected countries will rise from 80 million to 358 million people.

Any action in this area can only be taken in support of strategies worked out by each African government within its local socio-cultural environment. It seems, however, necessary to underline that the measures proposed in relation to agricultural development, food production and the degradation of the environment must be accompanied by actions of the African countries to address the issue of population growth. If requested to do so, the Summit Countries and the European Community are open to consider favourably requests for assistance in this crucial area and support organizations such



as UNFPA and WHO as well as other agencies active in this field. Such action should follow the lines agreed by consensus at the International Conference on Population held in Mexico in 1984.







Subject - master  
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10 DOWNING STREET

THE PRIME MINISTER

21 June 1985

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T117/85

Dear Mr. President,

Thank you for your letter of 26 April in which you expressed your concerns and those of your Latin American colleagues in advance of the Bonn Economic Summit. I know that the Federal German Chancellor has already written to you in reply on behalf of all Summit participants but I wanted to add a few further comments of my own.

The problem of indebtedness was very much on our minds during our discussions in Bonn. We understand and share your concern about the serious difficulties facing a number of countries in Latin America. We are very much aware too of the courageous efforts which are being made in Latin America to cope with these difficulties. These problems require a comprehensive approach which takes account of all the causes and effects of each individual case. The circumstances of these debt problems vary of course very widely, which is why it is difficult to find a universal solution applicable to all countries.

At the Summit, we recognised and agreed that a lasting solution to the problem can only be achieved if all those involved continue their constructive co-operation. We shall therefore continue to work with debtor countries in a spirit

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of partnership. In particular, we in the developed countries recognise that we have a duty to help countries pursuing economic adjustment. In this respect, among the most important agreements reached at the Summit were the commitment to maintain non-inflationary growth in our own countries, and our agreement on the need to launch a new GATT round. We must sustain the recovery, which has begun to spread from the industrialised countries to the developing world, and maintain the open trading system which is of such importance to all our countries.

But we recognised in Bonn that this alone is not sufficient to help debtor countries overcome their problems. The importance of continuing flows of finance to developing countries was expressly underlined. We therefore agreed to specific measures to help, such as endorsing the role that multiyear rescheduling agreements can play in appropriate cases. We emphasised too the role of the International Monetary Fund and the World Bank Group in supporting policies by debtor countries to strengthen the confidence of the creditors and investors. We therefore agreed to work to ensure that these institutions are equipped with the resources necessary for their task.

We are under no illusions that the problem of debt has been resolved, or that there are any magic solutions. We must work patiently at the different solutions relevant to each case. Continuing the dialogue in the international institutions will help to improve mutual understanding and bring us closer to the lasting solution to these problems which we all seek.

Yours sincerely  
Rangaraj Dalal





Foreign and Commonwealth Office

London SW1A 2AH

20 June, 1985

Dear Charles,

Bonn Economic Summit

In our letter of 22<sup>17th</sup> May we said that Chancellor Kohl would reply to President Sanguinetti on behalf of all Summit participants but that depending on the terms of his reply, we might want to recommend that the Prime Minister send a brief follow up reply herself in due course.

Chancellor Kohl's letter was very detailed and an additional letter from the Prime Minister did not seem necessary. However, we have now been told that President Mitterrand, Prime Minister Nakasone and M. Delors have all sent separate replies. President Reagan, we understand, is also about to do so. We consider that the Prime Minister should now do likewise if we are to avoid the risk of being seen in Latin America as indifferent to Latin American concerns. I enclose a draft.

Yours ever,  
*P F Ricketts*

(P F Ricketts)  
Private Secretary

C D Powell Esq  
10 Downing Street



Bembridge

To issue  
CO

D R A F T

Dr  
His Excellency / Julio Maria Sanguinetti  
President / Oriental Republic of Uruguay  
of the

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which we all seek.

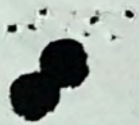
~~Prime Minister~~

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Bonn Ec. Summit: Econ

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## CONFIDENTIAL

FAIRLY CONFIDENT THAT THE ROUND WOULD START IN 1986 (RECENT REPORTS HERE THAT MR ABE HAD SAID IT WOULD NOT START THEN WERE INCORRECT).

5. ON OTHER ECONOMIC POINTS, THE MFA SAID:

A) THEY SAW LITTLE PROSPECT OF PROGRESS ON MONETARY ISSUES BY CONVENING A SPECIAL MEETING. WORK SHOULD CONTINUE IN THE G10 AND G5 AND THEN AT THE MEETING OF THE IMF IN SEOUL.

B) PROGRESS HAD BEEN MADE OVER THE HANDLING OF DEVELOPING COUNTRIES, PARTICULARLY ON DEBT RESTRUCTURING. JAPAN WELCOMED THE FRENCH INITIATIVE ON FAMINE IN AFRICA.

C) AS FOR THE HANDLING OF THE "JAPAN PROBLEM" THE MFA WERE CONCERNED THAT THE ABSENCE OF REAL CRITICISM AT BONN MIGHT CAUSE OTHER MINISTRIES TO RELAX AND LOSE INTEREST IN PROMOTING IMPORTS. THEY ANTICIPATED A PROGRAMME OF TARIFF REDUCTIONS BY THE END OF JUNE AND THEN THE ACTION PROGRAMME FOR MEDIUM MEASURES BY THE END OF JULY. IF THERE WERE NO RESULTS, THE TOKYO SUMMIT COULD BE VERY DIFFICULT.

6. MANAGEMENT OF TOKYO SUMMIT

THERE ARE THREE POINTS WORTHY OF NOTE HERE:

A) MR NAKASONE SYMPATHISED WITH PRESIDENT MITTERRAND'S DISSATISFACTION WITH THE RUNNING OF THE BONN SUMMIT. HE BELIEVED THAT THERE SHOULD BE LESS BUREAUCRATIC INFLUENCE AT THE TOKYO SUMMIT AND HAD INSTRUCTED OFFICIALS TO LOOK INTO THIS.

B) ON AUSTRALIAN PARTICIPATION AT THE TOKYO SUMMIT (YOUR TELNO 240 TO CANBERRA), THE MFA SAID THAT AT A PRE-SUMMIT SHERPAS' MEETING, THEY HAD ASKED WALLIS ABOUT THE SUGGESTION MADE BY US AMBASSADOR MANSFIELD THAT AUSTRALIA SHOULD BE INCLUDED IN ANY FUTURE ECONOMIC SUMMITS (MY TELNO 257). WALLIS HAD REPLIED THAT HE KNEW NOTHING OF THE PROPOSAL. THE ISSUE WAS NOT RAISED IN BONN. THE PRESENT JAPANESE POSITION IS THAT THEY WILL TAKE NO INITIATIVE OVER THE MATTER AND WILL ONLY DISCUSS IT IF THEY ARE APPROACHED BY THE AUSTRALIANS.

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/ C) ON



# CONFIDENTIAL

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TO PRIORITY FCO

TELEGRAM NUMBER 352 OF 21 MAY

INFO ROUTINE WASHINGTON, CANBERRA, BONN

INFO SAVING PARIS, OTTAWA, UKREP BRUSSELS, ROME

## JAPANESE VIEWS ON THE BONN SUMMIT

### 1. SUMMARY

MFA DEBRIEFING HAS CONCENTRATED ON THE HANDLING OF THE SDI AND A NEW GATT ROUND. THE JAPANESE REMAIN OPTIMISTIC THAT THE NEW ROUND WILL START IN 1986. THEY ARE PLEASED PROTRACTED DISCUSSION ON THIS PREVENTED MUCH DISCUSSION OF THE "JAPAN PROBLEM". BUT THIS COULD BE DIFFICULT FOR THEM AT THE TOKYO SUMMIT. NAKASONE SUPPORTS MITTERRAND OVER TOO MUCH BUREAUCRACY. THE JAPANESE SAY THEY WILL NOT TAKE THE INITIATIVE ON AUSTRALIAN PARTICIPATION.

### 2. DETAIL

ON POLITICAL ASPECTS, THE MFA HAD EXPECTED SDI TO BE MORE FULLY DISCUSSED AND TO HAVE TO EXPLAIN THEIR OWN POSITION IN MORE DETAIL. BUT AS WITH DISCUSSION OF "THE JAPAN PROBLEM", THEY HAD BEEN SAVED BY THE TIME OCCUPIED IN DISCUSSION OF THE NEW GATT ROUND. AS FOR THE CONTENTIOUS QUESTION OF A PASSAGE IN THE POLITICAL DECLARATION ON NEGOTIATIONS IN GENEVA, THE JAPANESE, LIKE THE FRENCH, HAD BRIEFED THE PRESS THAT IT DID NOT INCLUDE SDI.

3. THE PARAGRAPH COVERING KOREA HAD BEEN INSERTED AT THE WISH OF THE JAPANESE WHO FOUND THE ORIGINAL POLITICAL DECLARATION TOO HEAVILY SLANTED TOWARDS EUROPE. THE ROK WAS PLEASED WITH THIS AND HAD EXPRESSED THEIR APPRECIATION TO THE JAPANESE.

4. ON THE ECONOMIC SIDE, THE ABSENCE OF OUTRIGHT CRITICISM OF JAPAN HAS PLEASED THE JAPANESE. PUBLICLY THEY HAVE TAKEN THE LINE THAT THIS WAS A FAVOURABLE COMMENT ON THE 9 APRIL ECONOMIC MEASURES. THEY ALSO SAID THAT CRITICISM WAS AVOIDED BY EACH NATION OUTLINING ITS SPECIFIC PRIORITIES IN PARAGRAPH 6 OF THE ECONOMIC DECLARATION. PRIVATELY, HOWEVER, THE JAPANESE ACKNOWLEDGED THAT THE INTRANSIGENCE OF THE FRENCH OVER THE TIMING OF A NEW GATT ROUND MEANT THAT THERE WAS NOT SUFFICIENT OPPORTUNITY FOR THE SUMMIT TO LOOK HARD AT JAPANESE PERFORMANCE. IN SPITE OF THE DIFFICULTIES ON THE NEW ROUND, THE JAPANESE THOUGHT THAT THE FINAL WORDING REPRESENTED SOME PROGRESS OVER THAT AGREED AT THE OECD MINISTERIAL, EG THAT THE WORD "MOST" HAD BEEN SUBSTITUTED FOR "SOME" IN THE FIFTH SENTENCE OF PARA 10. THE FIRST JAPANESE PRIORITY NOW WAS TO AWAIT THE RESULTS OF THE MEETING IN STOCKHOLM IN EARLY JUNE. THEY RECOGNISED THAT THEY HAD TO CONCENTRATE ON CONSTRUCTIVE PREPARATORY MOVES IN THE HOPE THAT THE DOUBTERS COULD BE BROUGHT ROUND. THEY WERE STILL

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## CONFIDENTIAL

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CONFIDENTIAL

/ C) ON



# CONFIDENTIAL

C) ON THE PERENNIAL PROBLEM OF ATTENDANCE BY THE MITI MINISTER AT SUMMITS, THE MFA SAID THAT MURATA HAD ONLY BEEN AT THE TABLE FOR 13 MINUTES WHEN HE HAD REPLACED TAKESHITA DURING A DISCUSSION ON THE ENVIRONMENT AND ON SCIENCE AND TECHNOLOGY. HE WAS NOT PRESENT WHEN TRADE ISSUES WERE DISCUSSED. MURATA HAD HOWEVER ATTENDED THE LUNCHEON AND DINNER OF FINANCE MINISTERS. THE MFA SAID THAT THEY WANTED TO AVOID THIS BEING A PROBLEM AT THE TOKYO SUMMIT. BUT THEY ARE NOT OPTIMISTIC.

FCO PASS SAVING TO PARIS, OTTAWA, UKREP BRUSSELS, ROME

GIFFARD

(REPEATED AS REQUESTED)

ECONOMIC SUMMIT

STANDARD(PALACE)

ERD  
ECONOMIC ADVISERS

FED

NAD

ECDs

TRED

SOVIET D

EED

MAED

ACDD

MR MAUD

MR WILSON

MR EGEPTON

MR JOHNSON

ADDITIONAL DISTRIBUTION

ECONOMIC SUMMIT

3

# CONFIDENTIAL





cc: FCO

10 DOWNING STREET

THE PRIME MINISTER

20 May 1985

Dear Secretary General,

Thank you for your letter of 26 April with which you enclosed the text of the European Parliament resolution on Latin American debt and the Bonn Summit.

As you will be aware from the Summit Declaration, the problems of developing countries generally, including the specific issue of debt, featured prominently in our discussions in Bonn.

Yours sincerely

Margaret Thatcher

Mr. H.J. Opitz

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10 DOWNING STREET

THE PRIME MINISTER

20 May 1985

*Dear Secretary-General.*

Thank you for your letter of 29 April about the Bonn Economic Summit.

We agreed at the Summit that the main contribution we as industrialised countries could make to world prosperity was to promote sustained growth and higher employment in our own economies. We also agreed on the need to follow prudent and, where necessary, strengthened monetary and budgetary policies with a view to stable prices, lower interest rates and more productive investment. We agreed to exercise firm control over public spending in order to reduce budget deficits, when excessive, and, where necessary, the share of public spending in Gross National Product. Sustained recovery as a result of these policies will bring benefits to developing countries.

We had considerable discussion about the particular problems facing developing countries and the efforts many of them are making to overcome their difficulties. The question of protectionism is clearly one of very great importance for them, as for all of us. All the Summit participants stressed the threat which protectionism posed to world trade and agreed that there was a need for a new GATT round as soon as possible. We agreed, too, that a preparatory meeting of senior officials could usefully take place in the GATT before the end of the summer.

/On the

*SPW*





BEMANR

cc: Fco

10 DOWNING STREET

THE PRIME MINISTER

20 May 1985

Dear General Ershad,

Thank you for your letter of 22 April about the Bonn Economic Summit. The problems of the developing countries and in particular the poorest countries were very much in our minds during the Summit. I am sending you with this letter a copy of the Bonn Economic Declaration for your records.

We recognised in the Declaration the difficulties which countries such as Bangladesh are facing and we agreed that official development assistance, especially to the poorer countries, should be maintained and wherever possible increased. The World Bank Group has a major role to play in helping developing countries and we agreed to work to ensure that both it and the IMF have the resources necessary to fulfil their important tasks. As you know, we have since agreed, at this week's World Bank Donor Group meeting in Paris to pledge £50m of aid to Bangladesh, covering both new project aid and commodity aid.

We shall continue to work with the developing countries in a spirit of partnership. In this respect, among the most important agreements reached at the Summit were the commitment to maintain non-inflationary growth in our own countries, and our agreement on the need to launch a new GATT

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round. We aim to sustain the recovery, which has begun to spread from the industrialised countries to the developing world, and to maintain the open trading system which is of such importance to all our countries.

With best wishes,

Yours sincerely

Nargis Hashmi

---

His Excellency Lt. Gen. Hussain Muhammad Ershad



On the subject of debt, we reaffirmed our willingness to help developing countries continue to tackle their problems. The circumstances of these vary widely and we did not believe it would be helpful or practicable to suggest a uniform solution for all countries. But we recognised the role that multi-year rescheduling agreements could play in appropriate cases. We emphasised, too, the crucial role of the International Monetary Fund and the World Bank Group in supporting policies by debtor countries to strengthen the confidence of creditors and investors.

The Summit participants put particular emphasis on the problems of sub-Saharan Africa, and its special requirements arising from famine and drought. Much of the discussion concerned the ways of ensuring that food relief reached those who needed it most. But we were fully aware that much more than relief was required: there was in particular an urgent need to encourage the development of a healthy agricultural sector. You will perhaps have noted in this context that the Summit set up an expert group to report to Foreign Ministers in September.

In conclusion, I would like to bring to your attention a British initiative taken at the Summit which concerned the worldwide problem of drug trafficking. Here, too, we agreed to set up an expert group, this time with the object of drawing up a comprehensive and effective strategy to help fight the manufacture and trafficking of illicit drugs. This initiative deserves, I am sure, the widest possible support.

With best wishes,

Yours sincerely  
Margaret Thatcher

His Excellency Mr. Javier Perez de Cuellar.





Foreign and Commonwealth Office

London SW1A 2AH

17 May 1985

Dear Charles,  
Bonn Economic Summit

We received letters or messages to the Prime Minister about the Bonn Summit from:

- (a) the UN Secretary General
- (b) President Ershad of Bangladesh
- (c) President Sanguinetti of Uruguay
- (d) the General Secretary of the TUC
- (e) the Secretary General of the European Parliament; and
- (f) the President of the Union of European Employers.

/ I enclose a short summary of the main points made in the letters. All were included in the briefing for the Summit.

As for replies, it was agreed in Bonn that Chancellor Kohl would reply to President Sanguinetti on behalf of all Summit participants. But depending on the terms of his reply, which we have not yet seen, we may want to recommend that the Prime Minister send a brief follow-up reply herself in due course. The letter from the European Employers has already been acknowledged by our Ambassador to the EC; no further reply is called for.

/ Last year the Prime Minister sent only a brief reply to Mr Perez de Cuellar and other Heads of Government who wrote. Other Summit Heads of Government replied at greater length to Mr Perez de Cuellar. Since all the replies are circulated widely within the UN Secretariat and get back to some third world countries, there is some risk of our appearing indifferent. We have therefore prepared rather fuller draft replies for the Prime Minister this year; these I enclose.

*Yours ever,*  
*Peter Ricketts*

(P F Ricketts)  
Private Secretary

C D Powell Esq  
10 Downing Street





MESSAGES TO THE PRIME MINISTER ABOUT THE BONN ECONOMIC SUMMIT

(a) UN SECRETARY GENERAL

Mr Perez de Cuellar focusses on developing country issues. Calling for efforts to achieve and maintain the highest possible level of non-inflationary growth, he concentrates on the problem of debt and the difficulties facing sub-saharan African countries. He advocates the rolling-back of trade barriers, referring specifically to the Multi-Fibre Arrangement, extended multi-year rescheduling of debt and more increased aid flows. Expressing gratitude for our help to Africa, he asks that this help continue. Finally, he suggests that the UN is the appropriate form for a political dialogue to discuss trade, monetary and financial issues, and that this year's General Assembly would be the appropriate place and provide an appropriate occasion.

(b) PRESIDENT ERSHAD OF BANGLADESH

President Ershad expresses concern about the difficulties facing developing countries which result from inadequate concessional aid flows and trade restrictions. He is worried about the level of replenishment agreed for IDA7, and regrets the lack of any supplementary funding. He hopes that the Prime Minister would propose concrete methods for augmenting the resources of IDA7. He also urges the Prime Minister to support the funding and replenishment of Asian Development Fund Resources.

(c) PRESIDENT SANGUINETTI OF URUGUAY

The letter from President Sanguinetti of Uruguay is on behalf of the Cartagena Group of Latin American debtors to all Summit participants. He reiterates Latin American concerns about the debt problem, including worries over protectionism. He calls, in not very precise terms, for a political dialogue with industrialised countries.

(d) SECRETARY GENERAL OF THE TUC

The Secretary General of the TUC's letter to the Prime Minister encloses a statement drawn up by the Trade Union Advisory Committee to the OECD. The Summit host received an International Trade Union Delegation in advance of the Summit itself. In most respects, the TUAC Memorandum runs quite contrary to government policy and the main lines of agreement on economic issues at the Summit. It says a "coordinated framework in which job creating economic growth is possible calls for utilising the whole register of policy





instruments". Jobs, it says, will not be produced only through deregulation and the indiscriminate promotion of market forces. It calls for harmonisation of social security, working time and the working environment in OECD countries.

(e) THE SECRETARY GENERAL OF THE EUROPEAN PARLIAMENT

The Secretary General of the European Parliament wrote enclosing a copy of a Resolution passed by the European Parliament which urges Summit participants to agree to the Latin American request for a political dialogue on debt. The resolution also calls for a reduction in interest rates payable by debtor countries.

(f) THE UNION OF EUROPEAN EMPLOYERS (UNICE)

The President of UNICE wrote enclosing a UNICE Resolution calling for the major industrialised countries to pursue policies to ensure that the recovery is sustained and spread more widely. UNICE's approach is close to the Government's and its recommendations are in line with the Bonn Economic Declaration.



DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Reference

The Prime Minister

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

His Excellency  
Mr Javier Perez de Cuellar  
Secretary-General of the UN

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

CO3ASY

CAVEAT.....

Thank you for your letter of 29 April

about the Bonn Economic Summit.

We ~~all~~ agreed at the Summit that the main contribution we as industrialised countries could make to world prosperity was to promote sustained growth in our own economies and higher employment. We also agreed on the need to follow prudent and, where necessary, strengthened monetary and budgetary policies with a view to stable prices, lower interest rates and more productive investment. We ~~all~~ agreed to exercise firm control over public spending in order to reduce budget deficits, when excessive, and, where necessary, the share of public spending in Gross National Product. Sustained recovery as a result of these policies will bring benefits to developing countries.

We had considerable discussion about the particular problems facing developing

*Handwritten:* Please type for PM's signature (4 letters)

Enclosures—flag(s).....



countries and the efforts many of them are making to overcome their difficulties. The question of protectionism is clearly one of very great importance for them, as for all of us. All the Summit participants stressed the threat which protectionism posed to world trade and ~~they~~ agreed that there was a need for a new GATT round as soon as possible. <sup>we</sup> ~~They~~ agreed, too, that a preparatory meeting of senior officials could usefully take place in the GATT before the end of the summer.

On the subject of debt, ~~the Summit participants~~ <sup>we</sup> reaffirmed ~~their~~ <sup>our</sup> willingness to help developing countries continue to tackle their problems. The circumstances of these vary widely and ~~they~~ <sup>we</sup> did not believe it would be helpful or practicable to suggest a uniform solution for all countries. But ~~the Summit~~ <sup>we</sup> countries recognised the role that multi-year rescheduling agreements could play in appropriate cases. <sup>we</sup> ~~They~~ emphasised, too, the crucial role of the International Monetary Fund and the World Bank Group in supporting policies by debtor countries to strengthen the confidence of creditors and investors.

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that the Summit set up an expert group to report to Foreign Ministers in September.

In conclusion, I would like to bring to your attention a British initiative taken at the Summit which concerned the worldwide problem of drug trafficking. Here, too, we agreed to set up an expert group, this time with the object of drawing up a comprehensive and effective strategy to help fight the manufacture and trafficking of illicit drugs. This initiative deserves, I am sure, the widest possible support.

*With best wishes.*



THE SECRETARY-GENERAL

29 April 1985

Dear Prime Minister,

As your summit meeting in Bonn approaches, I would like to take the opportunity once again to share with you a few thoughts on some of the major issues which will be before you. Fortunately, this meeting coincides with signs of relaxation in international political tensions, and also with improvements in the economic situation. These circumstances should help strengthen international economic co-operation.

The economic situation has obviously improved in the industrial countries. However, serious concerns remain about the unevenness of the recovery, and the uncertain future. The United States economy, after having provided a major and timely stimulus to the rest of the world, has begun to slow down as expected. Recovery in Europe has not been strong enough even to halt the increase in unemployment.

In this context, all industrial countries should make every effort to achieve and maintain the highest possible level of non-inflationary growth. More balanced and concerted fiscal and monetary policies will help reduce interest rates and the instability of exchange rates. Sustained expansion of the industrial countries on this basis would facilitate the adjustment process in the world economy, and ease the burdens involved.

Today, much of the burden of adjusting to current difficulties is being borne by the developing countries,

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



especially those with debt problems. Serious declines in the real per capita incomes of many of these countries are generating grave social and political tensions that threaten the fabric of society and create dangerous divisions within the international community. Even on optimistic assumptions, these countries are not expected to regain their pre-crisis levels of real per capita income until the late 1980s or early 1990s. This is particularly true of sub-Saharan Africa.

I recognize the need for adjustment as part of sound domestic policies, but the costs of adjustment should be more equitably shared internationally. This calls for action in the fields of both trade and finance. A new round of trade negotiations, reflecting the interests of all parties, would help stem the tide of protectionism. But there is need for measures to roll back existing trade barriers. The forthcoming renegotiation of the Multifibre Arrangement would be a concrete opportunity to do so in a field of great importance to many developing countries. For those dependent on commodity exports specific action is necessary to strengthen prices and revenues.

The debt problem should be addressed more directly through multi-year rescheduling of official and private debt, including interest and principal. In the case of the official debt of poorer countries a write-off might be the only appropriate solution. Furthermore, the overall decline in aid needs to be reversed, and conditions created to encourage other capital flows including new commercial lending and direct investment.

In my communication to the London summit I had drawn your particular attention to the needs of sub-Saharan African countries. Media exposure last fall of their dramatic difficulties has evoked generous reactions of private and public solidarity. I would like to express my appreciation for your government's contribution. Fortunately, progress has also been made in ensuring a better co-ordination between the donor community and the African countries. But these efforts must persist, for African countries continue to suffer from long-standing structural problems compounded by natural calamities. Their own efforts to mobilize domestic resources, and adapt their policies where required, need to be buttressed by emergency as well as rehabilitation and development aid from external sources. These requirements are far from being met.

\* \* \*

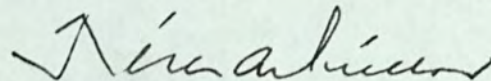


It is to be hoped that the forthcoming trade negotiations and the discussions on the future of the international monetary system will address the short-term as well as the longer-term structural aspects of many of these problems. This determination to address problems through multilateral co-operation is to be welcomed. It is, however, important that the wider membership of the international community, especially the developing countries, should fully participate in them.

While these discussions and negotiations are taken up in separate technical fora, the inherent connections between the trade, monetary and financial issues should be continuously examined.

The role of the United Nations in this context is highly relevant. Apart from contributing on specific negotiations, the United Nations, including UNCTAD, should be used to provide sustained and high-level political impulse to such talks. I have suggested to heads of state and government of all members of the United Nations that they should consider attending the General Assembly later this year to commemorate the fortieth anniversary of the founding of the Organization, and to recommit themselves to the goals and objectives of the Charter. That would provide them with an excellent opportunity to have wider discussion of the issues raised above, and give the much needed political impetus to the necessary action.

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



Javier Pérez de Cuéllar



Beman

DRAFT

Lt Gen Hussain Muhammed Ershad  
President  
People's Republic of Bangladesh

Thank you for your letter of 22 April about the Bonn Economic Summit. The problems of the developing countries and in particular the poorest countries were very much in our minds during the Summit. I am sending you with this letter a copy of the Bonn Economic Declaration for your records.

We recognised in the Declaration the difficulties which countries such as Bangladesh are facing and we agreed that official development assistance, especially to the poorer countries, should be maintained and wherever possible increased. The World Bank Group has a major role to play in helping developing countries and we agreed to work to ensure that both it and the IMF have the resources necessary to fulfil their important tasks. As you know, we have since agreed, at this week's World Bank Donor Group meeting in Paris to pledge £50m of aid to Bangladesh, covering both new project aid and commodity aid.

We <sup>shall</sup> ~~will~~ continue to work with the developing countries in a spirit of ~~true~~ partnership. In this respect, among the most important agreements reached at the Summit were the

MDRANK



the commitment to maintain non-inflationary growth in our own countries, and our agreement on the need to launch a new GATT round. We aim to sustain the recovery, which has begun to spread from the industrialised countries to the developing world, and to maintain the open trading system which is of such importance to all our countries.

With best wishes  
en



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



PRESIDENT  
PEOPLE'S REPUBLIC OF BANGLADESH  
DHAKA

April 22, 1985

Excellency,

The developed as well as the developing countries will be watching with interest and concern the deliberations and outcome of the ensuing Summit meeting in Bonn early next month. There is no doubt that the world economy has improved considerably in recent times but the recovery in output and trade is yet to spread to the developing countries and that many developing countries, particularly the least developed among them, continue to face difficult problems due to inadequate concessional aid flows and trade restrictions. Some of these countries are still facing severe difficulties despite the fact that they had adopted courageous adjustment programmes at times at considerable social and economic costs. Concerted international efforts are required to improve the flow of financial resources to developing countries to support the required adjustments in the context of growth. In an inter-dependent world these efforts are required not only to assist development but also to sustain economic recovery.

2. Augmentation of IDA resources is vitally important for a least developed country like Bangladesh. IDA is the single largest source of concessional assistance for us in helping to build our infrastructure. Although IDA management proposed for a replenishment level of \$16 billion, an IDA-7 of only \$9 billion was agreed upon, resulting in a drop of \$3 billion from the level of IDA-6. Underscoring their concerns about the inadequacy of \$9 billion, the majority of donors provided the management of IDA with a mandate to mobilize upto \$3 billion through a 'Supplementary Funding' arrangement. It is a matter of great regret that it has not been possible to put in place any such 'Supplementary Funding' arrangement. It is our earnest hope that your Government will propose concrete measures in the coming meeting for augmenting the resources of IDA-7. It is also expected that initiatives will be taken right now for an adequate and substantial eighth replenishment of IDA.

3. You are aware that the Asian Development Fund (ADF), the concessional window of the ADB through which soft term loans are given to its developing member countries, has also faced funding problems. Bangladesh is the largest recipient of ADF resources. Short-falls in ADF resources has resulted





due to non-payment of committed contributions by some members. The President of ADB has also expressed deep concern about the implications of possible shortage of ADF resources in 1985 and 1986. May I urge upon you, Excellency, to give full support to the adequate funding and replenishment of ADF resources and to persuade your colleagues at the Summit meeting for similar support?

4. In this connection I would like to add a few words about the implementation of the Substantial New Programme of Action (SNPA) for the least developed countries adopted by the UN Conference held in Paris in September, 1981. It is a matter of concern that about four years after the adoption of the SNPA the situation of the least developed countries is now worse than at the commencement of the Decade. The critical economic and social conditions facing the LDCs call for adoption of special measures by the International community. The target of aid for the least developed countries (0.15% of GDP) agreed at the UN Conference in Paris, and reaffirmed at UNCTAD-VI, at the 38th Session of UNGA and other fora, need to be implemented without delay. In the absence of concerted action by the international community to reverse the present trends regarding flow of resources to the LDCs, the level of living of their people will continue to stagnate, if not worsen, inspite of their own efforts and domestic adjustment measures. I hope the leaders of the industrial world meeting in Bonn will not let this opportunity pass by for coordinating support to the least developed countries.

5. Please accept, Excellency, the assurances of my highest consideration.

A handwritten signature in dark ink, appearing to read 'Hussain Muhammad Ershad', is written in a cursive style.

Hussain Muhammad Ershad

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



DRAFT

*Remans*

N Willis Esq  
Secretary General  
Trades Union Congress  
Congress House, Great Russell Street  
LONDON W1B 3LS

Thank you for your letter of 24 April with which you enclosed a copy of the Trade Union Advisory Committee statement presented to the Summit. I am encouraged to see from this that we share the same concerns and that we recognise that these can only be overcome through economic growth. ~~Although I am sure that you will already have seen~~ *Endorse, I Endorse* ~~it,~~ I am sending for your records a copy of the Bonn Economic Declaration.

The most striking point about our discussions in Bonn was the degree of unanimity between all of us <sup>on</sup> ~~in~~ our policies and how we see progress. We were all agreed that we had to concentrate on continuing to reduce inflation ~~further~~, that we had to keep public spending firmly under control and that this provided the best framework for reducing unemployment.

All participants were united in their agreement on the need to introduce greater flexibility into our economies, to encourage growth and higher employment.

~~There was also agreement~~ *We acknowledged* on the threat posed to the open trading system by protectionism. We therefore agreed that there was a need for a new GATT round as soon as possible.

MDRANG



It is important that we continue, both individually and collectively, to pursue policies conducive to sustained growth and higher employment and that the benefits of recovery are spread as widely as possibly.

I hope you will agree that ~~the Bonn Declaration reflects the~~ importance of achieving this.

MDRANG



# TRADES UNION CONGRESS

CONGRESS HOUSE · GREAT RUSSELL STREET · LONDON WC1B 3LS

Telephone 01-636 4030

Telegrams TRADUNIC LONDON WCI

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

YOUR REFERENCE

OUR REFERENCE NDW/AC/DF/EK

DEPARTMENT Economic

April 24 1985

Dear Prime Minister

## Bonn Economic Summit

I enclose a copy of the statement drawn up by the Trade Union Advisory Committee to the OECD (TUAC) for presentation to the OECD Ministerial Council and the Bonn Summit.

The TUAC statement discusses profits, investment and jobs; labour standards and working time; international trade; debt, aid and direct foreign investment; and environment protection and health and safety.

The statement reflects the concern of the international trade union Movement at growing insecurity, inequality and polarisation both in the Summit countries and between different parts of the world economy. The statement reiterates the trade union view that a climate of security is necessary for change to be implemented with success.

I hope that you will consider the statement carefully and take account of it in your contributions to the Summit. Together with trade union colleagues from the other Summit nations I shall be presenting the Statement to Chancellor Kohl, in his capacity as Summit Chairman, before the Summit.

..... / ...



You will be aware that we have submitted a paper discussing the same themes as the TUAC statement to the NEDC for discussion immediately before the Summit.

Yours sincerely

*Norman Willis*

General Secretary

Enc.



DRAFT

*Rem ant*

H-J Opitz  
Secretary General  
European Parliament  
STRASBOURG

Thank you for your letter of 26 April with which you enclosed the text of the European Parliament resolution on Latin American debt and the Bonn Summit.

As you will be aware from the Summit Declaration, the problems of developing countries generally, including the specific issue of debt, featured prominently in our discussions in Bonn.

*CM.*

MDRANH



EUROPEAN PARLIAMENT

THE SECRETARY-GENERAL

85 11521

*Mr. Tait (ERD)*

*Rec'd today*

*J. Ashington  
Eco(E) 2/5*

Strasbourg,

26. -4- 1985

Rt. Hon.  
Mrs Margaret THATCHER, MP  
Prime Minister  
10 Downing Street  
LONDON SW1

Dear Prime Minister,

Following a debate held under urgent procedure pursuant to Rule 48 of its Rules of Procedure, the European Parliament has adopted

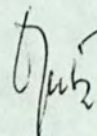
a resolution on the debt burden of the Latin American countries and the summit of the seven industrialized countries in Bonn (May 1985)

and decided to forward the text to the governments of the Member States.

On behalf of the President of the European Parliament, I enclose an extract from the minutes of the relevant sitting, with Parliament's resolution.

The minutes will be published in the Official Journal of the European Communities pursuant to Rule 89(4) of Parliament's Rules of Procedure.

Yours sincerely,



H.-J. OPITZ

Encl.



# EUROPEAN PARLIAMENT

1985 - 1986

SESSION

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## EXTRACT

OF THE MINUTES  
OF THE MEETING OF

THURSDAY, 18 APRIL 1985

IN THE CHAIR: Nicole PERY, Vice-President



## RESOLUTION

on the debt burden of the Latin American countries and the summit of the seven industrialized countries in Bonn (May 1985)

The European Parliament,

- A. apprised of the emergency meeting of a group of fourteen international banks on the Latin American debt,
- B. aware that certain major debtor countries, such as Argentina and Brazil, are continuing to encounter difficulties in complying with the conditions laid down by the IMF,
- C. fearing firstly the risk of an international financial crisis and, secondly, a deterioration in the economic and social situation of the debtor countries, which will not favour the consolidation of the democratic regimes,
- D. noting that the rescheduling of debt negotiated since 1982 among the creditor banks, the debtor countries and the IMF has offered no more than contingency solutions,
- E. convinced that the question of the debt must be tackled in its many financial, economic and political aspects and is therefore a problem for the international community,
- F. whereas the global political dialogue requested by the Latin American countries, in the first instance in the Final Act of the VIth Interparliamentary Conference held in Brussels in June 1983 and, subsequently, at the meetings in Mar del Plata (September 1984) and Santo Domingo (February 1985) is essential in this connection,
  1. Urges the Bonn summit to advocate a favourable, and the swiftest possible, response to the request from the Latin American countries for an international meeting to tackle the problems of the debt in a global and long-term approach;
  2. Considers it also to be essential, as regards the debt, that the efforts which, it is hoped, will be made to stabilize the international monetary system should produce the instruments for:
    - (a) reducing substantially the level of interest rates payable by the debtor countries;
    - (b) establishing, as a general principle for the agreements between the International Monetary Fund and the debtor countries, that economic reform must be compatible with the socially just development of these countries;
    - (c) widening the scope of action by multilateral financial bodies to aid the social and economic development of these countries;



3. Calls on the Council of Ministers of the Communities, the Commission and the European governments who will be attending the meeting in Bonn to do everything in their power to secure from the summit a commitment along the above lines;
  4. Instructs its President to forward this resolution to the Council, the Commission, the Foreign Ministers meeting in political cooperation, the governments of the Ten and the President of the Latin American Parliament.
- 

H.-J. OPITZ  
Secretary-General

Hans NORD  
Vice-president





*File KB*

10 DOWNING STREET

*From the Private Secretary*

8 May 1985

*For master copy  
see letter of 3/5/85*

As promised, I enclose a copy of my note of the discussion between the Prime Minister and President Reagan at Schloss Gymnich, strictly for your personal use. As you will see, the record runs together the initial restricted meeting with the wider discussion at which you were present.

CHARLES POWELL

His Excellency The Honourable  
Charles H. Price II.

CONFIDENTIAL AND STRICTLY PERSONAL



file

JSC

15 May 1985

I write to acknowledge receipt of your letter of 15 May enclosing a personal letter from President Chun Doo Hwan to the Prime Minister. I shall ensure that the Prime Minister sees this as soon as possible.

Charles Powell

His Excellency Dr. Young Choo Kim.



ASG

15 May 1985

I enclose a copy of a message to the Prime Minister from the President of Korea about the Bonn Economic Summit. I do not think any reply is called for.

Charles Powell

Peter Ricketts, Esq.,  
Foreign and Commonwealth Office.





EMBASSY OF THE REPUBLIC OF KOREA

4 PALACE GATE

LONDON W8 5NF

15th May 1985

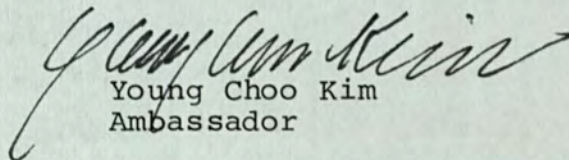
The Rt. Hon. Margaret Thatcher  
Prime Minister  
10 Downing Street  
London

Dear Prime Minister,

President Chun Doo Hwan has asked me to transmit his personal letter to you, and I have the pleasure of enclosing the letter.

With warmest regards,

Yours sincerely,

  
Young Choo Kim  
Ambassador

Enclosure: A personal letter by  
President Chun Doo Hwan.



15 MAY 1985

ПОЧТОВА МОДЕЛ  
С ПЛАЧЕЦЬ

ПАЧКА СЛ. ЛІТ. РЭСПУБЛІКІ СЛ. КОБЛІ





SUBJECT  
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Prime Minister ②

DP  
15/5

President of the Republic of Korea

PRIME MINISTER'S  
PERSONAL MESSAGE

SERIAL No. T81<sup>c</sup>/85

(Translation)

7 May 1985

Dear Prime Minister,

I would like to extend to you my heartfelt congratulations on the successful conclusion of the seven-nation Western Summit Meeting recently held in Bonn.

I particularly welcome the inclusion of a reference to the Korean question in the political declaration of the Meeting, which was unprecedented in the history of the Summit Meeting. In this regard, I wish to express my sincere gratitude for your deep concern and support shown for the Korean people.

This political declaration is a source of great encouragement to me and the Korean people in our continued effort for the peaceful unification through direct dialogue between the south and the north.

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

Sincerely yours,

/s/ Chun Doo Hwan

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



15 MAY 1966

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13 14 15  
16 17 18







## 대한민국 대통령

1985년 5월 7일

수상 각하,

금번 본에서 개최된 서방 7개국 정상회담이 성공리에 폐막되었음을 진심으로 축하드립니다.

본인은 특히 동 정상회담에서는 최초로 한반도문제가 정치선언에 포함된 것을 매우 기쁘게 생각하며, 한국민에 대한 각하의 깊은 관심과 지지표명에 심심한 사의를 표하는 바입니다.

금번 한반도에 관한 정치선언은 남북한간의 직접대화를 통한 평화적통일을 추구하고 있는 본인과 우리 모든 한국민에게 커다란 용기와 확신을 주었습니다.

각하께 본인의 최고의 경의를 표합니다.

전 두 환

대영왕국 수상

마가레트 힐다 대처 각하





10 DOWNING STREET

*From the Principal Private Secretary*

7 May 1985

Dear Walther,

Just a note to thank you most warmly for your personal hospitality during the Bonn Economic Summit. The dinner which we had together on Friday evening was delightful, and it was very good to have the opportunity to talk in such pleasant circumstances with you and our other colleagues.

You must be very pleased with the success of the arrangements for the Summit and indeed with the remaining stages of President Reagan's visit. I will probably not see you when Chancellor Kohl visits Chequers in ten days' time, but I know that Charles is looking forward to seeing you there.

Yours ever,

Robin Butler

Dr Walther Neuer



JO VC

MR. INGHAM

Chancellor Kohl's office rang this afternoon in a bit of a flap to say that their spokesman had been asked at today's press conference whether it was true that Chancellor Kohl would be going to Chequers later this month to meet the Prime Minister. The spokesman confirmed that Chancellor Kohl would indeed be going on 18/19 May, to discuss some of the themes which would feature at the European Council in June. The Federal Chancellery apologised for having jumped the gun on this. I imagine that you will now wish to get our own announcement out as soon as possible.

CP

(CHARLES POWELL)

7 May 1985



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FM BONN 071315Z MAY 85

TO IMMEDIATE FCO

TELEGRAM NUMBER 457 OF 07 MAY

INFO ROUTINE WASHINGTON, PARIS, ROME, TOKYO, OTTAWA, UKREP BRUSSELS,  
UKDEL OECD, ATHENS, EMBASSY BRUSSELS, COPENHAGEN, DUBLIN,  
LUXEMBOURG, THE HAGUE

BONN ECONOMIC SUMMIT: GERMAN PRESS REACTION 

SUMMARY

1. THE GERMAN PRESS FINDS SOME GOOD IN THE SUMMIT CONCLUSIONS BUT, WITHOUT EXCEPTION, FINDS THE BALANCE DISAPPOINTING. FRENCH RESISTANCE OVER A DATE FOR A NEW GATT ROUND AND AND ON EUROPEAN PARTICIPATION IN SDI ARE HIGHLIGHTED. BUT MITTERRAND DOES NOT GET THE BLAME: HE HAD HIS REASONS AND CHANCELLOR KOHL SHOULD HAVE REALISED THIS IN ADVANCE. QUESTIONS ARE POSED ABOUT THE CONSEQUENCES FOR THE FRANCO-GERMAN RELATIONSHIP. REAGAN DID NOT GET MUCH TO SATISFY HIM. THE ANNOUNCEMENT OF THE NICARAGUA EMBARGO WAS NOT A TACTFUL MOVE. ONLY THE JAPANESE CAN BE HAPPY THAT LITTLE ATTENTION WAS SPARED FOR THEIR ECONOMIC POLICIES.

DETAIL

2. THE FRANKFURTER ALLGEMEINE (STADLMANN) SUMS IT UP AS A CONFERENCE OF DISAPPOINTMENTS. THE AGREEMENT ON ECONOMIC STRATEGY WAS VALUABLE AS WAS THE COVERAGE OF RELATIONS WITH THE DEVELOPING COUNTRIES, THE DEBT PROBLEM, COOPERATION IN SCIENCE AND TECHNOLOGY AND ENVIRONMENTAL PROBLEMS. BUT IT WOULD BE WRONG TO PLAY DOWN THE IMPORTANCE OF THE DISAGREEMENT OVER A NEW GATT ROUND. THERE WAS NO DOUBT THAT MITTERRAND FELT LET DOWN BY KOHL'S READINESS TO MOVE TOWARDS THE AMERICAN POSITION. HERE, AND IN HIS FIRM REJECTION OF SDI, MITTERRAND OPENLY USED ARGUMENTS OF EUROPEAN INTEREST. THE RESULT WAS NOT ONLY AWKWARD FOR KOHL BUT LEFT THE FOUR EUROPEAN PARTICIPANTS IN DISHARMONY. WHILE MRS THATCHER FIRMLY SUPPORTED PRESIDENT REAGAN, BOTH AS REGARDS SDI RESEARCH AND AN EARLY START TO A NEW TRADE ROUND, CRAXI FELL INTO LINE BEHIND MITTERRAND LEAVING KOHL IN A POSITION UNCOMFORTABLY LIKE THAT OF THE 1950S WITH BONN HAVING TO DECIDE BETWEEN THE COMPETING CLAIMS OF PARIS AND WASHINGTON. NO COMMUNIQUE DRAFTING COULD HIDE THESE FUNDAMENTAL DIFFERENCES.

3. THE GENERAL ANZEIGER (BELL), BEGINS WITH THE POSITIVE, NO DOUBT REFLECTING OFFICIAL BRIEFING, BUT SUGGESTS THAT PART OF THE PROBLEM WAS THAT WITH BOTH REAGAN AND NAKASONE VISITS LOADED ON TO THE SUMMIT WHICH IN TURN WAS DELIBERATELY SET CLOSE TO THE 40TH ANNIVERSARY TO VE DAY, KOHL TOOK ON TOO MUCH AND THAT THINGS WERE BOUND TO GO WRONG.

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4. THE SUEDEDEUTSCHE ZEITUNG FINDS LITTLE COMFORT IN THE SUMMIT. THE DIFFERENCES BETWEEN THE PARTICIPANTS WERE SERIOUS. DIFFICULTIES BETWEEN BONN AND PARIS HAD SPRUNG UP ALMOST OVERNIGHT. KOHL BADLY MISREAD THE SIGNALS OUT OF PARIS BOTH ON WORLD TRADE AND SDI AND ALLOWED HIMSELF TO BE FAR TOO OPTIMISTIC IN ADVANCE OF THE SUMMIT. MUCH MORE PATIENCE, CARE AND SKILL WERE NEEDED FROM THE CHANCELLOR TO SWEEP AWAY THE BROKEN CROCKERY IN THE AMERICAN/GERMAN RELATIONSHIP.

5. THE STUTTGARTER ZEITUNG SEES NOTHING TO ENCOURAGE THE UNEMPLOYED IN THE SUMIT'S CONCLUSIONS, A COMMENT ECHOED MORE FORCEFULLY BY THE FRANKFURTER RUNDSCHAU. FOR THE KOELNER STADT ANZEIGER IT WAS ONE OF THE WEAKER SUMMITS.

6. THE POLITICAL DECLARATION RECEIVES LITTLE ATTENTION AS COMPARED WITH THE ECONOMIC DECLARATION ITSELF, BUT AGAIN THE VERDICT IS WITHOUT EXCEPTION CRITICAL. THE POLITICAL DECLARATION TOO AMOUNTED TO LITTLE MORE THAN PLATITUDES.

7. THE PRESS ON 7 MAY REFLECTS A MORE POSITIVE ASSESSMENT OF THE SUMMIT BEING PROMOTED BY THE FEDERAL GOVERNMENT AND AN ATTEMPT TO MINIMISE THE FRANCO/GERMAN RIFT SO APPARENT DURING AND IMMEDIATELY AFTER IT. MITTERRAND'S VISIT TO BONN IN LATE MAY (THE COUNTERPART OF KOHL'S VISIT TO CHEQUERS ON 18/19 MAY) IS BEING PRESENTED AS AN OPPORTUNITY TO CLOSE THE GAP BETWEEN PARIS AND BONN.

BULLARD

### ECONOMIC SUMMIT

STANDARD (PALACE)

ERD  
ECONOMIC ADVISERS  
FED  
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MAED  
SCD  
MR MAUD  
MR WILSON  
MR EGERTON  
MR JOHNSON

ADDITIONAL DISTRIBUTION  
ECONOMIC SUMMIT

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FM PARIS 071700Z MAY 85

TO PRIORITY F C O

TELEGRAM NUMBER 385 OF 7 MAY

INFO WASHINGTON, BONN, ROME, UKREP BRUSSELS

INFO SAVING TOKYO, OTTAWA, UKDEL NATO, MOSCOW, ATHENS, BRUSSELS,  
COPENHAGEN, DUBLIN, THE HAGUE, LUXEMBURG.

MY TELNO 376 AND 377 TO ALL: BONN SUMMIT: FURTHER FRENCH REACTIONS  
SUMMARY

1. THERE IS STILL NO SINGLE DOMINANT THEME IN FRENCH REACTIONS. BUT  
THE IMPLICATIONS OF WHAT HAPPENED IN BONN FOR EUROPE AND FOR  
FRANCO-GERMAN RELATIONS ARE ATTRACTING INCREASING ATTENTION. KOHL  
AND MITTERRAND ARE TO MEET ON 28 MAY.

DETAIL

2. MME CRESSON, TRADE AND INDUSTRY MINISTRY, IS QUOTED IN TODAY'S  
PRESS AS CRITICISING THE ABANDONMENT OF FRANCE BY EUROPEAN PARTNERS,  
WHO HAD FORGOTTEN THE AGREED COMMUNITY TEXT ON A NEW GATT ROUND EVEN  
BEFORE TALKS HAD STARTED IN BONN. THIS WAS BAD FOR EUROPE. THE MAIN  
DOSSIERS FOR THE NEW ROUND, AGRICULTURE, SERVICES AND HIGH  
TECHNOLOGY, HAD TO BE NEGOTIATED SIMULTANEOUSLY RATHER THAN STARTING  
WITH AGRICULTURE, WHICH COULD LEAD TO THE DISMANTLING OF THE CAP. IN  
CONTRAST, ATTALI, THE PRESIDENT'S SPECIAL ASSISTANT AND SUMMIT  
SHERPA, PLAYED DOWN IN RADIO COMMENTS THE DIVISIONS BETWEEN EUROPEAN  
PARTNERS. THE COMMUNITY'S ABILITY TO REDISCOVER ITS UNITY COULD BE  
DEMONSTRATED ON ISSUES VITAL FOR ITS FUTURE, SUCH AS FRANCE'S EUREKA  
PROPOSAL. ATTALI STRESSED THE THREAT TO THE CAP FROM A NEW GATT  
ROUND, BUT NOTED THAT FRANCE WOULD ALSO HAVE MUCH TO GAIN AS A MAJOR  
TRADING POWER, NOTABLY IN SERVICES. HE ASSERTED THAT FRANCE WAS NOT  
A PROTECTIONIST COUNTRY.

3. IN AN EDITORIAL COMMENTARY ON 7 MAY, LA TRIBUNE DE L'ECONOMIE SAW  
IT AS VALUABLE THAT THE DEEP DIFFERENCES BETWEEN THE EUROPEANS ON  
SUCH DECISIVE ISSUES FOR THE FUTURE AS AGRICULTURE, SERVICES AND  
HIGH TECHNOLOGY HAD COME OUT INTO THE OPEN. A CHOICE NOW HAD TO BE  
MADE BETWEEN GENUINE EUROPEAN DEVELOPMENT AND A FREE-TRADE ZONE  
DOOMED TO BREAK UP SOONER OR LATER.

4. TODAY'S LE MONDE CARRIES A LONG PIECE FROM BONN ON REACTIONS  
THERE. THE TONE VARIES FROM HARSH TO PLAINTIVE. THE INTRODUCTORY  
PASSAGE REFERS TO THE ATMOSPHERE OF CRISIS OVERHANGING FRANCO-GERMAN  
RELATIONS. NOTING THAT KOHL AND MITTERRAND ARE TO MEET ON 28 MAY IN  
THE FRG TO TRY TO MEND THEIR FENCES, THE AUTHOR COMMENTS THAT THE  
DEEP ANNOYANCE WITH MITTERRAND IN THE CHANCELLOR'S OFFICE HAS SO FAR  
BEEN KEPT OUT OF PUBLIC COMMENT. THERE ARE SAID TO BE MANY WHO  
ATTRIBUTE THE CHANCELLOR'S ATTITUDE TO GROSS POLITICAL NAIVETY. HE  
WAS PROFOUNDLY TOUCHED BY BITBURG, BUT HE ALSO HAS A DEBT TO  
MITTERRAND FOR THE VERDUN HANDSHAKE. HOWEVER IF MITTERRAND'S VIEWS  
ON SDI ARE UNDERSTOOD IN BONN, DESPITE MUCH SCEPTICISM OVER EUREKA  
AND ITS LIKELY COST, HIS ATTITUDE OVER GATT IS MUCH LESS SO. THE  
ARTICLE CONCLUDES THAT DESPITE ALL THE LYRICISM OVER FRANCO-GERMAN  
RELATIONS IN RECENT YEARS, NOTHING HAS FUNDAMENTALLY CHANGED.  
COOPERATION CONSTANTLY RUNS INTO THE SAME OLD PREJUDICES AND  
DIFFICULTIES ON BOTH SIDES, EG THE LACK OF CREDIBILITY IN FRANCE OF

*Li.e. they  
will play  
on  
German  
conscience  
to get  
support  
for Eureka*

*mt*



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THE PROBLEM OF GERMAN REUNIFICATION OR OF FRENCH COMMITMENT TO THE DEFENCE OF GERMANY. THE SEMI-FAILURE OF THE BONN SUMMIT MAY NEVERTHELESS SERVE AS A WARNING TO MITTERRAND AND KOHL OF THE DANGERS. IN PARTICULAR THE SDI DEBATE IN THE FRG COULD AT ANY MOMENT BECOME A MAJOR POLITICAL BATTLE WHICH WOULD PUSH THE PRESENT GOVERNMENT FURTHER INTO WASHINGTON'S ARMS.

5. MME SECRET (DUMAS CABINET) EMPHASISED TO US TODAY THE PROCEDURAL AS WELL AS THE SUBSTANTIVE CONSIDERATIONS BEHIND MITTERRAND'S APPROACH. HE ATTACHED GREAT IMPORTANCE TO PREVENTING THE ECONOMIC SUMMIT FROM BECOMING, UNDER AMERICAN PRESSURE, A DECISION MAKING BODY, ESPECIALLY ON MATTERS TOUCHING THE COMMUNITY AS CLOSELY AS A NEW GATT ROUND. THE FRENCH DID NOT RULE OUT A POSSIBLE START IN GATT DURING 1986. BUT BONN WAS NOT THE PLACE TO DECIDE THIS, AND PREPARATION FOR THE NEW ROUND HAD TO BE FURTHER ADVANCED THAN AT PRESENT BEFORE A DEFINITE DATE COULD BE SET. THE FRENCH HAD DONE NO MORE THAN MAINTAIN A POSITION AT BONN WHICH WAS CONSISTENT WITH THAT TAKEN IN THE COMMUNITY AND AT OECD. BLANCHEMAISON (SGCI) SAID THAT MITTERRAND'S OPPOSITION TO A FIRM 1986 STARTING DATE WAS ONLY PARTLY ELECTORALLY MOTIVATED (THOUGH HIS STANCE WOULD PROVE POPULAR WITH FRENCH PUBLIC OPINION). IT WAS ALSO INTENDED AS A CLEAR SIGNAL TO OTHERS, INCLUDING EUROPEAN PARTNERS, THAT FRANCE, BEING EUROPE'S MAJOR AGRICULTURAL EXPORTER, WAS ABLIGED TO DEFEND THE CAP RIGOROUSLY IN ORDER TO PROTECT ITS OWN LONG-TERM ECONOMIC INTERESTS.

F C O PLEASE PASS SAVINGS

FRETWELL

**ECONOMIC SUMMIT**

**STANDARD(PALACE)**

ERD  
ECONOMIC ADVISERS  
FED  
NAD  
ECDs  
TRED  
SOVIET D  
EED  
MAED  
SCD  
MR MAUD  
MR WILSON  
MR EGEPTON  
MR JOHNSON

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ECONOMIC SUMMIT**

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FILE

rw

10 DOWNING STREET

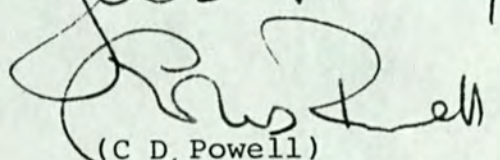
From the Private Secretary

7 May, 1985

Dear Flight Lieutenant Johnston,

I am writing on behalf of the Prime Minister to thank you once again for the excellent arrangements made for her recent visit to Bonn for the Economic Summit.

As always everything went extremely smoothly and I would be grateful if you could pass on our thanks to all the members of your crew.

Yours sincerely  
  
(C D Powell)

Flight Lieutenant Brian Johnston, RAF

rw





10 DOWNING STREET

MR. POWELL

Please could you ring  
Dr. Nauer and a  
Miss Legge-Burke. Switch  
have the numbers.

Debbie

7 May 1985



Richard

"Thank yous"Police

The people to thank are:

Security

a) Polizei Präsident Dr Hans Wilhelm Fritsch of the Polizeipräsidium Bonn, thanking him and mentioning Herr Bremm and his colleagues in the Führungsstab.

b) Herr Hans Zachert, Head of the Personal Protection Group, Bundeskriminalamt in Meckenheim, thanking him and mentioning Herr Kuhn and his colleagues.

(The senior German detective assigned to the Prime Minister, Kriminalhauptkommissar Ziemer was very helpful and might be mentioned also in the letter to Zachert.)

N.J. Mascher

~~WAF~~For summit arrangements:

Ambassador Joachim Peckert  
with thanks to his team Herr  
BAUCH, Herr OESTERLEN and  
HERR HERMESDORF and also to  
the liaison officers for the British  
delegation Herr SCHALLER, Herr  
LAMLÉ and Herr BORCHARDT.



Norman

When do you think Private  
Secretaria might write to on  
German  
the police/security side to  
thank for all help after the  
event? We need to tell  
PS's (No 10 and FCO) before they  
go.

Altschul

2/5

~~Prize Prizes~~ — ~~Bremm & Edwards~~  
~~Hen Zacher.~~ C. Hammerstein





10 DOWNING STREET

file DSG  
cc to

THE PRIME MINISTER

7 May 1985

Dear Sir,

I am most grateful to you and to Margaret for your kind hospitality during the Bonn Economic Summit. It was a great delight to stay with you and please thank your household staff on my behalf for their care and attention. Would you please also thank the Embassy staff for their help with all the practical arrangements for the Summit which ran very smoothly.

I look forward to seeing you both for dinner at Chequers on 18 May.

Yours  
Margaret

His Excellency Sir Julian Bullard, K.C.M.G.

RB.





file → DSG  
actro

10 DOWNING STREET

THE PRIME MINISTER

7 May 1985

Dear Dr. Fritsch,

I should like to thank you, and also Herr Bremm and his colleagues in the Führungsstab, most warmly for the excellent security arrangements made for the Economic Summit. It was a most impressive operation and I should be grateful if you would pass on my thanks to all those who participated in it.

Yours sincerely

Raymond Staiter

Polizei Präsident Dr. Hans Wilhelm Fritsch

KTB





10 DOWNING STREET

THE PRIME MINISTER

7 May 1985

file DSG  
copy

Dear Ambassador,

I write to thank you most warmly for the excellent arrangements made for the Economic Summit. They were most efficient and provided the best possible conditions for our work. I would be grateful if you could pass on my thanks also to your colleagues Herr Bauch, Herr Oesterlen and Herr Hermesdorf, as well as to the liaison officers for the British delegation - Herr Schaller, Herr Lamle and Herr Borchardt - who looked after us with great kindness and attention.

Yours sincerely

Raymond Stalder

RB

His Excellency Ambassador Joachim Peckert





fa DSG  
cfo

10 DOWNING STREET

THE PRIME MINISTER

7 May 1985

Herr Hans Zachert,

I should like to thank you most warmly for the excellent protection arrangements made for me during the recent Economic Summit. It was a most impressive and professional operation, for which I am very grateful to Herr Kuhn and his colleagues. I should like to say a particular word of thanks to Kriminalhauptkommissar Ziemer who was most helpful and effective.

Yours sincerely

Margaret Thatcher

Herr Hans Zachert

ATB





10 DOWNING STREET

THE PRIME MINISTER

7 May 1985

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T 79/85

*Dear Helmut*

On my return to London, I write to thank you most warmly for the excellent arrangements made for the participants in the Bonn Economic Summit and for your personal hospitality. I found the meeting very useful and I was especially glad that we were able to confirm publicly the similarity between the economic policies which the seven Governments are pursuing. It was a pity that not all of us were able to agree on setting a target date of early 1986 for the new round of international trade negotiations. But I am convinced that we must continue to make this our goal and work determinedly towards it.

May I also say how very much I appreciated your firm guidance of our discussions, which played an important part in their outcome.

I look forward to seeing you at Chequers on 18 May.

*Theresa*

*Raymond*

His Excellency Herr Dr. Helmut Kohl.

*AK*





JK VC (66)

10 DOWNING STREET

*From the Principal Private Secretary*

7 May 1985

The Prime Minister has written to thank you for the excellent arrangements made at the Bonn Summit. But I would like to add my personal thanks for the very generous and useful gifts which were made to members of the delegation. The shoulder bag is both elegant and useful and I will treasure the long-playing record with its fine examples of German music. My wife was also delighted with the small porcelain dish and I am now using the biro/pencil which is almost magical in its ingenuity.

The other great feature of the arrangements was the friendly informality, which was however combined with great efficiency and courtesy.

JKVC

His Excellency Ambassador Joachim Peckert

X/b





DE 2A1K

cc: Mr. Butler  
Mr. Ingham  
Mr. Fletcher  
Mr. Powell (statement only)

10 DOWNING STREET

*From the Private Secretary*

6 May 1985

BONN ECONOMIC SUMMIT: PARLIAMENTARY STATEMENT

I enclose the statement on the Bonn Economic Summit which the Prime Minister proposes to make to the House tomorrow. It differs from the version which some of the recipients of this letter saw in Bonn on Saturday evening, in that the Prime Minister has decided to include rather more of the text of the Economic Declaration.

I should be grateful for any comments by 1200 on Tuesday 7 May.

I am copying this letter and enclosure to Len Appleyard (Foreign and Commonwealth Office), John Mogg (Department of Trade and Industry) and Sir Robert Armstrong.

Charles Powell

Mrs. Rachel Lomax,  
H. M. Treasury.



CC. PM'S SPEECHES  
& BROADCASTS. Master

MR. POWELL

WITH PERMISSION, MR. SPEAKER, I SHALL MAKE A STATEMENT ABOUT THE

[~~ELEVENTH ANNUAL~~] ECONOMIC SUMMIT WHICH I ATTENDED IN  
BONN, [FROM 2 TO 4 MAY,] ACCOMPANIED BY MY RIGHT HON.  
FRIENDS THE FOREIGN AND COMMONWEALTH SECRETARY AND  
THE CHANCELLOR OF THE EXCHEQUER.

HEADS OF STATE OR GOVERNMENT OF THE UNITED STATES, FRANCE,

WEST GERMANY, ITALY, CANADA AND JAPAN WERE PRESENT,

ACCOMPANIED BY THEIR FOREIGN AND FINANCE OR ECONOMIC

MINISTERS, TOGETHER WITH THE PRESIDENT OF THE EUROPEAN

COMMISSION, ~~WHO WAS ACCOMPANIED BY COMMISSIONERS DE CLERCQ~~

~~AND PFEIFFER.~~

I HAVE PLACED IN THE LIBRARY OF THE HOUSE COPIES OF THE ECONOMIC

DECLARATION AND OF THE POLITICAL DECLARATION <sup>TO MARK</sup> ON THE

40TH ANNIVERSARY OF THE END OF THE SECOND WORLD WAR.

I SHALL DEAL FIRST WITH THE POLITICAL ISSUES.



AS COUNTRIES WHICH ONCE FOUGHT EACH OTHER BITTERLY, WE

RECALLED  
~~COMMEMORATED~~ THE BENEFITS OF ~~40 YEARS~~ OF RECONCILIATION  
 [OF 40 YEARS OF PEACEFUL  
 AND CO-OPERATION, AND PLEDGED OURSELVES TO THEIR  
 CONTINUANCE.

WE WELCOMED THE OPENING OF NEGOTIATIONS IN GENEVA ON THE REDUCTION  
 OF NUCLEAR ARMS, EXPRESSED OUR APPRECIATION OF THE  
 POSITIVE PROPOSALS OF THE UNITED STATES AND URGED THE  
 SOVIET UNION TO ACT POSITIVELY & CONSTRUCTIVELY  
 IN ORDER TO ACHIEVE SIGNIFICANT AGREEMENTS.

FOREIGN MINISTERS DISCUSSED THE ~~SITUATION IN THE~~ MIDDLE EAST,  
 SOUTHERN AFRICA, CENTRAL AMERICA AND THE STRATEGIC  
 DEFENCE INITIATIVE.

THEY CONDEMNED THE CONTINUING, BRUTAL OCCUPATION OF  
 AFGHANISTAN BY SOVIET TROOPS AND OF CAMBODIA BY VIETNAM.

/ AT BRITISH



ON BRITAIN'S

~~AT BRITISH~~ INITIATIVE WE HAD A DISCUSSION OF THE GROWING PROBLEMS

POSED BY DRUGS AND WE AGREED TO SET IN HAND WORK ON  
 FURTHER CO-OPERATIVE MEASURES TO COMBAT THE VICIOUS  
 TRADE WHICH IS THE CAUSE OF SO MUCH HUMAN SUFFERING.

WE ALSO RE-AFFIRMED OUR DETERMINATION TO STRENGTHEN FURTHER THE  
 CO-OPERATION AGAINST TERRORISM AGREED AT THE LONDON  
~~ECONOMIC~~ SUMMIT LAST YEAR.

ECONOMIC MATTERS

THE DISCUSSION AND THE COMMUNIQUE

ON ECONOMIC MATTERS, ~~ONE STRIKING POINT EMERGING FROM THE DISCUSSION~~  
~~AND REFLECTED IN THE COMMUNIQUE~~ <sup>ED</sup> ~~WAS~~ THE SIMILARITY BETWEEN  
 THE APPROACHES AND POLICIES OF ALL SEVEN GOVERNMENTS.

~~WE~~ <sup>FURTHER</sup> RECOGNISED THE CONSIDERABLE PROGRESS ~~IN~~ ALL OUR  
 COUNTRIES ~~SINCE~~ <sup>KEEPING</sup> OUR LAST MEETING ~~IN BRINGING DOWN~~  
~~INFLATION AND ACHIEVING ECONOMIC GROWTH.~~ (STRENGTHENING THE BASIS FOR)

WE ALSO WELCOMED THE FACT THAT THE RECOVERY ~~IN THE~~  
~~INDUSTRIAL COUNTRIES~~ HAS BEGUN TO SPREAD TO THE DEVELOPING  
 WORLD.

/ NEVERTHELESS



NEVERTHELESS, WE RECOGNISED THAT OUR COUNTRIES STILL  
FACE IMPORTANT CHALLENGES.

ALONE OTHER THINGS,  
/ WE NEED:

- TO STRENGTHEN THE ABILITY OF OUR ECONOMIES TO  
RESPOND TO NEW DEVELOPMENTS;
- TO INCREASE JOB OPPORTUNITIES;
- TO <sup>COMBAT</sup> ~~HALT~~ PROTECTIONISM; AND
- TO IMPROVE THE <sup>FUNCTIONING</sup> ~~STABILITY~~ OF THE WORLD MONETARY  
SYSTEM.

IN ORDER TO SUSTAIN NON-INFLATIONARY GROWTH AND TO CREATE HIGHER  
EMPLOYMENT, WE AGREED THAT:

- WE WILL CONSOLIDATE AND ENHANCE THE PROGRESS  
MADE IN BRINGING DOWN INFLATION.
- WE WILL FOLLOW PRUDENT AND, WHERE NECESSARY,  
STRENGTHENED MONETARY AND BUDGETARY POLICIES WITH  
A VIEW TO STABLE PRICES, LOWER INTEREST RATES  
AND MORE PRODUCTIVE INVESTMENT.

/ EACH OF OUR



EACH OF OUR COUNTRIES WILL EXERCISE FIRM CONTROL OVER PUBLIC SPENDING IN ORDER TO REDUCE BUDGET DEFICITS, *WHEN EXCESSIVE* } AND, WHERE NECESSARY, *reduce* THE SHARE OF PUBLIC SPENDING IN GROSS NATIONAL PRODUCT.

- WE WILL WORK TO REMOVE OBSTACLES TO GROWTH AND ENCOURAGE INITIATIVE AND ENTERPRISE SO AS TO RELEASE THE CREATIVE ENERGIES OF OUR PEOPLES, WHILE MAINTAINING APPROPRIATE SOCIAL POLICIES FOR THOSE IN NEED.
- WE WILL PROMOTE GREATER ADAPTABILITY AND RESPONSIVENESS IN ALL MARKETS, PARTICULARLY THE LABOUR MARKET.
- WE WILL ENCOURAGE TRAINING TO IMPROVE OCCUPATIONAL SKILLS, PARTICULARLY FOR THE YOUNG.

BUILDING ON THOSE COMMON POLICIES, EACH COUNTRY INDICATED ITS SPECIFIC PRIORITIES, *FOR EXAMPLE* :

/ - PRESIDENT REAGAN



- PRESIDENT REAGAN EMPHASISED HIS DETERMINATION TO ACHIEVE A SUBSTANTIAL REDUCTION IN THE UNITED STATES' BUDGET DEFICIT;
- THE JAPANESE PRIME MINISTER UNDERTOOK THAT HIS GOVERNMENT WOULD MAKE FURTHER PROGRESS IN DEREGULATING FINANCIAL MARKETS, PROMOTING THE INTERNATIONAL ROLE OF THE YEN, FACILITATING ACCESS TO MARKETS, AND ENCOURAGING GROWTH IN IMPORTS;
- THE UNITED KINGDOM WILL CONTINUE TO WORK TO REDUCE INFLATION, KEEP PUBLIC SPENDING UNDER CONTROL, PROMOTE THE DEVELOPMENT OF SMALL BUSINESS AND ADVANCED TECHNOLOGICAL INDUSTRIES, AND ENCOURAGE INITIATIVE AND ENTERPRISE IN THE CREATION OF NEW JOB OPPORTUNITIES.

/ TRADE



TRADE  
 INTERNATIONAL  
 ON TRADE  
 WE AGREED:

- THAT PROTECTIONISM DOES NOT SOLVE PROBLEMS,  
IT CREATES THEM;
- THAT FURTHER PROGRESS IN RELAXING AND DISMANTLING  
TRADE RESTRICTIONS IS ESSENTIAL;
- THAT A NEW ROUND OF MULTILATERAL TRADE NEGOTIATIONS  
SHOULD BEGIN AS SOON AS POSSIBLE, WITH THE BROADEST  
POSSIBLE PARTICIPATION;
- THAT THE PREPARATIONS FOR THE NEW ROUND SHOULD  
BEGIN WITH A MEETING OF GATT OFFICIALS BEFORE THE END  
OF THE SUMMER.

WITH THE EXCEPTION OF FRANCE, WE WERE AGREED THAT THE NEW  
 GATT ROUND SHOULD START IN 1986. *France was not  
 prepared to commit herself to a date.*

INTERNATIONAL MONETARY MATTERS

THE DISCUSSIONS ON INTERNATIONAL MONETARY QUESTIONS <sup>WHICH</sup> BEGAN AFTER  
 THE WILLIAMSBURG SUMMIT WILL BE COMPLETED NEXT MONTH  
 WHEN THE GROUP OF TEN MEETS IN TOKYO.

/AFTERWARDS



THEY WILL PUT FORWARD PROPOSALS FOR

AFTERWARDS, DISCUSSIONS WILL BE ~~CONTINUED~~ IN THE IMF  
 INTERIM COMMITTEE <sup>OF THE IMF</sup> IN OCTOBER.

WE ENDORSED THE CASE-BY-CASE APPROACH TO THE DEBT  
 PROBLEMS OF THE DEVELOPING COUNTRIES SET OUT AT THE  
 LONDON SUMMIT.

### AFRICAN COUNTRIES

WE EXPRESSED OUR PARTICULAR CONCERN FOR THE PLIGHT OF AFRICAN  
 PEOPLES SUFFERING FROM FAMINE AND DROUGHT.

WHILE ACKNOWLEDGING THE VERY SUBSTANTIAL ASSISTANCE  
 PROVIDED NOT ONLY BY GOVERNMENTS BUT BY PRIVATE  
 ORGANISATIONS AND INDIVIDUAL CITIZENS, WE INSTRUCTED  
 EXPERTS TO REPORT TO THE FOREIGN MINISTERS OF THE SEVEN  
 AT THE END OF SEPTEMBER WITH PROPOSALS FOR FURTHER  
 MEASURES WHICH MIGHT BE NECESSARY.

PARTICULAR CONCERN WAS VOICED ABOUT THE <sup>PRACTICAL</sup> DISTRIBUTION OF  
<sup>FOOD</sup> AID WHICH HAS BEEN SO GENEROUSLY GIVEN, AND THE NEED  
 FOR LONG-TERM POLICIES OF GOOD HUSBANDRY TO AVOID CREATING  
 MORE DESERT LAND.

/WE ALSO CALLED



WE ALSO CALLED ON THE SOVIET UNION AND OTHER COMMUNIST COUNTRIES TO ASSUME THEIR RESPONSIBILITIES IN HELPING TO RELIEVE THE SUFFERING CAUSED BY FAMINE AND DROUGHT.

ENVIRONMENTAL MATTERS

WE AGREED ON THE IMPORTANCE OF DEALING EFFECTIVELY WITH PRESSING ENVIRONMENTAL PROBLEMS THROUGH STRENGTHENED INTERNATIONAL CO-OPERATION.

ALL ACCEPTED THE APPLICATION OF THE "POLLUTER PAYS" PRINCIPLE AND THE NEED TO HARNESS THE MECHANISMS OF THE MARKET.

MR. SPEAKER, WHAT WAS IMPRESSIVE IN THE SUMMIT DISCUSSIONS WAS THE CONVICTION OF ALL REPRESENTED THERE THAT LASTING JOB OPPORTUNITIES CAN ONLY BE CREATED IF WE MAINTAIN SOUND FINANCIAL POLICIES AND OPEN MARKETS AND REMOVE DISINCENTIVES AND UNHELPFUL REGULATIONS TO FOSTER A CLIMATE OF MORE VIGOROUS ENTERPRISE AND INITIATIVE.

~~WE REFERENCED OUR DETERMINATION TO PURSUE THESE~~  
 POLICIES AS THE COMMUNIQUE SAID; BY PURSUING THESE POLICIES WE



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~~FRAME EXTERNAL~~

FM WASHINGTON 062330Z MAY 85

TO IMMEDIATE FCO

TELEGRAM NUMBER 1488 OF 6 MAY

AND TO PRIORITY UKREP BRUSSELS, UKMIS GENEVA, PARIS, BONN AND ROME.

EC:US AGRICULTURE: CONGRESSIONAL REACTION TO BONN SUMMIT. mt

SUMMARY.

SENATOR DOLE NOW PUSHING FOR EXPORT COMMODITY BONUS SCHEMES.

CLAIMS THAT THIS IS NECESSARY BECAUSE FRENCH HAVE MADE IT CLEAR THEY ARE NOT PREPARED FOR NEGOTIATIONS ON THE CAP.

DETAIL.

IN A STATEMENT ON THE FLOOR OF THE SENATE TODAY DOLE, THE MAJORITY LEADER, SAID THAT THE FRENCH ATTITUDE AT THE BONN SUMMIT HAD MADE IT CLEAR THAT THERE WOULD BE NO NEW AGRICULTURAL TRADE TALKS QUOTE THIS YEAR OR IN THE NEAR FUTURE UNQUOTE. AS A RESULT, THE US SHOULD NOW CONSIDER USING ITS SURPLUS STOCKS TO PROMOTE AGRICULTURAL EXPORTS. HE PRESSED FOR THE EARLY INTRODUCTION OF QUOTE A BONUS COMMODITY EXPORT INCENTIVE PROGRAMME. UNQUOTE.

COMMENT.

DOLE'S INTERVENTION IS LIKELY TO PROVE INFLUENTIAL. HE HAS SO FAR BEEN KEEPING HIS CARDS FAIRLY CLOSE TO HIS CHEST ON THE FARM BILL BUT HAS BEEN KNOWN TO BE LOOKING AT WAYS OF BOOSTING FARM EXPORTS BOTH IN THE SHORT AND MEDIUM TERM. EXPORT COMMODITY BONUS SCHEMES (WHEREBY COMMERCIAL EXPORTS WOULD BE SUBSIDISED THROUGH A GIFT OF SURPLUS COMMODITY CREDIT CORPORATION STOCKS) HAVE ATTRACTED CONSIDERABLE INTEREST IN CONGRESS. ALTHOUGH AGRICULTURE SECRETARY BLOCK HAS PUBLICLY RULED OUT A GENERAL SCHEME OF THIS KIND, HE HAS NOT EXCLUDED PROGRAMMES FOR SPECIFIC COMMODITIES IN PARTICULAR MARKETS. BY CHOOSING TO MAKE A STATEMENT AND ISSUE A PRESS RELEASE (COPIES BY BAG) BUT NOT INTRODUCE LEGISLATION AT THIS STAGE DOLE IS CLEARLY OUT TO TEST THE TEMPERATURE IN CONGRESS AND, POSSIBLY, CAPITALISE ON ANY POST-SUMMIT ANTI-FRENCH BACKLASH.

FCO PLEASE ADVANCE TO SHEPHERD AND WARREN ECD(E), PRYOR DTI, AND HADLEY, COCKING AND LOWSON (MAFF).

WRIGHT

FRAME EXTERNAL

ECD (E)

COPIES TO

AS ADDRESSEES.

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FM PARIS 061805Z MAY 85  
TO PRIORITY F C O  
TELEGRAM NUMBER 376 OF 6 MAY  
INFO PRIORITY BONN, WASHINGTON, ROME.  
INFO SAVING TOKYO, OTTAWA, UKDEL NATO, MOSCOW

MY TELNO 369: BONN SUMMIT: FRENCH REACTIONS  
SUMMARY

1. THE VERDICTS ON MITTERRAND'S PERFORMANCE HAVE BEEN MIXED. HIS DOUBLE DEFIANCE OF THE US ON THE GATT AND SDI GIVES SATISFACTION TO MANY, BUT IT IS SLIGHTLY TARNISHED BY THE REALISATION THAT HE THEREBY DRAMATISED THE DISARRAY AMONG EUROPEANS AND EXPOSED THE LIMITS OF THE BONN-PARIS AXIS.

DETAIL

2. MOST COMMENTATORS AGREE THAT MITTERRAND BAULKED ON GATT AND SDI AT LEAST PARTLY OUT OF A WISH TO SCORE POINTS WITH THE FRENCH ELECTORATE FOR STANDING UP TO THE US. WHILE IN A FEW CASES REGRETTING THAT HE HAS ENCOURAGED PROTECTIONISTS AT HOME AND AGGRAVATED THOSE IN THE US, COMMENTATORS RECKON THAT MITTERRAND'S GAULLIST BEHAVIOUR WILL HAVE EVOKED WIDESPREAD KNEE-JERK APPROVAL IN THE COUNTRY AT LARGE.

3. ON THE RIGHT, THE RPL HAS TAKEN UP A TRADITIONAL STANCE. CHIRAC HAS REFERRED TO THE PROPOSED GATT ROUND AS A NEGOTIATION WHICH FRANCE HAS NO INTEREST TO ENTER, BECAUSE SHE WILL NOT HAVE THE POWER TO IMPOSE HER INTERESTS. HE GRUDGINGLY AGREED WITH MITTERRAND'S STAND OVER THE DATE AND WAS REDUCED TO QUESTIONING HIS AGGRESSIVE STYLE.

4. WHETHER APPROVING OR DISAPPROVING OF MITTERRAND, COMMENTATORS ALSO AGREE THAT THE MAIN CASUALTIES IN BONN WERE THE FRANCO-GERMAN ENTENTE AND BY EXTENSION THE CAUSE OF EUROPEAN UNITY. SOME OPPOSITION SPOKESMEN BLAMED MITTERRAND FOR TAKING HIS TACTICS SO FAR THAT HE FAILED TO CARRY THE GERMANS AND OTHER EUROPEANS WITH HIM, BUT THERE IS ALSO GENUINE DISAPPOINTMENT THAT WHEN FORCED TO CHOOSE BETWEEN THE US AND EUROPE THE GERMANS AGAIN CHOSE THE US. WHERE, IT IS ASKED, DOES THIS LEAVE THE PARIS-BONN AXIS AND THE PROSPECTS FOR MILAN? SEVERAL COMMENTATORS CONSOLE THEMSELVES, HOWEVER, WITH THE THOUGHT THAT KOHL MAY NOW PAY A HIGH PRICE IN TERMS OF SUPPORT FOR MITTERRAND'S IDEAS ON THE INSTITUTIONAL REFORM OF THE COMMUNITY TO ASSUAGE HIS DISPLEASURE AT BEING LEFT ISOLATED ON GATT AND SDI.

5. WHILE THE GENERAL IMPRESSION HERE AS ELSEWHERE IS THAT MITTERRAND HAS SAID NO TO THE US ON PARTICIPATION IN SDI, THE POSITION DOES NOT SEEM IN REALITY QUITE SO CLEAR-CUT. MITTERRAND'S REMARKS AT HIS PRESS CONFERENCE IN BONN WERE HEAVILY QUALIFIED. HE SAID THAT FRANCE WOULD NOT PARTICIPATE AS THE US PROPOSITION STOOD AT THE MOMENT: IT WAS TOO VAGUE. HE WAS INTERESTED IN SDI TECHNOLOGY, AND WHILE HAVING DOUBTS ABOUT SDI STRATEGY THOUGHT THAT IN THE LONG RUN SPACE COULD NOT BE LEFT OUT OF STRATEGY. HE DISLIKED THE TERM SUB-CONTRACTING WHICH HE HAD HEARD ON AMERICAN LIPS: EUROPEANS NEEDED THEIR OWN MAJOR PROJECT WHICH NEED NOT, HOWEVER, BE INCOMPATIBLE WITH SDI: THERE MIGHT BE LINKS BETWEEN THE TWO. HE APPARENTLY DUCKED A QUESTION AS

RESTRICTED

/ TO.



TO WHETHER THE FRENCH GOVERNMENT WOULD PREVENT FRENCH COMPANIES ACCEPTING US CONTRACTS, NOT SURPRISINGLY IN VIEW OF LE MONDE'S DISCLOSURE ON 5 MAY THAT THOMSON CSF AND CILAS WERE NEGOTIATING WITH THE US ON LASERS AND LASER-REFLECTING MIRRORS RESPECTIVELY. LES ECHES (BUSINESS DAILY) QUOTES OFFICIAL SOURCES AS SAYING THAT FRENCH FIRMS WILL BE GIVEN PAROLE TO TALK TO THE AMERICANS, AND RESTRICTIONS WOULD ONLY APPLY IN SECTORS IDENTIFIED AMONG EUROPEANS FOR COLLABORATION AMONG THEMSELVES.

6. IN VIEW OF THE PREOCCUPATION WITH WHAT IS SEEN AS GERMANY'S DEFAULT, BRITAIN ESCAPES RELATIVELY LIGHTLY. THERE ARE NUMEROUS REFERENCES, HOWEVER, TO AN ALLEGED ANGLO-SAXON FRONT IN BONN AND TO MRS THATCHER'S LACK OF ENTHUSIASM FOR THE COMMON AGRICULTURAL POLICY.

COMMENT

7. MITTERRAND'S INTRANSIGENCE MAY HAVE TAKEN SOME OF HIS OFFICIALS, AT LEAST, BY SURPRISE. HE HIMSELF WAS CERTAINLY TAKEN ABACK BY KOHL'S PUBLICLY EXPRESSED SUPPORT FOR REAGAN ON GATT EVEN BEFORE THE SUMMIT FORMALLY OPENED. I BELIEVE THAT HE HAD ALWAYS INTENDED A DEGREE OF CONFRONTATION WITH REAGAN, PREFERABLY IN LESS STARK ISOLATION, THE RAPIDITY OF KOHL'S ANNOUNCEMENT MAY HAVE LED HIM TO HARDEN HIS STAND. IT IS QUITE CLEAR THAT THIS STAND WAS DETERMINED PRINCIPALLY BY DOMESTIC POLITICAL CONSIDERATIONS. IT REMAINS TO BE SEEN HOW FAR HE IS PREPARED TO GO IN INCURRING THE RISK OF AGGRAVATING US PROTECTIONISM AND OF DIVIDING THE COMMUNITY IN ORDER TO PROTECT HIS POLITICAL FLANK. HE WILL NOT NOW FIND IT EASY TO WITHDRAW FROM THIS POSE OF GAULLIST DEFIANCE AND MAY EVEN HOPE TO AVOID GIVING ANY COMMITMENT TO A NEW ROUND BEFORE THE LEGISLATIVE ELECTIONS NEXT MARCH. HE WILL CERTAINLY GIVE HIS OFFICIALS A HARD-LINE MANDATE FOR THE NEGOTIATION ON THE AGENDA.

8. SEE MIFT.

F C O PLEASE PASS SAVINGS

FRETWELL

**ECONOMIC SUMMIT**

**STANDARD (PALACE)**

**ERD  
ECONOMIC ADVISERS  
FED  
NAD  
ECDs  
TRED  
SOVIET D  
EED  
MAED  
SCD  
MR MAUD  
MR WILSON  
MR EGERTON  
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10 DOWNING STREET

*From the Private Secretary*

6 May 1985

The Prime Minister has asked me to thank you for sending her a copy of Chancellor Kohl's speech at the site of Bergen-Belsen concentration camp on 21 April. She was pleased to have the opportunity to read the full text of this.

Charles Powell

His Excellency Baron Rüdiger von Wechmar



20



DER BOTSCHAFTER  
DER BUNDESREPUBLIK DEUTSCHLAND  
Baron Rüdiger von Wechmar

London, 2 May 1985

CDP *[initials]*

*Dear Prime Minister,*

I enclose a copy of the English translation of Chancellor Kohl's speech at the site of the Bergen-Belsen concentration camp on April 21. I hope you will agree that he spoke most movingly at such a tragic commemoration.

*I remain, Prime Minister,*

*yours sincerely,*

*[Signature]*

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

MERTURM-KLANGHART



# **REPORT**

**FROM THE FEDERAL REPUBLIC OF GERMANY**

April 26, 1985.

## **KOHL REMEMBERS CONCENTRATION CAMP VICTIMS AT BERGEN-BELSEN**

Chancellor Helmut Kohl spoke in Bergen-Belsen on April 21 at a ceremony to mark the 40th anniversary of the liberation of the concentration camps. This was the text of his speech:

"O earth, cover not thou their blood". These words, taken from the Book of Job and inscribed on the Jewish memorial over there, have today summoned us here to mourn, to remember, to seek reconciliation. We are gathered here in memory of the many innocent people who were tortured, humiliated and driven to their deaths at Bergen-Belsen, as in other camps.

This site's admonition to us must not go unheard or be forgotten. It must be heeded by us as we define our basic political principles and it requires each of us to examine his own life and way of thinking in the light of the suffering sustained here.

Reconciliation with the survivors and descendants of the victims is only possible if we accept our history as it really was, if we Germans acknowledge our shame and our historical responsibility, and if we perceive the need to act against any efforts aimed at undermining human freedom and dignity.

For 12 years, the light of humanity in Germany and Europe was concealed by ubiquitous violence. Germany under the National Socialist regime filled the world with fear and horror. That era of slaughter, indeed of genocide, is the darkest, most painful chapter in German history.

One of our country's paramount tasks is to inform people of those occurrences and keep alive an awareness of the full extent of this historical burden. We must not - nor shall we - ever forget the atrocities committed under the Hitler regime, the mockery and destruction of all moral precepts, the systematic inhumanity of the Nazi dictatorship. A nation that abandons its history forsakes itself. The presence of history is illustrated in a particularly cogent manner by the survivors of Bergen-Belsen who are here today at the invitation of the Central Jewish Council.

We recall above all the persecution and murder of the Jews, the pitiless war which man, in the final analysis, waged against himself. Bergen-Belsen, a town in the middle of Germany, remains a mark of Cain branded in the minds of



our nation, just like Auschwitz and Treblinka, Belzec and Sobibor, Chelmno and Majdanek, and the many other sites testifying to that mania for destruction. They epitomize what man can do against his fellow-beings out of hatred and blindness.

We do not know exactly how many people perished here at Bergen-Belsen. They numbered more than 50,000. But what does this figure tell us about how death befell every individual, his next of kin, his family? Vicariously, for them all I name Anne Frank. She was 15 years old when she died here a few days before the liberation of the camp. We do not know exactly how her life was extinguished. But we know what awaited people here, how they were maltreated, what pain they suffered. Their lives, their human dignity were wholly at the mercy of their tormentors.

Despite their own great suffering, many inmates found the strength to stand by others, to turn to their fellow-beings and offer them solace and consolation. An old Jewish saying goes: "Whoever saves a human life saves the whole world." A few known and many unknown detainees afforded their fellow-beings strength at that time of great agony. We also recall those courageous people who, in their everyday lives under the Nazi dictatorship, gave the persecuted a refuge at the risk of their own lives. They all helped to save our conception of man as God's image on earth.

Forty years ago, Bergen-Belsen was liberated. But for thousands of people in this camp, salvation came too late: too drained were their bodies, too deeply scarred their souls.

The National-Socialist despisal of mankind was demonstrated not only in the concentration camps. It was ubiquitous, just as the dictatorship was totalitarian. Violence prevailed everywhere, and everywhere people were shadowed, persecuted and abducted, they were incarcerated, tortured and murdered. They were people from all walks of life, people of many nationalities, faiths and creeds, and with highly different political convictions.

From the very outset, the terror of the totalitarian regime was directed against the Jews in particular. Envy and crude prejudice, nurtured over the centuries, culminated in an ideology of manic racism. The mass graves here show us where that led to.

Today, 40 years later, it is still our duty to ask ourselves how a culture could disintegrate, to whose development and maturity German Jews in particular



made an outstanding contribution. Many of them clearly professed themselves German patriots. Throughout the world they were representatives and ambassadors of German and Western culture.

When the forces of evil seized power in Germany, the Jews were deprived of their rights and driven out of the country. The regime officially declared them, "subhumans" and condemned them to the "final solution". Those have become Nazi terms in the German language - in the language of Goethe and Lessing, of Immanuel Kant and Edmund Husserl, of Dietrich Bonhoeffer and Leo Baeck. That misanthropic regime also violated our language.

#### Spirit poisoned

But even before that it poisoned the spirit of the nation. The rulers were the henchmen of anarchy. With their arrogant use of power and their unbridled demands, they blinded the nation and then plunged an entire continent into misery. The deepest cause of this destruction was the accelerating disintegration of values and morals. In the final analysis, the totalitarian state was the product of the renegation of God. The Nazi regime's hypocritical invocation of "godly providence" merely served to gloss over their own arbitrariness. That was and remains indeed the gravest perversion of religious faith: contempt for the living God professed by the great religions.

This darkest chapter of our history must always serve as a reminder to us, not because of the question of why those who risked their lives in opposing the terror ultimately failed in their efforts. The decisive question is, instead, why so many people remained apathetic, did not listen properly, closed their eyes to the realities when the despots-to-be solicited support for their inhumane programme, first in back rooms and then openly out in the streets.

The intentions of the National Socialists were apparent well before Nov. 9 1938, when 35,000 Jews were abducted to concentration camps. We ask ourselves today why it was not possible to take action when the signs of National Socialist tyranny could no longer be overlooked - when books regarded as great cultural works of this century were burned, when synagogues were set on fire, when Jewish shops were demolished, when Jewish citizens were denied a seat on park benches.

Those were warnings. Even though Auschwitz was beyond anything that man could imagine, the pitiless brutality of the Nazis had been clearly discernible. At the Barmen Synod in 1934, Hans Asmussen clear-sightedly warned of the designs



of the new rulers: "They claim to be redeemers, but prove to be the tormentors of an unredeemed world."

The truth of this utterance is clear to us today. Millions of Jews fell victim to the National Socialist terror. The horror of this occurrence is still with us today. In view of such depravity, one could use the words of St Augustine who once said: "To myself I have become a land of misery."

#### Innocent victims

Like the Jews, many other innocent people fell victim to persecution. We cannot separate the ashes of the murdered. Let us here remember those victims, too. The racial hatred of the National Socialists was also directed against gypsies. In the mass graves before our eyes lie countless Sinti and Romany gypsies.

The inscription here at Bergen-Belsen reads: "Their violent death exhorts the living to oppose injustice." We mourn all those who lost their lives under the totalitarian regime because of their unswerving faith - among them many who refused to render military service on religious grounds.

A totalitarian state claims to possess the absolute truth, to be alone in knowing what is good and what is bad. It does not respect the individual's conscience. It seeks to provide its own answers not only to the penultimate questions, those of politics, but also to the final questions, those concerning the meaning and value of our lives. Only in this way could there arise the demonic official dogma that certain lives are not worth living. Only in this way could Mengele and others perform horrifying experiments on living people.

We recall the persecution of the mentally handicapped, of those people who were brandished as social outcasts, and of the many others who, for highly different reasons, were slaughtered - some of them simply because they expressed doubts about the so-called final victory.

When this camp was set up, Russian prisoners-of-war were first brought here. Their accommodation and treatment amounted to no less than torture. Over 58,000 died alone in this region around Bergen. This we must also remember today and in future: Of the almost six million Soviet soldiers who were captured by the Germans as prisoners-of-war, far fewer than half survived. Hence at this hour we also reflect on the suffering inflicted in the name of Germany on the peoples of Central and Eastern Europe.



We commemorate the 20 million people from the Soviet Union who died during the war. We remember the crimes perpetrated against the Polish nation. And we also mourn those people who suffered from Nazi injustice being repaid with new injustice, those Germans who fled their home regions and perished during the flight. But we would not have learned anything from history if we were to set off atrocities against each other.

Germany bears historical responsibility for the crimes of the Nazi tyranny. This responsibility is reflected not least in never-ending shame.

We shall not let anything in this context be falsified or made light of. It is precisely the knowledge of guilty involvement, irresponsibility, cowardice and failure that enables us to perceive depravity and nip it in the bud. The totalitarianism that prevailed in Germany from January 30 1933 onwards is not an unrepeatable deviation from the straight and narrow, not an "accident of history". An alert and sensitive stance is needed above all towards any views and attitudes that can pave the way for totalitarian rule:

Belief in ideologies which claim to know the goals of history and promise paradise on earth;

The failure to exercise freedom responsibly;

Apathy about violations of human dignity, basic rights and the precept of peace.

Peace begins with respect for the unconditional, absolute dignity of the individual in all spheres of life. The suffering and death of people, the victims of inhumanity, urge us to preserve peace and freedom, to promote law and justice, to perceive man's limits and to follow our path in humility before God.

What Konrad Adenauer said here at Bergen-Belsen in February 1960 remains valid: "I believe we could not choose a better place than this one to give a solemn pledge to do our utmost so that every human being - irrespective of the nation or race to which he belongs - enjoys justice, security and freedom on earth in the future."

#### Day of liberation

The collapse of the Nazi dictatorship on May 8 1945 was a day of liberation for the Germans. It soon became apparent, however, that it did not mean freedom for everyone. We in the free part of our fatherland have, following the experience of Hitler's dictatorship, made it a rule that especially in central political



questions man must decide by and for himself. We have established a free republic, a democracy based on the rule of law. The founders of our democratic country perceived and took advantage of the moment which Werner Nachmann spoke of.

By possessing the strength to face up to the responsibility imposed by history, they restored for us the value and dignity of freedom that is exercised responsibly. For this reason, we have also linked ourselves irrevocably to the community of free Western democracies based on shared values and entered into a permanent alliance with them.

This was only possible because those nations - and not least former concentration camp inmates and the relatives of victims of the Nazi dictatorship - reached out their hands to us in reconciliation. Many of those nations directly experienced Nazi terror in their own country. There was bitter hatred for those who had come to subjugate and maltreat them - hatred which ultimately was directed against the entire German nation.

We in the free part of Germany realize what it means, following Auschwitz and Treblinka, to have been taken back into the free Western community. Those nations did so not least with the justified expectation that we will not disown the crimes perpetrated in the name of Germany against the nations of Europe.

Today, 40 years later, we continue to acknowledge that historical liability. Precisely because we Germans must never dismiss from our minds that dark era of our history, I am today addressing you and our fellow countrymen as Chancellor of the Federal Republic of Germany. We have learned the lessons of history, especially the history of this century. Human dignity is inviolable. Peace must emanate from German soil.

#### Friendship with France

Our reconciliation and friendship with France is a boon to the Germans and the French, to Europe and the world as a whole. We also wish to attain such a peaceful achievement in our relations with our Polish neighbours.

We are grateful that reconciliation was possible with the Jewish people and the State of Israel, that friendship is again growing particularly among young people. And we respectfully pay tribute to those men and women who, looking to the future, were prepared to surmount the strength of hatred with the force of humanity. We are especially thankful to eminent representatives of the nation of Israel like Nahum Goldmann and David Ben Gurion. We are also grateful to



Konrad Adenauer. They all sought reconciliation.

Reparations were paid to secure a homeland for the Jews and to assist the survivors of the holocaust. However, today we know just as we did then: suffering and death, pain and tears are not susceptible to reparations. The only answer can be collective commemoration, collective mourning, and a collective resolve to live together in a peaceful world.

In his memorial address at the Cologne Synagogue on November 9 1978, Nahum Goldmann recalled the creative mutual influence of Jews and Germans and spoke of a "unique, historical occurrence". This co-existence of Jews and Germans in particular has a long, eventful history. It has been examined only little until now and is scarcely known to many people. For this reason we intend to promote the establishment of an "Archive for the study of Jewish history in Germany."

We want to trace German-Jewish interaction through history. Over many centuries, Jews made decisive contributions to German culture and history. And it is an accomplishment of historical import that, even after 1945, Jewish compatriots were prepared to assist us in building the Federal Republic of Germany. We wish to preserve this memory, too, in order to strengthen our resolve to live together in a better future.

It is therefore essential to make it clear to the up-and-coming generation that tolerance and an open-minded attitude towards one's fellow-beings are irreplaceable virtues without which a polity cannot survive. Emulating each other in the quest for humanity is the most pertinent answer to the failure of an era marked by intolerance and the abuse of power.

At Yad ya-Shem, the words of a Jewish mystic of the early 18th century became firmly impressed upon my mind: "Seeking to forget makes exile all the longer; the secret of redemption lies in remembrance."

For this reason, the exhortation expressed here at Bergen-Belsen rightly is: "O earth, cover not thou their blood".





3 MAY 1985

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MR BRAITHWAITE  
 MR MAUD  
 HD/ERD  
 HD/PLANNING STAFF  
 H/News  
 H/Ad  
 RESIDENT CLERK

H/Ad  
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As/Ad. S.



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TELEGRAM NUMBER 453 OF 06 MAY

INFO ROUTINE WASHINGTON, PARIS, ROME, TOKYO, OTTAWA, UKREP BRUSSELS, ATHENS, EMBASSY BRUSSELS, COPENHAGEN, DUBLIN, LUXEMBOURG, THE HAGUE, UKDEL NATO, UKMIS GENEVA, UKMIS NEW YORK.

FOLLOWING IS OUR TRANSLATION OF THE INTRODUCTORY WORDS SPOKEN BY FEDERAL CHANCELLOR KOHL PRIOR TO DELIVERING THE FINAL DECLARATION OF THE BONN ECONOMIC SUMMIT IN THE GERMAN BUNDESTAG ON 4TH MAY 1985:

BEGINS

IT IS A GREAT HONOUR AND A GREAT PLEASURE FOR ME TO BE ABLE TO REPORT TO YOU HERE AT THE CLOSE OF THIS BONN SUMMIT ON TWO DAYS OF INTENSIVE TALKS AND WORK. WE HAVE HAD VERY FRANK, VERY FRIENDLY AND SOMETIMES CONTROVERSIAL DISCUSSIONS BUT THE IMPORTANT THING IS THAT EVEN DIFFERENCES OF OPINION HAVE BEEN SETTLED IN A SPIRIT OF PARTNERSHIP AND FRIENDSHIP.

YESTERDAY WE ISSUED A POLITICAL DECLARATION AND PRESENTED IT TO THE PUBLIC. YOU WILL UNDERSTAND THAT I AS CHANCELLOR OF THE FEDERAL REPUBLIC OF GERMANY ESPECIALLY APPRECIATE AND WELCOME THIS POLITICAL DECLARATION.

THE POLITICAL DECLARATION ISSUED YESTERDAY TO MARK THE 40TH ANNIVERSARY OF THE END OF THE WAR IS A POLITICAL DOCUMENT OF GREAT IMPORTANCE FOR US ALL. IN IT WE COMMEMORATE THE VICTIMS OF THE WAR AND OF TYRANNY AND AT THE SAME TIME LOOK BACK WITH PRIDE AT WHAT HAS BEEN CREATED OUT OF A SPIRIT OF RECONCILIATION IN 40 YEARS OF JOINT ENDEAVOUR.

WE PROFESS OUR FAITH IN THE FOUNDATIONS OF OUR FRIENDSHIP, IN OUR COMMON VALUES, IN PEACE, FREEDOM, DEMOCRACY AND HUMAN RIGHTS.

THIS POLITICAL DECLARATION IS A DOCUMENT OF THE POLITICAL AND SPIRITUAL AGREEMENT BETWEEN OUR COUNTRIES. THE PARTNERSHIP BETWEEN NORTH AMERICA, EUROPE AND JAPAN IS A GUARANTOR OF PEACE AND STABILITY IN THE WORLD. WE WANT TO USE THE EXPERIENCE WHICH WE HAVE GAINED IN 40 YEARS OF PEACE AND FREEDOM TO CREATE A BETTER FUTURE FOR THE WHOLE OF MANKIND.



FOR THE WHOLE OF MANKIND.

WE - THE HEADS OF STATE AND GOVERNMENT, THE FINANCE AND ECONOMICS MINISTERS, THE FOREIGN MINISTERS - HAVE NATURALLY DISCUSSED MANY TOPICS IN THESE MANY HOURS OF TALKS. I CANNOT OF COURSE MENTION ALL THESE SUBJECTS INDIVIDUALLY IN MY SUMMARY BEFORE I READ OUT THE ACTUAL FINAL DECLARATION. I SHALL, HOWEVER, MAKE TWO EXCEPTIONS.

IN THE COURSE OF OUR EXCHANGE OF OPINIONS ON WEST-EAST QUESTIONS WE ALSO BROACHED THE SUBJECT OF THE AMERICAN PRESIDENT'S STRATEGIC DEFENCE INITIATIVE. THE PRESIDENT HAS EXPLAINED HIS LONG-TERM RESEARCH PROGRAMME. THE UNITED STATES ARE PREPARED TO ENTER INTO INTENSIVE CONSULTATIONS BOTH NOW AND IN THE FUTURE. I WISH TO STRESS AND WELCOME THIS POINT IN PARTICULAR.

THE PRESIDENT HAS EMPHASISED THAT THE UNITED STATES' AIM IS NOT TO ACHIEVE SUPERIORITY BUT TO SECURE STRATEGIC STABILITY. THE STRATEGY OF THE ALLIANCE REMAINS UNCHANGED AS LONG AS THERE IS NOT A MORE EFFECTIVE ALTERNATIVE FOR PREVENTING WAR.

AS FAR AS THE GENEVA TALKS ARE CONCERNED, IT IS A MATTER OF DRASTICALLY REDUCING STRATEGIC NUCLEAR AND INTERMEDIATE-RANGE WEAPONS AND MAKING AN EARLY START ON DISCUSSING THE RELATIONSHIP BETWEEN OFFENSIVE AND DEFENSIVE WEAPONS WITH REGARD TO FUTURE COOPERATIVE SOLUTIONS.

AMONG OTHER THINGS, WE ALSO DISCUSSED A PROBLEM WHICH AFFECTS ABOVE ALL YOUNG PEOPLE IN MANY COUNTRIES THROUGHOUT THE WORLD, AND NOT LEAST OF ALL THEIR PARENTS, AND WHICH HAS BROUGHT MISERY TO MANY FAMILIES: THE DRUG PROBLEM. WE HAVE CONSIDERED THIS MATTER BECAUSE WE KNOW THAT MANY YOUNG PEOPLE ARE THE TRAGIC VICTIMS OF THIS PROBLEM.

WE ARE DETERMINED TO FIGHT THIS PROBLEM RESOLUTELY. APART FROM THE MEASURES WHICH HAVE ALREADY BEEN TAKEN, WE HAVE AGREED TO DRAW UP A COMPREHENSIVE AND EFFECTIVE STRATEGY WHICH, TAKING ADVANTAGE OF EXISTING SERVICES, WILL ENABLE US TO FIGHT THE MANUFACTURE AND TRAFFICKING OF DRUGS AND RELATED CRIMES MORE EFFECTIVELY THAN IN THE PAST.

WE SHALL AUTHORISE EXPERTS TO DISCUSS THIS STRATEGY AND EFFECTIVE MEASURES AND TO CONSIDER WHAT ADDITIONAL STEPS CAN BE TAKEN. WE HAVE AGREED THAT THE NECESSARY PROPOSALS WILL BE PRESENTED BY THE END OF THE YEAR AND THAT WE SHALL DRAW THE NECESSARY CONCLUSIONS AS SOON AS POSSIBLE. ✓

ENDS

FCO PLEASE ADVANCE TO PS NO 10 DOWNING STREET.

BULARD







MRS THATCHER SAID THE SECOND MAIN HEAD OF THE SUMMIT HAD BEEN THE DEVELOPING COUNTRIES, CONCENTRATING UPON AFRICA BECAUSE OF ITS NEEDS STEMMING FROM FAMINE AND DROUGHT. MUCH OF THE DISCUSSION HAD BEEN ABOUT SUCH THINGS AS THE NEED TO ENSURE THAT FOOD PROVIDED GOT THROUGH TO THOSE WHO WERE REALLY HUNGRY, AND THE EUROPEAN COMMUNITY AND BRITAIN HAD BEEN HELPING VERY MUCH WITH TRANSPORT - PARTICULARLY AIRCRAFT - TO SEE THE FOOD GETS THROUGH.

THE LEADERS WERE ALSO AWARE OF THE NEED TO HELP WITH THE UNDERLYING DEVELOPMENT OF PROPER AGRICULTURAL POLICIES WHICH CONSERVED THE SOIL AND ENSURED THAT FOOD WAS GROWN ON A PROPER AND CONTINUOUS BASIS.

THE PRIME MINISTER SAID THE THIRD MAIN SUMMIT HEADING HAD BEEN TRADING AND MONETARY POLICY. "EVERYONE STRESSED AGAIN AND AGAIN THAT PROTECTIONISM WOULD BE DAMAGING FOR WORLD TRADE AND FOR EACH AND EVERY ONE OF US," SHE DECLARED. "WE ALSO ADMIT THAT EACH AND EVERY ONE OF US HAS SOME PROTECTIONISM AND THAT, REALLY, WE WOULD LIKE TO HAVE A NEW ROUND OF GATT TO DISCUSS THESE MATTERS."

REFERRING TO PRESIDENT MITTERAND'S REFUSAL TO PARTICIPATE IN A SUMMIT CALL FOR A NEW GATT ROUND IN EARLY 1986, MRS THATCHER SAID ALTHOUGH THE LEADERS WERE NOT WHOLLY AGREED AS TO TIMING THEY WERE AGREED THAT PREPARATORY STEPS SHOULD BE TAKEN THIS JULY AT THE PREPARATORY MEETING OF GATT. "WE HOPE THESE PRELIMINARY STEPS WILL BE COMPLETED AS SOON AS POSSIBLE AND THE AGENDA COMPLETE, SO THAT THE MAJORITY OF US WERE QUITE PREPARED TO SAY WE BELIEVE THERE WOULD AND SHOULD BE A NEW GATT ROUND IN THE FIRST HALF OF 1986."

#### DRUG PROBLEM

THE PRIME MINISTER SAID THAT WHEN SHE HAD RAISED THE PROBLEM OF DRUG ABUSE IT HAD BECOME OBVIOUS THAT OTHER COUNTRIES WERE EXTREMELY WORRIED ABOUT THE AMOUNT OF HEROIN AND COCAINE IN CIRCULATION AND DETERMINED TO STOP DRUG TRAFFICKERS AND DISSUADE YOUNG PEOPLE FROM TAKING DRUGS.



'WE HAVE SET UP A COMMITTEE OF EXPERTS TO REPORT IN SEPTEMBER WHEN FOREIGN MINISTERS WILL BE MEETING AT THE UNITED NATIONS.'

QUESTIONED ABOUT HER BILATERAL MEETING WITH PRESIDENT MITTERAND WHEN THEY AGREED TO PRESS FORWARD WITH A TREATY TO COVER THE ESTABLISHMENT AND OPERATION OF CHANNEL TUNNEL OR OTHER LINK, MRS THATCHER SAID SHE WAS ANXIOUS TO DO AS MUCH AS POSSIBLE TO MOVE THE PROJECT FORWARD.

'WHY AM I REALLY KEEN ON IT IS THAT I WOULD VERY MUCH LIKE OUR GENERATION TO DO SOMETHING WHICH IS EXCITING AND WHICH WE CAN POINT TO AS A CONTRIBUTION OF OUR GENERATION,' SHE DECLARED. THERE WERE THREE POSSIBLE WAYS OF BUILDING THE LINK, AND A DECISION HAD STILL TO BE MADE WHICH OF THEM IT WAS TO BE.

' BUT I WOULD LIKE TO FEEL THAT BY THE YEAR 2000 IT WOULD BE UP AND WORKING,' SHE ADDED.

ON THE PROBLEMS OF DEBTOR NATIONS, THE PRIME MINISTER SAID NONE OF THE SUMMITTEERS WOULD SAY THAT THE DEBT SITUATION HAD YET BEEN SOLVED, BUT THEY AGREED THAT THE BEST WAY TO DEAL WITH IT WAS STILL UPON A 'CASE BY CASE' BASIS IN ASSOCIATION WITH AN IMF PROGRAMME.

ASKED WHETHER SHE WAS SATISFIED THAT THE US WOULD MAKE REAL PROGRESS IN REDUCING ITS BUDGET DEFICIT THIS YEAR, SHE REPLIED: 'THAT IS THEIR OBJECTIVE. I BELIEVE THEY WILL MAKE PROGRESS IN REDUCING THEIR BUDGET DEFICIT THIS YEAR - PRECISELY HOW MUCH I CANNOT TELL, BUT I BELIEVE THE ADMINISTRATION AND THE CONGRESS ARE AWARE OF THE NEED TO DO IT.'

AS SHE HAD DURING THE SUMMIT ITSELF, MRS THATCHER SPOKE AGAIN OF 'THE PARADOX' THAT ALTHOUGH EVERY SUMMIT COUNTRY HAD REPORTED ECONOMIC GROWTH, GOOD INVESTMENT, GOOD PROFITS AND A RECORD STANDARD OF LIVING, UNEMPLOYMENT WAS STILL VERY HIGH.

JAPAN AND THE US HAD MAINLY SOLVED THE PROBLEM BY A MUCH HIGHER RATE OF FORMULATION OF SMALL BUSINESSES AND BECAUSE THEY HAD VERY MUCH MORE FLEXIBLE LABOUR MARKETS.

ASKED FOR HER ASSESSMENT OF THE BONN MEETING BY ONE JOURNALIST, WHO DESCRIBED HER AS 'A VETERAN SUMMITTEER', MRS THATCHER SAID IT HAD BEEN A SUCCESS. (LPS)

ENDS



## S U P P L E M E N T A R I E S

### No Message of Hope for Unemployment

As I have often said, no quick and easy answers. What was impressive in the Summit discussions was the conviction of all represented there that lasting job opportunities can only be created if we maintain sound financial policies and open markets and remove disincentives and unhelpful regulations to foster a climate of more vigorous enterprise and initiative.

### US Recession/Europe taking up slack

Some moderation of the very rapid pace of US growth last year is to be expected, and is welcome, as the US get to grips with their budget deficit problem. Other Summit countries are expecting to continue and strengthen their growth. Remind that UK is now entering fifth year of growth and expects it to continue.

### Disagreement/Failure on trade

We were not able to reach unanimity on naming now a date for the new GATT round. But we were unanimous in deciding to tackle urgently the important substantive preparations this summer and complete them so as to move on to full negotiations at the earliest possible date.



International Monetary Conference?

The discussions on international monetary questions begun after the Williamsburg Summit will be completed next month, thereafter be discussed - as is appropriate - in the IMF Interim Committee. Any decision further meetings should be taken then.

Intermediate developing countries: What does proposal mean?

devoted  
This reflects a sense that, having/our attention to major debtors at one extreme and the very poorest countries of Africa at the other, we might be overlooking interests of some developing countries which face special problems deserving sympathy. Further discussions are most likely to take place in the context of the activities of the World Bank.

Debt: What answer to Cartagena?

Very extensive discussions in meetings of Interim and Development Committees in Washington on 17/19 April confirmed the need to persevere with the case-by-case strategy of help conditional on the unavoidably necessary efforts to adjust their economic policies by the debtor countries themselves. Important progress has been made in some cases in rescheduling agreements, the idea of which was first launched at the London Summit last year.

Africa: What use is expert group?

Africa needs help to help itself: better food production,

/ not



not emergency food aid. Experts will make proposals for better international coordination and assistance in forecasting techniques, emergency transport, new agricultural programmes, struggle against desertification.

#### Environment

Intensify cooperation in existing bodies such as the OECD and the European Community. Our experts to agree on measurement techniques to provide agreed scientific facts as basis of international discussion. All accepted application of market mechanisms and the "polluter pays" principle.



## ECONOMIC SUMMIT: SUPPLEMENTARIES ON FOREIGN POLICY ISSUES

### Geneva: Support For US Efforts?

The Political Declaration is perfectly clear on this point.

"We strongly support endeavours to strengthen peace and enhance deterrence through the negotiation of meaningful reductions" in levels of armament. I am in no doubt that the main contribution to those endeavours is being made by the United States of America. And the Declaration specifically recognises the positive US proposals designed to achieve the necessary reductions.

### SDI: Discussion of General Principles?

The Summit welcomed the Geneva negotiations as a whole. It would not have been the right forum for a detailed discussion of strategic defence.

### SDI: Participation?

This did not come up directly at the Summit. But in discussion with President Reagan, I confirmed that the UK would certainly wish to participate in the SDI research programme. As President Reagan <sup>and I</sup> made clear at Camp David last December, and <sup>and others</sup> as I have stressed on a number of occasions since then, there is a clear distinction to be drawn between research and deployment. There is no question of deployment without negotiation.

### SDI: Concertation of European Responses?

There was no discussion of this at the Summit. The first thing is to be clear what the specific interests and capabilities of each country are before we can talk sensibly about consultation or concertation.



Political Declaration - A Parallel With Bitburg?

I take it that this is a reference to the passage in the Political Declaration which refers to "those who lost their lives ... whether by acts of war, or as victims of inhumanity ...". This certainly does not equate those who died so tragically in concentration camps and from other acts of Nazi tyranny with their violators. It means no more than it states: that we remember in grief all those who lost their lives in the agony of that terrible war.

Nicaragua: US Embargo Criticised?

There was indeed a discussion of Nicaragua. The American Secretary of State spelled out US objectives once again: the establishment of democracy and democratic freedoms in Central American countries. He made clear that the US fully supports the Contadora process. On all that he received widespread support at the Summit.

Mr Shultz also explained the background against which the American Administration decided to impose economic sanctions against Nicaragua. But he made it clear that he was not looking for parallel action by other countries.

[If pressed]

The Foreign and Commonwealth Secretary said that we fully understood and supported US objectives and agreed on the need to promote peace, stability, freedom and justice there. He said that we too supported the Contadora process and that we too wanted to see an end to disruption by Nicaragua of neighbouring countries and an end to the arms build-up. He acknowledged the need to keep up pressure on Nicaragua to move in the right direction.



And he pointed to the dilemma that sanctions could have the effect of increasing Nicaraguan dependence on Soviet and Cuban assistance. But he recognised that this was a judgement for the US to make. What we all wanted was a free and independent Nicaragua.

#### Afghanistan?

There was a brief discussion of Afghanistan, in the context of East/West relations. The Summit recognised that the continued presence of Soviet troops in that country was a major obstacle to better understanding between East and West. It also recognised the intense suffering of the Afghan people and their courage in resisting the enormous military and technological resources being deployed against them. We pledged our support for the efforts of the UN Secretary-General to achieve a negotiated settlement which would provide for the withdrawal of Soviet forces and the restoration of the rights of the Afghan people.

#### Cambodia?

We also discussed Cambodia and the serious threat to stability in the area posed by the Vietnamese occupation of that country. There was the strongest support from all of us present for the withdrawal of all foreign forces from Cambodia as soon as possible, in compliance with successive UN resolutions. ~~And we all expressed support.~~ And we recognised the efforts of the ASEAN countries to achieve a solution on the basis of internationally supervised elections.



Bonn Summit A Defeat For The French?

Absolutely not. The virtue of the Economic Summit forum is that everyone among the participants is able to speak his mind freely on every issue. Of course, we do not all agree on everything. And there are some issues for each of us on which we must defend our position with particular vigour. But what we aim to do - and what we do do - is to arrive at a consensus. You cannot say of anyone that he has been defeated when a consensus has emerged.

Drugs: Further Steps?

We shall have to see what can most effectively be done. Experts from the seven countries will meet together soon to look urgently at this. There is, of course, a great deal of bilateral co-operation already in this field, for example, between the enforcement agencies of ourselves and the United States. But since we are dealing with a worldwide multi-billion dollar market in illicit drugs, and since the tragic victims tend to be found in the more affluent societies like our own, there is an obvious need to try to ensure that as the problem is tackled in one area it does not shift straight away to another. This is where the principal scope lies for greater multilateral efforts to co-ordinate action against the criminals who are trafficking in this particular kind of human misery.

*Wse*



We must also see if we can work towards a comprehensive strategy among the seven. This could tackle such questions as legislation for dealing with the assets of drug runners; and schemes to educate the innocent in the appalling consequences and risks of using substances like cocaine and heroin which are becoming so easily available on our streets.

### Terrorism

We had very good discussions at the London Summit about terrorism, and work is still continuing to carry forward the ideas developed there for closer co-operation between the Summit countries. So this year there was less need for the Heads of State and Government to discuss it themselves. But the Foreign and Commonwealth Secretary and his colleagues took stock of the work that had been done and agreed that it should continue.



SUPPLEMENTARIES ON BILATERAL WITH PRESIDENT REAGAN

SDI RESEARCH

I REPEATED TO THE PRESIDENT WHAT I SAID DURING MY VISIT TO WASHINGTON IN FEBRUARY, NAMELY- THAT THE UNITED KINGDOM INTENDS TO ACCEPT HIS OFFER OF PARTICIPATION IN RESEARCH ON THE STRATEGIC DEFENCE INITIATIVE, AND I HOPE THAT WE SHALL DO IT IN THE SAME WAY AS WE HAVE COLLABORATED SINCE WE WORKED TOGETHER ON THE ATOMIC BOMB. OF COURSE THAT PARTICIPATION MUST BE A TWO-WAY PROCESS IN WHICH BRITAIN AND BRITISH FIRMS ALSO BENEFIT FROM THE RESULTS. WE WANT TO BE PARTNERS NOT SUB-CONTRACTORS.

COOPERATION WITH OTHER EUROPEANS?

OF COURSE WE SHALL KEEP IN TOUCH WITH THOSE EUROPEAN COUNTRIES WHO INTEND TO ACCEPT PRESIDENT REAGAN'S INVITATION, ALTHOUGH FRANCE HAS ALREADY SAID THAT IT DOES NOT INTEND TO DO SO. BUT I FIRMLY BELIEVE THAT IT WOULD BE BEST TO ARRANGE OUR PARTICIPATION BILATERALLY, IN THE WAY WHICH HAS PROVED BENEFICIAL IN THE PAST.

DID YOU RAISE TRADE SANCTIONS AGAINST NICARAGUA?

YES I DISCUSSED THIS WITH PRESIDENT REAGAN AND THERE WAS ALSO DISCUSSION AMONG THE FOREIGN MINISTERS ATTENDING THE SUMMIT. OUR OWN EXPERIENCE OF TRADE SANCTIONS IS THAT THEY ARE NOT VERY EFFECTIVE. BUT THE AMERICANS HAVE NOT SOUGHT THE PARTICIPATION OF OTHERS. THEY HAVE ALSO MADE CLEAR THAT THEY REMAIN READY TO WORK THROUGH THE CONTADORA PROCESS. SO DO WE.

(IF PRESSED) WE SUPPORT THE AMERICAN AIM OF KEEPING UP PRESSURE ON THE NICARAGUAN GOVERNMENT TO STOP PROMOTING SUBVERSION IN CENTRAL AMERICA. BUT AS I HAVE MADE CLEAR, OUR OWN EXPERIENCE OF TRADE SANCTIONS IS THAT THEY ARE NOT VERY EFFECTIVE.

/EFFECT



EFFECT ON BRITISH COMPANIES/FOREIGN SUBSIDIARIES OF US FIRMS?

THE AMERICANS HAVE MADE CLEAR THAT THERE WILL BE NO  
EXTRATERRITORIAL APPLICATION OF THE MEASURES.



BILATERAL MATTERS

FRANCE

Channel Fixed Link

I discussed this matter with President Mitterrand. We agreed on the need for Government to keep up the pace of our preparatory work so that we are in a position to make rapid progress after the closing date for proposals from private promoters, which have been requested by the end of October.

SDI and Eureka

I did not have any substantial discussion with President Mitterrand on his proposal for a European research co-ordinating agency. But we did discuss the question of research generally and I stressed my wish that Britain should seize the opportunity offered by the United States to undertake some of the basic research contributing to the Strategic Defence Initiative.

European Fighter Aircraft

I stressed that collaboration on the European Fighter Aircraft requires agreement on a specification which meets the military requirement and provides a fair division of the work among the participating countries.



BILATERAL WITH SIGNOR CRAXI

Future of the European Community

I TOLD SIGNOR CRAXI THAT I DID NOT THINK AN INTER-GOVERNMENTAL CONFERENCE WOULD BE USEFUL. IT WOULD BE BETTER TO KEEP DISCUSSION OF THE FUTURE OF THE COMMUNITY IN THE HANDS OF THE EUROPEAN COUNCIL, WHICH HAS SHOWN ITS CAPACITY TO REACH PRACTICAL DECISIONS.

Majority Voting/Veto

I BELIEVE THAT THERE IS SCOPE FOR MAKING MORE USE OF THE EXISTING MAJORITY VOTING PROVISIONS OF THE TREATY, SUBJECT ALWAYS TO THE RIGHT OF ANY MEMBER STATE TO INSIST ON UNANIMITY WHERE A VITAL NATIONAL INTEREST IS AT STAKE.



cc Master

CONFIDENTIAL

RM



10 DOWNING STREET

From the Principal Private Secretary

4 May, 1985

Dear Len,

PRIME MINISTER'S BILATERAL MEETING WITH MR NAKASONE AT THE  
BRITISH RESIDENCE, BONN, 4 MAY, 1985, 1830 HRS

I enclose a record of the Prime Minister's meeting with Prime Minister Nakasone in the margins of the Economic Summit.

I am sending a copy of this letter and its enclosure to Rachel Lomax (HM Treasury), Richard Mottram (Ministry of Defence), John Mogg (Department of Trade and Industry) and Richard Hatfield (Cabinet Office).

Yours ever,

Robin Butler

L Appleyard, Esq.,  
Foreign and Commonwealth Office

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NOTE OF A BILATERAL MEETING BETWEEN THE PRIME MINISTER AND  
PRIME MINISTER NAKASONE AT THE RESIDENCE, BONN ON SATURDAY  
4 MAY 1985 AT 1830 HOURS.

Present:

The Prime Minister  
Mr. F.E.R. Butler

Prime Minister Nakasone  
Mr. T. Nishiyama - Director  
General of Economic Affairs,  
Foreign Ministry  
Mr. A. Saiki - Interpreter

Strategic Defence Initiative

Mr. Nakasone started the meeting by asking the Prime Minister her views on the Strategic Defence Initiative. He said that the Japanese Government had sympathy with the United States Government intention to undertake research and was still considering whether Japan should participate.

The Prime Minister said that she also agreed that the United States should also undertake research. It was important to recall the background. Seven or eight years ago the West had learned that the Russians were undertaking research into lasers and electronic pulse beams. They also had an anti-satellite capacity and had had an anti-ballistic missile defence around Moscow for 20 years. They were also building big radar stations which the United States believed were contrary to the ABM Treaty. If the United States did not undertake research there was a risk they would fall behind and Russia would develop a capability to knock out American missiles, which would undermine deterrence. Throughout history each generation of weapons had generated systems to ward them off.

The Prime Minister continued when she had visited Camp David she had wanted to persuade the Americans that deployment would require negotiation under the ABM Treaty.

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One of her current anxieties was that it was not clear how this would be done. But research should be undertaken: it was not covered by the ABM Treaty because there was no way in which it could be verified. She had also wanted to persuade the Americans not to speak about nuclear weapons as if they were immoral: other forms of weapon were no less immoral.

On participation in research the Prime Minister said that President Mitterrand had made it clear that he did not want to undertake what he described as sub-contracts for the Americans. She thought that Germany and Italy would want to participate, as would the United Kingdom.

Mr. Nakasone asked when the British Government would be proceeding with participation and whether they would do so bilaterally or in co-operation with other European countries. The Prime Minister said she thought it likely that arrangements for participation would probably go ahead soon. She thought it likely that the European countries would take part on a co-ordinated but not a collective basis. They would want to ensure that they were given some interesting research to undertake.

Mr. Nakasone said that his personal view was that Japan should take part in research but the timing of an announcement was very delicate. Japan was prevented from taking part in collective research by the provision in its constitution against collective action in defence. His own view was that the United States were in the best position to co-ordinate the sharing of the work; and Japan already had arrangements with the United States for the transfer of defence technology, on which arrangements could be built. He would want to ensure that any participation by Japan brought a return for Japan.

#### East/West Relations

Mr. Nakasone asked the Prime Minister's view about the prospects for East/West relations and particularly for a bilateral meeting between President Reagan and Mr. Gorbachev.



The Prime Minister said that she thought that President Reagan would like a meeting soon. Mr. Gorbachev had carefully avoided committing himself. Only a member of his staff had said that he would be going to the United Nations in the autumn, and it was not clear whether this would be in September or October. She thought that a visit to the United Nations provided the best opportunity for one or more meetings: the time was not yet right for a full summit. On Mr. Gorbachev, she said that in her opinion he was an orthodox Communist, although younger and more open-minded than his predecessors. He recognised that the Soviet system was not working efficiently and would try to make it work better: in fact this was impossible since the only way in which the system could be improved was by relaxing controls which he would not dare to do.

Korea

Mr. Nakasone said that he wanted to tell the Prime Minister something which he had not previously told anyone else. South Korea was trying to improve relations with China and North Korea was trying to improve relations with Japan. South Korea was particularly concerned that the Communist countries should take part in the 1988 Olympic Games and had opened a dialogue with North Korea for this reason. The South Koreans were seeking to establish a tripartite contact meeting with the United States and North Korea. They did not trust North Korea but did want to improve relations with China in order to take advantage of the trading opportunities made possible by China's open-door policy: already a large volume of trade was done by South Korea with China through Hong Kong.

On North Korea's motives, Mr. Nakasone said that the Japanese had some intelligence that the North Koreans were keeping forces on the border with South Korea. But the Chinese would never allow them to attack. They were, however, willing to have talks with South Korea and would be taking



part in Red Cross and trade talks with them.

The Prime Minister commented that it was essential that the United States commitment to South Korea should not be weakened as it had shown signs of being under President Carter. Mr. Nakasone said that there was no danger of this under President Reagan. He thought that the North Koreans were making overtures to the Russians as well as to the Chinese. His own view was that the improvement of relations between North and South Korea and mutual recognition of the border might be helpful in preserving cross-border peace: the German model could be a valid precedent.

#### Taiwan

Mr. Nakasone said that President Chiang was suffering from diabetes and his health was not good. The proportion of the older generation which had originated in China was declining fast. But now 90 per cent of the Taiwanese Army were native to Taiwan. The Vice President, who could be expected to succeed President Chiang, was also a Taiwanese native. This was a matter of much concern to the Chinese. Although President Chiang's death might not be imminent, this was a factor to be borne in mind.

The Prime Minister commented that she assumed that the Chinese would not attack Taiwan. Mr. Nakasone agreed: the Hong Kong agreement was the shop window for China. He added that, despite China's open-door policy, the Japanese had told the Chinese Government that they would be watching keenly to see how open China in fact was to foreign investment.

#### Bosphorus Bridge

The Prime Minister said that she was very concerned at the course of events over the contract for the new Bosphorus Bridge. The British had built the first bridge and had submitted the lowest tender for the second. She had agreed to match the Japanese aid and trade provision for the bridge,



although Britain could ill afford it. The firm which had tendered for the bridge was based in the North East and the employment was greatly needed. But by forming a consortium with the Italians and extending their concessionary terms to the bridge and road system, the Japanese/Italian consortium had obtained the whole contract. It was particularly galling for the British to lose this order to a consortium composed by the Japanese and the Italians when the British kept their markets open to Japanese cars whereas the Italians limited Japanese imports to 2,000 a year. She was tempted to draw the moral that Britain's interests would be better served by restricting Japanese imports than by keeping our markets open.

Mr. Nakasone said that he was aware that this contract had created problems. But the tender of the Japanese/Italian consortium was entirely a commercial matter in which the Japanese Government were not involved. The Prime Minister interjected that she did not understand how this generous aid/trade assistance had been provided without the inter-position of the Japanese Government. Mr. Nakasone said that by agreement with the United States, Turkey was a strategic area for Japanese aid, as Jamaica had been and as Egypt also was in the Mediterranean area. But Japanese assistance was provided to the Turkish Government, not to the consortium which had tendered for the bridge.

The Prime Minister said that she understood that the British tender had been lost for the bridge but by extending concessionary terms to the whole contract the Japanese/Italian consortium had been successful. She could not help thinking that the Japanese Government were using the profits which they made from the sale of vehicles and other goods to the British market to subsidise their competition with Britain over projects like this one. She also suspected that the Japanese aid offer was conditional upon the Japanese consortium winning the contract for the whole project. She was greatly upset about it and would not forget it: it was bound to influence her future actions. Mr. Naksaone said that he understood the Prime Minister's feelings. He had not been in a position to



intervene, although he realised that from many points of view it would have been better if the Japanese had joined forces with the British rather than with the Italians. He would look into the point which the Prime Minister had made about the link between Japanese aid and the success of their bid for this contract.

7 May 1985



PRIME MINISTER

BBC RADIO FOUR "WORLD THIS WEEKEND"

You have agreed to give Gordon Clough a 25-minute interview for World This Weekend tomorrow at Chequers. They propose to arrive just before 1000. They would like to record from 1010 and be away by 1045 and certainly no later than 1100 if they are to get it on the one o'clock news.

I shall arrive at 0930 by which time I hope to have read all the papers. This will allow 30 minutes for briefing.

The programme is intended to mark your 6th Anniversary and will look back at your record by way of current topics and then forward to the next election.

It may well be that Mr. Clough will start with the County Council elections and John Selwyn Gummer is to telephone you to brief you on them early on Sunday.

Your interviewer may then turn to the Bonn Summit's outcome as a convenient way of moving into unemployment. He is also proposing to mention the teachers strike in relation to your theme that we must improve our educational standards and our technological grasp.

He could well put in a question or two on the re-organisation of the welfare state though I have told him you will be able to answer only in general terms and most certainly not in detail. (I see considerable advantage in your being able to brief the listener on what you are seeking to do in conducting the biggest review of the welfare state since Beveridge).

Finally, Mr. Clough will probably come back to politics and ask you about your aims, hopes and expectations for the next election.

I have discussed this agenda with Robin. We agree we should not burden you with briefing especially as the Chairman of the Party will be ringing you early tomorrow.

/Considerations



Considerations

The present criticism of the Government is confused. On the one hand you are said to be doing too much badly (FT); on the other hand you are said to be running out of steam. The evidence from the County Council elections is anything but conclusive.

Perhaps what this points to tomorrow is the need to demonstrate you have a clear grasp of what the Government is trying to do; that you are a radical with lots of steam left in you; and of undiminished vigour.

All in all I see the broadcast as an opportunity not merely to rally your troops but also to rally the nation by explaining what your Government is trying to do with Britain.

My advice is to take this interview at a measured rather than a brisk pace; to be discursive and reflective but at the same time demonstrating drive, determination and a clarity of purpose on how your Government intends to use its power for the benefit of the people.

BERNARD INGHAM

4 May 1985



## RECORD OF PLENARY SESSION (MORNING) OF ECONOMIC SUMMIT, BONN 19.

Saturday 4 May

Kohl Personal Reps have done a good job.  
 First four paras are preamble.  
 Agreed  
 Any comments on 5?  
 Agreed.  
 Para 6: US text agreed  
 French text:  
 "... to modernise the means of production  
 and to combat social ..."  
 UK text:  
 "and advanced tech. industries"  
 FRG text:  
<sup>Addition</sup>  
~~Add~~ agreed  
 Italy text:  
<sup>Addition</sup>  
~~Add~~ agreed.  
 Canada : <sup>Addition</sup> ~~Add~~ agreed  
 EEC : Content.  
 Paras 7, 8 and 9

Thatcher Para 9 too long and out of proportion.  
 And question proposal for expert group:  
 not in the end helpful. Ask Sherpas to shorten.

Kohl Don't understand. Dealing with emotion as well  
 as reason. Useful to spell out in detail.  
 Concerned with political impact.

Thatcher Length does not add strength.

Reagan I agree with Thatcher. I believe that Sherpas  
 could shorten. Dispense with expert group.

Howe No difference on substance. Sherpas took  
 instructions not to change too literally. Ask

/ them



Howe (cont'd)      them to have a go. I have had a go.

Expert group for further discussion.

Kohl      I don't understand this misunderstanding. I summed up that aid wasn't reaching the intended recipients, and that we needed follow-up with concrete proposals, before Tokyo Summit. We must adopt wording addressed to public at large.

Dumas      I think the text is very good. It faithfully reflects our discussion yesterday.

Two options:

(i) faithfully reflect feeling

(ii) brevity; would just mean we spoke about it.

Idea of expert group came from Kohl.

Andreotti      Don't dilute text.

Thatcher      We have all been doing a great deal of aid, research, transport. This all suggests something new. It's a bit hard on us all. It unbalances the communique.

Howe      I have a version to look at.

Kohl      A long and emotional defence of existing text [most of which I missed because I was handing round the copies of ours]. Need to have <sup>EXPERT</sup> extra-group to ensure follow-up. We don't want to be seen to have lost touch with the young.

Howe      Reads through the revised draft, with exegetical, paranthetical interpolations.

Contains all positive points, avoids repetition, brings out political points clearly.



Kohl

No problem, but one exception: date for conclusion of expert group work - 1 December this year. An ad hoc group, not a permanent group. When do the seven Foreign Ministers meet?

Shultz

Last week of September.

Kohl

So, say prepare report by September.

Dumas

I see no advantage in changing the text. But the English text more or less reflects the discussion. So we won't quarrel about authorship. Group of experts a good idea, and a date.

Kohl

Not a permanent group, and an ad hoc group to report by a date and then finish.

Abe

Support group. UK draft okay - doesn't make any change of substance. Put in communique.

Kohl

Agree UK.

Dumas

No advantage: stick to original.

Kohl

Not something to quarrel about. Let's be civilised. In our civil code looking for paternity is forbidden. Ask Sherpas to look at both texts. They have fully deserved our confidence and respect.



-1

Kohl (cont'd) Add date in September, plus examination by Foreign Ministers.

Mulroney Proposes a new sentence and a half on third window.

Baker Okay, add "on a case by case basis".

Delors Why exclude the poorest countries?

Mulroney On the contrary, they are included.

Kohl Canadian insertion accepted? Okay. ~~Turn~~  
Turn to Section IV.  
Anything on environment?

Mitterrand Objects to first sentence of para 13.  
Don't leave out central and local authorities.  
Put second sentence first.

German Minister And that "we shall also <sup>harmonise</sup> ~~harmonise~~ the mechanisms of the market to solve environmental problems".

Mitterrand It doesn't seem to be very meaningful, so I am dubious about it. If we relied upon the motor manufacturers to clean up exhausts, we should never have had a decision. French makers far less ready to act than Germans.  
New version preferable, but slightly obsessive.



Shultz

What we are talking about here is a method. There is an argument about what is the most effective way of going about it. Government has to interpose. You do it either by way of regulation or by way of additional cost. If the latter, the market works out best way of doing it. Working by price mechanism, the people who have to make the change will be smarter than the bureaucrat.

Nakasone

On environmental matters Government restrictions and regulations are necessary, and there is a role for central and local authorities. Unbalanced without a reference to that.

Mitterrand

All these explanations add to my anxiety. I never talked about regulations. I reacted to a discussion that is becoming more and more ideological. If you say, you don't spit in the street, or "drive on the left", is that regulation? I never referred to civil servants. Always too many civil servants. But you can't rely only on market mechanisms when manufacturers don't want to comply. If that's all you want to say, okay; I won't join in.

Kohl

This was taken from document published by Minister of the Environment. Suggests "alongside regulations we shall <sup>HARNES</sup> ~~mountain~~ " as last sentence.



Craxi

"We shall use sensible legislation". No market mechanism can deal with problem of polluted seas, or indeed problem of <sup>RUINED</sup> threatened woodlands.

Reagan

I find myself at a loss. Perhaps the problem is a translation of language. In my country the problem is to decide where pollution lies, and that Government sets the standard to <sup>be</sup> reached and polluter is responsible for reaching that standard. We try to give the polluter reasonable time to comply. Sometimes Government contributes to clean-up process when it is very expensive. But we give polluters no choice but to comply. "Polluter pays" common sense.

Mitterrand

Nothing to add. I don't think agreement will be difficult to reach.

Mulroney

Can I suggest a wording

"We shall harness both the mechanisms of Government vigilance and the disciplines of the market to solve environmental problems".

Kohl

Okay.

Mitterrand

Okay.

Reagan

Pays tribute to clarity of Irish language.

Kohl

Last section okay?



Nakasone

Pleasure to write you  
Pleased to / to Japan, hopeful early  
meeting in Tokyo.

Kohl

Okay. No need to mention date in Declaration.  
Accept text of last section.

Mitterrand

Para 17: difference in sense between "welcome"  
and "have noted".

Kohl

Would you accept "welcome" in <sup>BOTH</sup> all cases?  
Agreed. Turn to para 10. I have made  
considerable efforts to find a compromise  
but I regret that I have not had much success.  
It's not in our interest that some of us should  
find ourselves in an isolated position. But  
it's clear that we are not going to be able  
to agree. The last attempt was a combination  
of Option D<sup>(A)</sup> and second sentence of Option C, as  
follows:

"We agree that a new GATT round should begin  
as soon as possible. Most of us think that this  
should be in early 1986. <sup>WE</sup> Would propose that GATT  
Ministers Meeting should be held in Spring of  
1986 to take the necessary decisions on the  
agenda, modalities and exact date of the new  
round."

I thought we ? substitute two middle  
sentences if we agreed on the last sentence.  
Go round the table.



Thatcher

Recognise your great efforts. Disappointed we can't agree on early 1986 for beginning of round. If we don't, putting our people in acute difficulty. Congress presses for protectionism; if they succeed, not their problem but the problem of <sup>the rest</sup> ~~most~~ of us, including developing countries. If we agree on early 1986 we shall help President and those who think like him to resist Congressional protectionism. If not, we bear a very heavy responsibility. I could go along with Kohl's amendment, subject to <sup>ministerial meeting</sup> ~~Mitterrand agreeing~~ "early in the new year"; that would be in time for new round to begin in first half of 1986.

Delors

Supports Kohl's proposals, for four reasons:

Nakasone

We support your proposal: but include "most of us think ...". I would prefer "we think that this should be in early 1986".

Kohl

That's the problem!

Reagan

We support Kohl though we should have preferred stronger. It will be very beneficial in my own problem.

Craxi

Option D reflects our disagreement. Option C is half way to an agreement. Accept Kohl.



Mulroney

We have an opportunity; to take advantage of it we need to put out a signal which shows our agreement and our efficiency. We need to show our members' wills. If we don't, we shall be the losers. Analyse problem. In para 3 "to halt protectionism" in para 4 "early and substantial reductions of barriers". We pinpoint problem, we identify solutions, but we don't decide on corresponding action. Canada put round a draft formula. Contact seems to have met needs of Mitterrand yesterday. I could accept Kohl compromise, but we need France in.

Mitterrand

First, a few simple principles, which explain position of France.

- France is against protectionism. No guilty feelings. We talk a lot about agriculture, not enough about services.

Protectionism is everywhere.

- if we talk about protectionism, we have to talk about all protectionism.. We Wherever you look you can find protectionist measures.
- in order to succeed in the new trade round, it is essential that it be prepared with great care, and include all subjects.



- Round must preserve principles of CAP.
- Round must include developing countries.
- We should move ahead at same pace as in monetary field.

We accept, indeed we advocate, a GATT meeting to deal with all areas, after negotiating with developing countries and after deciding what is to be approach to monetary affairs. Will comment on that in para 11. Although to suggest compromise honourable, but matter was prejudiced by public discussion. I can't accept any of compromises put forward. I think we need to think sensibly about this type of meeting. We are not a supreme body; we are not the Directorate of the world's affairs. There are enough or too many such bodies. Still less a Supreme Court, to pass judgement on each other and other people. These meetings were supposed to be informal; they have become bureaucratic. There shouldn't be texts at the end of these conferences. There should just be a statement setting out the subjects which were discussed. Very unsatisfactory; it is very obvious that the majority will always be the same. It is not sound that European affairs should be determined by non-European countries. We regulate matters by carefully wrought tactics; here we deal with things in a day and a half. France will not be associated with this text. Nobody wants to be isolated; I much regret that I have to say no.



If in 1986 there isn't a GATT meeting, what then does this Summit look like. France will not participate in next Summit unless it returns to original intentions. No majority can dictate to France. We are used to minorities in the EC, UN etc. Okay so long as it is not systematic. We <sup>meet</sup> need here to get to know each other better, to harmonise. France has never failed to support on matters of basic Alliance security and defence. My conscience is at ease. I am aware of domestic difficulties this will cause for some, I have no hostility to any of you, least of all the US, whose oldest friend we are. That won't stop me from saying what I believe to be right. No one country responsible for this. We think that there should be no text. This is beginning to look like a motion adopted at a Congress. We have got to simplify our procedures. The Chairman should not have to find him or her self involved in casuistry with the press. We must simplify our procedures, get rid of this pile of paper, say what we discussed but not what we decided. We must return to the spirit of Rambouillet, to our beginnings. If we don't, I shan't come again.

Kohl

Allow me to make my own comments. I have only had three such meetings. The last thing I should like to do would be to dictate to anyone, least of all to our French friends. This is not the



intention. Wrong to isolate one from the other.  
We have to think whether we run the danger of  
sitting on a mountain of paperwork, deal with a  
lot of drafting and don't have <sup>enough</sup> a lot of time  
for <sup>real</sup> proper discussion. We have got to say what  
we are doing, that has to be put down on paper.  
There was convergence of ideas yesterday morning  
Unanimity to a large extent. The political  
Declaration was a great success. You came as  
friend to talk in Bundestag about  
stationing of forces in Germany. You stood on  
our side as a true friend and partner. Now  
let's look at questions before us. Every one  
of us is a sinner with regard to protectionism.  
President of US and his colleagues are trying  
very hard to resist protectionist pressures in  
Congress. In Congress there has been a mandate  
to US Government with timetables. The need is  
to find a common and useful purpose to all.  
That purpose is to avoid legislation in Congress  
which leads to a trade war. I have to accept  
that you cannot accept the proposal. Is this  
for conscientious reasons, or with bitterness  
in your heart? I appeal to you not to be  
bitter, for the sake of human <sup>(?known)</sup>  
co-operation among us. So try to find a formula  
which expresses what you cannot agree fully,  
but which does not hurt you or others.



Reagan

A few observations. I remember when I had to take a position on East/West economic relations. I was alone, sometimes discussions got heated. But I never thought <sup>that meant</sup> Summits should be discontinued. <sup>To</sup> ~~You~~ say that <sup>this is</sup> ~~your remark that this is~~ not meaningful is to ignore that thousands of journalists come to cover the meetings. Thousands of people all over the world attach value to our meetings and to our getting together. All are agreed that we don't agree on protectionism. All we are suggesting is a meeting to consider what might be done. We are not discussing what outcome of meeting might be. Our own feeling is that I don't know any country with a greater trade imbalance than the US, with developing countries as well as with other industrialised countries. We said three years ago, have a meeting as soon as possible. If we say the same again, we shall look laughable and my political problem will be acute. ~~My~~ political ~~problem~~ would be acute. It will be a stepping stone to protectionism. I can't see anything wrong with saying, we are going to have a meeting and it's going to be in 1986.

Craxi

I am beginning to worry about possible negative reactions of a wrong decision taken today. Having heard Mitterrand, some new thoughts. No doubt that these meetings should keep character of open political discussions.



It may not be possible to avoid majorities and minorities; that is the very reason why we should not be over-bureaucratized. We should continue to try to find consensus. On another point Mitterrand quite right: we have to prepare a new round very carefully. We should always underline parallel development of monetary policy. Minimise character of disagreement; don't make it seem bigger than it is. Try to find a formula that meets different points of view. Don't give up, Kohl.

Thatcher

I listened very carefully to Mitterrand. From time to time suggestions have come up that there should be no communique. As we come up to be Chairman, we do not feel able to do that. He himself launched TGE group. It wouldn't do in this world: we are looked to for a lead from this great group of nations, even where we are not the deciding body. We have not only a right but a duty to give a lead. We have a preparatory meeting on monetary affairs in June (G10) and Interim Committee in October. We are not hesitating to say that the work should go to these two groups. Deciding in June on monetary as on trade. Why do we hesitate to say that it is our aim and purpose that all the preparatory work should be completed for a new round to take place in first half of 1986.



We can't go away without giving a lead. We have given you detail on Africa. We have a broad lead in economics. We need a thematic paper to focus our minds on the issues and a Communique to give a lead and bring precision to our discussion.

Nakasone

I listened very carefully to Mitterrand. Japan sole country from Asia. A country which lost last war. We decided we must incorporate new values: Democracy and a constitution. We have been accepted as one of you. We show our people that we are moving forward hand in hand with you. We are most grateful for the Political Declaration, and hope it will be issued.

Opening up markets: measures of 9 April. We have set up a task force to follow up. Without summits we should just be sitting back. We are tackling problems in interests of world future. We don't have to impose on each other any conclusions. We couldn't agree that agriculture should take the brunt. Concerned about developing countries. We should be one in voicing our determination against protectionism. Make one reference to agenda and modalities of new round. I think that that description would suffice.

Mulroney

Mitterrand is right in some of his comments. This group should not substitute itself for other bodies. Avoid excessive bureaucracy. Find a more simple, spontaneous, flexible way of working. Touched by what Craxi said. Feeling is running high - cf Reagan's vis



X 19.2.85

to Germany.

X X X

Kohl

[Makes a suggestion which I missed because I was otherwise engaged.] Avoids risk that only agriculture will be done. This is May; it should be possible by November. - Next regular GATT conference should be able to draw up agenda for round in 1986. Nobody disagrees about objective, to stem tide of protectionism. This would clearly show we are prepared to do something, without appearing to try to dominate other members of GATT. This should overcome Mitterrand's very valid objection.

Mitterrand

I should have to look at this a bit more closely. GATT is sovereign. It all depends how it is worded.

Kohl

Yes, express hopes and aspirations.

Bangemann

We will together with developing countries aim at a consensus on a new round of negotiations which will have to be confirmed at earliest possible date by Contracting Parties. For this purpose high level meeting of officials and Contracting Parties in November, so that agenda and modalities should be set out for new round next year.



Thatcher

Could we have a break while we have some drafts prepared?

Kohl

Is there a possibility for you, Mitty? Ask participants to hold: 1986: conference where basic decisions can be taken. Conference in 1985 is already going to take place. Could this be way out? I really am trying to reach a valid compromise. If we agree on thought process, we could break for lunch.

Mitterrand

I regret I should be taking up so much time and attention. France's refusal on trade point has not taken up whole of meeting. I agreed Declaration; very good, so Summit will not have been useless. I never thought they were useless; trouble is they are becoming omnipotent. It's very difficult to go on saying No time and time again. There is great progress; you are leaving it up to GATT to take the decision. But if you say what the modalities are going to be, more difficult. Let us see text and go to lunch. We will merely have noted that there is political disagreement on this point. I don't think we are going to overcome this point. You are very logical and consistent. Let's move on to next point. I agree work going on ?urgently/ energetically; let's not emphasise difference. 1986, No. Earliest possible date, Yes.

Craxi

French point of view quite clear. Not in disagreement on need for MTNs. Simply disagreement about setting date explicitly. If we could express our will clearly



about aims and include a feeling of urgency, we could come to a compromise without a date.

"We agree that the new GATT round should begin as soon as possible. We must speed up and conclude its preparation. We shall have to find the broadest possible agreement among developing countries. We propose a GATT Ministerial on agenda, modalities and date of negotiations".

Reagan

Personal appeal: I go out of office in 1989 ~~later~~.  
I don't want to go out <sup>still</sup> saying a meeting as soon as possible.

Thatcher

Craxi formula goes back on OECD :  
[which she reads]. We can't go back on that; we should go forward.

Delors

A proposal.

Howe

Makes proposal. Not acceptable to Mitterrand.

Pause for bilaterals.

Kohl

We cannot overcome this obstacle. So where can we unite on LCD? Para 10. First three sentences stand.

We endorse OECD Ministerial Council that decided that a new GATT round should start as soon as possible



Most of us think it should start in 1986. We also think that a preparatory meeting should take place and that a broad consensus should be found.

We also agree to see a partnership of developed and developing countries. We look to a balanced package.

Is this acceptable to France? It's a text based on useful OECD text, <sup>but we</sup> ~~let us~~ speak with our own voices.

We endorse the agreement reached by OECD Ministerial Council that it should ? new round as soon

as possible. Most of us that <sup>i</sup> should

start in 1986, we also think it useful but .....

Can French agree? Based on OECD text.

Mitterrand

I shall need to see it in writing; but subject to that yes.

Reagan

Likewise. I have one thought - In <sup>line</sup> ~~para~~ 4

"We agree that a new GATT round should begin as soon as possible. Most of us think that it should begin in 1986".

Thatcher

Inserting option d after third sentence.

Kohl

Useful continuity by basing on OECD wording.

Mitterrand

The text that has just been read out by Kohl has the advantage of <sup>getting rather</sup> more content than OECD, and is less dry than option d. It also refers to countries not here. I could accept Kohl's text.



That will require me to say why France is not part of the majority.

Kohl

Acceptable to others? We strongly endorse the agreement reached by the OECD Min. Council to the effect that a new GATT round should start as soon as possible. Most of us think that this should be in early 1986. We also agree that it would be useful that before the end of the Summer a preparatory meeting of senior officials should take place in the GATT to reach a broad consensus on subject matter and modalities for such negotiations. We also agree that ?countries participating .....

[ ? Mitterrand ]

France yes. ?(?)

Mulroney

Yes.

Italy

Yes.

USA

Japan

OK.

EEC

Yes.

Thatcher

OK.

Goria

Why take out refs. to Tokyo Round and GATT work programme?



Bangemann We do not have skill to negotiate on those matters.

Kohl Para 11.

Reagan We support up to last sentence; leave out both  
[ ] [ ].

Kohl So end "in Seoul in October".

Thatcher Agreed.

Goria If you delete first bracket, OK. We could not accept deletion of second bracket because it would take out any significance.

Baker First sentence of 11 constitutes a recognition that we need to improve functioning of monetary system. I thought Finance Ministers agreed not to prejudge substance; therefore delete.

Ch/Ex That is a correct account of our discussion.

EC Confirms that. But leave it in.

Bangemann It should be deleted; otherwise *setting more* problems.

Kohl Ask Goria to agree to discuss when report is before us



dd

Goria It seems to me a step back.

Kohl Is Reagan happy about 10?

Reagan We approve.

Kohl Thank you.

Beregevoy I should like to propose (on 11): France has asked for fundamental reform. *INCLUDE SOMETHING LIKE*  
with a view to finding means of increasing the stability of financial markets."

Canadian FM This text reflects Finance Ministers' decision to discuss *early* progress. Stop ~~at~~ "in October".

Howe Support same point. It is <sup>COVERED</sup> ~~agreed~~ in paras 3 and 4. Para 11 seems to contemplate extending the process. Clearer to stop at "in October".

Delors That means we are not showing the same determination as on trade.

Japan Para 11 follows on para 4b. Stop it at "in October". No need for either square bracket.

Bangemann Suggest using wording from 4<sup>d</sup>, perhaps in first sentence of 11. "It is also essential that the functioning of the world monetary system should be made more stable and more effective".



Kohl

Could that be accepted as a compromise.

Goria

It's different: 4d is aims; 11 is proposals.  
Insert at end "for making the international  
monetary system more stable and more effective".

Kohl

Agreed?

Mitterrand

I abstain; and shall <sup>make</sup> remarks known.

ENDS.



4/486

PRIME MINISTER

SUMMIT PRESS CONFERENCE

This press conference will take place immediately after the main press conference in the Debating Chamber of the Bundestag. It will be held on the 25th Floor of the Lange Eugen nearby.

I shall be waiting for you at the entrance to the Lange Eugen. We shall have a place available for any last-minute briefing.

After your press conference you have agreed to give the usual short news interviews to BBC Radio (Dominic Harrod); TV (either John Simpson or James Long); IRN: and ITV (Michael Brunson). I propose you go down the corridor to a very small radio studio to do the radio interviews first. We shall then clear the main room where the press conference is to be held for your television interviews.

You have also agreed to say a few words separately at the end of your interviews for use on 8 May of your reminiscences of VE day. Your note of your recollections is at Annex 2.

Substance

Attached is Annex 1 is a draft opening statement.

This has been a peculiar Summit.

First Bitburg which has played relatively little part in our briefing (but

/on which



on which the press may try to get you to comment).

Second, the dogs which have not really barked - SDI (much as the press have tried to provoke it); and French pre-Summit insistence on an international monetary conference (which has faded).

Third, the dog which has unexpectedly barked - drugs for which you can claim a great deal of credit, though the press are looking for the kind of detailed follow-up which by definition you cannot give.

Fourth, domestic events, County Council elections, Peter Walker's speech (which we have dismissed as a non-event), and unemployment figures.

Finally, the significant big row: GATT (on which in our briefing we have put the French firmly in the minority of one against the background of the virtual certainty of an early new round). The media are very fully briefed on the background to the whole issue.

As a consequence reporters are likely to be all over the show at the Press Conference. Their main interest will be your assessment of where the wrangle over GATT leaves Atlantic relations and protectionism, and leading on from that to the value or liability of summits.

The Americans seem less interested in protectionism than what the lack of any reference to SDI in the Political Declaration means. We have pointed out that support for the US stance on Geneva takes in space.

It would be interesting to see whether the Europeans try to get you to put the blame on the French for the GATT.

/ There

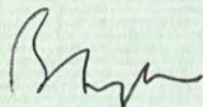


blame on the French for the GATT.

There will be three broad strands to British interest:

- the pops: drugs and attempts to get you to comment on your 6th anniversary, the County Council elections and Peter Walker's speech.
  
- the economic statement: the extent to which it supports your policies and what in political terms it means for the unemployed.
  
- the GATT round. I shall try to get the media to concentrate their minds and to get them to identify priorities by saying that I propose to let questions run for 30 minutes.

The Foreign Secretary and the Chancellor will support you at the top table.



4 May, 1985



*I Crowther*

*by Publishing Committee*

*S.D.L. / D. M. M. 1*

DRAFT OPENING STATEMENT

*in Proceeding - 1 MS. / D. M. M. - Committee on Effort*

Today is the sixth Anniversary of my taking office as Prime Minister and I think I am entitled to draw considerable satisfaction from this Summit's economic Declaration.

Much of it was readily approved not surprisingly because there is broad agreement throughout the seven nations, whatever our political complexion, on how to manage our economies.

All of us are seeking to build on the progress already made - sustainable non-inflationary growth <sup>leading to a higher standard of living</sup> and the creation of more jobs.

Paragraph 5 of the Communique sets out what we need to do to achieve this. The list of measures very closely reflects what we are trying to do in Britain.

We shall persevere because we believe these are the policies which will create more soundly-based employment.

The Communique perhaps brings out three things:

- The United States' determination to reduce its budget deficit, which President Reagan is getting on with;
- the need for Japan to open its market more - and at a faster pace. I shall be having a bilateral meeting with Mr. Nakasone this evening and I shall of course be reinforcing my anxieties, which I expressed yesterday in the economic debate, about how Japan's failure to act <sup>would</sup> ~~will~~ intensify protectionist forces;
- Europe's need - and in that I include the United Kingdom - to introduce much greater flexibility into our economies in order to make them much more enterprising and job-creating.

*reduce inflation - public spending within strict limits - small business - research - D. M. M. or job opportunities*

/Viewed



Viewed against this background our long argument this morning over when the next GATT round should begin should be kept in perspective.

All of us believe we must stem the tide of protectionism and roll it back. All of us believe the need to do so is urgent. All of us, including France, see the need to get on with the preparatory work. And six of us reckon it should be possible to get a new round under way early next year.

This anti-protectionist work is going ahead. It must go ahead. It is vital that it should.

For the rest, we have acknowledged as May 8th approaches our duty to the memory of those who fell in the second world war to uphold peace, freedom and justice in our countries and in the rest of the world.

We have committed ourselves to work with the developing countries to help them fight hunger and disease and we have recognised the need for continuing action, both short and longer term to relieve famine in Africa and to help put these sorely afflicted countries in a better position to feed themselves.

Finally, I am very pleased we discussed the drugs *Drugs* menace in the world. All of us are deeply worried about the threat which drugs - and especially heroin and cocaine - present to our countries and especially to young people.

They could, if not checked and defeated, undermine our societies and I believe the result of this weekend's discussion will be a <sup>farther</sup> ~~resolute~~ drive by all <sup>our</sup> nations, along with others, against the traffickers.

We must wage a ceaseless war against the people who ply this evil and corrupting trade and this Summit has greatly encouraged me to believe that this war will be waged more effectively and vigorously in the future.



MEMORIES OF VE-DAY

I was at Oxford University (reading for a Chemistry Degree) and while I remember some of the day's events well my most vivid memories are of feelings - and of talks of the new world that lay ahead.

The day was bright - students gathered together in groups, everyone seemed to be in the streets talking and laughing.

There was an overwhelming sense of relief that in Europe the killing had stopped but great awareness that the terrible atrocities of the Far East had yet to be dealt with. Unless you have lived through a war I do not think you can fully appreciate the transition that comes in a day from war to peace. A great fear was lifted - joy and thanksgiving were everywhere.

There was of course no television but we listened avidly to radio to hear reports of the great crowds outside the Palace, news from the front, news and inspiration from Winston, and of course always a telephone call home whether in times of joy or sorrow.

We were serious as well as joyous; we were entering a new scientific age, a science which played such a great part in the closing stages of the war, although it was some three months before the atom bomb which ended the war in Japan.

I remember at a party that evening, amid the jollifications after a great bonfire, quietly talking with friends - what now?

The immediate objective - the end of the war in Europe - had been achieved. The war in Japan had to be won, then how would we build the world of the future? But we had no doubt that we could tackle that after all we had the greatest gift of all - peace. Nothing could compare with that. And we had health and strength. The world was before us.



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copy / Sadok

10 DOWNING STREET

*From the Principal Private Secretary*

4 May 1985

Dear Len,

PRIME MINISTER'S BILATERAL MEETING WITH PRESIDENT MITTERRAND

I enclose a note of the Prime Minister's meeting with President Mitterrand at the Bonn Economic Summit.

I am copying this letter and enclosure to Rachel Lomax (H.M. Treasury), Richard Mottram (Ministry of Defence), John Mogg (Department of Trade and Industry), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food), Richard Allan (Department of Transport) and Richard Hatfield (Cabinet Office).

Yours ever,

Robin Butler

Len Appleyard, Esq.,  
Foreign and Commonwealth Office.

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RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND PRESIDENT  
MITTERRAND AT THE PALAIS SCHAUMBURG AT 1810 ON FRIDAY 3 MAY  
1985

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PRESENT

The Prime Minister  
Mr. F. E. R. Butler  
Interpreter

President Mitterrand  
M. Attali  
Interpreter

President Mitterrand, welcoming the Prime Minister, said that it was a good tradition to have bilateral exchanges during the Summit, and preferable to exchanges through the Press. The Prime Minister agreed that the Press were a nuisance.

Strategic Defence Initiative

President Mitterrand said that so far the meeting had not been bad. There was a difficulty about GATT but that had been known in advance. It was not a drama. He asked the Prime Minister whether she was expecting a text on the Strategic Defence Initiative. The Prime Minister said that she was not. The attitude towards East/West arms negotiations had been covered in the Declaration on the 40th Anniversary of the end of the second world war. But she was interested in discussing with President Mitterrand his attitude towards participation in research on the Strategic Defence Initiative, on which she had read conflicting reports.

President Mitterrand said that, in his bilateral, President Reagan had spoken much about the SDI. The French attitude was to be interested in the technology but not at this stage in the strategy. In 20-30 years the military problems would have moved into space and at that time a strategy would be necessary. But it was not politically helpful to talk so much about it now because it distracted public opinion from non-space nuclear strategy and made it more difficult to obtain funds for it. France would not, therefore, join in the development of space strategy, although they were interested in developing space technology, for example on Arienne, Hermes and manned space stations. They were in favour of Eureka, which was not military in the direct sense although the technology was often the same. To quote two examples, France was  
/highly



highly advanced on large mirrors for lasers and nozzles to evacuate gases from rockets. There were other aspects of technology in which the British and Americans were well advanced and the Germans, without access to nuclear weapons themselves, might well wish to participate in aspects of technological research. He would prefer to concentrate on French and European research projects rather than accept what President Reagan himself had described as sub-contracts from the Americans on SDI. If the British accepted such work, he hoped that they would tell their European partners what they were doing and the French would then consider whether they wished to take part.

The Prime Minister said that the United States' plans were exciting. She had been sceptical at first but she was impressed with how far they had got on long distance lasers and very fast computers. There was a danger that their work would take them so far ahead on computers that all other countries would simply have to adopt United States' technology. She was not interested in simply accepting sub-contracts but she wanted to give British scientists the opportunity to work in these very advanced areas to which they might not otherwise have access. She recognised that any defence system was likely to create the development of weapons capable of penetrating it but she still thought that, with the risk of nuclear proliferation in the future, a defence system was worth developing. America's allies had made good progress in persuading the Americans, in advancing the SDI, not to condemn offensive weapons as immoral: they were no more immoral than chemical or conventional weapons. President Mitterrand agreed.

The Prime Minister asked President Mitterrand how French research was divided between military and civilian. President Mitterrand said that it was about half and half. The distinction was not clear because military research often led to civil applications. The Prime Minister said that she wished that the UK could spend more on research and also that Britain was better at exploiting its inventions. President Mitterrand said that the same was true of France. The Prime Minister concluded this part of the discussion by saying that she saw considerable difficulties in negotiating the development of space defence systems under the Anti Ballistic Missile Treaty when that point was reached.



Channel Fixed Link

The Prime Minister said that she hoped that the momentum on the Channel fixed link could be maintained, so that it should become a major achievement of the current generation. M. Attali interjected that there were three approaches to the project which needed to be reconciled and the detailed financial arrangements had to be agreed. The Prime Minister added that procedures for assessing the proposals had to be worked out and contingency work undertaken on the Treaty. President Mitterrand said that the French Government's enthusiasm to make progress with this project matched that of the British Government and he would be willing to accelerate the work as necessary.

European Fighter Aircraft

The Prime Minister said that this venture faced difficulty because there were so many aspects to be negotiated on a multi-lateral basis and all the countries involved would want a fair share of the project. President Mitterrand said that he favoured the venture. He did not know the details of the military difficulties but France would be eager to resolve them. He pointed out that collaboration had been successfully achieved over Concorde. The Prime Minister commented that Concorde had been undertaken on only a bilateral basis but she agreed that a magnificent 'plane had been produced. It was a pity that no more would be produced after the current generation had completed their life. President Mitterrand agreed. He said that France would be ready to consider re-opening production. The Prime Minister said that it would make a great difference if the United States Government were prepared to agree to overflight of the United States. President Mitterrand said that he would be prepared to envisage United States' participation in re-opening production facilities.

/European Community



European Community

The Prime Minister said that she was unenthusiastic about the proposal for an inter-governmental conference to carry forward the work on political co-operation. The European Council was itself an inter-governmental conference and met three times a year. President Mitterrand said that he was also not very keen on an inter-governmental conference. He was eager to make progress on the political formation of Europe. But he agreed that an inter-governmental conference risked duplicating what could be done already and disappointing public opinion if its results failed to match expectations. The Prime Minister said that she recognised that there was substantial progress to be made and problems to overcome particularly in adapting the Community following the accession of Spain and Portugal. But she repeated that she did not see an inter-governmental conference as the best way to achieve this. President Mitterrand said that he would consider further the Prime Minister's argument, with which he had a good deal of sympathy.

The GATT Round

The Prime Minister said that her impression was that one of the French difficulties about the next GATT round was over agriculture. She wanted to make it clear that agriculture was not the first or even the second subject which the British wanted to discuss. We attached higher priority to other subjects - services, tariff and non-tariff barriers on manufactured goods and safety standards. President Mitterrand commented that the Secretary General of GATT had said that agriculture was the only subject which would be ready for discussion in the next 18 months and the United States Government wanted to give priority to agriculture.

The Prime Minister said that her conversations with the Americans had indicated that they did not put agriculture top of the agenda. They too wanted to discuss services. The Europeans tended to discuss the GATT round as if it was a problem for the United States. But unless the rest of the world responded positively to the recent vote of Congress, she feared that Congress would revert to protectionist measures on which they might  
/achieve



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- 5 -

achieve the necessary majority to insist even if the President imposed a veto. Seen in this light, the need for an early GATT round was not so much a problem for the United States as for Europe and the developing world. She hoped therefore that it would be possible to agree a positive formula about a date for the next GATT round at the present Summit. President Mitterrand said that it was rather late for this. He understood that six of the seven participating countries agreed: in that case they ought perhaps to go ahead. It was not possible to be unanimous on everything. The Prime Minister commented that, if this approach were undertaken, the news would be that the Summit had been split: this was the wrong message to convey to the United States Congress.

President Mitterrand said that if there was a guarantee about the maintenance of the EC agriculture structure, he would be prepared to go ahead. The Prime Minister said that no such guarantee could be given. There were problems over the CAP. She believed that the grain price should go down: if it went up Italy would press for increases in Mediterranean products and the bill would fall on Germany, France and the UK.

President Mitterrand said that he agreed on this point, but he pointed out that France had more, and more troublesome, farmers than other countries, and the United States had plenty of protectionist measures. He did not think that the United States had been very clever. They had undertaken a number of bipartite declarations and communiques, and he did not like being encircled in this way. Nevertheless, their task was now to get the approval of the other GATT members and particularly the Third World. He did not think that this work could be achieved in 1986. But if, contrary to his expectations it could, France would be prepared to join in. The Prime Minister suggested that, on this basis, they should conclude the bilateral talks.

The meeting ended at 1855.

F.R.B.

4 May 1985



Mr Derek Thomas) separate  
Mr Braithwaite ) copies

cc: Mr Powell ✓

RECORD OF A MEETING BETWEEN THE FOREIGN SECRETARY AND THE JAPANESE FOREIGN  
MINISTER ON 3 MAY 1985 AT 1830 HRS

Present:

The Foreign and Commonwealth Secretary	Mr Abe
Mr D M D Thomas	Mr Kunihiro
Mr R Braithwaite	Mr Nishiyama
Private Secretary	Other Japanese officials
	Interpreter

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Mr Abe after welcoming the Secretary of State said that he had just had a useful meeting with Mr Tebbit in Tokyo. The 2000 Group had also had a good visit and were well launched. He was looking forward to his own visit to London later this year. Sir Geoffrey Howe said that dates for the visit should now be fixed between officials.

After a brief discussion of the main issues of the Economic Summit, Mr Abe went on to discuss East/West relations in the Asian context. Relations between the two Koreas were developing on economic matters and through the Red Cross dialogue later this month. The Republic of Korea was anxious to hold the Olympic Games in two years time and the North Koreans were anxious to open economic relationships. China, Japan and the United States should encourage this process which would promote stability in the peninsula. Progress between the Chinese and the Russians was being made at working and Ministerial level. This could perhaps lead to a meeting of the two Prime Ministers: Gorbachev was more enthusiastic than his predecessors. But the three basic problems of Afghanistan, Cambodia and the Sino-Soviet border remained. The West must keep close to China. The present regime there was stable, the economy was in good shape, and China's agricultural policy was successful. The Hong Kong Agreement would also contribute to stability. Japan's dialogue with the Soviet Union was also developing. The question was whether Gromyko would now be willing to visit Japan. For ten years there had been regular meetings between the two Foreign Ministers, and Gromyko now said he would make the visit if the prospects were fruitful. The Japanese were setting no preconditions. There would be an cultural agreement if Gorbachev came. But the difficult issues remained: the Soviet build-up, the Northern Territories, SS20s, and Cam Ranh.



-2-

Sir Geoffrey Howe said that he agreed on the importance of the West keeping close to the Chinese: the Chinese Prime Minister would visit Britain in June. For all his apparent intelligence and flexibility, Gorbachev was still a Soviet Russian. We needed to be cautious despite the desire of all of us to build better relations with the Soviet Union. We should support the Americans in Geneva. The Prime Minister had said in Washington in February that we also supported American research on the Strategic Defence Initiative, and hoped that British industry could participate. The four points agreed with the President in December remained important.

Mr Abe said that the Japanese had shown understanding for the American position on SDI research, and had been briefed by American experts. But they were still considering whether they should participate.

Sir Geoffrey Howe reminded Mr Abe of the discussions they had had last year on trade and economic matters. He wanted to emphasize the familiar problem about the Japanese trade surplus and the importance of preventing it leading to protectionist pressures elsewhere. The tensions around the table during that day's Summit discussions had demonstrated how real the pressures were in other countries.

Mr Abe said that for Japan it was a matter of life and death to sustain the open trading system. The Japanese authorities were making active efforts to tackle the problem, and intended to formulate an action programme by July. They were engaged in intense negotiation with the Americans over particular sectors such as telecommunications, pharmaceuticals and standards. The success of these negotiations would benefit the rest of the world.

Sir Geoffrey Howe said that the proposed Japanese measures were manifestly important to Europe: the proof of the pudding would be in the eating. One point he had not mentioned to Mr Abe last year was the question of public procurement in the fields of defence and civil aircraft. That would be important in itself, as well as for the Japanese purchaser.

Mr Abe said that the Japanese Prime Minister was making a major effort to promote imports. The privatisation of enterprises such as NTT and the tobacco industry should benefit foreign producers such as BAT. The Japanese already imported a good deal of defence equipment under their security arrangements with the United States. The Japanese were also looking at information about their imports from the United Kingdom, and looked forward to further discussion with the British in due course. As it was, Prime Minister Nakasone had found that Tokyo department stores were already carrying a wide range of European goods.

Sir Geoffrey Howe said that the Japanese Government had made some important moves on the issue of financial markets. The Yen was now a most important currency. But people were not used to thinking in terms of access to Japanese financial markets, and even small obstacles deterred them. The Japanese must ensure that their measures were credible to the public.

Mr. Abe said that it was important that problems and difficulties should be put to the Japanese authorities as concretely as possible. He asked that the British Ambassador should be given precise instructions about difficulties over the new market regulations.

/Sir Geoffrey Howe



-3-

Sir Geoffrey Howe remarked on the dangers of competitive foreign trade credit. It was important for wider reasons that our industries should not use uneconomic credit terms when they competed against one another.

Mr Abe remarked that many countries besides Japan went in for associated financing. The important thing was to find areas where Britain and Japan could join hands.

Sir Geoffrey Howe agreed. Japanese investment was, of course, very welcome in the United Kingdom.

(R Q Braithwaite)

4 May, 1985



*Latest  
draft*

**THE BONN ECONOMIC DECLARATION  
TOWARDS SUSTAINED GROWTH AND HIGHER EMPLOYMENT**

**4 May 1985**

1. Conscious of the responsibility which we bear, together with other Governments, for the future of the world economy and the preservation of natural resources, we, the Heads of State or Government of seven major industrial nations and the President of the Commission of the European Communities, meeting in Bonn from 2 to 4 May 1985, have discussed the economic outlook, problems, and prospects for our countries and the world.
2. World economic conditions are better than they have been for a considerable time. Since we last met, further progress has been achieved in bringing down inflation and strengthening the basis for growth. The recovery in the industrial countries has begun to spread to the developing world. The debt problems of developing countries, though far from solved, are being flexibly and effectively addressed.



3. Nevertheless, our countries still face important challenges. Above all, we need:

- to strengthen the ability of our economies to respond to new developments;
- to increase job opportunities;
- to reduce social inequalities;
- to correct persistent economic imbalances;
- to halt protectionism; and
- to improve the stability of the world monetary system.

4. Our discussions of these challenges have led us to the following conclusions:

- (a) The best contribution we can make to a lasting new prosperity in which all nations can share is unremittingly to pursue, individually in our own countries and co-operatively together, policies conducive to sustained growth and higher employment.



- (b) The prosperity of developed and developing countries has become increasingly linked. We will continue to work with the developing countries in a spirit of true partnership.
- (c) Open multilateral trade is essential to global prosperity and we urge an early and substantial reduction of barriers to trade.
- (d) We seek also to make the functioning of the world monetary system more stable and more effective.
- (e) Economic progress and the preservation of the natural environment are necessary and mutually supportive goals. Effective environmental protection is a central element in our national and international policies.

#### I. Growth and Employment

5. In order to sustain non-inflationary growth and higher employment, we have agreed that:

- We will consolidate and enhance the progress made in bringing down inflation.



- We will follow prudent, and where necessary strengthened monetary and budgetary policies with a view to stable prices, lower interest rates and more productive investment. Each of our countries will exercise firm control over public spending in order to reduce budget deficits, when excessive, and, where necessary, the share of public spending in Gross National Product.
- We will work to remove obstacles to growth and encourage initiative and enterprise so as to release the creative energies of our peoples, while maintaining appropriate social policies for those in need.
- We will promote greater adaptability and responsiveness in all markets, particularly the labour market.
- We will encourage training to improve occupational skills, particularly for the young.
- We will exploit to the full the opportunities for prosperity and the creation of permanent jobs, provided by economic change and technological progress.



6. Building on these common principles, each of us has indicated the specific priorities for national policies.

- The President of the United States considers it essential to achieve a rapid and appreciable cut in public expenditures and thus a substantial reduction in the budget deficit. He stresses also the need for further deregulation and for a reform of the tax system aimed at encouraging the efficient use of resources and stimulating new saving and investment.
- The President of the French Republic stresses the need to continue bringing down inflation, **to modernize the means of production and** to improve employment, to control public spending and to **combat** social inequality. In that context he attaches high priority to education, research and investment in high technologies with a view to sustained growth.
- The Government of the United Kingdom will continue to work to reduce inflation and to create the conditions for sustained growth. It will continue to keep public spending under strict control and maintain monetary discipline. It will



promote the development of small and medium-sized businesses **and advanced technological industries**, and encourage initiative and enterprise and the creation of new job opportunities.

- The Government of the Federal Republic of Germany attaches high priority to strengthening the flexibility and vigour of the economy in order to achieve a lasting improvement in growth and to **create new jobs. Small and medium-sized businesses should be especially encouraged as well as high technologies.** It will continue to reduce the claims of the public sector on the economy, the budget deficit and the burden of taxation.
- The Government of Japan considers it essential to persevere with its policy of budgetary discipline and strengthening market **functions**, particularly with a view to fostering investment. It intends to achieve further progress in deregulating financial markets, promoting the international role of the Yen, facilitating access to markets and encouraging growth in imports.



- The Italian Government gives priority to the further reduction of inflation and of the public deficit, while sustaining growth and investment. Particular emphasis will be put on incentives to create small and medium-sized industries, **especially in the field of high technology**, and to promote employment, especially for young people.
- The Government of Canada will focus on promoting investment and creating jobs in the private sector, on removing obstacles to sustained non-inflationary growth, on reducing the budget deficit and on restraining government expenditure. **It will encourage entrepreneurial activities, with emphasis on the small and medium-sized business sectors.**
- The Commission of the European Communities attaches high priority to completing a genuine internal market without barriers, which will eliminate rigidities and generate **fresh economic growth** on a Community-wide scale. A strengthened European Monetary System and closer economic convergence will further serve this end.



By pursuing these policies we will not only address our domestic problems, but at the same time contribute to an enduring growth of the world economy and a more balanced expansion of international trade.



## II. Relations with Developing Countries

7. Sustained growth in world trade, lower interest rates, open markets and continued financing in amounts and on terms appropriate to each individual case are essential to enable developing countries to achieve sound growth and overcome their economic and financial difficulties. Flows of resources, including official development assistance, should be maintained and, wherever possible, increased, especially to the poorer countries. In particular, more stable long-term finance, such as direct investment from industrial countries, should be encouraged. We welcome longer-term debt restructuring agreements between debtor countries and commercial banks. We continue to stand ready, where appropriate, to negotiate further multi-year reschedulings of debts to governments and government agencies.
8. We continue to encourage the constructive dialogue with the developing countries in the existing international institutions with a view to promoting their economic development and thereby their social and political stability. We emphasize the



crucial role of, and the improved cooperation between, the International Monetary Fund and the World Bank Group in supporting policies by debtor countries necessary to strengthen the confidence of domestic and foreign creditors and investors, to mobilize domestic savings and to ensure efficient use of resources and sound long-term development. We agree to work to ensure that these institutions are equipped with the necessary resources and instruments, and we stand ready to discuss an increase in the resources available to the World Bank which may be necessary in the coming years. **We remain concerned over the particular problems facing a number of developing countries that are neither among the poorest nor foremost among the group of major debtors. We agree that consideration should be given to easing the financial constraints of these countries on a case-by-case basis.**

9. **We are deeply concerned about the plight of African peoples who are suffering from famine and drought. We welcome the positive response from our citizens and from private organisations, as well as the substantial assistance provided by**



the governments of many countries and the establishment by the World Bank of the Special Facility for Subsahara Africa. We shall continue to supply emergency food aid. In addition, we shall intensify our co-operation with African countries to help them develop their economic potential and a long-term food strategy, based on their own agricultural programmes. We are prepared to promote increases in food production by supplying agricultural inputs such as seed, pesticides and fertilizers, within the framework of agricultural development projects. We agree upon the need to improve the existing early warning systems and improve transportation arrangements. Political obstacles in the countries concerned should not be allowed to stand in the way of the delivery of food to the hungry. We emphasize the need to examine the establishment of a research network on dry zone grains. We shall strengthen our co-operation with African countries in fighting against desertification. Continued efforts are needed by all countries in a position to contribute to any or all of this work. We call upon the Soviet Union and other Communist countries to assume their responsibilities in this



regard. We have set up an expert group to prepare proposals for follow-up-measures to be reported to Foreign Ministers by September 1985.

### III. Multilateral Trading System and International Monetary System

10. Protectionism does not solve problems; it creates them. Further tangible progress in relaxing and dismantling existing trade restrictions is essential. We need new initiatives for strengthening the open multilateral trading system. We strongly endorse the agreement reached by the OECD Ministerial Council that a new GATT round should begin as soon as possible. Most of us think that this should be in 1986. We agree that it would be useful that a preparatory meeting of senior officials should take place in the GATT before the end of the summer to reach a broad consensus on subject matter and modalities for such negotiations. We also agree that active participation of a significant number of developed and developing countries in



**such negotiations is essential. We are looking to a balanced package for negotiation.**

11. It is also essential to improve the functioning of the international monetary system. We take note that the Finance Ministers of the Group of Ten, at their meeting in Tokyo in June, intend to complete their current work on ways to improve the functioning of the monetary system and to put forward proposals, to be discussed at the next meeting of the Interim Committee of the International Monetary Fund in Seoul in October, **with a view to making the international monetary system more stable and more effective.**

#### IV. Environmental Policies

12. New approaches and strengthened international co-operation are essential to anticipate and prevent damage to the environment, which knows no national frontiers. We shall co-operate in order to solve pressing environmental problems such



as acid deposition and air pollution from motor vehicles and all other significant sources. We shall also address other concerns such as climatic change, the protection of the ozone layer and the management of toxic chemicals and hazardous wastes. The protection of soils, fresh water and the sea, in particular of regional seas, must be strengthened.

13. We shall harness **both** the mechanisms of **governmental vigilance and the disciplines** of the market to solve environmental problems. We shall develop and apply the "polluter pays" principle more widely. Science and technology must contribute to reconciling environmental protection and economic growth.
14. Improved and internationally harmonized techniques of environmental measurement are essential. We invite the environmental experts of the Technology, Growth and Employment Working Group to consult with the appropriate international bodies about the most efficient ways for achieving progress in this field.



15. We welcome the contribution made by the Environment

Ministers to closer international co-operation on environmental concerns. We shall focus our co-operation within existing international bodies, especially the OECD. We shall work with developing countries for the avoidance of environmental damage and disasters world-wide.

V. Co-operation in Science and Technology

16. We are convinced that international co-operation in research and

technology in major projects should be enhanced to make maximum use of our scientific potential. We recognize that such projects require appropriately shared participation and responsibility as well as adequate rules concerning access to the results achieved, the transfer of technology and the use of technologies involved.

17. We welcome the positive responses of the Member States of the

European Space Agency (ESA), Canada and Japan to the invitation of the President of the United States to co-operate in



the United States Manned Space Station Programme on the basis of a genuine partnership and a fair and appropriate exchange of information, experience and technologies. Discussions on intergovernmental co-operation in development and utilization of permanently manned space stations will begin promptly. We **also welcome** the conclusions of the ESA Council on the need for Europe to maintain and expand its autonomous capability in space activity, and on the long-term European Space Plan and its objectives.

18. We welcome the report from the Technology, Growth and Employment Working Group on the work done in the eighteen areas of co-operation and invite the Group to complete its review by the end of the year. We welcome the positive contribution which the Ministerial Conference on "Technological Development and Employment" held in Venice has made towards wider acceptance of the role of technological change in promoting growth and employment. We also welcome the results of the Rambouillet Conference on Bioethics and thank the



Federal Republic of Germany for its willingness to host a symposium on neurobiology in 1986.

19. We have agreed to meet again next year and have accepted the Japanese Prime Minister's invitation to meet in Japan.



Political Declaration

on the 40th Anniversary of the End of the Second World War

May 3, 1985

The Heads of State or Government of Canada, the French Republic, the Federal Republic of Germany, the Republic of Italy, Japan, the United Kingdom and the United States, with the President of the Commission of the European Community, meeting together in Bonn on the eve of the fortieth anniversary of the end of the Second World War, remember in grief all those who lost their lives in that time, whether by acts of war or as victims of inhumanity, repression and tyranny. We acknowledge the duty we owe to their memories, and to all those who follow after them, to uphold peace, freedom and justice in our countries and in the world.

We have learned the lessons of history. The end of the war marked a new beginning. As the sounds of battle ceased, we tackled the tasks of moral and spiritual renewal and physical reconstruction. Transcending



the hostilities which had once divided us we initiated on the basis of common values a process for reconciliation and cooperation amongst us. Today, linked in a peaceful, secure and lasting friendship, we share in all our countries a commitment to freedom, democratic principles and human rights. We are proud that the Governments of our countries owe their legitimacy to the will of our people, expressed in free elections. We are proud that our people are free to say and write what they will, to practise the religions they profess, and to travel where they will. We are committed to assuring the maintenance of societies in which individual initiative and enterprise may flourish and the ideals of social justice, obligations and rights may be pursued.

We recognise that we can secure those aims, and meet both the opportunities and the challenges presented by technological and industrial change, more effectively in partnership than on our own. In Europe, the Community, the embodiment of reconciliation and common purpose, is growing in membership, strength and prosperity. The nations of the dynamic Pacific region are drawing ever closer



together. The partnership of North America, Europe and Japan is a guarantee of peace and stability in the world.

Other nations that shared with ours in the agonies of the Second World War are divided from us by fundamental differences of political systems. We deplore the division of Europe. In our commitment to the ideals of peace, freedom and democracy we seek by peaceful means to lower the barriers that have arisen within Europe. We believe that the CSCE process with its promise of enhancing human rights provides an opportunity to increase confidence, cooperation and security in Europe. Considering the climate of peace and friendship which we have achieved among ourselves forty years after the end of the war we look forward to a state of peace in Europe in which the German people will regain its unity through free self-determination; and in Asia we earnestly hope that a political environment will be created which permits the parties to overcome the division of the Korean peninsula in freedom.



As recognized in the Charter of the United Nations all countries have a joint responsibility to maintain international peace and security and to this end refrain from the threat and the use of force. We for our part share a determination to preserve the peace while protecting our democratic freedoms. To that end, each of us will work to maintain and strengthen a stable military balance at the lowest possible levels of forces, neither seeking superiority for ourselves nor neglecting our defenses. We are prepared to pursue a high-level dialogue to deal with the profound differences dividing East and West. We strongly support endeavours to strengthen the peace and enhance deterrence through the negotiation of meaningful reductions in existing levels of nuclear arms, limitations on conventional arms, the banning of chemical weapons and lessening the risks of conflict. We welcome the opening of negotiations in Geneva. We appreciate the positive proposals of the United States of America. We urge the Soviet Union to act positively and constructively in order to achieve significant agreements there.



We shall continue to seek to work with the developing countries, so as to help them to fight hunger and disease, to build free and prosperous societies, and to take their part in the community of nations committed to peace and freedom. We respect genuine non-alignment as an important contribution to international security and peace.

So, as we look back to the terrible suffering of the Second World War and the common experience of 40 years of peace and freedom, we dedicate ourselves and our countries anew to the creation of a world in which all peoples enjoy the blessings of peace, of justice, and of freedom from oppression, want and fear; a world in which individuals are able to fulfil their responsibilities for themselves, to their families and to their communities; a world in which all nations, large and small, combine to work together for a better future for all mankind.



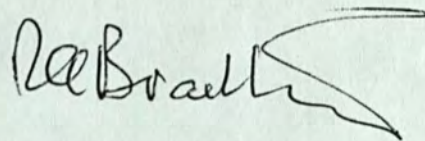
Sir Robert Armstrong

NEW GATT ROUND: AGRICULTURE

I attach a text of the Foreign Affairs Council Declaration of 19 March. This represents a very hard-fought compromise, especially on agriculture, for which see paragraph 4. The French nearly walked out during the discussion of this paragraph. They were particularly insistent on the last sentence and the reference to "mechanisms both internal and external". The Americans (and the MAFF) saw that as an indication that the Community would refuse to negotiate in the GATT on agricultural export subsidies. We have argued (with some show of success) that the meaning is not so stark.

Ideally, there should be no reference to agriculture in the Economic Declaration. If Attali attempts to secure a mention, it should certainly not go beyond the Council text. Even that is likely to be quite unacceptable to the Americans, and we should be guided by them, insofar as we are not too obviously open to accusation of breaking Community ranks.

3 May 1985



(R Q Braithwaite)

cc: Mr Powell —  
Mr Appleyard

Prime Minister  
This is the  
EC statement on a  
new GATT round  
agreed in March.  
It may be useful  
when you come to texts  
C.D.P.





**FOREIGN AFFAIRS COUNCIL (TRADE MINISTERS MEETING): 19 MARCH:  
DECLARATION ON PROPOSED NEW GATT ROUND**

Suggestions for a new round of multilateral trade negotiations have been the subject of careful international consideration for the past two years. They received particular attention at the meeting of the OECD Ministers in May 1984, at the London Economic Summit in June 1984 and at the meeting of the contracting parties of the GATT in November 1984. Such multilateral negotiations have been a regular feature of the GATT since its inception.

2 The Council recalls that a new Round, while of the utmost importance to a strengthening of the open multilateral trading system and to the expansion of international trade, will not of itself be sufficient to such purposes. Thus the Community, in the perspective of a new Round, and while working to achieve the broad consensus requisite for its launching, will urge that the following separate but related desiderata receive serious parallel consideration. Thus:

a in order to ensure credibility, reaffirmation will be necessary of the international commitments variously accepted at the Williamsburg and London Economic Summits, and at the last meeting of OECD Ministers in Paris and of the GATT contracting parties in Geneva:

- effectively to halt protectionism and resist continuing protectionist pressures (standstill);
- to relax and dismantle progressively trade restrictions as economic recovery proceeds (roll-back);
- to pursue the 1982 GATT Work Programme as complemented by the decisions of the contracting parties in November 1984.

b solutions to imbalances whose origin lies in the monetary and financial areas cannot be found in trade negotiations. Determined concerted action is required to improve the functioning of the international monetary system and the flow of financial and other resources to developing countries. Results in the monetary and financial areas should be sought in parallel with results in the trade field.

3 Despite previous trade rounds, Japan's growth of imports of manufactured goods has nowhere matched her export growth. Like concessions to Japan have not produced like results, and in consequence, an imbalance of benefits currently exists between Japan and her principal partners. It is therefore a pressing political necessity for Japan to bring her import propensity into line with that of other partners, by means of domestic structural and other adjustments as well as by measures at the frontier.

4 As regards negotiations on agriculture in the new Round, the Community is ready to work towards improvements within the existing framework of the rules and disciplines in GATT covering all aspects of trade in agricultural products, both as to imports and as to exports,





taking full account of the specific characteristics and problems in agriculture. The Council is determined that the fundamental objectives and mechanisms both internal and external of the CAP shall not be placed in question.

5 On possible new topics for negotiation, the Council considers that trade in services seems suitable for inclusion. Problems of counterfeit goods and the defence of intellectual property also deserve consideration. Other possible new items should be examined on their merits.

6 The Council affirms the need for reciprocity and a better balance of rights and obligations as between all contracting parties. The Council considers that too selective an approach to individual negotiating points should be avoided. A balanced package of topics for negotiations should be agreed in which all participants will find advantages for themselves. In principle, items should be negotiated and the results implemented in parallel and not in succession.

7 Against this background, and in the light of the desiderata and other relevant considerations mentioned above, the Council considers that a new Round would help to promote world economic recovery and growth and would reinforce the multilateral structures and disciplines of the GATT. Subject to the establishment of an adequate prior international consensus on objectives, participation and timing, the Community declares its readiness to participate in the launching of such a new Round. The Community will accordingly now enlist the support of its trading partners, particularly among the developing countries, to this end. The Community further proposes that the new Round should be inaugurated in Brussels. The Community recognises that a precise date for the formal launching of a new Round cannot be fixed now. A step-by-step approach will best permit solid progress to be made. To initiate the progress the Community renews its proposal of last May for an ad hoc GATT meeting, in the coming months, preferably at the level of senior officials from capitals, to intensify consultations about a new Round and with the objective that a broad consensus on subject matter and participation should be secured at the earliest possible date.



*P. Kelly*

Sir Robert Armstrong

PROCEDURE FOR INSTITUTING NEW GATT ROUND

1. Mr Williams (DTI) confirms that there is no formal procedure. But there are opportunities for getting the new round launched quickly. These are:-

(a) a meeting of the "Group of 18" (consisting of some OECD countries, including ourselves, and representatives of the developing countries) which takes place in Geneva on 13-14 May;

(b) the meeting of senior officials of the GATT countries, which was proposed at the last OECD Ministerial meeting and by the European Community, and could take place just before or after the summer holiday;

(c) the monthly meeting of the GATT Council in Geneva (ie permanent representatives);

(d) the regular annual meeting of the Contracting Parties of the GATT in Geneva in November.

2. Thus the G18 of the GATT could decide as early as May that the high level official ad hoc meeting should take place in the summer. That meeting would work out details of the agenda of a new round, and make an appropriate proposal either to the GATT Council (c) above or to the Contracting Parties ((d) above). If this optimistic scenario held, the new round could be launched early next year as the Americans want.

*R Q Braithwaite*

3 May 1985

R Q Braithwaite

copied to: Mr Powell ✓  
Mr Appleyard  
Mr Wynn Own



NEW ROUND

Open markets and expanded world trade are essential for sustained economic growth in both the industrialised and the developing countries. Concerted action is urgently required to enlarge trade opportunities, to resist protectionist pressures, and to improve the international trading environment.

We therefore reaffirm our past undertakings to resist protectionism and to dismantle trade barriers. We confirm our commitment to the open multilateral trading system and to the central role in that system of the structures and disciplines of the GATT. We are resolved to strengthen the system, and to reinvigorate and update the GATT, by promoting a further measure of liberalisation in international trade in goods and services.

As anticipated at the London Summit, and as agreed at the OECD ministerial meeting in April this year, a new negotiating round, with the active participation of a significant number of developed and developing countries, would make a crucial contribution to the objective of further liberalisation and should begin as soon as possible.

The current GATT work programme, as adopted by the Contracting Parties in 1982, and as modified and extended in 1984, has already laid the basis for such an initiative, for example in regard to tariffs, non-tariff measures, safeguards, dispute settlement procedures, agriculture, textiles and clothing, tropical products, natural resource products, trade in services and the problem of counterfeit goods. The work programme also acknowledges the need to further a dynamic role for developing countries and to improve the special treatment of the least developed. Appropriate new themes and subject matters for negotiation can be added, by mutual consent, to make the programme fully comprehensive. What is now needed however is a major new impetus to the programme as a whole, which will carry it forward from the phase of analysis and discussion to the point at which solutions can be negotiated and implemented



We accordingly propose that formal preparations should urgently now be initiated for the launching of a comprehensive new round, taking as the point of departure the GATT work programme. A high-level meeting should be convened in Geneva this summer with the objective of rapidly reaching a broad consensus on subject matter and participation. A preparatory committee should thereafter be established, in which all GATT countries would be invited to participate, and in particular those developed and developing countries which conduct a substantial proportion of their external trade with each other, to prepare recommendations for submission to the Contracting Parties

We look for a consensus for the launching of the new round to be confirmed by the Contracting Parties at the earliest possible date. We propose that a GATT ministerial meeting should be held in the spring of 1986 to take the necessary decisions.



COMOS

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File L6  
copy for Craxi



10 DOWNING STREET

From the Private Secretary

3 May 1985

MEETING BETWEEN THE PRIME MINISTER AND THE PRIME  
MINISTER OF ITALY IN THE PALAIS SCHAUMBURG IN BONN  
ON 3 MAY AT 0915

The Prime Minister met Signor Craxi this morning before the opening session of the European Council. Since I was interpreting for the meeting I found it hard to take any comprehensible note. But the following is my recollection of the main issues discussed.

Future of the European Community

The Prime Minister said that there was a great deal of work to get through before the Milan European Council. But once the Heads of Government got down to the detail of issues such as majority voting, she thought that there would be relatively few differences between them. A number of Member States were proclaiming their readiness to dispense with unanimity but in practice when their interests were at stake they insisted upon it. She saw scope for more use of the majority voting provisions of the Treaty. But it was essential to maintain the Luxembourg compromise. She was firmly opposed to giving the European Assembly additional powers, particularly tax-raising powers. She thought that France would have the same difficulty on constitutional grounds. As regards a greater role for the European Parliament, she found the proposals in the Spinelli Report impracticable. Were they ever to be implemented they would vastly delay and encumber decision making in the Community. The matters on which practical progress could be made were completion of the internal market, for which the Commission was working out a detailed timetable, and political co-operation. Finally, the Prime Minister said that she was ready for the United Kingdom to reduce to one Commissioner upon enlargement and hoped that the other large Member States would be prepared to follow suit.

/Signor Craxi



Signor Craxi said that much of the impetus for making further progress towards European union had come from the Assembly. It would be difficult, therefore, to avoid making some concessions to it. He agreed that giving it the power to raise revenue would be a very delicate matter. But he thought that there was scope for some "constitutional engineering" which would allow the Assembly a greater role in the Community's decision taking. But he agreed that the basic balance of power between the Council and the Assembly should not be distorted. He would be sending his personal representative, Signor Ferri, on a tour of Community capitals to discuss the way ahead. He understood that Signor Ferri would be seeing Sir Geoffrey Howe.

The Prime Minister said that she was not at all enthusiastic about the idea of an inter-governmental conference. This would simply create a new level of bureaucracy. The initiative must be kept firmly in the hands of the Council. There would be an opportunity for the European Council to discuss the future of the Community at Milan in June and she thought it should be possible to make substantial progress there. Any issues which were unresolved could be pursued further at the December European Council. An inter-governmental conference would degenerate into a talking shop. Signor Craxi thought it would be difficult not to hold an inter-governmental conference, given that the idea had been firmly launched. There was now an expectation that it would be held. The Prime Minister said firmly that it had not been agreed. There was nothing an inter-governmental conference could do which the European Council could not do better.

Economic Summit

The Prime Minister referred to the difficulties which the French seemed to be creating over setting a date for a new round of international trade negotiations and the linkage which they were making with an international monetary conference. There were plenty of opportunities in the next few months to discuss international monetary questions and she could see no need for a special conference. Signor Craxi agreed but said that it might be the price others had to pay to get the French to agree to set a date for a new GATT round.

There was also a brief discussion of the sentences in the political declaration dealing with the Geneva talks. Signor Craxi agreed with the Prime Minister that it was important that the Economic Summit should be seen to be firmly behind President Reagan. He could accept the wording which he understood had been agreed between the French and Americans, although he would prefer to "hope" rather than "urge" the Soviet Union to act positively. The latter implied disapproval. He would also very much like to see a sentence on the Middle East in the political declaration. The Prime Minister thought it was too late to introduce this now.

I am copying this letter to David Williamson (Cabinet Office).

( C D Powell)

L Appleyard Esq  
Foreign and Commonwealth Office



## PRESIDENT MITTERRAND'S CURRENCY IDEAS

### French Thinking

President Mitterrand is reported (Wall Street Journal, 29 April) to have said "If we could build something on a "tripod" - the dollar, the yen and the ecu - it's possible to determine somewhat more fixed relationships between them". He insisted that he was open-minded about exactly how to overhaul the monetary system.

2. In Group of Ten discussions at official level, the French have espoused the idea of "target zones" for exchange rates, with the major currencies very much in mind. They aim ultimately at fixed relationships, binding on all parties subject only to agreed occasional adjustments. They want as soon as possible to move towards this through stages of notional ranges, indicative ranges, any possible intermediate and gradually more and more binding stages.

3. The French have very little support in the G.10 - Belgium and perhaps Italy. United States, Germany, Japan, Netherlands, Canada and UK opposed, although most countries except the United States are prepared to accept that there is at least some indicative value in some currency movements, and that they could be a signal on occasion for the need to re-examine domestic policies.

4. When challenged in detail, French officials flounder: in particular, they have not even the beginnings of an answer to the question: What target zones would you choose at present?

### Line to Take

5. The following points could be made:

- agree that greater stability of exchange rates between major currencies would be welcome - for industrialists, traders, investors as well as governments;
- but very sceptical about any future return to a fixed or nearly-fixed system: flexible movement of exchange rates often has a relevant and valuable contribution to make towards necessary adjustments between countries;
- in any case certain that the time is not ripe now: how would one possibly define the right rates at present?



- the root problem is the achievement of individual domestic policies in major countries which are both sound and compatible: this is what we must work on - as we are trying to do;
- understand that G.10 are likely to explore French ideas as well as the more promising approach of trying to get underlying policies right: best to await their report.

And on a related point:

- agree with President Mitterrand that a greater international reserve role for the yen and the ecu (and its main constituent currencies) would be welcome: one reason for pressing Japan to open up its capital market, and for welcoming growing private use of the ecu (to which London market has made a big contribution).



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67



FILE

10 DOWNING STREET

From the Private Secretary

3 May, 1985

Dear Len,

PRIME MINISTER'S MEETING WITH PRESIDENT REAGAN AT SCHLOSS GYMNICH

ON THURSDAY, 2 MAY, 1985 AT 1800 HRS

The Prime Minister held a meeting with President Reagan at Schloss Gymnich on the first evening of the Economic Summit. For the first half of the meeting the President was accompanied by Mr McFarlane only. Subsequently he was joined by Secretary Shultz, Mr Regan, Mr Wallis and Ambassador Price. The Foreign Secretary also joined the meeting at that point. This record conflates the two parts of the meeting.

Economic Summit

The Prime Minister asked President Reagan how he intended to tackle the various themes of the Summit. She wanted to work closely with him. The President said that he had held an earlier bilateral with President Mitterrand but had been unable to secure his agreement that the Summit should agree to a new trade round beginning early in 1986. President Mitterrand had remained determined to secure agreement in parallel on a conference on international monetary reform. President Reagan continued that he had pointed out that various meetings on monetary matters were already planned: G10 Finance Ministers in June and the Interim Committee of the IMF in Seoul in October.

The Prime Minister agreed that there was no point in adding another meeting. We had all the necessary mechanisms. In any case President Mitterrand's ideas about restoring fixed exchange rates between the dollar, the yen and European currencies were plainly impracticable: the underlying differences in economic conditions and policies were too great. However, Chancellor Kohl had earlier made clear to her that President Mitterrand was likely to insist on a special meeting, possibly in Paris in February 1986, shortly before the French elections. She thought it likely that the Summit would be faced with this demand by the French as the price of their agreement to setting a date for a new GATT round.

/President

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President Reagan commented that he had detected little or no evidence of willingness on President Mitterrand's part to have a trade round. But he agreed that the French were establishing a linkage. They seemed to want a new Bretton Woods conference. To try to break the deadlock he had suggested that there might be an additional G10 Finance Ministers meeting between that already planned for June and the meeting of the Interim Committee in October. The Prime Minister agreed that this made more sense than a special conference in February.

The Prime Minister asked whether President Mitterrand had expressed concern about discussion of agricultural trade in a new GATT round. President Reagan said that this appeared to be his main worry. He had seemed to fear that agriculture would become the focus of a new round and the US was trying to trap the European Community. The Prime Minister said that agriculture must certainly be discussed in the new round and made - fully subject to GATT rules.

The Prime Minister subsequently summarised her discussion with the President on this point when others joined the meeting. The key question was: if a special meeting on international monetary matters was the French price for a new round, should we pay it? Secretary Shultz said that there were two arguments against paying it. If there was a special conference on international monetary questions in Paris with the French in the chair, they would control the agenda. And it was in any case dangerous to concede the concept of a link between trade and monetary matters. The Prime Minister wondered whether Secretary Baker had not already conceded this. Shultz disagreed: all that Baker had suggested was a special G10 meeting before the next meeting of the Interim Committee in Seoul. President Reagan added that, if all the French wanted was prestige, perhaps the new GATT round could be held in Paris. The Prime Minister doubted whether this would have much attraction for the French.

#### Japan

The Prime Minister said that pressure must be brought on the Japanese at the Summit to do more to increase imports. Their huge trade surplus was causing distortions; and they were increasingly using subsidies to undercut Western countries in Third World markets. President Reagan said that Mr. Nakasone's recent pronouncement had been encouraging and had required political courage. Some progress was being made. The Prime Minister was sceptical. Japanese Governments tended to make pronouncements just before Economic Summits to deflect pressure. Subsequently nothing changed. President Reagan said that the US and Japan had set up two bilateral committees on trade issues in which some progress was being made, particularly in the field of telecommunications. The Japanese had finally agreed to buy an American satellite. Part of the blame for failure to penetrate Japanese markets rested with Western firms which did not tailor their products to Japanese tastes.



Political Declaration

President Reagan said that he would be grateful for the Prime Minister's help in securing a reference in the Political Declaration to support for US efforts in Geneva to make progress on arms control. He was not asking for support for the US negotiating position, simply for their efforts. The Prime Minister agreed and there was some discussion of possible language.

Strategic Defence Initiative

The Prime Minister asked how President Reagan intended to handle this at the Summit. The President said that he was trying to steer the public presentation of the SDI to take more account of European concerns. In his forthcoming speech in Strasbourg he would emphasise the need to preserve deterrence and speak approvingly of the continuing need for the British and French nuclear forces. He would stress his commitment to negotiate on any eventual deployment. He would also recognise the need to deal with the imbalance in conventional weapons in the event that an effective defence against nuclear weapons was achieved. He hoped that there would be a positive response from Europe to the US offer of participation in SDI research.

The Prime Minister said that the United Kingdom would certainly take part in research. Her preference was to do so on a bilateral basis. We had a long experience of working bilaterally with the Americans on such projects ever since the development of the atom bomb. It must of course be genuine co-operation in which there was sharing of information and results. However, there was some movement in Europe in favour of a co-ordinated European response. President Reagan said that the US preference was to deal on a bilateral basis: this would be easier to negotiate. Moreover President Mitterrand had made clear that France would not want to take up the US offer of participation. He seemed to have some alternative in mind. The Prime Minister commented that she was suspicious of the French initiative on Eureka. More generally she thought that the other European countries failed to appreciate how fast the research on SDI was moving ahead in the US.

United Nations 40th Anniversary

The Prime Minister asked whether the US Administration had a view on the desirability of a special meeting of the UN Security Council in September or October as part of the celebration of the UN's 40th Anniversary. Secretary Shultz said that they had only very recently heard of this proposal and had not yet taken a firm view. The Prime Minister said that it would depend in part on when Mr Gorbachev decided to go to New York. President Reagan commented that Mr Gorbachev had not yet replied to his invitation to a meeting: there had only been an indirect indication through a Soviet spokesman that he would come.



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-4-

Middle East

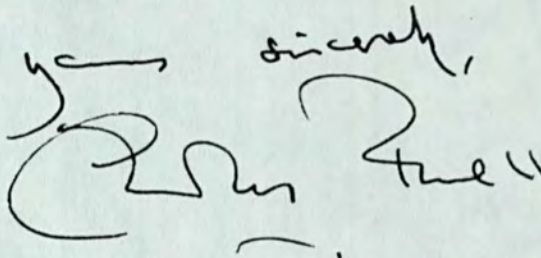
This was mentioned briefly. Secretary Shultz confirmed that he would shortly visit the area to follow up Mr Murphy's talks.

Prime Minister's Visit to South East Asia

President Reagan enquired about the Prime Minister's impressions from her visit to South East Asia. The Prime Minister gave an account of her visit, stressing the enormous potential of Indonesia. In most of the countries she had visited, China was seen as more of a threat than the Soviet Union. "Let her sleep, for if she ever wakes, we may never sleep again" quoted President Reagan.

As the meeting ended, President Reagan complimented the Prime Minister warmly on her interview in the Wall Street Journal.

I am copying this letter to Rachel Lomax (HM Treasury), Richard Mottram (Ministry of Defence), John Mogg (Department of Trade and Industry) and Richard Hatfield (Cabinet Office).

Yours sincerely,  


(C D Powell)

L Appleyard Esq  
Foreign and Commonwealth Office

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207

## 10 DOWNING STREET

*From the Private Secretary*

3 May, 1985

Dear Len,

MEETING BETWEEN THE PRIME MINISTER AND THE FEDERAL GERMANCHANCELLOR IN THE FEDERAL CHANCELLERY IN BONNON 2 MAY, 1985 AT 1600 HRS

The Prime Minister had a brief meeting with Chancellor Kohl immediately after the welcoming ceremony on her arrival in Bonn.

Chancellor Kohl asked whether the Prime Minister had any special wishes from the Economic Summit. The Prime Minister replied that it was important that there should be a clear message. The first step was to get the political declaration agreed and issued. Chancellor Kohl said that he hoped it could be discussed at dinner that evening and issued at 1100 hrs on 3 May.

Chancellor Kohl said that he saw three critical points for the Economic Summit: protectionism, the question of an international monetary conference, and a new GATT round. The Prime Minister enquired whether Chancellor Kohl intended to start the meeting on 3 May by tackling these or by inviting each of the participants to make a general statement. Chancellor Kohl said he intended to start with a general round but he expected the discussion quickly to focus upon the three points he had mentioned. He thought that they would be the main issues to be discussed on the afternoon of 3 May.

The Prime Minister asked whether President Mitterrand was likely to oppose setting a date for a new GATT round. Chancellor Kohl said that he had not yet discussed the matter with President Mitterrand but it was clear that the latter wanted to hold some sort of special conference on monetary questions, probably in Paris in February next year, i.e. a few weeks before the elections in France. The Prime Minister pointed out that this would be shortly before the Tokyo Economic Summit. There seemed no strong case for



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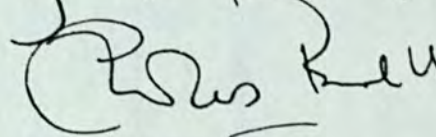
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case for a further meeting, given that G10 Finance Ministers would meet in June and the IMF Interim Committee in October. Chancellor Kohl agreed that an additional meeting would have to be within the framework of the IMF and at Finance Minister level. He thought that President Mitterrand really wanted it for political reasons. But he did not believe that this need become a major issue at the Summit: it should be possible to find a clever compromise.

Chancellor Kohl said that the Strategic Defence Initiative would inevitably come up. What were the Prime Minister's views? The Prime Minister said that the United Kingdom intended to participate in SDI research: otherwise we should miss out on a new generation of technology. It must be clear that research was conducted within the framework of the ABM Treaty; and that if it came to deployment, that too must be negotiated under the ABM Treaty. It was important that the participants in the Summit should stand clearly together on the Geneva talks and not give an inch to Mr Gorbachev's blandishments. She hoped that a row with France on the issue could be avoided. Chancellor Kohl said he agreed with this. He hoped to keep the discussion on a low flame. It was important that the Americans should not present the SDI in a way which undermined the policy of deterrence, which would remain vital to Europe's defence. It was also important to ensure that participation in SDI research did not become a one-way street. There must be give and take, and the Europeans must have access to the results. He thought that not all European countries would want to get involved but hoped that Britain, France, Germany and Italy could co-ordinate closely. The Prime Minister doubted whether President Mitterrand would be interested in this. After all France was not integrated into NATO and showed little interest in co-operation on nuclear matters. Chancellor Kohl agreed that this was possible: it was something which had to be discussed. The Prime Minister said that she doubted that the United States would be ready to share all the technology in which it had made a very heavy investment.

The meeting had to end at this point.

I am sending a copy of this letter to Richard Mottram (Ministry of Defence), Rachel Lomax (HM Treasury), John Mogg (Department of Trade and Industry) and to Richard Hatfield (Cabinet Office).

*yes sincerely,*  
  
(C D Powell)

L Appleyard Esq  
Foreign and Commonwealth Office

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3 MAY 1985

pm

Mr. Powell

15.06

KOHL

Turn to Thematic Paper

But first Stoltenberg to report

~~From first~~ Finance Ministers.

Keep on.

STOLTENBERG

A comprehensive ~~assessment~~ discussion

Considered ~~unity~~ <sup>mtg.</sup> of IMF Interior Committee in Washington

We agreed in a positive judgement of that discussion and the document.

We agreed there should not be political dialogue every year, only when

need arrives. Letter from Cartagena Group: we recommend inviting Kohl

to reply on basis of IMF Washington communique ~~xx xxxxxx~~ <sup>declaration</sup> from this meeting.

Debt problems of developing countries: welcome MYRA with Ecuador, hope for other such. ~~countries~~

Problems will continue to arise: over DM900 billion. IMF should continue to examine case by case, not global.

Poorer countries unable to meet conditions of IMF. In medium term we should see whether we could find new instruments to help those most in need.

We basically agree that our policies in industrial countries should do all possible to lower interest rates, so as to ease that debt problem.

Trade policy also important.

Discussed how lower growth countries can improve that growth.

Policy on inflation in parallel, but differences in ~~reaction~~ <sup>behaviour</sup> to budget deficit.

In Europe need for more flexibility in markets and structures, more deregulation.

Have heard from Japan about their plans for opening up markets. International monetary system (IMS): Finance Ministers asked to report on possibilities of improvement of IMS.

G10 report in June.

In October, first exchange of views at IMF meeting. Following that a greater

/debate



debate on the proposals. We did not decide where and when; but it should continue, first in the Interim Committee, then report to Heads of State or Government.

Trade policy: we all see dangers from <sup>technism</sup> procrastination. Nobody innocent. Everybody has his part in creep of protectionism. If it isn't stopped or reversed, a danger to economic recovery, world wide. Measures against protectionism must be introduced. Opening of markets essential. In principle, in favour of new GATT round; needs to be carefully prepared. In a very short time nominate officials to discuss. Don't be limited in subjects.

No unanimity on whether Summit can say whether the round should begin in 1986. A decision on this is a necessity: otherwise our seriousness will be in doubt. Some say we should have clarity on pre-conferences before deciding on a date for the round itself.

KOHL

Thank you. Put together documents and views then ask Sherpas to prepare a document.

CHANCELLOR OF THE EXCHEQUER

Clarify one or two points on Soltenberg. It was impossible to reach a conclusion on softening up of World Bank terms for certain governments. On IMS procedure, impossible to discuss now what discussions would be needed after Interim Committee in Seoul. Encouraged by degree of consensus on policies in our own countries:

financial discipline, to maintain downward pressure on inflation  
encouragement of enterprise culture to promote growth and employment:  
improve flexibility of markets, etc.



Not enough to remove obstacles in our own economies; we have also to remove barriers to international trade. Stem and reverse protectionist tide.

SCHULZ

Did I understand that you felt that subjects in new trade round should be limited? My understanding was exactly the opposite.

STOLTENBERG

No; our opinion is that it should not be limited, but some feared that attempts would be made to limit subjects. Desirable that preparatory conference should adopt as wide a range of subjects as possible.

KOHL

A welcome degree of consensus at Heads of State and Government meeting this morning. Any comments on North-South?

THATCHER

When are we going to come to conclusions on instructions to Sherpas on monetary discussions?

KOHL

That will emerge.

DELOR

Problems with Africa not <sup>con</sup> defined to famine and desertification. All of the countries that have found themselves in difficulties are unable to deal with their problems within the existing rules of the IMF. They cant get back to balance within 1 1/2 to two years as required by IMF. African countries use their resources poorly. If they get immediate aid, they fall back into old ways after two or three years. They are badly managed and structures are bad, so that they do not do enough to improve their own production. These countries



are unable to cope, if we could pool our resources, we might be able to be <sup>more</sup> effective. Tribute to the work being done by private organisations: we should use them.

DUMAS

Thanks to Delors for pinpointing problems and welcoming French proposals.

We have to go back a long way to find such widespread famine. In some countries camps have been demolished, because people cannot be fed. We are rich countries, we cannot sit back, indifferent to what is happening in these countries. Despite everything a considerable shortfall. Food

<sup>requirements</sup> for October 1984-85 4.4 million tons of cereal. We are going to be providing about 1.5 million tons. So there is an urgent and acute problem. We know the reasons; now we need to find solutions commensurate with scale of problem.

Addressing those areas where performance has been poorest:

- (i) Strengthen provision of emergency aid - prevent these crises from arising. We have advanced technology and resources, only not to seek to use them for this.

Remote sensing, ~~satellite observation~~ <sup>satellite observation</sup> and ground statistics <sup>on</sup> ~~statistics~~ - a comprehensive system enabling us to foretell way in which agricultural system is developing.

Develop regional <sup>stations</sup> ~~stations~~ such as Nairobi and <sup>Wadihupa</sup> ~~Wadi~~ <sup>Wadi</sup> ~~haha~~ (?)

- (ii) Problem of transport very serious. We send food to ports, but that is where it stays. Bad distribution a major constraint. Suggest establishment of rapid transportation units under FAO to take food to remote areas. Use of military aircraft in Ethiopia caused difficulties, because one was captured by rebel force. But we need something like that.

- (iii) In medium terms give further impetus to agricultural production. We should not only distribute food but also products necessary for production: seeds, fertiliser, pesticides, etc.



- (iv) Research on adapting crops to arid terrain~~f~~.
- (v) Fight against desertification. Deserts spreading everywhere. We have methods enabling us to foretell what is going to happen, and so do something. Set up an international unit under IFAD, which would need money for the purpose.

Those countries best endowed by nature should agree on a programme of action. We cannot break up without doing something positive.

KOHL

Paras 7 and 8 of French paper address these questions. There is an exceptional readiness in Germany to do something, especially among the young. It is a moral duty. Without material to sustain freedom, freedom itself will not survive. A lively debate in German public opinion on these matters. There are problems of <sup>capim</sup> ~~cooperation~~ and organisation. We should think how we could improve the effectiveness of our aid, so that it is addressed to those for whom it is intended. Not just short term: look forward. It is a vicious circle: you cannot just provide aid and leave it to problems to clear. We should consider paragraph 8 of Thematic Paper. If we dont solve problems, people will not be willing to help.

NAKASONE

Agrees about Africa. Show concern for problems of developing countries. Not just financial assistance, transfer of technology, exchange of personnel, provision of information also important. Do our best to help, through ODA and other means, as far as circumstances allow. This is important for trade round, help to reduce developing country suspicions.

HOWE

General welcome for what said on Africa. On transport, not just problems of transport itself but of local management and conditions. Work of IFAD important. Right to do all we can to combat desertification. Also what we do in our own



economies can help. We should also help developing countries to evolve and develop their own research organisations. Their own economic management has often not helped, but made matters worse, many of them now realising that and dealing with their own deficiencies.

Welcome Special Facility on Sub-Sahara Africa, which is on right lines.

REAGAN

We have done a lot Government-wise, so have our private organisations. But distribution not just a logistical problem; also a political problem. Some countries have no organisation at all, and dont even know where the people are. We need to help them get organised. We also need to help them get food production organised.

CRAXI

These are also our main concerns. EC has made tremendous effort. Appeal made by European Council got a great response. That has added to aid of US etc, so that we have done better than we had foreseen possible. As far as Italy is concerned, we have added to sums normally available: \$1 billion over next 18 months. But main concern is organisation. Food does not get to intended destinations, for various reasons. We are at experimental stage of relations with Africa, despite presence here of former Colonial powers. Reagan mentioned human factors: availability of people with sense of mission. Need to make coordination more efficient.

MULRONEY

You will be impressed with Canadian contribution; let me now take dilemma you have mentioned: people importing 4 million bottles of whisky when we cannot get basic food to people who need it. We are told to stand on the back of a bus and they might take our aid if they feel like it. UN could not find its way out of a waste paper bag. Attracted by French suggestions



CLARK

Canadian aid \$850 million. Welcome French proposals. Work within existing institutions. Find some way of considering French proposals in existing institutions. We should like to see momentum from Summit.

KOHL

We need to do even more than that. Countries here do not want to be left out of moral duty. People watch to see whether we do as well as East Germany. We should incorporate something in declaration which makes it clear we dont just talk but are ready to do something. If existing institutions can cope, okay; if not think of something new. We could ~~xxxxx~~ say we want a report by the end of the year. Dont be sloppy in drafting: mention countries which are putting obstacles in our way. Public opinion feel strongly. Ask Foreign Ministers to find formula, and to say something concrete.

end of page 10 of manuscript (machine broke down)

Shultz

In last 2/3 hours Foreign Ministers have been handed two problems to be dealt with by end of year: something on drugs, something on Africa. There is still some work to be done. We need to get organised to do it.

Kohl

If our Japanese colleagues agree we should deal with the matter in that way.

Abe

I will discuss with Genscher.



OK

Dumas

Thanks for support of French plan. Are you asking Foreign Ministers to make a proposal this evening or before the end of this meeting.

Kohl

Shultz said we should say not only what we are going to do but who should do it. Is that agreed?

Yes.

Turn to international trade and money

Thatcher

Thematic paper paras 9(2) and 9(6) require decisions. Do Sherpas have enough guidance? That is what we are here to discuss. What do you want to see.

Stult.

We agreed on fundamentals of trade policy and GATT round. In short term we agreed on a meeting of high level officials to discuss agenda etc. Can we say Round to start in early 1986 or can we only say as soon as possible or something like that? We need a formula as concrete as possible.

Reagan

I feel very strongly we should say in early 1986. Let's get going.



Thatcher

Supports "in early 1986" especially in view of what we said at London Summit. (Quotes from London Declaration). It would be very poor if we did not go further, a year later.

Craxi

I should like to reconcile proposing points of view perhaps "in course of 1986".

Kohl

Go all round the table.

Mitterrand

France not in favour of putting in 1986 for reasons that I explained <sup>(219 lines)</sup> this morning. I will follow Resolution of Council of Ministers on 21 March. <sup>(sic)</sup> Including conditions, in that Resolution about agriculture and preserving principles of CAP balanced package and parallelism we cannot support proposal on 1986: if we were to incorporate in text "aim at new round in 1986" plus your pre-conditions would that meet you?

Mulroney

Ask Mitterrand to put his point in abeyance until others have spoken then we might get a consensus.

Mulroney

Who will support idea of new round as help to contain protectionist forces. It would <sup>be</sup> re-energise trading system. Should be forthcoming, positive and balanced; some time in early April 1986; is critical to start preparatory work quickly. Mitterrand points to problems in agriculture.



● Recognise that is of considerable importance to French Government. We envisage possibility of broad and balanced negotiation so that round can begin at earliest possible moment.



AFTERNOON SESSION, 3 MAY, 1985 STARTING 1647 HRS

Mulroney

(continued) If we don't, we shall be in same position next year, or in a worse position, with protectionism rampant. We should signal readiness to proceed. An honourable compromise can be found that will meet necessary requirements.

Kohl: 1. We attempt ~~(accept)~~ to convene a meeting of high-level officials to prepare the meeting.

2. A balanced package for negotiations.

3. We here today should seek to ensure that GATT round does take place in 1986.

That should take account of problems raised by Mitterrand. We just say 1986: then GATT decides. Special <sup>? experience</sup> explanation of problems in EEC.

Craxi: The lack of agreement is purely a matter of date, some want a date; some a general formula. A general formula contains danger of postponement for ever. So 'during 1986'.

Kohl: That is my compromise proposal. If we say 'as soon as possible' clever people will conclude we can't agree.

Delors: Personally I am bound by Council of Ministers declaration of 19 March. Only new factor is that one country, in order to resist protectionist pressure at home, needs a date. You talk as if preliminary discussions hav<sup>n</sup>'t started. They have and working groups are already meeting on most of the things you have mentioned.



Delors

(Continued): I have at text here which sets out procedures and says 'as soon as possible'. Might be a basis for compromise.

Mitterrand: I don't want to bore you. I am <sup>only</sup> playing this part because it is forced on me, I will say what I think. I have drafted a short text which could be distributed. I favour high-level officials meeting. I don't know whether we have consensus (?). Brazil refused to send any one to the meeting. They won't like if we try to impose something on them. 'A group of high-level officials should meet shortly and shall continue to meet in order to ..' (too fast to get down verbatim).

A set of phrases derived from OECD communique and from EC Declaration. "... once conditions are met, new round can <sup>begin</sup> immediately." Only one person here not talking about 1986. OECD text said "As soon as possible (in view of some should be early in 1986)". I don't mind you calling me 'some'. "Some feel that it is premature to fix a date now."

Reagan: Delors said one country threatened by protectionist pressures. There is an element in Congress, hostile to Administration which is protectionist. I am not going to have the ammunition to deal with threat of protectionist legislation.

Kohl: Let's break and go to other things, and try to find a formula in the meantime.

Shultz: There was reference to delays in start of Tokyo round. That was because people wanted to wait until Congress had authorised negotiations. Now things are different: Congress has authorised negotiations, but the authority will not last indefinitely.

Kohl: Circulate French text: turn to financial policy.

/Stoltenberg



Stoltenberg: Limit ourselves to procedural matters now. Leave open where follow-up action is to be taken.

Abe: G10 in Tokyo; Interim Committee in Seoul.

Delors: I put 4 questions to G10 two years ago, and I should like to have answers to them. We must not adopt vague words for monetary system and precise words for trade.

Beregevoy: I should like to say exactly where we stand. A report is to be put to G10 in June and ~~the~~ Interim Committee in Seoul with ~~economic~~ <sup>examined</sup> (?) conclusions of G10. It will be at that time that we can decide whether there is to be fundamental reform or just improvement.

Canadian Finance  
Minister

(? Wilson): Happy with compromise reached this morning.

Italian Finance

Minister: Not timely to discuss where and when there should be discussion after Seoul.

Chancellor

of Exchequer: I didn't expect any difficulty over this; we agreed amongst Finance Minister this morning. We deliberately didn't go into substance. We agreed right forum Interim Committee of IMF. Then we discussed procedure: Agreed G10 on 21 June in Tokyo; if we reach agreement then, as I hope, that will go to Interim Committee in Korea in October. Most of us felt we could not take it any further than that: 1. We don't know what conclusions will be reached then, and we can't tell Interim Committee what to do.

Stoltenberg: Perhaps we could find a formula which puts together all viewpoints, which could be agreed by Sherpas. "We recommend Heads of Gvt take note that G10 will discuss in Tokyo, and Interim Committee in Seoul. They will <sup>have</sup> to decided how conclusions will <sup>in 1986</sup> be reported to Heads of State or Government at Economic Summit".



Stoltenberg:

(continued) Tomorrow the Sherpas will produce a definitive text on these lines.

Kohl: Can you accept that?

Andreotti: We have gone a step back from decision taken when other countries were already present. We had a precise mandate at Paris meeting.

Stoltenberg: I don't want to pre-empt Baker if he wants to state his position once again. We can only discuss the nature of future discussion once we have G10 ~~input~~ <sup>input</sup>.

Kohl: If that is OK, Sherpas to work out text.

Baker: Ok

Kohl: Environment: but first a break.



Kohl We have made every effort. So far result rather small.  
So this evening we will try to find a formula which we  
can discuss before tomorrow morning's meeting. We may  
have to report ~~the~~<sup>no</sup> consensus & divergence of view.  
We still have to discuss proposals on manned space station.  
Are we happy with the para in the thematic paper? No-one  
wishes to comment, so ask Sherpas to carry on.

Agreed.

Any advice to Personal Representatives?

We conclude our meeting now.

Meeting adjourned.



BONN ECONOMIC SUMMIT

Heads of Delegation Meeting, Morning, 3 May

- Kohl: Welcomes colleagues. Start by examining text of political declaration. Break at 11.00. Then economic. This afternoon Genscher will report on Foreign Ministers and then Stoltenberg will report on Finance Ministers' discussion. By the end of the afternoon we give our Permanent Representatives instruction for economic declaration.
- This is Adenauer's room. He sat where Reagan is sitting. Hope atmosphere is more relaxed today. There were many guests here - statesmen of great distinction. Adenauer's funeral began here. I was first invited here when I was 23. I was against his views then, and he tried to change my mind.
- Turns to political declaration. We have found a compromise. Any comments?
- Craxi: On page 2, towards end: add sentence saying:
- "We hope that conflicts in Middle East can be resolved with respect to rights of all the countries in the area".
- We could include Iran/Iraq conflict. I should like to introduce a wish in favour of democratic freedoms in the whole of the Latin American area.
- Thatcher: We are in danger of adding comment about danger in every part of the world. The two we have are about decisions based on East/West conflict. Iran/Iraq is not related to that. I should be reluctant to add paragraphs on other matters of foreign affairs. If we think otherwise, ask Foreign Ministers to draw up a separate declaration.
- Kohl: I agree that. Ask Foreign Ministers to draw up a text which I could use for a statement.
- Craxi: Okay, but I should like to see a text. If we don't, we shall be thought to ignore important problems in world.
- Mitterrand: Agrees with Craxi. This declaration should be confined to what results from 2nd World War, and should say so.
- Reagan: Something of what we have been saying is already in last paragraphs. Covers it all. Trouble spots so many but I wonder whether we could cover all of them.
- Nakasone: Leave this declaration as it is. Let there be a summary of subjects discussed.

/Mulroney

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Mulroney: Important to retain the integrity of this document.

Mitterrand: But refer however to our friendly countries united after 2nd World War, and say that we are confining ourselves to that. That would explain why we are not discussing other subjects in this declaration.

Kohl: The title makes it clear. 50% of our peoples not alive in 1945. Remind them of the war and say we have learned lessons. As a German, I find it of particular importance to refer to two countries divided by ideological division. Either refer to Foreign Ministers or can you propose?

Mitterrand: "Considering the condition of affairs which we have achieved 40 years after the end of the War, we look forward to a state of peace in Europe ..."  
/Insert in paragraph 47.

Craxi: Ask for reference to countries under foreign domination (Afghanistan and Kampuchea) and to ends of conflicts (Middle East) and to spread of democracy in Latin America. Ask Foreign Ministers to draw up a declaration of principles on these matters.

Kohl: Accept insertion proposed by Mitterrand. Separate statement of principles on other matters.

Reagan: Next paragraph refers to UN and all countries in difficulty comprehensively. Don't let us go into specifics.

Mulroney: Mitterrand's suggestion does not make things more difficult.

Kohl: (1) Accept Mitterrand's extra sentence.  
(2) Ask Foreign Ministers to make a separate statement on other issues.

Thatcher: If we add Mitterrand's extra, we upset the structure of this paragraph:  
  
"Considering the climate of peace and friendship which we have achieved among ourselves forty years after the end of the War, we look forward ..."  
  
It seems to break the flow; we don't qualify earlier sentences.

Craxi: It was meant to clarify that we refer to two events because they are the consequence of the Second World War. First two sentences are a description of reality in Europe, and then go on to two ideological divisions resulting from the War.

/Mitterrand:



Mitterrand: See Thatcher's point. But this is not an exercise in style, and I think Craxi's comment is apposite. If we are going to have a broad statement, this additionally underscores that we are talking about ourselves who were in the war, not about others.

Kohl: Shall we ask our Foreign Ministers to do this?

Thatcher: Let's do it ourselves. Let's add what is proposed by Mitterrand.

Mitterrand: "Considering the situation which we have reached among ourselves 40 years after the end of the war, we recall in particular that we look forward to ..."

Nakasone: Cover Asia.

Thatcher: "Considering the climate of peace and friendship which we have achieved among ourselves 40 years after the end of the war, we look forward to a state of peace in Europe ... Self-determination: and in Asia we earnestly hope ... peninsula in freedom".

Kohl: We are agreed. Ask Personal Representatives to deal.

Now turn to economics. Thanks to our Personal Representatives, who have borne the main burden of preparation. They have done good work. We have had representations from various sectors, including a statement from trades unions promising collaboration in solving problems. I do not agree with all their suggestions. But we are having some success. Recovery in third year. Particular impetus from US. Inflation at lowest level for 12 years. Greatest benefit to us; and to developing countries. Does not solve all problems, but it eases them. Greatest success if we continue on current path. Getting inflation down best way of reducing unemployment. Always bear in mind external consequences of national policies. Hope we can develop a new impetus but we need to be credible. Not just paper promises. People expect follow-up. Concentrate on (i) disciplined fiscal and monetary policy - look particularly to US budget deficit which has consequences for rest of us - strength of dollar and high interest rates. High interest levels draw capital from our countries and add to problems of debt service of developing countries. High rate of dollar undermines American industry. We understand problems of Congress but, Mr President, I welcome warmly your commitment to a substantial reduction in budget deficit. In Europe we also have a lot to do. Considerable structural change, more open, more flexibility, more mobility. We can learn a great deal from one another. We can learn from US productivity and competitiveness. We discussed these

/problems



problems in Williamsburg and London. We have sought to free our economies for trade and development. Considerable domestic sacrifices to consolidate budget. We always want other people to make savings. Need for attack on bureaucratic obstacles. Three levels of bureaucracy in FRG - Federal, Land and local. They all try to make room for themselves. But we have made room for manoeuvre. Between 1986 and 1988 we hope to make tax cuts amounting to DM 20 billion. I do not agree with compensating for weakness in economic achievement by higher Government expenditure. Growth best promoted by free and open market.

Protectionism: None of us is free from protectionist measures. Trend to protectionism is growing. They do not solve problem. Don't just talk about it: do something. Also addressed Nakasone. Considerable measures taken by Japanese Government to open market, and encourage purchase of foreign goods. Need more. Measures to strengthen open multilateral trading system (OMTS) should be carefully prepared and start as soon as possible. Reassure developing countries that existing programme won't be slowed down. Alongside effective OMTS, we need effective international monetary system. Show readiness to help victims of famine etc in sub-Saharan Africa.

Show youth that we care.

Importance of link between economy and ecology. Be careful in management of natural resources, i.e. fundamental to economic growth. Our concern about disregard of ecological considerations.

We need a long-term perspective.

Mitterrand:

In France we have adopted a gradual approach which may appear slow to some but has advantages of avoiding problems which could become dangerous. Inflation, 14% in 1981, down to 6% in 1984; best since 1971. Gap between us and European average diminishing. Activity at 4.5% next year. We shall have brought down inflation by 9%. Balance of payments improving: I inherited deficit of French Francs 62 billion, last year 20 billion, with considerable surplus on industrial products. If we did not have to buy our oil, we should have had a surplus of 120 billion. Public deficit now under control, not without a struggle. Deficit held at about 3%. This control of finances has enabled us to reduce levels of taxation and social security contributions substantially (by French Francs 30 billion).



In modernisation we have time to make up, but we are restructuring in many industries, e.g. chemical, ship building. Now on our ninth four year plan. Investment into high technology and information technology areas. In 1981 we nationalised a number of large corporations. Five of the six were making considerable losses, threatened with bankruptcy. Four of six now making a profit. Other two would be, if we weren't having to pay off accumulated losses. Renault going through the same sort of crises as other motor manufacturers. Industrial output going up: up by 15% in value terms. Profits best since 1974 (profit margins). GDP has never gone down: it has constantly risen. Our austerity measures did not force us into recession. But growth rate still too low: 1.5% in 1985 compared with 2.5% for rest of Europe. This too slow growth does at least protect us from reverses which others would suffer if there was a sharp reduction in growth. Purchasing power going down by 0.7%-0.8% per year. But no social conflict: fewer strikes and disputes than at any time in 50 years. But situation is difficult in France. The drop in purchasing power gives rise to dissatisfaction. But no sharp shocks or deep wounds from our policies.

Blacked Areas: 9% unemployment is too high. Even though unemployment has gone up less in France it is still too high at 2.4 million. For past two months number going down slightly; we hope it will go down more steeply. We need to modernise our traditional industries.

But though we are up in four or five best exporting countries we are not up to best. But we are progressing and hope to resolve main problems in next two or three years.

Social Affairs: A policy of dialogue and consensus with unions: what we call a "contractual policy". That makes for rigidities. Not enough mobility. Trade Unions hostile to high mobility. We could enforce it by law, but we have to take account of ideas of two sides of industry, who are against it. Our industries a breed apart: constantly asking for state aid. We should like to make progress towards a better monetary organisation. We made some progress under Delors. Should we not make further progress? Volatile exchange rates can undermine rules and even destroy an economic plan. Is it sensible to deal with trade and not money? Kohl referred to movement of capital to US because of high interest rates. United States prosperous and hard working: good luck to them. But we need to regulate things a little better.

On trade we are here to meet and talk not to solve the problems of the world. There are a plethora



of international organisations on these two subjects. We should not do their work for them. Don't be too imperative here. It would be good for protectionism to give way to a more open trading system, but we have not yet completed commitments from the last round. France not very concerned with the agricultural debate. We agreed on that last time. Effects of European policies in US compensated for by measures to help US producers of soya etc. You cannot negotiate the same thing twice. But we are very interested in industrial trade and in services and standards.

So negotiations not about agriculture in which we are not interested, and not other things in which we are interested. So we are not too keen on them: nor are developing countries. Negotiations as soon as possible: well yes. We have agreed elsewhere and we won't change course. But we are well aware of what is missing.

European Community is doing well. Welcome Spain and Portugal. Welcome preferential agreements with Mediterranean countries. Would be desirable to strengthen relations with Eastern European countries. Need to bring interest rates down. Do something for countries of the South. A well-worn subject; but they are going to be overwhelming majority of the world. They are all going to want to find jobs in Europe.

Mulroney:

Productivity increase, 2% a year from end of war, came to a halt in 1969. Canada still spent less per capita on value added than any civilised country except Iceland and Ireland. We went down from 1% of GNP to 0.9%. Second only to Italy in number of man days lost. So Canada lost over 1% of its share in world trade, which meant 500,000 jobs. We are now struggling to get back to where we were. If we had US employment growth rates, we should knock 563,000 off unemployment register.

We have a budget deficit of over Canadian \$ 35 billion.

In US terms that will be equivalent to US \$ 350 billion deficit. Canada used to be one of most fiscally sound countries in the world. Deficit in 1967 US \$ 18 billion, then up to US \$ 190 billion, up towards US \$ 400 billion. 35% to 40% of revenue taken up by debt service. We came in with new policies:

/giving



giving ... benefit to doubt, ended war with provinces, refurbished relations with US (Canada's largest exports (?)). But not at expense of Europe: we ... countries to NATO ... FIRA. We cut US\$ 3½% off public spending - largest cut ever in Canada. So this year the lowest rate of growth in public spending for 17 years. We are ...

If we had gone on as we were by 1991 there would have been no scope for any discretionary spending. Indeed to develop Canadian nation (?). We will liberalise trade, encourage enterprise and small businesses.

Conducting a big clear up of acid rain. Reagan very cooperative. We have lived off our resources (as opposed to our ....) for too long. Over 11% unemployment. We need your help in getting through our problems, getting down that deficit.

A particular problem: Mitterrand's initiative on Africa very apposite. But also look at problem in Caribbean. Look at what ... has done to Jamaican economy: but then the bottom drops out of business ... countries that do everything and are ... need understanding and help. I have asked my Finance Minister to raise this with his colleagues. Our lending institutions should respond to that in a major way.

Kohl: Do you want a break now?

Thatcher: No. Let us go on.

Craxi: In Italy, recovery is going on. In 1984 growth rate of 2.5%, one of the highest in Europe. A year ago inflation was very high. We have reduced it by four points but it is just under 9%. We ought to try to reduce it further this year and next. Industrial investment up by 8% in real terms. Balance of payments affected by imports required for recovery. But unemployment still at 10.4% (cf EC average 10.6%). Unemployment hits young particularly. We have asked ourselves how to solve problem of unemployment. We discussed this in Venice. US has managed to create jobs for people. Productive future must be centred in small and medium enterprises. So we must give up projects for "mega-enterprises". A strong deficit in public accounts, mainly on account of debt service requirements, limits what we can do in other areas over assistance to industry and other productive expenditure. Italy very open economy. Dependent on

/energy



energy and food imports. So we have to export as much as we can. So we favour an open and free international trade. We should like greater stability in currency values, especially the dollar.

Protectionist warfare is a step back. Our interest for the future is in creating new markets all over the world. How can our economies develop unless new markets are free and encouraged. Create a vast system of development for these developing countries. We must create a market system which is completely different. Speed up development assistance and make them markets for what we produce. The future lies in balancing up the world situation.

Reagan:

Let us start out with our villainy!

There has been something of a rebound in the world economy since Ottawa in 1981. In our system, for the first 8 months of an Administration tied by predecessors' policies, we had higher inflation and high unemployment for 50 years. We have had a deficit leading to a national debt approaching 3 trillion dollars. We did not get all the expenditure cuts we wanted: but we got a 25% tax cut. Our recovery began with the full implementation of that. Inflation down to 3.7%. We brought prime rate down from 2.15% to 10.5%. I asked a leading industrialist to chair a committee to come into government and tell us how modern business practices could be used to improve efficiency and economy in the public service. Over 2,000 recommendations. We also set up a task force under Vice-President Bush on deregulation. We have carried out many of the recommendations of both bodies despite Congressional resistance. We have been adding 300,000 people a month to employment. Nonetheless, level of unemployment remains up. We have been incorporating 600,000 new businesses a year. We have 14 million small businesses; only 0.2% are in the Small Business Administration for help or money. So we have decided to close the SBA. We have also recommended to Congress that we pull out of the railroad industry. Every passenger on the railroad costs \$35 in subsidy. But we keep our safety net. 95 million meals a day. Educational and medical programmes. We have kept them but re-directed them to those most in need. Now we are working on a tax simplification plan, which will produce more money though the rates will be lower, by eliminating loopholes in the law and temptations to avoidance. Some companies haven't paid corporation tax for years. Our deficit is 5.7% of GNP. On our programme we will come down to 2% of GNP by 1988 and if we go on from there to a

/balanced



balanced budget by 1990. We manage to pay out much less in unemployment insurance in second six months than you do, and than we do in the first six months of unemployment. People manage to find jobs without unemployment insurance running out. We have had locally-focussed job training arrangements which meant that two thirds of those trained got job placements. We are determined we are going to balance the budget and bring interest rates down further. Housing and motor industry trade back in full swing - despite Japanese competition! We had government regulation of fuel and energy. I ordered that cancelled. Everybody said prices would go up. They have come down. We intend to de-regulate natural gas.

\$100 billion of our savings will be in defence. When we took office, defence was a disaster: 50% of aircraft and ships could not take off. Defence okay today. The \$100 billion will come from elimination of waste and profligacy in Department of Defence. We are getting more bang for the buck. Our recovery has helped yours; we want that to continue. We think all the evidence is on the side of more open trade. We have plenty of protectionist pressures, which we are resisting all we can.

US buying 58% of manufactured goods of all the developing countries. Even in African countries where we are giving military aid 78% of our aid is social and economic, only 22% military.

Start new round in 1986. Implement findings of G10. We believe we should consider hosting a meeting to consider their findings, but without prejudice to G10 or IMF.

Nakasone: Japanese economy doing well; 2.2% inflation. Wages up by 5%. Problems of excess exports and budget deficit. In 1984 GNP up by 5.8%; 1985 4.6%.

Dependance on bond issues 22%. Long term bonds outstanding 48% of GNP (cf 33% in US), 18.8% of spending is debt interest. Our finance worse than US. Trade healthy. \$36.9 billion trade surplus. Looking at long term capital outflow \$24 billion, 2.6 times year before last. \$7.7 billion coming in. So balances \$17 billion negative. So government is poor, industry and people rich. We have been promoting administrative and fiscal reform: a zero cap on government spending, or even reductions, on employment and welfare spending.

/Life



Life expectancy rates up (80 for women, 79 for men), so welfare payments up. We are privatising. Nippon telephone, coal and steel and are now privatising industries in face of strong battle with unions. We are giving you trouble in trade, but on 9 April we passed measures which will open markets over three years.

Japan is insular and Confucianistic, with people protected. We have decided to change all that to international practice: freedom the rule, regulation the exception. A special drive, headed by myself. Moving towards liberalisation of capital markets and of yen. Some say we should control outflow and strengthen the yen; I prefer to liberalise market and let yen find its own level.

Public investment 5% of GDP (up 1.5% = 1.6% = UK). We intend to resort to private sector revitalisation. We also intend to carry out tax reductions on same lines as Reagan. On these basic principles we try to proceed to stimulus of domestic demand over next two to three years.

We must all fight together against protectionism. Problems like strong dollar and high interest rates should be settled by international cooperation: strong dollar creates problems for us, but we are dependant on US and do not welcome curtailments of US defence spending. But hope Reagan will carry out his commitments.

Hope for early start on new trade round. Congress has passed resolution for import tax on imports from Japan: that would be extended to Europe. So start new round as early as possible in 1986. Heard what Mitterrand said over agriculture; but pressure from Australia and elsewhere. Agriculture should not bear the brunt.

Have a preparatory meeting this year. There must be no hiatus between existing programme and new rounds. Of course there must be consideration for developing countries. I have had comments and requests from Asean countries, India and Pakistan. We doubled ODA over the last five years; we have decided to double again in next five years.

Delors:

As four largest EC countries are here, I won't presume to speak for them. But I must not forget the other six, or Spain and Portugal. Two characteristics: (i) the other six even more dependant on world trade than the big ones; (ii) they are also areas in which

/small



small scale family predominates. Against the big two faces: high technology and small scale. On trade, I shall be Cassandra-like. Thanks to US, quite strong increase in world trade. But US cannot sustain this indefinitely: this year growth in world trade down to 4-5%. Contrast better dynamic growth in US and Japan and small growth in Europe. Need for better exploitation of technology and better technology transfer. Welcome work of Working Group on Technology, Growth and Employment. Europe should be more dynamic: needs to encourage small business (as Mrs Thatcher said to European Council) but European economy is expanding. On employment, EC cannot be compared to US or Japan. EC trade 45% of its product compared with 20% in US and with 35% in Japan. We have lost 300,000 jobs in iron and steel. 1½ million in textiles. But Europe not sclerotic: have to go through this period of adjustment. In relation to countries of the south, greatest concern are problems of famine and indebtedness. We have not yet found fair solutions. We met Chairman of Cartagena Group. If new democracies in Latin America do not do reasonably well, dictatorship will come back.

Countries round this table represent 46% (?) of world trade. Indications you could give to the world would include structural features as well as market economy.

A new trade ground must be properly prepared if it is to succeed.

We must try gradually to improve the way the international monetary system operates so that it becomes more stable and clearer. We must find adequate and appropriate solutions to problems and indebtedness to developed countries. Japan should participate more in international economy. Nakasone striving to do that. Europe should do more to stimulate its own growth. We need also cooperation in technology. We do more for developing countries.

Mrs Thatcher: What strikes me is similarity of what we say. All agree with Kohl. No change in strategy. Honest money policies get inflation down and employment up. Every single one reporting keeping our expenditure under control and keeping our fiscal deficits down. We are seeking policies we can sustain through the years. Nakasone talked of serious financial position. He forgot to mention Japanese savings ratio. We are all of economic sound policies. That is the way to sustain growth.

/Except



Except for US and Japan we do have same paradox. We have had growth for four years: record output, record standard of living: record growth but also record unemployment. That does not seem to happen in US and Japan. How can we achieve that level of job creation that will get employment to come down. In last year, in UK we created 600,000 new jobs, but unemployment is up. Partly because of demographic trends, partly because married women coming into employment. What are US and Japan doing? Would it work here? US and Japan have much more flexible and efficient labour market. People readier to move, wage costs less rigid. We have done less well on development and technology. US and Japan universities more industry-orientated than ours.

European unemployment benefit more generous than US or Japan. We are trying to increase the gap between earnings at work and benefits for not working.

We are all reducing regulations. What worries me is not the number we are reducing, but the number we have left. We must go on with this. We are emulating US in tax reforms. When we have done our best we still want the sort of enterprise culture you have in US and Japan.

We want the kind of independent spirit you have in US and Japan. Perhaps US did better because people came to US because they wanted to be free and independent.

Trade: learn lessons of 30s. Protectionism reduced trade. Be grateful to US for what they have done to maintain world trade. But US cannot sustain that forever. We must take all our problems to GATT. We all have problems. So have Japanese - you do not import enough. You have special safety regulations. You don't accept international standards, you have a poor distribution system. You knock us out of markets by aid and trade. We have to take all our problems into GATT, if we do not we are going to have to deal with them bilaterally. Of course it must be well prepared, but I have no difficulty with agenda. We should deal with services. We cannot exclude agriculture; what we are doing hurts other peoples' agriculture. The NIC must open their markets. Developing countries need trade to service their debts. Some of richest third world countries in big messes because they have run their affairs badly.

/Africa:



Africa: do not just give them food; help them to develop their own food production. Look at effect of high copper price, diversifying people to substitutes with bad effect in Zambia. We have to look at all these things in a more sophisticated way.

Motor: we cannot impose stability. That will depend on our following sound and convergent policies. We asked G10 to report on ways of improving functioning of the monetary system ("a more stable exchange market system").

G10 report on 21 June. Then our Finance Ministers will look at it. No point in convening them under another name. We cannot impose our views; but we can give a lead. I am an open trader; we keep our markets open to people who do not open theirs to us. Unless we deal with these matters together we shall be forced by pressures to deal with them differently bilaterally.

Kohl:

Sum up. Summits not for papers but for talk.

This morning we have covered a wide range. Given our Minuters a task to complete a document which we shall then publish. Europe giving a message of pessimism. That won't help to solve our problems. We started with declaration of 40th anniversary of end of war; look how far we have come. We should send a positive message. Now to photograph and lunch.



NOTE FOR THE RECORD

IDU MEETING IN WASHINGTON

Mr McFarlane raised this with the Prime Minister at the Summit reception on 2 May. The Prime Minister explained the background to the IDU and her support for it, but equally the possible difficulties for her of attending a meeting in July. At best she could only attend for the Thursday evening and Friday morning. How committed was the President to the meeting? Mr McFarlane said that the President did not yet even know that the IDU meeting was to be held in Washington. It was not certain that he would attend, though he might give a lunch if he were in Washington. He would hope to avoid a spate of bilaterals.

The Prime Minister was clearly taken aback to hear that the President knew nothing of the meeting and commented that a certain amount of 'leverage' appeared to be going on.

EDP.

3 May, 1985



Mr Derek Thomas) separate  
Mr Braithwaite ) copies

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SECRETARY OF STATE'S MEETING WITH MR CLARK, CANADIAN FOREIGN  
MINISTER: BONN, 3 MAY 1985

Sir Geoffrey Howe QC MP  
Mr Derek Thomas  
Mr Len Appleyard

Mr Joe Clark  
Mr Gordon Smith  
Mr Bill Chambers

### VE Day

1. After some initial discussion on outstanding drafting points on the Political Declaration, the Secretary of State turned the discussion to the VE Day celebrations in Moscow. He said that we were trying to get a coordinated response among Alliance Ambassadors. It was agreed that all would attend the wreath-laying. We and the French would attend the military parade at Ambassadorial level, but not the US because of the shooting of Major Nicholson. The only outstanding difficulty was the level of attendance at the meeting the evening before, at which Mr Gorbachev was expected to make a speech. The US view was that Mr Gorbachev was likely to make a critical speech which might force the US Ambassador to walk out. Hence the Americans were staying away. Our view was that the most recent indications of the Soviet position, ie Mr Gorbachev's Torgau remarks, indicated that Soviet presentation was likely to be relatively conciliatory, though no doubt there would be some criticism of US policy. Our impression was that our Ambassadors in Moscow were lining up behind a decision not to attend the meeting. We thought that Ambassadors should attend, and we hoped that the French and US Governments would agree. The Secretary of State said he would have a word with George Shultz in the margins of the Summit.

2. Mr Clark said that this seemed to be a reasonable view, and he would ask his Ambassador to go to the meeting and to the parade. However, he was reluctant to try to persuade George Shultz to change his position.

### Southern Africa

3. The Secretary of State said that it was useful to have a chance to talk about this in advance of CHOGM. We had tried to head off the South Africans from making the announcement about a provisional government for Namibia, and had condemned this when they had gone ahead. The NNAM in Delhi had put a high priority on Namibia. It seemed inevitable that they would ask for a Security Council meeting. The pressure in favour of economic sanctions

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against South Africa was gradually building up and would probably increase as CHOGM approached. We did not believe that sanctions were either right or effective. We also thought that recent moves by the South African Government were more than mere window-dressing. It was essential to keep the momentum going. We accepted that there would be a good deal of understandable pressure in the Community to revise the EC code of conduct. We agreed that we might well need to bring the code up to date. The main point was that the major Western economies must keep together if they were to head off demands for mandatory sanctions through the UN. It was also in our interest that the US-sponsored negotiating process should continue. All Governments need to keep up pressure on the South African Government.

4. Mr Clark agreed. This was an issue in which Mr Mulroney was personally very interested. The Canadian Government was conducting an internal review on policy towards Southern Africa. They would have to look at their own code of conduct, which had not been changed over the past eight years. He wanted in particular to talk to business leaders. Alcan was taking a positive attitude. It would be important to create a critical mass among Canadian companies.

5. The Secretary of State said that during CHOGM in New Delhi Southern Africa was one of the principal themes, though the Grenada affair was perhaps the most urgent topic. Australia now moved more towards a policy approving sanctions. There had been corresponding moves in the US Congress. The Secretary of State had seen the South African Ambassador and Bishop Huddleston, leading the anti-apartheid movement, earlier this week. We were also reviewing our own position. We needed to strike the right balance, which would involve some action on codes of conduct and which would enable us to avoid economic sanctions.

6. Mr Clark said that voluntary action by Canadian companies would be the most effective move from his standpoint. Diefenbaker was regarded, in Conservative Party lore, as the man who almost single-handedly had driven South Africa out of the Commonwealth. Mr Smith added that the Canadian Government was less impressed than the British Government by recent moves by the South African Government. The Canadians also thought that the social turmoil which was occurring was more serious than we did. The Secretary of State intervened quickly to say that we had no doubt about the seriousness of the turmoil now taking place. Mr Thomas said that, while we should not exaggerate the significance of recent moves by the South African Government, they were nevertheless real. They were in the right direction. The question was whether we should encourage them or criticise them, and thereby risk choking them off. The Secretary of State said that in the wider Southern African context the Nkomati Agreement was in considerable trouble. President Machel had concluded that the Agreement was not being

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implemented. On the other hand, the South African Government was now being more helpful towards Machel. We wanted to see a non-Marxist process of stabilisation in Southern Africa. It had been noticeable that during his own visit to Zimbabwe, Zambia and Kenya earlier this year, all the Governments concerned had indicated that they wanted Crocker's negotiations to continue. He suggested that our Governments should keep in close touch in the run-up towards CHOGM. Mr Clark agreed.

Sri Lanka

7. Mr Clark said that both Governments were involved in a major hydro-electric project in Sri Lanka. Unfortunately, this project was becoming linked with the Tamil issue. The Canadian Government had been very careful about aid conditionality. They were taking a hard look at this project in the light of the political ramifications. One of the difficulties was that this had been one of Canada's most successful aid projects, and represented a major investment of funds. The Canadians had made representations to the Sri Lanka Government. So far these had had no effect. He wondered whether we were looking at the project in the same light.

8. The Secretary of State said that he was not aware of any re-examination of major aid projects in Sri Lanka. Nevertheless, we were taking every opportunity to impress upon the Sri Lanka Government the need for a political accommodation. The Prime Minister had recently visited Sri Lanka, where she had taken this line. The Secretary of State himself had stressed the need for accommodation with the Tamil separatists during a series of meetings with various Sri Lankan Ministers over the past year. He thought that President Jayawardena was keen to reach an accommodation. But he was surrounded by Ministers who took a distinctly contrary line. We thought that the Indian Government under Mr Gandhi was more aware of the need for reconciliation than its predecessor. Some action had been taken to prevent guerrilla activity sponsored from India.

9. Mr Thomas pointed out that linkage between political moves and aid was often very difficult to handle. The Secretary of State said that we had succeeded in including some human rights provisos in the Lome Convention. Mr Smith said that the recommendations which officials would probably give to Canadian Ministers would be that explicit linkage between the aid programme and political moves would not be made. On the other hand, steps would be taken to reduce Canada's aid programme to Sri Lanka, which was already disproportionate to the size of the country. This reduction in aid would cover funding for the hydro-electric project. The Secretary of State said that we would continue to urge the Sri Lanka Government to reach an internal accommodation.

/ Pakistan



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Pakistan

10. Mr Clark asked whether we thought that the new Indian Government was likely to be more responsive to the idea of Pakistan's rejoining the Commonwealth than its predecessor. The Secretary of State said that the new Indian Government was more conciliatory in the presentation of its policy, but he doubted whether the policy itself had changed. Hence he was sceptical about the chances that Mr Gandhi would welcome Pakistan's return to the Commonwealth. Mr Clark agreed.

UNESCO

11. Mr Clark said that the Canadian Government had not taken any decision about continuing to participate in UNESCO. Personally he would prefer Canada to stay in. He was worried in case leaving such an institution could be contagious. But he was keen that the reform process should be carried through.

12. The Secretary of State pointed out that there was very strong domestic pressure in Britain over the present activities of UNESCO. This was very understandable. The progress of reform made last year was clearly insufficient. We had made plain that our decision to leave UNESCO unless reform was carried forward in a more genuine way was intended as a lever to secure more rapid progress. We would certainly keep up the pressure. Other EC countries were now taking a more vigorous attitude. We would look again at our own position in the light of the Sofia Conference

EC

13. The Secretary of State said that, on beef and veal quotas, we had been in a minority of one in opposing action against Canada. But it would be very important for the Canadians to tell us what they intended to do. Mr Clark said that the Cabinet would examine recommendations from officials on his return. He thought that they would be acceptable both to the Canadian Government and to the EC.

14. Mr Clark also said that they were having difficulties on cod catches with the Germans, on which they would welcome a report from other EC Governments. The Secretary of State took note.

3 May 1985

  
(L V Appleyard)

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ECONOMIC SUMMIT, BONN, 2-4 MAY 1985  
FOREIGN MINISTERS' MEETING: MORNING, 3 MAY

Nicaragua

1. Mr Genscher introduced the morning's discussion by saying that Ministers had had a very interesting discussion on Afghanistan the previous evening. It was now time to move on to another very important regional issue: Nicaragua. He invited Mr Shultz to outline US policy.
2. Mr Shultz said that the basic objectives of the US in Central America had not changed. They were the establishment of democratic freedoms in all Central American countries. The US believed that many people in Nicaragua were dissatisfied by the establishment of a communist government which had effectively stolen the revolution. It had established a pattern of subversion of neighbouring countries, particularly El Salvador, Costa Rica and Guatemala. Soviet and Cuban influence in Nicaragua was extensive. There was also a Libyan, Iranian and PLO presence. In other Central American countries democratic forces had succeeded in establishing themselves. The economic slide had been held. Hence the centre of the problem was Nicaragua and its behaviour.
3. Mr Shultz said that the US fully supported the Contadora Process. It had conducted a series of bilateral discussions with the Nicaraguan Government. These had proved wholly fruitless. They had been used by the Nicaraguans to undermine the Contadora Process. This was unacceptable. Hence the talks had been ended. During the debate in Congress on aid to the Contras, many Congressmen had argued that the President should use the full powers available to him by imposing economic sanctions. The President had considered imposing sanctions from time to time over the past two years. He had been reluctant to do this in order not to cause suffering to the Nicaraguan people. But it was clear that the Nicaraguan Government would only take account of measures of this kind. Hence the decision had been taken. Mr Shultz said that the form of the sanctions had been very carefully considered. They had no extra-territorial aspects. Naturally, the US hoped that other Governments would take similar action, since sanctions were never effective unless widely supported, but they were not asking other Governments to take such action. The US Government had decided that, as in the case of Libya, it did not wish to have anything to do with Nicaragua. Mr Shultz added that the US had not lobbied for support among European Governments, since the US Government did not expect them to respond positively. But this would not deter President Reagan.

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4. Mr Andreotti said that the EC was in a delicate position. EC Governments had always kept in close touch with Mr Shultz over Central American policy. The EC was now preparing for a second San Jose conference, which was expected to take place after the summer break. A troika of Political Directors was now in Central America discussing the idea of a conference with Governments there, including the Nicaraguan Government. The attitude of Central American Governments had been very positive. He agreed that nobody wanted to see the Soviet Union establish itself in areas of legitimate concern to the US. It was essential in this period to have the closest contacts with the US. But sanctions were rarely helpful. They might also give the Nicaraguan Government an excuse when the Nicaraguan economy went further into decline as a result of the Nicaraguan Government's own incompetence.
5. Mr Clark said that the Canadians were very concerned about the sanctions decision, which could cause serious difficulties for the Contadora Process. He was interested to hear that the decision did not involve extra-territorial problems. Much of Canada's own trade with Nicaragua went through the US. Yet there had been statements by US officials which suggested that American subsidiaries trading with Nicaragua would be prevented from exporting. He would be surprised if any other Government took similar action to that of the US Government.
6. Mr Shultz said that the US Government was not greatly concerned whether it affected the Nicaraguans or not. It was essentially an expression of disdain. Nicaragua only showed interest in the Contadora Process when the pressure was on. As soon as the pressure on the Nicaraguan Government was relaxed it was much less forthcoming. It was essential to create a situation in which it was in Nicaragua's own interests to do what we all wanted them to do. On trade, the US Government took the view that anything which was imported into or exported from the US was subject to regulation by the US Government. This applied even if there were Canadian elements. After further exchanges on Canadian exports, Mr Shultz said that he would look at individual cases. But the US Government had the right to prevent products going from the US to Nicaragua.
7. Mr Andreotti intervened again to argue that we should not criticise Governments like Nicaragua and Libya as simply emanations of the devil. The Libyans, for example, were capable of being reasonable when it was in their interests, eg over policy towards Morocco.
8. Mr Dumas thanked Mr Shultz for his lucid account. He noted that he was not seeking assent and approval from European Governments. Hence the discussion did not have to take place under tricky conditions in which Governments were being asked for explicit support. The US initiative had come as a bolt out of the

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blue. It was at variance with the policy supported by the EC, and especially by France. The EC policy was to give full support to the Contadora Process. He understood US interests, but could not endorse the US response. The US initiative severely disrupted the Contadora Process. The picture in Nicaragua was not entirely black. The November 1984 elections had produced some votes for the Opposition, though the Contras had not been represented. It was a dangerous precedent to challenge the electoral processes of Governments around the world. There was a danger that the US sanctions could push Nicaragua closer to the Soviet Union. It risked having a boomerang effect in the third world. During President Neves's inauguration in Brazil, there had been enormous applause for President Ortega. He was making the Nicaraguans heroes.

9. Mr Dumas went on to say that he could not help but notice that whatever the American Government's attitude towards Colonel Quadhafi, there were over 3,000 Americans in Libya. The only people allowed into Libya without visas were Americans. Mr Hammer was doing very good business with Libya. The French felt that when you had problems with Colonel Quadhafi the best thing was to talk straight to him. Mr Dumas concluded by saying that he would welcome Mr Shultz's view on what the US Government would do next if the sanctions policy did not work. Would there be a further escalation?

10. The Secretary of State said that we had total understanding and support for US objectives in Central America. We fully agreed that we needed to promote peace, stability, freedom and justice there. That is why we had kept the Belize Garrison at the request of the Belize Government. That was why we had given support to President Duarte in El Salvador. All the countries at the San Jose Conference had agreed on this. The Contadora Process was an important contribution to our common aims. In Nicaragua we all wanted to see an end to disruption of neighbouring countries, and an end to the arms build-up.

11. The Secretary of State went on to say that the real question was what was the best way to achieve this in practice. We wanted to avoid the establishment of a state in Central America dependent upon or wholly loyal to the Soviet Union or its Cuban surrogate. We wanted to see genuine pluralist democracy established in Nicaragua. We had no illusions about the present level of democracy in Nicaragua. That was why we had not sent observers to the elections. We did not think that the surrounding circumstances made genuine democratic participation possible. We needed to keep up maximum pressure on Nicaragua to move in the right direction. Our anxiety was that the imposition of sanctions might have the practical effect of increasing economic dependence on the Soviet Union and Cuba. If this happened, it would set back the prospects for diminishing Soviet influence and strengthening pluralist democracy. We should remember that if we achieved the objectives of the Contadora Process, this would be a worthwhile

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prize. We would also be faced with the dilemma that, if we did not trade with Nicaragua in place of the US, the former would become even more dependent on the Soviet Union. We very much welcomed what George Shultz had said on avoiding extra-territorial problems. So, the Secretary of State concluded, this question was a practical one: everyone wanted a free and independent Nicaragua - were sanctions the best way to promote this?

12. Mr Abe said that this was a very interesting and important question. It was far from clear which way the situation would go. That was the Japanese Government's firm view.

13. Mr Genscher summed up the debate by saying that Ministers had had a useful, candid and friendly discussion. He added a further thought on the trade boycott - since the main parts of the Nicaraguan economy were still in private hands, sanctions would undermine this independent part of Nicaraguan society.

Drugs

14. Mr Genscher noted the discussion yesterday evening by Heads of Government about drug-trafficking. This was a major problem. We should try to develop a more comprehensive strategy. He suggested that Political Directors, or experts, should have an early exchange of views to see if practical proposals on a joint strategy could be worked out. Mr Andreotti agreed that it was important. There ought to be closer cooperation on legislation and elimination of drug-trafficking. There should be a public relations drive against drugs. The Secretary of State noted the massive scale of the money involved. Sometimes this outweighed even the resources of Governments. This underlined the importance of arrangements to seize and confiscate the assets of drug-runners. We were considering legislation in this direction. Such legislation would be greatly strengthened if a system of international cooperation could be established. That was why he thought that this initiative needed the support of people of the level of Head of Government and Foreign Minister.

Political Declaration

15. There was a brief discussion on the final draft of the Political Declaration which had already been approved by Heads of Government. The revised draft was rapidly approved.

Economic Issues

16. Mr de Clercq, for the Commission, embarked on a long dissertation about the problem of a new trade round. He said

/ that



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He said that the Community had exclusive competence in this area. It had publicly stated that it would play a full part in setting up a new trade round. The Community agreed that we must resist protectionism. Trade, monetary and financial issues were interlinked. This was not a question of creating pre-conditions. It was a matter of ensuring parallelism. He welcomed the recent package of measures by the Japanese Government on the date of a new trade round. He argued for a step-by-step process. It should be possible to decide that a new trade round should be launched by 1986, without going into greater detail on timing. Perhaps the preparatory steps could be given dates. We needed a balanced package with nothing automatically excluded. He was also conscious of the hesitation of developing countries. A team from the Commission were now holding discussions with leading developing countries. Mr de Clercq then moved on to the EC/US steel dispute, emphasising the need for an early decision by the US Government and the gravity of the problem. Mr Andreotti intervened to suggest that there was no point in taking the discussion further since Heads of Government would be discussing economic and trade issues.

Press Briefing

17. Mr Genscher then summed up the line which he would take with press correspondents at lunchtime. He would draw attention to the Political Declaration, stressing its importance and timeliness. He would say that interest in Afghanistan was still as great as ever. Governments condemned the continuing occupation by the Soviet Union. He would describe the mandate on drugs given to Political Directors or experts. He would say that there had been a discussion on Central America, in which Mr Shultz had explained US policy. He would stress that Governments shared common objectives. He would leave individual delegations to comment on their own position.

18. Mr Abe intervened to suggest that the discussion on Cambodia the previous evening should also be mentioned. This was agreed. Mr Shultz, in an angry outburst, said that Mr Genscher should also report that the US had just received a direct threat from the EC that unless it took certain action in the next few hours the EC would take retaliatory action. Whatever it was, the US Government had not the slightest intention of taking whatever action was proposed. He did not react well to this kind of threat. Mr de Clercq then intervened with a long statement that he had not threatened anything but had simply recorded that the US was contemplating certain action which the EC hoped it would take as soon as possible. Mr Shultz responded tartly that he had heard this threat quite clearly and was unimpressed. Mr Genscher intervened to smooth down ruffled feathers.

19. Mr Dumas then returned to the question of Nicaragua. He said that it should be made clear that some Governments had had misgivings or reservations about the US action. Under no

/ circumstances ...



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circumstances must the impression be given that Mr Shultz had explained US policy and all the other delegations had simply agreed with it. Mr Genscher assured him that he would be very careful about what he said.

20. The Secretary of State said that we should also reaffirm our common commitment to the fight against terrorism. This was agreed. Mr Andreotti suggested that, on drugs, we ought to make next year a United Nations year for action against drug-trafficking. The Secretary of State said that he was not opposed to the idea in principle, but as a practical matter UN Years were normally booked up well in advance for particular issues. We would need to check this out.

3 May 1985

*L V Appleyard*  
(L V Appleyard)

CONFIDENTIAL



PRIME MINISTER

MEETING WITH CHANCELLOR KOHL, ON

18 MAY, 1985

Your meeting with Chancellor Kohl on 18 May will be crucial in determining whether we succeed in channelling the debate on the future of the European Community over the next months towards sensible conclusions with which we can live. On the one hand we have to convince the Euro-enthusiasts if not the Euro-fanatics that Britain is prepared to move ahead. On the other we don't want to succumb to the drivel about European union.

You have already agreed some general guidelines for the discussion between now and the June European Council. These are in brief:

- priority for completing the internal market;
- no more powers for the European Parliament;
- more use of majority voting where the Treaty already provides for it, subject to the Luxembourg compromise being formalised;
- formalising the existing arrangements for political co-operation.

We have already got the Community moving on the internal market. Political co-operation is the other area where we can give a lead and conduct the debate on our terms without giving away anything essential.

The attached paper sets out a draft agreement on political co-operation with the suggestion that you launch/<sup>it</sup>on Chancellor Kohl on 18 May as a substantial British initiative.

/The draft



CONFIDENTIAL

-2-

The draft agreement would be an agreement between Member States and therefore not part of the Community law. It simply codifies and sets down in formal language what we are already doing. It does not restrict our national independence of action.

In short, it is dressing up mutton to look like lamb. But it will appeal to the Germans because it is an agreement and should be a "step forward" The experts will not be convinced. But I think you could sell it politically to Chancellor Kohl and to wider Community opinion as a British initiative, stake out a strong position, and make it impossible for others to put us in the dock as being a backmarker on European union.

If you agree, we would get it translated into German so that you could give it to him at Chequers and base your discussion with him on it. We would subsequently use it with other Member States.

The Attorney General has been through the text and is content with it, <sup>in</sup> particular that it does not in any way give the Community competence over our foreign policy.

Agree to launch this initiative on 18 May?

C.D.P.

3 May, 1985

CONFIDENTIAL





ACCESSION TREATY (SPAIN/PORTUGAL): SIGNATURE

Introduction

1. Italians have abandoned idea of trying to settle signature date in COREPER today, in favour of seeking to pre-cook it in margins of Bonn Summit. Andreotti will probably raise the matter, but not to be excluded that Craxi will.

Line to Take

2. The Prime Minister is keen to attend. Her first preference is 10 June. If that's impossible for others, she could manage 18 or 19 June, though neither easily.

Background

3. 10 June is unacceptable to a number of Member States.
4. 12 June is acceptable to all but the UK (ie Prime Minister cannot manage it - though Foreign Secretary could).
5. 13 June has also been a runner, but is not now acceptable to the Prime Minister (Foreign Secretary could if necessary go then, but it is a Cabinet day).
6. The best day for the Foreign Secretary would be 18 June (already earmarked for Luxembourg Foreign Affairs Council).
7. The Italians seem to be planning on basis of signature inside one day in both Madrid and Lisbon. But signature in Luxembourg or Brussels cannot be ruled out.
8. 19 June would be difficult if not impossible for Foreign Secretary, given Diplomatic Banquet that evening.



Draft

P. Lely

Political Declaration  
on the 40th Anniversary of the End of the Second World War

The Heads of State or Government of Canada, the French Republic, the Federal Republic of Germany, the Republic of Italy, Japan, the United Kingdom and the United States, with the President of the Commission of the European Community, meeting together in Bonn on the eve of the fortieth anniversary of the end of the Second World War, remember in grief all those who lost their lives in that time, whether by acts of war or as victims of inhumanity, repression and tyranny. We acknowledge the duty we owe to their memories, and to all those who follow after them, to uphold peace, freedom and justice in our countries and in the world.

We have learned the lessons of history. The end of the war marked a new beginning. As the sounds of battle ceased, we tackled the tasks of moral and spiritual renewal and physical reconstruction. Transcending the hostilities which had once divided us we initiated on



the basis of common values a process for reconciliation and cooperation amongst us. Today, linked in a peaceful, secure and lasting friendship, we share in all our countries a commitment to freedom, democratic principles and human rights. We are proud that the Governments of our countries owe their legitimacy to the will of our people, expressed in free elections. We are proud that our people are free to say and write what they will, to practise the religions they profess, and to travel where they will. We are committed to assuring the maintenance of societies in which individual initiative and enterprise may flourish and the ideals of social justice, obligations and rights may be pursued.

We recognise that we can secure those aims, and meet both the opportunities and the challenges presented by technological and industrial change, more effectively in partnership than on our own. In Europe, the Community, the embodiment of reconciliation and common purpose, is growing in membership, strength and prosperity. The nations of the dynamic Pacific region are drawing ever closer



together. The partnership of North America, Europe and Japan is a guarantee of peace and stability in the world.

Other nations that shared with ours in the agonies of the Second World War are divided from us by fundamental differences of political systems. We deplore the division of Europe. In our commitment to the ideals of peace, freedom and democracy we seek by peaceful means to lower the barriers that have arisen within Europe. We believe that the CSCE process with its promise of enhancing human rights provides an opportunity to increase confidence, cooperation and security in Europe. We look forward to a state of peace in Europe in which the German people will regain its unity through free self-determination.

① → In Asia we earnestly hope that a political environment will be created which permits <sup>the Nations</sup> to overcome the division of the Korean peninsula in freedom.

As recognized in the Charter of the United Nations all countries have a joint responsibility to maintain international peace and security and to this end refrain from the threat and the use of force. We for our



part share a determination to preserve the peace while protecting our democratic freedoms. To that end, each of us will work to maintain and strengthen a stable military balance at the lowest possible levels of forces, neither seeking superiority for ourselves nor neglecting our defenses. We are prepared to pursue a high-level dialogue to deal with the profound differences dividing East and West. We strongly support endeavours to strengthen the peace and enhance deterrence through the negotiation of meaningful reductions in existing levels of nuclear arms, limitations on conventional arms, the banning of chemical weapons and lessening the risks of conflict. We welcome the opening of negotiations in Geneva. We appreciate the positive proposals of the United States of America. We urge the Soviet Union to act positively and constructively in order to achieve significant agreements there.

We shall continue to seek to work with the developing countries, so as to help them to fight hunger and disease, to build free and prosperous societies, and to take their part in the community of nations committed to peace and freedom. We respect genuine non-



alignment as an important contribution to international security and peace.

So, as we look back to the terrible suffering of the Second World War and the common experience of 40 years of peace and freedom, we dedicate ourselves and our countries anew to the creation of a world in which all peoples enjoy the blessings of peace, of justice, and of freedom from oppression, want and fear; a world in which individuals are able to fulfil their responsibilities for themselves, to their families and to their communities; a world in which all nations, large and small, combine to work together for a better future for all mankind.



Prime Minister

I gather that Mitterand  
was "greatly upset" by the reports  
of what you said in the Wall  
Street Journal about high level  
monetary conference etc.

You may like to see if you  
have an opportunity to say  
something that will soothe him.

May be something to the effect  
that you agree on need for proper & full  
discussion of whatever comes  
from G10 report?

RJA





BONN ECONOMIC SUMMIT: 2 - 4 MAY 1985

GATT WORK PROGRAMME

Brief by Department of Trade and Industry

1. The GATT Work Programme was agreed by the 1982 GATT Ministerial meeting. It provides for studies and some negotiations on a range of issues, some left undecided after the Tokyo Round. No conclusions have been reached.
2. Developing countries have called for the completion of unfinished business from the Work Programme. (IBRD Development Committee, April 1985). This is disingenuous: LDCs themselves are blocking progress on subjects of no interest to them, such as services. It is a tactical ploy to delay agreement to a new Round.
3. Items on the Work Programme can, like any subject, be proposed for inclusion on the new Round agenda. Of UK priorities for a new Round, the Programme covers services and agriculture, but not the opening of Japan and NIC markets.
4. Major items on the Work Programme include:
  - Safeguards: EC holding out for a Code that allows discriminatory safeguard action against one country only. US, Japan, LDC's favour present non-selective rules.
  - Agriculture: US wants rapid progress to constrain Community food exports. LDCs wants better access to developed country markets.





- Services: EC and US want faster progress on studies of trade in services. LDCs are hanging back.
  
- Tropical Products: LDC's want better access for exports of coffee, cocoa etc. Work Programme calls for "appropriate negotiations": none have taken place.
  
- Tariff Escalation: LDCs seek an end to imposition by Developed Countries of higher tariffs on finished goods than on raw materials. LDCs do it too.

Department of Trade and Industry  
2 May 1985



1. cc Mr Powell.  
Mr. Applegard

10.11.19

s.e.

2 H of C  
sir julian l. bullard  
botschafter von grossbritannien  
bonn

JO 3/5

bonn, den 3. mai 1985

exzellenz,

ich habe vom praesidenten von nicaragua, daniel ortega, folgenden brief per telex erhalten, mit der bitte ihn an seine exzellenz, den staatschef ihres landes weiterzuleiten.

ich waere ihnen sehr dankbar, wenn sie ihm diesen brief ueberreichen wuerden.

ich benutze auch diesen anlass, um sie meiner ausgezeichneten hochachtung zu versichern.

heberto incer  
botschafter von nicaragua

belgrade, may 1., 1985

on the occasion of the present economic summit in bonn which is also attended by your country, please allow me, excellency, to express my serious concerns regarding the severe, extortionate economic measures initiated against nicaragua by the president of the united states.

i am convinced that you, excellency, are well aware of the contradictory nature of these measures. while the heads of the industrial nations meet in order to discuss the reduction of obstacles to free international trade and consider the necessity of initiating a new series of negotiations within the framework of gatt for the liberalization of world trade, the president of the united states without any reason declares a "national emergency" and justifies it with the danger allegedly posed by a small developing country to the security and foreign policy of the united states. a total trade embargo is being imposed on nicaragua which is a contracting party of gatt.

doubtlessly, president reagan's measures which are out of all proportion, do not only violate the stipulations laid down in the charter of the united nations, but also the principles of free trade and cooperation between the nations designed to promote development. these principles are supported and defended by the international community of nations as well as by your government.

in view of this situation, please allow me to ask you to express your disapproval of these measures to the president of the united states. these measures do not only affect my country, but also the process of negotiations within the contadora group. in addition, i should like to ask you to point out to the president of the united states, the extent of damage thus caused to the international economic relations and the spirit of this conference.

on behalf of my government i should like to wish you a succesful course of the summit and i take this opportunity to assure you, excellency, again of my highest consideration.

daniel ortega  
president of nicaragua

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repeated no 10. ps/sos and oda.

for ps/prime minister from benjamin  
mipt. commercial uses of aid  
the figures quoted below may also be useful to have to hand.

uk/japan visible trade balance	ods million.				
	1980	1981	1982	1983	1984
uk exports to japan	597	613	681	798	926
uk imports from japan	1707	2206	2659	3355	3796
balance	- 1110	- 1593	-1977	- 2557	-2870

uk/japan trade in manufacturers

uk exports	481	697	528	597	736
uk imports	1666	2154	2572	3250	3646
balance	- 1185	-1657	-2044	-2653	-2910

source overseas trade statistics.

net official development assistance to developing countries and  
multilateral agencies.

	1971-73 (average)	mu 1981	1982	1983	annual growth rate rate of oda 77-78-82-83
japan	711	3171	3023	3761	11.3 percent
uk	648	2191	1800	1601	-3.5 percent.

oecd figures- us dollars million.

nann

v

int

*Algood*

*2.5.85*





Foreign and Commonwealth Office

London SW1A 2AH

2 May 1985

Dear Charles,

1985 CAP Price Fixing

The Foreign Secretary has seen a copy of Mr Jopling's minute to the Prime Minister of 30 April.

Sir Geoffrey Howe agrees that we must keep up the pressure on the Germans, particularly as Delors has been seeking to stiffen Andriessen's resolve to stand by the Commission's proposals.

When the Prime Minister sees Chancellor Kohl today, the Foreign Secretary suggests that the points which most need to be made are:

- failure to reduce cereal prices in this price fixing will lead to a rise in the cost of the cereals regime in 1986 and make it more difficult to hold down prices of Mediterranean products;
- failure this year to implement the agreed guarantee threshold arrangements will jeopardise our common effort to introduce sensible controls on Community spending;
- we agree with Kohl's approach that the future shape of the Community needs to be determined before enlargement. If we put off reforms now they will become harder to obtain after Spain and Portugal have joined;
- failure to reduce cereal prices this year would have dangerous implications for trade relations with the United States.

If the Germans do not change their position at the Agriculture Council later this week, Sir Geoffrey Howe hopes that we can continue to work for a situation in which the German Agriculture Minister is forced either to accept a vote on cereals or formally to invoke the Luxembourg compromise.

/I am





I am copying this letter to the Private Secretaries of members of OD(E), the Secretaries of State for Wales, Scotland and Northern Ireland, and Sir Robert Armstrong.

*Yours ever,*

*Colin Budd*

(C R Budd)  
Private Secretary

C D Powell Esq  
10 Downing Street



CAP



F2 MAY 1985

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6 7 8 9 10



PRIME MINISTER

BONN ECONOMIC SUMMIT:  
SPEAKING NOTE ON ECONOMIC ISSUES

I attach a revised version, to take account of the comments you made this morning.

e.d.p.

1 May 1985



BONN ECONOMIC SUMMIT : SPEAKING NOTE ON ECONOMIC ISSUES

AT OUR MEETING LAST YEAR, I SAID THAT WE MUST SEND A CLEAR MESSAGE FROM THE SUMMIT. WE DID. WE SAID: "OUR STRATEGY IS THE RIGHT ONE. WE INTEND TO STICK TO IT."

WE ARE SEEKING REAL GROWTH, REAL JOBS, REAL PROSPERITY, ALL WITHIN A FREE SOCIETY. WE ARE NOT INTERESTED IN QUACK REMEDIES AND QUICK FIXES. WE MUST STICK TO OUR STRATEGY NOT FOR ONE YEAR OR TWO YEARS, BUT FOR AS LONG AS IT TAKES TO ESTABLISH IN OUR OWN COUNTRIES AND EXTEND TO OTHERS THE BENEFITS AND REWARDS OF SOUND NON-INFLATIONARY GROWTH.

page 2

SINCE OUR LAST SUMMIT, THE LEVELS OF INFLATION HAVE BEEN LOWER AND THE RATES OF GROWTH HAVE BEEN BETTER IN OUR COUNTRIES THAN MANY PEOPLE EXPECTED.

Britain

IN BRITAIN WE HAVE NOW SEEN FOUR YEARS OF CONTINUOUS GROWTH OF REAL OUTPUT. WE EXPECT <sup>growth</sup> ~~OUTPUT~~ THIS YEAR TO REACH THREE AND A HALF PER CENT. AND WE EXPECT OUR GROWTH TO CONTINUE IN 1986. WE BELIEVE THAT OUR SUCCESS COMES FROM FOLLOWING POLICIES OF FISCAL AND MONETARY DISCIPLINE. WE INTEND TO MAINTAIN THEM. BUT WE ALSO NEED TO BE FLEXIBLE, TO ADAPT TO CHANGES IN DEMAND AND TO TECHNOLOGICAL OPPORTUNITIES.

page 3

~~Very important~~ JOBS of our problems  
FIRST AND FOREMOST ~~IS~~ THE CONTINUING AND DISTRESSINGLY HIGH LEVEL OF UNEMPLOYMENT. THE PAIN FOR THOSE UNEMPLOYED IS ALL THE GREATER WHEN THEY SEE THE PARADOX OF RISING OUTPUT AND RISING LIVING STANDARDS FOR THOSE IN WORK. I BELIEVE THAT THE RIGHT WAY TO TACKLE UNEMPLOYMENT ~~IS NOT TO BOOST DEMAND BY MORE PUBLIC SPENDING - DEMAND IS ALREADY RISING STEADILY IN OUR ECONOMIES AND THE LESSONS OF THE 1970s WARN US OF THE DANGER OF BOOSTING IT ARTIFICIALLY STILL FURTHER. THE RIGHT WAY~~ TO BRING MORE PEOPLE INTO WORK IN BRITAIN, AND INDEED IN THE REST OF EUROPE, IS TO DO ALL WE AS GOVERNMENTS CAN DO TO LET INITIATIVE AND ENTERPRISE FLOURISH. WE NEED TO IDENTIFY AND CUT OUT THE REGULATIONS, PRACTICES AND HABITS WHICH PREVENT MARKETS FROM WORKING, ESPECIALLY THE LABOUR MARKET. GOVERNMENTS MUST LEAVE THE WAY FREE FOR PRIVATE ENTERPRISE TO



TAKE THE INITIATIVE IN THE CREATION OF WEALTH AND JOBS. WE HAVE SEEN THAT IN AMERICA THE LESS REGULATED ENVIRONMENT HAS ENCOURAGED THE ENTERPRISE CULTURE AND BROUGHT NEW JOBS WITH IT ESPECIALLY AMONG SMALL BUSINESSES. AND I KNOW FROM MY RECENT TALKS WITH THE CANADIAN PRIME MINISTER THAT HE HAS THE SAME AMBITIONS FOR CANADA. THIS THEN IS THE TASK FOR EUROPE.

114 Re United States

THE DYNAMIC RECOVERY OF THE UNITED STATES ECONOMY HAS ALREADY MADE A GREAT CONTRIBUTION TO THE IMPROVEMENT OF THE WORLD ECONOMY AS A WHOLE. AND THE UNITED STATES MARKET HAS MADE THE BIGGEST SINGLE CONTRIBUTION TOWARDS <sup>last year rapid</sup> ENDING THE STAGNATION OF WORLD TRADE. THIS HAS IN TURN ENABLED THE <sup>helped</sup> DEVELOPING COUNTRIES TO BEGIN EXPANDING THEIR ECONOMIES AND <sup>expand</sup> REPAYING THEIR DEBTS. IT IS NATURAL THAT THAT EXPANSION SHOULD NOW BE MODERATING, AND RIGHT THAT THE UNITED STATES SHOULD BE TAKING STEPS TO PUT ITS CONTINUED ECONOMIC GROWTH ON A SOLID AND SUSTAINABLE BASIS. THE SIZE OF THE FEDERAL BUDGET DEFICIT, THE PRESSURES OF THE TRADING DEFICIT, HIGH INTEREST RATES AND THE EXCESSIVE RATE OF THE DOLLAR, ARE ALL PROBLEMS THAT WILL REQUIRE CAREFUL MANAGEMENT AND POLITICAL WILL IF THEY ARE TO BE BROUGHT UNDER CONTROL. THE ADMINISTRATION'S ACTIONS IN THIS AREA AFFECT US ALL. I KNOW THAT THIS RESPONSIBILITY IS RECOGNISED AND ACCEPTED BY THE ADMINISTRATION. I WELCOME THE STEPS WHICH PRESIDENT REAGAN HAS ALREADY TAKEN AND WISH HIM SUCCESS IN HIS EFFORTS. FOR THIS IS THE CENTRAL ISSUE WHERE ALL THE OTHERS MEET.

114 JAPAN

JAPAN HAS AN ENVIABLE RECORD OF INDUSTRIAL GROWTH, OF LOW UNEMPLOYMENT AND OF EXPANSION OF EXPORTS. ~~BUT WE MUST NOT FORGET THAT ONE COUNTRY'S SURPLUS IS ANOTHER COUNTRY'S DEFICIT.~~ BARRIERS OF DISTANCE AND LANGUAGE, AND LONG HABIT, MEAN THAT THE JAPANESE ECONOMY IS FAR LESS OPEN TO FOREIGN IMPORTS. FOREIGN BANKS AND FOREIGN DISTRIBUTORS FIND THEIR ACTIVITIES BLOCKED BY IMPENETRABLE REGULATIONS. FOREIGN PRODUCERS OF ELECTRICAL APPLIANCES FIND THAT INTERNATIONALLY ACCEPTED SCIENTIFIC TESTS ARE NOT ACCEPTED IN JAPAN. OF COURSE THE FOREIGN TRADER SUFFERS. SO DOES THE JAPANESE CONSUMER WHOSE CHOICE IS RESTRICTED.

Would that we need her markets to world exports be the same as we open our markets to hers open world to continue has to be a 2-way street



PRIME MINISTER NAKASONE HAS RECOGNISED THE NEED TO DISMANTLE THESE BARRIERS. HIS PROGRAMME OF MEASURES TO PROMOTE IMPORTS IS AN ENCOURAGING DECLARATION OF INTENT. BUT UNLESS IT LEADS RAPIDLY TO REAL INCREASES IN IMPORTS, THE PRESSURE FOR PROTECTIONIST MOVES AGAINST JAPANESE EXPORTS AND COMMERCIAL INTERESTS WILL INEVITABLY GROW IN EUROPE AS IN NORTH AMERICA AND RISKS BECOMING IRRESISTIBLE.

// page 6. A New GATT Round

I HAVE NO DOUBT THAT THE TIME HAS COME FOR A NEW ROUND OF TRADE NEGOTIATIONS IN GATT. THE AGENDA IS CLEAR. - WE NEED TO

- ① DEAL WITH THE CLASSICAL BARRIERS OF TARIFFS AND QUOTAS. - WE
- ② NEED TO DEVISE RULES FOR TRADE IN SERVICES WHICH ARE BECOMING INCREASINGLY IMPORTANT IN THE WORLD ECONOMY. WE NEED TO GET A
- ③ GRIP ON THE WORLD TRADE IN AGRICULTURE. WE NEED TO ENSURE *cannot be excluded from GATT*
- ④ THAT THE NEWLY INDUSTRIALISING COUNTRIES, WHOSE COMPETITIVE EDGE CAUSES US ALL MANY DOMESTIC PROBLEMS, ACCEPT THE RESPONSIBILITIES AS WELL AS THE RIGHTS WHICH ARE IMPOSED BY THE INTERNATIONAL TRADING SYSTEM. WE NEED TO MAKE IT EASIER
- ⑤ FOR THE DEBTORS AND PARTICULARLY FOR THE POORER DEVELOPING COUNTRIES TO EARN THEIR LIVING BY TRADE RATHER THAN RELYING ON HANDOUTS FROM THE RICH INDUSTRIAL COUNTRIES OF THE WORLD. *AND*

THE MOVE TOWARDS A NEW ROUND OF TRADE NEGOTIATIONS HAS ALREADY BEGUN. IT IS NOW ACCEPTED THAT A PRELIMINARY MEETING SHOULD BE HELD IN GENEVA IN THE SUMMER. THAT IS THE FIRST STAGE. I SEE NO REASON WHY THE NEW ROUND SHOULD NOT BE FORMALLY LAUNCHED EARLY NEXT YEAR. I BELIEVE THAT, IF WE GIVE A CLEAR LEAD, AND IF WE ARE RESPONSIVE TO THE NEEDS AND PROBLEMS OF THE DEVELOPING COUNTRIES, WE CAN CARRY THE THIRD WORLD WITH US. *If we do not, the pressures for more protection against particular countries may come irresistible.*

// page 7  
Money  
problems

OF COURSE MONEY AND TRADE GO TOGETHER: IT DOES NOT HOWEVER FOLLOW THAT THERE SHOULD BE A MECHANICAL LINK BETWEEN NEW TRADE TALKS AND DISCUSSION OF A REFORM OF THE INTERNATIONAL MONETARY SYSTEM. THE OLD BRETTON WOODS FIXED EXCHANGE RATE SYSTEM BROKE DOWN MAINLY BECAUSE TOO MANY COUNTRIES ALLOWED INFLATION AND MONETARY INDISCIPLINE TO BLOW IT APART. IT IS DESIRABLE TO GET BACK TO A MORE STABLE - NOT FIXED, BUT MORE STABLE - RELATIONSHIP BETWEEN CURRENCIES. WE

*The present volatility in exchange rates is clearly undesirable*



*We can only achieve more stable rates*  
~~we can only~~ ~~and~~ ~~not~~ ~~under~~ ~~stand~~  
 CAN EXPECT THAT ONLY IF WE ALL FOLLOW (CONVERGENT POLICIES. AT WILLIAMSBURG WE ASKED THE G10 FINANCE MINISTERS TO EXAMINE THE WORKING OF THE INTERNATIONAL MONETARY SYSTEM AS IT NOW IS. THEY ARE TO HOLD THEIR FINAL MEETING IN JUNE. I HOPE THAT THEIR REPORT WILL SHOW HOW THE WORKINGS OF THE PRESENT INTERNATIONAL MONETARY SYSTEM CAN BE IMPROVED. THAT REPORT WILL THEN BE STUDIED IN THE INTERIM COMMITTEE OF THE IMF. I DO NOT BELIEVE THAT WE NEED GO BEYOND THAT TO SEEK OUT SOME RADICAL REFORM.

// page 2

Debt

INCREASED TRADE AND MORE OPEN TRADING ARE THE MOST IMPORTANT MEANS BY WHICH THE DEVELOPING AND DEBTOR COUNTRIES CAN IMPROVE THEIR LOT. DEBTS CANNOT <sup>be secured</sup> BE REPAYED IF WE DENY THE DEBTORS THE MARKETS IN WHICH TO SECURE THE NECESSARY EXPORT EARNINGS. DEBT RESTRUCTURING AGREEMENTS WITH THE COMMERCIAL BANKS AND GOVERNMENTS HAVE A CONTRIBUTION TO MAKE. AND THE AID WE GIVE THEM IS OF COURSE SUBSTANTIAL AND SIGNIFICANT. BUT EVEN MORE IMPORTANT IS THE ADOPTION BY THE DEBTOR COUNTRIES OF ECONOMIC POLICIES DESIGNED TO USE THEIR RESOURCES WISELY AND ATTRACT RESOURCES, WITHOUT FEAR OF NATIONALISATION OR EXPROPRIATION, FROM THE OUTSIDE WORLD. I AM SURE THAT THE STRATEGY FOR DEBT ON WHICH WE DECIDED LAST YEAR IN LONDON REMAINS CORRECT.

*We need to deal individually because their problems differ and the solutions must be such that it creates*

~~WE SHOULD NEVERTHELESS NOT BE BLIND TO THE POLITICAL AND SOCIAL PRESSURES THAT THIS INEVITABLY PLACES UPON GOVERNMENTS IN THE DEVELOPING COUNTRIES THEMSELVES. IT IS IN OUR INTEREST TO <sup>as well as theirs</sup> SUSTAIN THEM, NOT ONLY BECAUSE THEY WILL OTHERWISE BE LESS WILLING AND ABLE TO REPAY THEIR DEBTS, BUT ALSO BECAUSE OF THE NEED TO PROMOTE POLITICAL STABILITY IN THE DEVELOPING WORLD.~~

// page 9

Africa

*also*

~~ABOVE ALL WE HAVE~~ <sup>also</sup> ~~(BEEN FACED IN THIS LAST YEAR WITH THE~~ *appalling* ~~IMMENSE SUFFERING IN AFRICA. TO THIS THERE IS NO EASY OR EARLY SOLUTIONS. BRITAIN AND THE REST OF EUROPE, AMERICA, CANADA AND JAPAN, GAVE GENEROUS FOOD AID THIS YEAR TO MEET THE IMMEDIATE NEED. THANKS TO OUR INITIATIVES THE UN EMERGENCY SYSTEM IS WORKING MUCH BETTER. BUT IT IS NO GOOD THINKING THAT THE LONG TERM SOLUTION IS FOR THE UNITED STATES AND~~



EUROPE TO GROW SURPLUS FOOD, TO SELL OR GIVE AWAY TO AFRICAN COUNTRIES. THAT WOULD BE FAR TOO EXPENSIVE AND WASTEFUL OF RESOURCES. BUT EVEN MORE, IT WOULD BE A CYNICAL SOLUTION. THE REAL NEED IS TO HELP THE AFRICAN COUNTRIES TO GROW THE FOOD TO FEED THEIR OWN PEOPLE. - THIS MEANS ENCOURAGING THEM TOWARDS SENSIBLE POLICIES WHICH PROVIDE INCENTIVES TO FARMERS - AS SOME OF THEM, ~~SUCH AS MALAWI~~ HAVE DEMONSTRATED SUCCESSFULLY - AND ENVIRONMENTAL POLICIES WHICH PREVENT THE LAND BECOMING A DESERT.

page 10

Conclusion

THE CONCLUSION WHICH I REACH IS THAT WE ARE ON THE RIGHT COURSE AND MUST HAVE THE COURAGE TO STICK TO IT. THERE WILL BE A NEED FOR SOME ADJUSTMENTS AND I HAVE SAID WHAT I THINK THESE NEED TO BE, ABOVE ALL MEASURES TO ENCOURAGE ENTERPRISE (1) AND REMOVE RESTRICTIVE PRACTICES AS THE BEST WAY TO BRING MORE (2) PEOPLE INTO WORK. IT MEANS PATIENT AND PERSISTENT PURSUIT OF (3) THE POLICIES TO WHICH WE HAVE COMMITTED OURSELVES AT EARLIER SUMMITS. WE MUST NOT PUT AT RISK THE GAINS WHICH WE HAVE MADE.





Mr Powell

PRIME MINISTER'S BILATERAL WITH MR NAKASONE

1. The Japanese here have told me that it is planned that at the bilateral with the Prime Minister, it is intended that Mr Nakasone would be accompanied by two Directors-General from their Foreign Ministry, together with a note-taker or interpreter.

2. I said that I should expect that the Prime Minister would be accompanied by you and perhaps by one further official, but undertook to let Mr Ogawa (telephone 229862) know if you had any comments on the Japanese proposals.

R E Escrib

2 May 1985

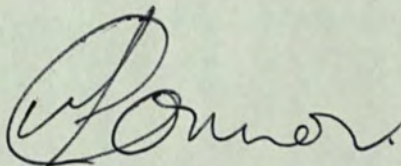


Mr Escriitt

BONN ECONOMIC SUMMIT:  
PRIME MINISTER/CHANCELLOR KOHL  
BILATERAL MEETING

1. Herr von Lukowitz telephoned me this morning to tell me that Referat 205 had prepared the following briefing for a (possible) bilateral talk between the Prime Minister and Chancellor Kohl:

- i) Chequers Meeting
- ii) Dooge Committee
- iii) East/West Relations
- iv) SDI



2 May 1985

M L Connor

Mr. Powell

for what it is worth

MLC  
2/5



- CAP prices ?
- Chequers Meeting. ?
- Bitburg (better privately). ?



DRAFT OPENING STATEMENT

Today is the sixth Anniversary of my taking office as Prime Minister and I think I am entitled to draw considerable satisfaction from this Summit's economic Declaration.

Much of it was readily approved not surprisingly because there is broad agreement throughout the seven nations, whatever our political complexion, on how to manage our economies.

All of us are seeking to build on the progress already made - sustainable non-inflationary growth <sup>leading to a higher standard of living</sup> and the creation of more jobs.

Paragraph 5 of the Communique sets out what we need to do to achieve this. The list of measures very closely reflects what we are trying to do in Britain.

We shall persevere because we believe these are the policies which will create more soundly-based employment.

The Communique perhaps brings out three things:

- The United States' determination to reduce its budget deficit, which President Reagan is getting on with;
- the need for Japan to open its market more - and at a faster pace. I shall be having a bilateral meeting with Mr. Nakasone this evening and I shall of course be reinforcing my anxieties, which I expressed yesterday in the economic debate, about how Japan's failure to act will intensify protectionist forces;
- Europe's need - and in that I include the United Kingdom - to introduce much greater flexibility into our economies in order to make them much more enterprising and job-creating.

/Viewed



Viewed against this background our long argument this morning over when the next GATT round should begin should be kept in perspective.

All of us believe we must stem the tide of protectionism and roll it back. All of us believe the need to do so is urgent. All of us, including France, see the need to get on with the preparatory work. And six of us reckon it should be possible to get a new round under way early next year.

This anti-protectionist work is going ahead. It must go ahead. It is vital that it should.

For the rest, we have acknowledged as May 8th approaches our duty to the memory of those who fell in the second world war to uphold peace, freedom and justice in our countries and in the rest of the world.

We have committed ourselves to work with the developing countries to help them fight hunger and disease and we have recognised the need for continuing action, both short and longer term to relieve famine in Africa and to help put these sorely afflicted countries in a better position to feed themselves.

Finally, I am very pleased we discussed the drugs menace in the world. All of us are deeply worried about the threat which drugs - and especially heroin and cocaine - present to our countries and especially to young people.

They could, if not checked and defeated, undermine our societies and I believe the result of this weekend's discussion will be a resolute drive by all nations, along with others, against the traffickers.

We must wage a ceaseless war against the people who ply this evil and corrupting trade and this Summit has greatly encouraged me to believe that this war will be waged more effectively and vigorously in the future.





10 DOWNING STREET

THE PRIME MINISTER

London Summit

"Our aim is security and the lowest possible level of armaments . . . . . The US has offered to restart nuclear arms control talks anywhere, at any time, without pre-conditions. We hope that the Soviet Union will act in a positive and constructive way."





10 DOWNING STREET

THE PRIME MINISTER

WEU words

They re-affirmed their firm support for, and their confidence in, their American ally in its efforts to achieve a more stable strategic relationship at the lowest possible balanced level of forces and called on the Soviet Union to display a positive attitude.



21  
JOBS

FIRST AND FOREMOST OF OUR PROBLEMS IS THE

CONTINUING AND DISTRESSINGLY

HIGH LEVEL OF UNEMPLOYMENT.

THE PAIN FOR THOSE UNEMPLOYED IS

ALL THE GREATER WHEN THEY SEE THE

PARADOX OF RISING OUTPUT AND RISING

LIVING STANDARDS FOR THOSE IN WORK.

I BELIEVE THAT THE RIGHT WAY TO

TACKLE UNEMPLOYMENT, TO BRING MORE

PEOPLE INTO WORK IN BRITAIN, AND

INDEED IN THE REST OF EUROPE, IS TO DO

ALL WE AS GOVERNMENTS CAN DO TO LET

INITIATIVE AND ENTERPRISE FLOURISH.

WE NEED TO IDENTIFY AND CUT OUT THE

/REGULATIONS



REGULATIONS, PRACTICES AND HABITS

WHICH PREVENT MARKETS FROM WORKING,

ESPECIALLY THE LABOUR MARKET.

GOVERNMENTS MUST LEAVE THE WAY FREE

FOR PRIVATE ENTERPRISE TO TAKE THE

INITIATIVE IN THE CREATION OF WEALTH

AND JOBS.

WE HAVE SEEN THAT IN AMERICA THE LESS

REGULATED ENVIRONMENT HAS ENCOURAGED

THE ENTERPRISE CULTURE AND BROUGHT NEW

JOBS WITH IT ESPECIALLY AMONG SMALL

BUSINESSES.

AND I KNOW FROM MY RECENT TALKS WITH

THE CANADIAN PRIME MINISTER THAT HE HAS

/THE SAME



THE SAME AMBITIONS FOR CANADA.

THIS THEN IS THE TASK FOR EUROPE.

/THE UNITED STATES



P.R.  
THE UNITED STATES

3  
THE DYNAMIC RECOVERY OF THE UNITED STATES

ECONOMY HAS ALREADY MADE A GREAT

CONTRIBUTION TO THE IMPROVEMENT OF THE

WORLD ECONOMY AS A WHOLE.

AND THE UNITED STATES MARKET HAS MADE

THE BIGGEST SINGLE CONTRIBUTION TOWARDS

LAST YEARS RAPID GROWTH IN WORLD TRADE .

IT IS NATURAL THAT THAT EXPANSION

SHOULD NOW BE MODERATING, AND RIGHT THAT

THE UNITED STATES SHOULD BE TAKING STEPS

TO PUT ITS CONTINUED ECONOMIC GROWTH ON

A SOLID AND SUSTAINABLE BASIS.

/THE SIZE



THE SIZE OF THE FEDERAL BUDGET  
DEFICIT, THE PRESSURES OF THE  
TRADING DEFICIT, HIGH INTEREST RATES  
AND THE EXCESSIVE RATE OF THE DOLLAR,  
ARE ALL PROBLEMS THAT WILL REQUIRE  
CAREFUL MANAGEMENT AND POLITICAL WILL  
IF THEY ARE TO BE BROUGHT UNDER  
CONTROL.

THE ADMINISTRATION'S ACTIONS IN THIS  
AREA AFFECT US ALL.

I KNOW THAT THIS RESPONSIBILITY IS  
RECOGNISED AND ACCEPTED BY THE  
ADMINISTRATION.

/I WELCOME



15  
R.  
I WELCOME THE STEPS WHICH PRESIDENT

REAGAN HAS ALREADY TAKEN AND WISH

HIM SUCCESS IN HIS EFFORTS.

→ FOR THIS IS THE CENTRAL ISSUE WHERE

ALL THE OTHERS MEET.

/JAPAN



R.  
JAPAN

4  
JAPAN HAS AN ENVIABLE RECORD OF INDUSTRIAL  
GROWTH, OF LOW UNEMPLOYMENT AND OF  
EXPANSION OF EXPORTS.

WOULD THAT SHE OPENED HER MARKETS  
TO WORLD EXPORTS IN THE SAME WAY THAT  
WE OPEN THEM.

OPEN TRADE IF IT IS TO CONTINUE HAS TO  
BE A TWO-WAY STREET.

BARRIERS OF DISTANCE AND LANGUAGE,  
AND LONG HABIT, MEAN THAT THE

JAPANESE ECONOMY IS FAR LESS OPEN  
TO FOREIGN IMPORTS.

FOREIGN BANKS AND FOREIGN DISTRIBUTORS

/FIND



R.  
FIND THEIR ACTIVITIES BLOCKED BY

IMPENETRABLE REGULATIONS.

FOREIGN PRODUCERS OF ELECTRICAL

APPLIANCES FIND THAT INTERNATIONALLY

ACCEPTED SCIENTIFIC TESTS ARE NOT

ACCEPTED IN JAPAN.

OF COURSE THE FOREIGN TRADER SUFFERS.

SO DOES THE JAPANESE CONSUMER WHOSE

CHOICE IS RESTRICTED.

PRIME MINISTER NAKASONE HAS RECOGNISED THE

NEED TO DISMANTLE THESE BARRIERS.

HIS PROGRAMME OF MEASURES TO PROMOTE

IMPORTS IS AN ENCOURAGING DECLARATION

OF INTENT.

/BUT



R.

BUT UNLESS IT LEADS RAPIDLY TO REAL  
INCREASES IN IMPORTS, THE PRESSURE  
FOR PROTECTIONIST MOVES AGAINST  
JAPANESE EXPORTS AND COMMERCIAL  
INTERESTS WILL INEVITABLY GROW IN  
EUROPE AS IN NORTH AMERICA AND RISKS  
BECOMING IRRESISTIBLE.

/A NEW GATT ROUND



R.  
5  
A NEW GATT ROUND

I HAVE NO DOUBT THAT THE TIME HAS COME FOR A NEW  
ROUND OF TRADE NEGOTIATIONS IN GATT.

THE AGENDA IS CLEAR.

- WE NEED TO DEAL WITH THE CLASSICAL  
BARRIERS OF TARIFFS AND QUOTAS.
- WE NEED TO DEVISE RULES FOR TRADE IN  
SERVICES WHICH ARE BECOMING INCREASINGLY  
IMPORTANT IN THE WORLD ECONOMY.
- TRADE IN AGRICULTURE CANNOT BE EXCLUDED  
FROM GATT RULES.
- WE NEED TO ENSURE THAT THE NEWLY  
INDUSTRIALISING COUNTRIES, WHOSE  
COMPETITIVE EDGE CAUSES US ALL MANY  
DOMESTIC PROBLEMS, ACCEPT THE

/RESPONSIBILITIES



R.  
RESPONSIBILITIES AS WELL AS THE RIGHTS  
WHICH ARE IMPOSED BY THE INTERNATIONAL  
TRADING SYSTEM.

- WE NEED TO MAKE IT EASIER FOR THE  
DEBTORS AND PARTICULARLY FOR THE POORER  
DEVELOPING COUNTRIES TO EARN THEIR LIVING  
BY TRADE RATHER THAN RELYING ON AID FROM  
THE RICH INDUSTRIAL COUNTRIES OF THE  
WORLD.

THE MOVE TOWARDS A NEW ROUND OF TRADE NEGOTIATIONS  
HAS ALREADY BEGUN.

IT IS NOW ACCEPTED THAT A PRELIMINARY  
MEETING SHOULD BE HELD IN GENEVA IN THE  
SUMMER.



THAT IS THE FIRST STAGE.

I SEE NO REASON WHY THE NEW ROUND SHOULD  
NOT BE FORMALLY LAUNCHED <sup>in the first half of</sup> EARLY NEXT YEAR.

I BELIEVE THAT, IF WE GIVE A CLEAR LEAD,  
AND IF WE ARE RESPONSIVE TO THE NEEDS AND  
PROBLEMS OF THE DEVELOPING COUNTRIES, WE  
CAN CARRY THE THIRD WORLD WITH US.

/MONETARY PROBLEMS



6  
MONETARY PROBLEMS

OF COURSE MONEY AND TRADE GO TOGETHER: IT DOES

NOT HOWEVER FOLLOW THAT THERE SHOULD BE A  
LINK BETWEEN NEW TRADE TALKS AND DISCUSSION  
OF THE INTERNATIONAL MONETARY SYSTEM.

THE PRESENT VOLATILITY OF EXCHANGE RATES  
IS CLEARLY UNDESIRABLE.

BUT WE CAN ONLY ACHIEVE MORE STABILITY  
IF WE ALL FOLLOW SOUND AND CONVERGENT  
POLICIES.

AT WILLIAMSBURG WE ASKED THE G10 FINANCE  
MINISTERS TO EXAMINE THE WORKING OF THE  
INTERNATIONAL MONETARY SYSTEM AS IT NOW IS.  
THEY ARE TO HOLD THEIR FINAL MEETING IN  
JUNE.

/I HOPE



I HOPE THAT THEIR REPORT WILL SHOW HOW  
THE WORKINGS OF THE PRESENT INTERNATIONAL  
MONETARY SYSTEM CAN BE IMPROVED.

THAT REPORT WILL THEN BE STUDIED IN THE  
INTERIM COMMITTEE OF THE IMF.

I DO NOT BELIEVE THAT WE NEED GO BEYOND  
THAT TO SEEK OUT SOME RADICAL REFORM.

/ DEBT



U. R.  
DEBT

1  
INCREASED TRADE AND MORE OPEN TRADING ARE THE

MOST IMPORTANT MEANS BY WHICH THE  
DEVELOPING AND DEBTOR COUNTRIES CAN  
IMPROVE THEIR LOT.

DEBTS CANNOT BE SERVICED AND REPAID IF WE  
DENY THE DEBTORS THE MARKETS IN WHICH TO  
SECURE THE NECESSARY EXPORT EARNINGS.

DEBT RESTRUCTURING AGREEMENTS WITH THE  
COMMERCIAL BANKS AND GOVERNMENTS HAVE A  
CONTRIBUTION TO MAKE.

AND THE AID WE GIVE THEM IS OF COURSE  
SUBSTANTIAL AND SIGNIFICANT.

BUT EVEN MORE IMPORTANT IS THE ADOPTION

/BY THE



B. R.

BY THE DEBTOR COUNTRIES OF ECONOMIC  
POLICIES DESIGNED TO USE THEIR RESOURCES  
WISELY AND ATTRACT RESOURCES, WITHOUT FEAR  
OF NATIONALISATION OR EXPROPRIATION, FROM  
THE OUTSIDE WORLD.

I AM SURE THAT THE STRATEGY FOR DEBT ON  
WHICH WE DECIDED LAST YEAR IN LONDON  
REMAINS CORRECT.

WE SHOULD NEVERTHELESS NOT BE BLIND TO THE  
POLITICAL AND SOCIAL PRESSURES THAT THIS  
INEVITABLY PLACES UPON GOVERNMENTS IN  
THE DEVELOPING COUNTRIES THEMSELVES.  
WE NEED TO DEAL WITH EACH CASE INDIVIDUALLY  
BECAUSE THEIR PROBLEMS DIFFER.

/POLITICAL



U. R.

POLITICAL STABILITY IN THE DEVELOPING WORLD  
IS IN OUR INTEREST AS MUCH AS THEIRS.

/AFRICA



R.  
AFRICA

WE HAVE ALSO BEEN FACED IN THIS LAST YEAR WITH THE  
APPALLING SUFFERING IN AFRICA.

TO THIS THERE ARE NO EASY OR EARLY SOLUTIONS.

BRITAIN AND THE REST OF EUROPE, AMERICA,

CANADA AND JAPAN, GAVE GENEROUS FOOD AID

THIS YEAR TO MEET THE IMMEDIATE NEED.

THANKS TO OUR INITIATIVES THE UN

EMERGENCY SYSTEM IS WORKING MUCH BETTER.

BUT IT IS NO GOOD THINKING THAT THE LONG

TERM SOLUTION IS FOR THE UNITED STATES AND

EUROPE TO GROW SURPLUS FOOD, TO SELL OR

GIVE AWAY TO AFRICAN COUNTRIES.

/THAT WOULD BE



THAT WOULD BE FAR TOO EXPENSIVE AND  
WASTEFUL OF RESOURCES.

BUT EVEN MORE, IT WOULD BE A CYNICAL  
SOLUTION.

THE REAL NEED IS TO HELP THE AFRICAN  
COUNTRIES TO GROW THE FOOD TO FEED THEIR  
OWN PEOPLE.

THIS MEANS ENCOURAGING THEM TOWARDS  
SENSIBLE POLICIES WHICH PROVIDE INCENTIVES  
TO FARMERS AS SOME OF THEM HAVE DEMONSTRATED  
SUCCESSFULLY AND ENVIRONMENTAL POLICIES  
WHICH PREVENT THE LAND BECOMING A DESERT.

/CONCLUSION



F. R.  
CONCLUSION

THE CONCLUSION WHICH I REACH IS THAT WE ARE ON

THE RIGHT COURSE AND MUST HAVE THE COURAGE TO  
STICK TO IT.

THERE WILL BE A NEED FOR SOME ADJUSTMENTS

AND I HAVE SAID WHAT I THINK THESE NEED

TO BE, ABOVE ALL

- MEASURES TO ENCOURAGE ENTERPRISE AND

- REMOVE RESTRICTIVE PRACTICES AS

THE BEST WAY TO BRING MORE PEOPLE INTO  
WORK.

- IT MEANS PATIENT AND PERSISTENT PURSUIT

OF THE POLICIES TO WHICH WE HAVE COMMITTED

OURSELVES AT EARLIER SUMMITS.

WE MUST NOT PUT AT RISK THE GAINS WHICH WE HAVE  
MADE.



AT OUR MEETING LAST YEAR, I SAID THAT WE MUST

SEND A CLEAR MESSAGE FROM THE SUMMIT.

WE DID.

WE SAID: "OUR STRATEGY IS THE RIGHT ONE.

WE INTEND TO STICK TO IT."

WE ARE SEEKING REAL GROWTH, REAL JOBS, REAL

PROSPERITY, ALL WITHIN A FREE SOCIETY.

WE ARE NOT INTERESTED IN QUACK REMEDIES

AND QUICK FIXES.

WE MUST STICK TO OUR STRATEGY NOT FOR

ONE YEAR OR TWO YEARS, BUT FOR AS LONG AS

IT TAKES TO ESTABLISH IN OUR OWN COUNTRIES

AND EXTEND TO OTHERS THE BENEFITS AND

REWARDS OF SOUND NON-INFLATIONARY GROWTH.

/SINCE OUR LAST

Objectives



SINCE OUR LAST SUMMIT, THE LEVELS OF INFLATION

HAVE BEEN LOWER AND THE RATES OF

GROWTH HAVE BEEN BETTER IN OUR COUNTRIES

THAN MANY PEOPLE EXPECTED.

BRITAIN

IN BRITAIN WE HAVE NOW SEEN FOUR YEARS OF

CONTINUOUS GROWTH OF REAL OUTPUT.

WE EXPECT GROWTH THIS YEAR TO REACH

THREE AND A HALF PER CENT.

AND WE EXPECT OUR GROWTH TO CONTINUE IN

1986.

WE BELIEVE THAT OUR SUCCESS COMES FROM

FOLLOWING POLICIES OF FISCAL AND

MONETARY DISCIPLINE.

/WE INTEND



WE INTEND TO MAINTAIN THEM.

BUT WE ALSO NEED TO BE FLEXIBLE,

TO ADAPT TO CHANGES IN DEMAND AND

TO TECHNOLOGICAL OPPORTUNITIES.

/JOBS



CONFIDENTIAL



Ref. A085/1235

MR POWELL

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Speaking Note on Economic Issues

I attach, as requested, a revised draft Speaking Note on economic issues for the Prime Minister's use at the Summit.

2. I am sending copies of this minute and the attachment to Len Appleyard and Rachel Lomax.

*Carl Bowdery.*

pp. R P HATFIELD

1 May 1985

CONFIDENTIAL



SPEAKING NOTE ON ECONOMIC ISSUES

At our meeting last year I said that we must send a clear message from the Summit. We did. We said:

"Our strategy is the right one. We intend to stick to it."

2. The message today must surely be basically the same. Because what we have is a strategy not for one year or two years, but for as long as it takes to establish in our own countries and extend to others the benefits and rewards of sound non-inflationary growth, if an increase in prosperity which is real, not the illusory fix of inflation.
3. We have kept up the economic progress that we have made in recent years. The levels of inflation have been lower and the rates of growth have been better in our countries than many people have expected. This reflects the willingness of all of us to stick to sound financial policies, to face reality, and to adjust to changing circumstances.
4. In Britain we have now seen four years of continuous growth of real output. We expect output this year to reach 3-1/2 per cent. We expect our growth to continue in 1986. We believe that our success is due to our policies of fiscal and monetary discipline. We intend to maintain them. So we need continuity. But we also need to be flexible, to adapt to changes in demand and to technological opportunities. Both in our economies and in the international economy there are weaknesses and problems which we need to identify and to tackle resolutely.
5. First and foremost is the continuing and distressingly high level of unemployment. I believe that the right way to tackle unemployment in Britain, and indeed in the rest of Europe, is to do all we as Governments can to let initiative and enterprise



flourish. We need to identify and cut out the regulations, practices and habits which inhibit the dynamic operation of markets. Especially in labour market. Too often government action has frustrated enterprise, has prevented the creation of jobs, and has inhibited the creation of wealth. Governments must leave the way free for private enterprise to take the initiative. My own Government has already embarked on this course. But, as I suggested at the last European Council, we in the European Community need to act together both within our countries and in order to reduce regulations and barriers in Europe as a whole. We have seen that in America the less regulated environment has encouraged the enterprise culture and brought new jobs with it. This is the task for Europe. And I know from my recent talks with the Canadian Prime Minister that he has the same ambitions for Canada.

6. The United States economy has already made a great contribution to the improvement of the world economy through its dynamic recovery of the last two or three years. The United States market has made the biggest single contribution towards ending the stagnation of world trade and enabling the developing countries to begin expanding their economies and repaying their debts once again. It is natural that that expansion should now be moderating, and right that the United States should be taking steps to put its continued economic growth on a solid and sustainable basis. The size of the Federal budget deficit, the pressures of the trading deficit, high interest rates and the excessive rate of the dollar, are all problems that will require careful management and political will if they are to be brought under control. They are of course primarily matters for the domestic political and economic management of President Reagan and his Administration. But the success of the Administration in this area affects us all. I know that this responsibility is recognised and accepted by the Administration. We shall be



watching with sympathy, but also with self-interest, the urgent manner in which the President is now tackling the Federal budget deficit, the central issue where all the others meet.

7. Japan has a record of consistency in the economic policies it has pursued over the years, and in the success with which it has achieved its economic goals. It has an inevitable record of industrial growth and of low unemployment. But Japanese society and the Japanese economy also suffer from rigidities, even if these are different from the rigidities which now hamper the expansion of European economies. Barriers of distance and language, and long habit, mean that the Japanese economy is less open of foreign imports. Foreign banks and foreign distributors finds their activities blocked by impenetrable regulations. Foreign producers of electrical appliances find that internationally accepted scientific tests are not accepted in Japan. Of course the foreign trader suffers. So does the Japanese consumer whose choice is restricted. So even does the Japanese producer who faces less rigorous competition in his home market.

8. Prime Minister Nakasone has recognised the need to dismantle these barriers. His programme of measures to promote imports is a courageous but necessary response to the growing pressures in the United States and in Europe for the opening of the Japanese market. Without that the clamour for protectionist moves against Japanese exports and commercial interests is bound to grow in Europe as in North America.

9. The trade problem is not simply a matter of relations between the Summit countries. The recession of the early 1980s increased domestic pressures for protection in all the industrialised countries. The developing countries have claimed that their special status entitled them to protection even when trade was booming. Meanwhile international trade is becoming more complex. There are many matters to be negotiated, and I



*Developing  
countries*

have no doubt that the time has come for a new round of trade negotiations in GATT. The agenda is clear. We need to deal with the classical barriers of tariffs and quotas. We need to devise rules for the more intangible trade in services which is becoming increasingly important in the world economy as well as in our national economies. We need to get a grip on the world trade in agriculture. We need to ensure that the newly industrialising countries whose competitive edge has caused us all so many domestic problems now accept the responsibilities as well as the rights which are imposed by the international trading system. We need to make it easier not harder for the debtors and particularly for the poorer developing countries to earn their living by trade rather than relying on handouts from the rich industrial countries of the world.

10. The move towards a new round of trade negotiations has already begun. It is now accepted by the developing as well as the developed countries that a preliminary meeting should be held in Geneva in the summer. That is the first stage. I see no reason why, with this mechanism, the new round should not be formally launched early next year. I believe that, if we give a clear lead, and if we are responsive to the needs and problems of the developing countries, we can carry the third world with us.

11. Of course money and trade go together: we have to sell our goods to buy others and to pay our debts. I do not however think that it follows that there should be a mechanical link between new trade and trade talks and substantive discussion of a reform of the international monetary system. The old Bretton Woods fixed exchange rate system broke down mainly because too many countries allowed inflation and monetary indiscipline to blow it apart. Since then we have all been through the battle of getting inflation under control. But it is desirable to get back to a more stable - but not fixed, but more stable - relationship between currencies. We have not achieved that in



recent times because of the continued divergence of our domestic economic policies. Only if we all follow convergent policies can we expect more stable exchange rates. At Williamsburg we asked the G10 Finance Ministers to examine the working of the international monetary system as it now is. They are to hold their final meeting in June. The events of recent months have demonstrated that we must pay attention to excessive changes in exchange rates. I hope that the report of the G10 Finance Ministers will show how the workings of the present international monetary system can be improved. That report will then be studied in the Interim Committee of the IMF. I do not believe that we need go beyond that to seek out some radical reform.

12. Increased trade and more open trading, as I have said, are among the most important means by which the developing and debtor countries can improve their lot. But even more important is their adoption of economic policies designed to use their resources widely, and attract resources willingly from the outside world. The aid we give them is of course substantial and significant. But policies to encourage investment, both from their domestic resources and from outside, are even more so. I see this message spreading throughout the developing world. I was struck by the large measure of endorsement it received at the recent meetings of the Interim and Development Committees in Washington. I am sure that the strategy for debt on which we decided last year in London remains correct.

13. Nevertheless we should not be blind to the political and social pressures that this inevitably places upon governments in the developing countries themselves. It is in our interest to sustain them, not only because they will otherwise be less willing and able to repay their debts, but also because of the need to promote political stability in the developing world.



14. Above all we have been faced in this last year with the immense suffering in Africa. To this there are no easy or early solutions. Britain and the rest of Europe, America, Canada and Japan, gave generous food aid this year to meet the immediate need. Thanks to our initiatives the UN emergency system is working much better. The World Bank's Special African Facility and an expanded European Development Fund will begin to help tackle the longer term problems. These are as much political and administrative as they are economic. Africa lacks men as well as money. Africa will remain a special case, apart from the developing world as a whole, for many years to come.

15. Nothing of what I have said is radical or very eye-catching. It will not provide much copy for the press. But in my view it reflects reality. The course we have chosen is the right one and we should stick to it. As time moves on and circumstances change, there is always a need for some adjustments. I have indicated what I think these need to be. But I cannot stress too strongly the importance of patient and consistent pursuit of the correct policies. We must not now put at risk the gains we have made during the last few years.



①

PRIME MINISTER

BONN ECONOMIC SUMMIT: BILATERALS

This folder contains separate briefs and cards for your bilateral meetings in the margin of the Summit.

It also has a brief on CAP price-fixing, for use with Chancellor Kohl whenever an opportunity arises.

C.D.P.

C D POWELL

1 May 1985



BILATERAL WITH SIGNOR CRAXI

Economic Summit

1. Importance of a clear message from the Summit of commitment to non-inflationary growth and resistance to protectionism. Important to set a date for new GATT round.
2. No case for international monetary conference which would raise unrealisable expectations. Continue to work within IMF/World Bank framework.
3. Must not allow France to drag Summit into unnecessary confrontation with the US over SDI.

European Community

4. Congratulate Italian Presidency on achievements to date.

/5.

5. We should have substantive discussion of the future of the Community at the June European Council leading to decisions. No need for long drawn-out intergovernmental conference.

6. Our priorities will be: completion of the internal market: strengthening political cooperation: practical steps to improve decision-taking (more use of majority voting provisions of the Treaty, and of abstention procedure).

7. Vital to resist any attempt by European Parliament to transfer our abatement from revenue to expenditure side.





BILATERAL MEETING WITH PRIME MINISTER CRAXI AT THE BONN ECONOMIC  
SUMMIT: EUROPEAN COMMUNITY

Our Objectives

(a) To point out the advantages of aiming for substantive agreement by Heads of Government on the future development of the Community at the European Councils in June as a preferable alternative to launching a protracted conference.

(b) To urge the Presidency to stand firm if there are any attempts by the European Parliament to transfer our 1000 mecu abatement to the expenditure side of the budget.

Arguments to Use

- Much achieved in recent months in Community. Italian Presidency to be congratulated. Their efforts, particularly over enlargement, show that decision-taking is primarily a matter of political will.

- Should build on recent success to aim for substantive discussions at June European Council on future development of the Community. No reason why substantive decisions should not be taken and implemented, rather than be delayed for a long drawn out inter-governmental conference.

- As you start your consultations, may be helpful for you to know what our priorities will be:

(a) completion of the common market. Commission now working on timetable for action. This will be the key to creating more wealth and employment. Many Treaty articles still not implemented;

(b) strengthening political co-operation. We could accept a formal agreement;



# CONFIDENTIAL



(c) practical steps to improve decision taking. Accept need for more majority voting on non-essential issues in accordance with the Treaties. But no member state ready to be voted down when very important interests genuinely at stake.

## Majority voting

- Attempt to undertake article by article analysis of the Treaty in search for some articles which might be amended, unnecessary and would take years. The key provisions of the Treaty requiring unanimity are there for good reason. How, for example could it make sense to switch to majority voting, on the seat of the European Parliament (Article 216); new accessions (Article 237); capital movements (Article 70(1)); harmonisation of taxation (Article 99); common economic policy (Article 103(2) etc. .

- Whatever their protestations, no Member State will allow itself to be out-voted where a vital issue is at stake, eg Germans over sugaring of wine, farm prices, etc.

- Believe that useful reforms we could make would be:

a) agreement that more use should be made of existing majority voting provisions of Treaty.

b) Where a Member State did ask for a vote to be postponed, it would be required to explain formally, in a special procedure of the Council, why it considers its very important interests are in fact at stake.

c) When objectives agreed in some areas, Member States might themselves decide to use the abstention procedure and not to insist on unanimity rule to impede implementation.

- These reforms could be introduced by the European Council itself. They would apply real pressure not to hold up Community decisions.

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## Budget Issues

- Grateful to Italian Presidency for the firm line they have taken to ensure implementation of Fontainebleau agreement.
  
- No need to tell you Fontainebleau was a package and that our ability to implement increase in own resources (and IGA for 1985) depends upon decisions of European Council being maintained.
  
- Hope, therefore, that Italian Presidency can use its influence with MEPs to prevent them from transferring our abatement from revenue to expenditure side of the budget. This would not be acceptable to us, nor, I believe, to other Member States.

## His Objectives

- (a) To sound out our thinking on the future development of the Community, probably with a view to steering discussion towards agreement on an inter-governmental conference later in the year.

## Our Response

- It would be regrettable if debate on the future of the Community petered out into an inconclusive argument about a few Treaty Articles and if opportunities for early and far-reaching decisions were lost.
  
- Package of the kind I have in mind could be implemented immediately following Fontainebleau. Heads of Government could then judge in the ensuing six months whether more was needed and could return to the matter in December if necessary.

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Background

Future of the Community

1. The Italians are still keen on the idea of an inter-governmental conference. Signor Ferri, their representative on the Dooge Committee, is being despatched around capitals and will be in London for talks with Mr Rifkind on 13 May. Our aim is to try to steer the Italians away from a purely procedural outcome in June and in the direction of substantive decisions which would enable their Presidency to end on a note of real achievement.

Budget

2. The Plenary of the European Parliament will consider the 1985 draft budget at its meeting in the week beginning 6 May. The Budgets Committee has considered the issue this week and will meet again next week, following the Parliament's meeting with the Foreign Affairs Council on 29 April, to consider what recommendation to make about the UK's abatement. Opinion in the Budgets committee is divided; with some Members (including the Italian communist, Barbarello,) wanting to transfer the abatement to the expenditure side, and others, including the French chairman, M Cot, recommending that the abatement should be left on the revenue side this year.

3. We are lobbying in capitals asking EC member governments to urge on their MEPs the need to handle the Fontainebleau agreement and reminding them that the implemented in its entirety.

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ITALY: TORPEDOES FOR ARGENTINA

Line (If raised by Andreotti/Craxi)

- Most important Italy and other Allies deny sophisticated weapons to Argentina
- Grateful for Craxi assurance (No 10, 14 Feb) that he is in principle against selling torpedoes
- Understand Italian concern that others might replace Italian suppliers: have passed on German assurances they are not thinking of supplying advanced torpedoes.

Background

Italians' main concern has been that Germans will pick up the business. Germans have told us they are not contemplating selling Surface and Underwater Target (SUT) torpedoes. HM Embassy Rome have passed their assurance to Italians.

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TO IMMEDIATE UKREP BRUSSELS

TELEGRAM NUMBER 152 OF 1 MAY

INFO PRIORITY MADRID, LISBON

COREPER (AMBASSADORS) 2 MAY

ENLARGEMENT: SIGNATURE OF ACCESSION TREATY

LINE TO TAKE

1. THE PRIME MINISTER WOULD VERY MUCH HOPE TO BE PRESENT AND IS GRATEFUL TO PRESIDENCY UNDERSTANDING.
2. UNFORTUNATELY NEITHER 12 OR 13 JUNE POSSIBLE.
3. STRONG PREFERENCE FOR 10 JUNE. IF THAT NOT POSSIBLE, HOPE THAT 18 OR 19 JUNE MIGHT PROVE GENERALLY ACCEPTABLE.

HOWE

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BILATERAL WITH PRESIDENT MITTERAND

FEES  
SO. notes

ECONOMIC SUMMIT ISSUES

1. [Will depend on outcome of first day of the Summit. Likely difficulty over GATT/international monetary conference link and SDI.]

European Community

2. Welcome successful Anglo-French cooperation in recent months. Look forward to learning his ideas on future development of Community. Our priorities will be: completion of internal market; strengthening political cooperation; and practical steps to improve decision-taking. Must preserve Luxembourg compromise.

European Fighter Aircraft

3. Concerned at failure to agree on essential features in feasibility study and Dassault's insistence on design leadership. Only basis for progress is 'no winners no losers'.

Channel Fixed Link

4. Must keep up momentum and decide by end year which project should go ahead. Need to get on with contingency work on Treaty and on procedures for assessing proposals. Officials should be instructed to start work straight away.

Eureka

5. Agree on need for cooperation between European high technology companies. But must not duplicate existing institutions and structures. Company level is where we must look for progress: doubt need for new agency or more government money.

Argentina

6. We have proposed practical steps to improve relations, but Argentina continues to insist on discussion of sovereignty. Hope France will encourage them to a more constructive reply.



BONN ECONOMIC SUMMIT: 2-4 May 1985

PRIME MINISTER'S BILATERAL MEETING WITH PRESIDENT MITTERRAND

#### Our Objectives

- (a) To find out what President Mitterrand has in mind for his promised 'surprise' initiative on the Community. To point out the advantages of aiming for substantive agreement on future development by Heads of Government themselves later this year rather than launching a protracted conference.
- (b) To maintain French solidarity with major Allies on SDI/Space; to affirm common interest on INF (and START).
- (c) To persuade President Mitterrand that collaboration on the European Fighter Aircraft must be on the basis of a project which meets military requirement and provides fair share of benefits and encourage him to exert pressure on Dassault to this end.
- (d) To press for early agreement on an arrangement for assessment of promoters' proposals for a Channel Fixed Link and negotiation of a treaty; also to draw attention to problems that the main UK promoters are apparently experiencing in securing French partners.
- (e) To persuade the President that deadlock in our efforts to improve relations with Argentina is due to Argentine intransigence and to maintain France's abstention in voting on any Argentina resolution on the Falklands at the 1985 UN General Assembly.

#### Arguments

- (a) Much achieved in recent months in Community. Anglo-French cooperation good.
  - Key to managing problems of enlarged Community will be continued cooperation with you and Chancellor Kohl.
  - Interested to learn your ideas for the future development of the Community. Our priorities will be:



(i) completion of the common market. Commission now working on timetable for action. This will be the key to creating more wealth and employment. Many Treaty articles still not implemented.

(ii) strengthening political cooperation. We could accept a new formal agreement.

(iii) practical steps to improve decision taking. Accept need for more majority voting on non-essential issues in accordance with the Treaties. But no member state ready to be voted down when very important interests genuinely at stake.

- Attempt to undertake article by article analysis of the Treaty in search for some articles which might be amended unnecessary and would take years. The key provisions of the Treaty requiring unanimity are there for good reason. How, for example, could it make sense to switch to majority voting on the seat of the European Parliament (Article 216); new accessions (Article 237); capital movements (Article 70(1)); harmonisation of taxation (Article 99); common economic policy (Article 103(2), etc.

- Whatever their protestations, no Member State will allow itself to be out-voted where a vital issue is at stake, eg Germans over sugaring of wine, farm prices, etc.

- Believe that useful reforms we could make would be:

(i) agreement that more use should be made of existing majority voting provisions of Treaty.

(ii) where a Member State did ask for a vote to be postponed, it would be required to explain formally, in a special procedure of the Council, why it considers its very important interests are in fact at stake.

(iii) when objectives agreed in some areas, Member States might themselves decide to use the abstention procedure and not to



insist on unanimity rule to impede implementation.

- These reforms would apply real pressure not to hold up Community decisions.

(b) Welcome convergence of European views on SDI. Should get differences with US in perspective without ducking key issues. Must seek to convince Russians that propaganda no alternative to serious negotiation and US that logic of offensive/defensive linkage calls for agreement on scope of permitted space/defence activities over next decade.

- Must maintain our firm rejection of Soviet demand for compensation on UK/French forces as precondition for INF agreement. US should test Russians with specific proposals in INF and START and not leave tactical initiative to Moscow.

(c) - EFA crucial test of European ability to collaborate effectively on defence equipment.

- Concerned at lack of unanimity in feasibility study and at French industry's insistence on design leadership.

- 'No winners and no losers' only sensible basis for progress.

(d) - Pleased with progress on CFL since our meeting on 29 November; publication of guidelines an important step; essential now to keep up momentum.

- Agree we should decide by end of the year which, if any, proposal should go ahead; UK Government not committed to any particular scheme or concept.

- Successful promoter will wish to make an early start on construction. Essential that contingency work on Treaty and other arrangements begins soon and that procedures for, eg, joint assessment of proposals are carried through. Officials have not yet agreed a structure and timetable for discussing these matters - hope this can be established quickly.



- Important that groups of promoters take shape quickly. Satisfactory progress among UK interests - hope same is true on French side.

(e) - Argentine insistence that there can be no progress in our bilateral relations unless we agree to discuss sovereignty is unrealistic.

- Have made persistent efforts to improve relations with Argentina; hope you can encourage Argentines to make constructive reply to our latest message which again put forward practical steps to improve relations.

#### Tactical Arguments

(a) None

(b) Want to keep in close touch with you over your ideas for space arms control, civil/military space cooperation, EUREKA. But premature to see whether can coordinate responses to SDI participation offer. Identify national opportunities first.

(c) Great political and industrial benefits of European collaboration in programme of EFA magnitude. Should enable European industry to compete better with US.

(d) When M. Quiles, French Minister of Transport, saw Mr Ridley on 20 March, he stated that it was essential for officials to begin contingency work as soon as possible.

(e) Despite Argentine statements of peaceful intent, Argentine Government's attitude to sovereignty is no different to that of its military predecessors.



### His Objectives

- (a) To see whether there is a basis for working with us on the future development of the Community.
- (b) To secure our support for the French 'EUREKA' initiative.
- (c) To argue for more collective European approach to military uses of space, SDI participation, high-technology research; to urge preservation of deterrence strategy.
- (d) To argue that Defence Ministers have agreed to go for an EFA project based on an aircraft of 9.5 tonnes Basic Mass Empty, to stress export potential of lighter, cheaper aircraft and to avoid commitment weakening French industrial position.
- (e) To press for a positive response to the proposal for a Franco-British Research Association.
- (f) To draw attention to the need to support Argentine democracy.

### Our Response

- (a) Future development of the Community (if President Mitterrand suggests greater powers for the European Parliament)

- How could it make sense to give the Parliament revenue powers? The last extension of the Parliament's powers (the 1975 Budget Treaty) has resulted in greater friction with the Council and more difficulty in decision taking. Joint decision taking between the Council and the Parliament as suggested in the Spinelli Draft Treaty (Article 38) - it would be impossible for the Community to take any decision at all.

- (b) EUREKA

- We agree on need for greater cooperation between European high technology companies in research and between research institutions.

- French proposal interesting. Look forward to further discussion and clarification. Coordination has to be genuine, ie main priority must be to facilitate action by the companies and



research institutes themselves, not to inject unnecessary government funding.

- Should avoid duplicating what is being done in Community in R&D and in European Space Agency.
- Need to make rest of Community R&D programme more cost-effective.

(c) SDI: Collective approach must take account of practical realities. Agree about deterrence but must avoid weakening US negotiating hand or helping Soviet wedge-driving.

(d) Ministers agreed in July to 9.5 tonnes as basis of industrial study for EFA. Study has shown aircraft of this size would not meet threat. EFA must make sense in cost and performance terms. Performance must be more important criterion than artificial constraint on size. Believe 9.75 tonnes aircraft with space for national equipment and suitably powerful engine is what is needed. Illusory to believe that third world countries will settle for less capable aircraft.

(e) Franco-British Research Association: Support the need for closer scientific/technological collaboration. Must ensure that outcome commands full support and involvement of industrialists. Franco-British Council is looking at this

(f) Argentina

(i) Improvement in EC/Argentine relations hindered by continuing commercial and economic restrictions against one Member. We fully implemented agreement in September 1982 to lift economic restrictions: Argentina did so only part. Have repeatedly made clear that we would welcome reciprocal lifting of commercial restrictions.

(ii) We welcomed restoration of democracy in Argentina. Democratic Argentina must recognise democratic rights of Islanders. No help to democracy to hold out false hopes of unrealistic goals. Lifting of trade restrictions would help Argentine economy and consolidate democracy.



## Background

### Future Development of the Community

1. The Foreign Secretary's minute of 15 April is attached.

### EUREKA

2. In a letter of 17 April to the Foreign Secretary, also sent to other EC Foreign Ministers, M. Dumas proposed establishing a European research coordinating agency (EUREKA). The proposed agency would be given responsibility for organising R&D activity in a coherent manner in a number of high-technology sectors (eg optronics, new materials, powerful lasers, large computers, artificial intelligence, high speed and miniaturised electronics and space).

3. Each sector would be coordinated by a management committee composed of representatives of government, industry and research establishments. Funding would be provided jointly by Government and industry. The French cite ESPRIT as a model though it is not a good one in the sense that it provides for a high (50%) level of government finance.

4. Although the French proposal has been linked with SDI, the French do not appear to see it as a vehicle for coordinating a European response to the Weinberger invitation on SDI; they intend it as a means of preventing Europe from falling behind the US in the new technologies, including SDI related ones where the SDI research programme will give US industry a competitive advantage.

5. We shall need further clarification of the French ideas before we can decide whether to support them. The case for additional injections of government finance - over and above the funds already devoted to research on a national and Community basis - has not yet been made.

6. Initial contacts with the Germans, Italians, Belgians, Danes and Greeks show some concern that the French proposal might cut across the existing framework for coordinating R&D. We too would wish to avoid duplication of programmes carried out by the European Space Agency or within the Community's R&D effort and wish to steer the



initiative in the direction of stimulating increased coordination between enterprises working in similar high-technology fields. M. Davignon, in working out the ESPRIT programme, organised meetings of the Research Directors of the various European companies operating in the same field. We might encourage the French to think in similar terms.

#### European Fighter Aircraft

7. Defence Ministers of the UK, France, the FRG, Italy and Spain commissioned a feasibility study based on 9.5 tonnes Basic Mass Empty aircraft in July 1984. The European Staff Target (October 1984) set out aircraft capabilities required by air forces.
8. The industrial study generally showed that 9.5 tonnes would not meet requirement. Ministers agreed in November to allow margin of +/- 250 kgs.
9. Separate proposals were received from French and other four industries. Evaluation by UK officials of the proposals show that 9.75 tonnes aircraft, providing space for additional national equipment, would just meet the minimum RAF requirement. French industry and officials are sticking with 9.5 tonnes design.
10. There are other differences with France, eg the size of the engine (France wants at least 10% less than the other four) and workshares. Dassault seek to maximize the workshare, including design leadership, and want their ACX demonstrator as basis for project.
11. There are recent signs that French defence officials are moving away from full support of Dassault on this. M. Hernu has agreed with Mr Heseltine on the 'no winners, no losers' criterion but it is doubtful that he can impose these views.

#### Channel Fixed Link

12. UK and French Transport Ministers agreed in November 1984 to take whatever steps necessary to facilitate the construction of a fixed link between the UK and France. They also agreed this should



be financed from private sources, without Government guarantees against commercial or technical risks. Agreement was subsequently endorsed by the Prime Minister and President Mitterrand on 29 November.

13. 'Invitation to Promoters' published on 2 April. Closing date for proposals of 31 October 1985. Governments have agreed to aim for decision by end of year on which, if any, proposals should go ahead.

14. If successful promoter is to make an early start, essential that contingency work begins soon on inter-governmental arrangements, eg a Treaty. French seem to agree with this view at Ministerial level but to be dragging their feet at official level, perhaps because of inter-departmental problems.

15. The main UK promoters, Euroroute and CTG, are cohesive and well established but there appears to be much squabbling and confusion among the French interests which is hindering efforts by UK promoters to secure French partners and consolidate their groups.

#### Franco-British Research Association

16. President Mitterrand proposed this during his State Visit in October. British industrialists, fearing lack of reciprocity, have shown no enthusiasm. Officials of both sides agreed to remit the ideas to the Franco-British Council who are pursuing.

#### Argentina/Falklands

17. The Prime Minister last discussed the Falklands with President Mitterrand during his State Visit to Britain in October 1984. This was decisive in securing France's abstention in the UN vote on the Argentine resolution. (Full voting figures were 89 in favour, 9 against, 54 abstentions).

18. We briefed the French in March at official level on the latest exchange of messages with Argentina.





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

PRIME MINISTER

**EUREKA - FRENCH PROPOSAL FOR A EUROPEAN RESEARCH  
CO-ORDINATION AGENCY**

It seems likely that when you see President Mitterrand at the Bonn Summit this week, he will press you for a response to the French Initiative on "Eureka", on which M. Dumas wrote to Geoffrey Howe on 15 April. I have become concerned about the way in which discussions of the French Initiative within Europe during the last two weeks have been drifting towards acquiescence in the proposal without any serious analysis having been made of it or any consideration given to alternatives. There is a risk that unless we make our own position on it clearer to the French, we may find ourselves confronted with a take-it-or-leave-it proposal, which has been accepted by the Germans and other European countries and which it will then not be easy to amend.

2. As you know, a good many details in the French proposal remain obscure. It is uncertain whether the research to be co-ordinated is primarily civil or military; whether and, if so, how, it is related to the Strategic Defence Initiative (SDI); and whether or not the new agency should be a Community institution.

3. What is already clear is that Eureka looks likely to be very expensive. The French proposal appears to be that joint funding between Government and industry on the 50:50 ESPRIT model should be the general pattern. In view of the number of technologies involved, the French may well be thinking of expenditure of several £billions over the next few years.

4. My concern about the potential costs is increased by M. Delors' proposal that Eureka should be absorbed into the bureaucracy of the Community. It is clear that this is linked with his proposal to double Community R&D spending from 3 to 6 per cent of the Community Budget - an ambition which you resisted at the European Council on 29/30 March.

Prime Minister  
Relevant to your  
bilateral with  
President Mitterrand -  
e covered in the  
briefs.  
CDP  
1/5





5. In my view there can be no need or justification for increased governmental spending on anything like the scale the French appear to have in mind. Most of the companies involved in these defence-related technologies are in a strong financial position and well able to finance such research themselves. GEC is an obvious example. Better co-ordination of European R&D may be needed, but not more public funds. Given the present public expenditure position, I should have to ask that any UK contribution towards Eureka would have to be found from within existing PES allocations. It is clear that this could only be done if Departments are prepared to consider sacrificing other existing priorities.

6. I think it is important that we make our position on Eureka clear to the French now, before positions harden, and to avoid future misunderstanding. I suggest that in any discussion in Bonn you might like to make the following points to President Mitterrand.

- we sympathise with the French on the desirability of greater collaboration in the Eureka sectors. But we cannot enter into any commitment to the French proposal until they have explained in detail what they have in mind;
- better collaboration does not and should not mean heavy Government expenditure. Most of the companies involved in these defence-related technologies are flush with funds; Government budgets are not. Any new agency set up should be limited to a minimum administrative budget.
- We are doubtful whether any new agency should be a Community institution. This would merely feed Commission ambitions for a bigger budget. Community record in managing R&D not good; over-heavy bureaucracy; too much insistence on a fair share of contracts for all Member States.

7. I am sending copies of this minute to Geoffrey Howe, Norman Tebbit, Michael Heseltine and to Sir Robert Armstrong and Sir Robin Nicholson.

N.L.

1 May 1985



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Prime Minister

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THE PRIME MINISTER

30 April 1985

EUREKA

You will be aware of the French proposal for a new European programme of coordinated research, with the acronym Eureka. I should like to offer a view on the subject, as this may come up in the margins of the Bonn Economic Summit.

The French proposal is based on the familiar (and correct) argument that Europe is falling behind the USA and Japan in high technology areas which will form the basis of economic prosperity in the future. Without further analysis, they assert that the way to combat this is to pool European R and D resources in certain key technologies. To this end, the proposal embraces a new European agency which would coordinate the activities of governments, industry and research establishments in Europe in areas such as large computers, advanced lasers and microelectronics.

My view is that the proposal is ill-thought out, in that whilst it identifies the right problem, the diagnosis is wrong. I believe that the root cause of Europe's failure to capitalise on its technological potential is its failure to exploit its research and the lack of a true common market for high technology goods and services. There are all too many examples of European countries (France is the worst culprit, but there are others) putting up artificial barriers to the high technology products of other European countries until they can develop their own capacity to manufacture similar or even inferior products.

But, inadvertently, the French in making this proposal have left themselves open to counter attack, and we have an opportunity to turn the argument round. So, instead of simply rejecting the proposal, I believe we should agree that there is a problem but it is one of exploitation rather than coordination of research.



If we succeed in re-locating the discussion on these grounds, then we can effectively exploit the French initiative. An important step would be to conduct the next exploratory stage at a trilateral, rather than bilateral level. It is probable that we could harness German support, but not so long as the French remain as intermediaries.

I should just add that, there is some uncertainty, including amongst the French, about how Eureka relates to SDI. It is clear that US proposals for SDI sparked French fears about the civil spin-off within the US which might give the US an unassailable lead in certain technologies, but I do not think it is necessary to discuss the development of Eureka in an SDI context.

I am copying this minute to Sir Robert Armstrong.

RBN.

ROBIN NICHOLSON  
Chief Scientific Adviser



## BILATERAL WITH PRESIDENT REAGAN

1. Sympathy for difficulties over Bitburg.
2. Welcome efforts to get down budget deficit. Assessment of prospects in Congress? Ready to reduce rate of growth of defence spending if necessary?
3. We shall give strong support on setting a date for a new GATT round. Hope US will not press idea of international monetary conference.
4. Vital importance of securing a solution to unitary tax problem this year. If California legislation doesn't pass this year, pressure for retaliation by UK could become irresistible. Hope President will put personal weight behind it.



5. Welcome Murphy's visit to Middle East. Hope you can draw the Palestinians into discussions by some acknowledgement of their rights.

6. Ask his assessment of effectiveness of likely sanctions against Nicaragua. Will negotiations for a verifiable Contadora agreement continue to be pursued in parallel? Will US continue direct contacts with Nicaragua?

7. How does he feel about prospects for Geneva at end of round one? Does US have in mind specific proposals for round two? Hope he will authorise close bilateral consultation with UK.

8. Intentions on summit with Gorbachev? [Possibility of commemorative Security Council meeting in September?]



Walt

9. Intentions on SDI at Economic Summit?  
Will he be seeking any sort of statement of  
support? Important to reaffirm ABM Treaty.

10. Ask for frank view on how much he would  
be disappointed if you were not to attend the  
IDU meeting in Washington at end-July.

They need to know your  
support for a conference in  
their American ally in its efforts  
to achieve a more stable balance

2 strategies for the lower



Monday, May

We welcome the opening of  
neg. in Geneva. We appreciate  
the 70 proposals forwarded by the  
U.S. We urge the USSR to respond  
fully & constructively in order to  
achieve a significant agreement  
there.



BONN ECONOMIC SUMMIT 2-4 MAY 1985

PRIME MINISTER'S BILATERAL MEETING WITH PRESIDENT REAGAN

I UK OBJECTIVES

Arms control/SDI

- (a) To convince the President that Alliance unity will require a  
? ! more visible political will on major arms control issues and  
greater restraint in how SDI is handled publicly.

Arab/Israel

- (b) To urge real US involvement in support of King Hussein. Some  
US acknowledgement of Palestinian rights essential.

Central America

- (c) To seek to persuade the President to put his full weight  
behind efforts to achieve an effective and verifiable Contadora  
agreement as the best way to meet the US objectives in  
containing the Sandinista regime.
- (d) To probe the President's future intentions towards Central  
America.
- (e) To avoid committing the UK in advance to unqualified support  
for future and as yet unspecified US tactics.

US Economy

- (f) To emphasise the particular responsibility on the US to take  
full account of international repercussions of domestic  
policies. To stress need for prompt and convincing domestic  
reduction package. To secure a solution to the unitary tax  
problem this year, either by legislation in California, or by  
Federal action.



Southern Africa

- (g) To express firm opposition to selective sanctions against South Africa and to underline need for continued Western pressure on South Africa on both internal issues and Namibia.
- (h) To impress on President need for West to continue to support for Machel in Mozambique and the Nkomati accord.

Miscellaneous

- (i) The Prime Minister may also wish to touch on ships visits to New Zealand, Mr Gandhi's visit to the United States, Ireland and drugs.

## II OUR ARGUMENTS

Arms Control/SDI

- (a) Every prospect for Alliance consensus where we have clearly defined goals within politically relevant time-frame. NATO backing for US SDI research programme is good example.
- (b) Next major goal is to secure positive outcome from Geneva negotiations with reductions in offensive nuclear forces. Alliance unity on this also within reach. But need clear gameplan.
- (c) Having got Russians back to table, induce progress and put them to test by presenting concrete and specific proposals in START and INF, not just generalised formulations leaving tactical initiative to Moscow.
- (d) On Soviet linkage with strategic defence, deprive them of argument by proposing:-

- (i) re-affirmation at highest level of ABM Treaty;





- (ii) joint political understanding to clarify limits of BMD research within ABM Treaty by both sides over next ten years;
  - (iii) formal US/Soviet review in 1995 of whole offensive/defensive picture;
  - (iv) get on with first stage offensive force reductions now.
- (e) Prescription for managing Alliance debate about SDI:-
- (i) prudent hedge against Soviet activities
  - (ii) Camp David four points
  - (iii) political decisions beyond research not pre-judged. but better to say less altogether.
- (f) On CW also, maintain pressure on Russians with sound verification proposals. Next most important arms control, after nuclear/space.

#### Arab/Israel

- (g) encouraged by your message of 16 April. Hope Murphy mission can lead to real progress. But if not (and signs discouraging) danger of stagnation. Involvement of Shultz may be necessary soon.

#### Central America

- (h) We have consistently supported US objectives in Central America and have assisted where we can - by maintaining our garrison in Belize, and by assisting President Duarte's Government despite strong domestic criticism.
- (i) A verifiable Contadora Agreement could effectively meet US objectives of containing the Sandinistas and promoting regional stability and security. But this needs firm US support.





(j) A Contadora Agreement would go far to meet the four US requirements: it would require Nicaragua to end its support for subversion and end the arms build up. By requiring the removal of foreign military advisers it would attenuate Nicaragua's links with the USSR and Cuba and would put constant pressure on Nicaragua to implement its promises of genuine pluralist democracy.

(k) Such a policy would mobilize Latin American support and cooperation in monitoring Nicaraguan implementation of its undertakings.

#### US Economy

(l) Concerned over recent slowdown in growth. Solid US contribution to world economic prospects remains vital.

(m) Emergence of US as net debtor underlines concern over unsustainable fiscal/external position. Unhealthy reliance on funds from abroad.

(n) Despite recent easing, threat to dollar and US interest rates undiminished.

(o) Recognise President's personal efforts on deficit reduction but need actual agreement in Congress.

(p) Failure to resolve the problem of unitary tax an increasing irritant to US/UK economic relations.

(q) California is the key state and the chances of legislation this year seem to be receding, because of competing political pressures. If legislation fails to pass this year, no real chance of it passing in 1986 (a state election year, when a perceived tax break for big business would not be a political starter).





- (r) Federal Legislation. If no solution in California this year, UK opinion will expect Administration to act on the commitment (Don Regan's) to introduce Federal legislation unless there was appreciable progress at states level by end-July 1985.
- (s) Retaliation. Parliamentary pressure to pass retaliatory legislation in Finance Bill likely to be irresistible unless there is major progress (at state or Federal level) by end-June.

#### Southern Africa

- (t) Selective sanctions set a dangerous precedent; would make UK position very difficult; would provoke similar and wider proposals at the UN.
- (u) Best defence is evidence that present policies are effective. Namibia settlement would be a major coup; support Dr Crocker's efforts, but need results soon.
- (v) Machel fundamentally a nationalist. His opening to the West serious setback for Soviet Union in Africa. Failure to respond could lead to collapse of Nkomati Accord, and threat to Western interests.
- (w) Machel needs arms to fight Renamo. Russians only source of supply, but hope Administration will succeed in obtaining Congressional approval for 'non-lethal' military assistance programme. We are considering what we might do, but finance a major problem. Encouraging that Mozambicans and South Africans have agreed to co-operate more closely on security.
- (x) Renamo not credible alternative Government: no comparison with UNITA in Angola.



Ships visits to New Zealand

- (y) Intend to maintain existing level of defence cooperation with New Zealand; will not undermine US withdrawal of defence and intelligence cooperation. What effect is US policy having?

India

- (z) Impressed by Rajiv Gandhi at meetings in Moscow/Delhi. Believe you should make major efforts in June to win his confidence. In particular, to reassure him about your policies on arms sales to Pakistan and on Pakistan's nuclear programme. Do not believe you should look for immediate results: sustained effort to develop relations needed.

Ireland

- (aa) The Prime Minister is well briefed on Anglo Irish relations. No further material is attached.

Drugs

- (bb) Reassure US of UK determination to tackle drug trafficking and misuse.
- (cc) Welcome close and effective cooperation between law enforcement agencies. Mr Mellor's visit to US 7-14 April extremely valuable.

## III TACTICAL ARGUMENTS

(a) Arab/Israel

If moderates fail, golden opportunity for radicals and their Soviet backers. Time short.



(b) Central America

This policy would unite the Western Alliance and win back international support thus depriving the USSR of a cheap propaganda weapon.

The Nicaraguans would be constrained by the knowledge that failure to observe their Treaty commitments would generate regional and wider international pressure against them.

(c) Unitary Taxation

Recognise Administration's reluctance to impose a Federal solution. This reinforces the need for Administrative pressure in the next few weeks to secure legislation in California.

We want to avoid retaliation. Much better for US/UK for a solution to be achieved as a voluntary move by USA (ie before end-June).

(d) India

Gandhi's youthful, rather bland exterior conceals determination to press India's interests hard: he has taken tough line with us over Sikh extremists: convincing him of good intentions requires more than words.

## IV PRESIDENT REAGAN'S OBJECTIVES

(a) Arms Control/SDI

To seek confirmation of HMG's support for all US arms control approach. To urge UK participation in SDI research, and support for SDI as a whole.

(b) Arab/Israel

Avoid commitment - throw any blame for lack of progress on Arab side.



(c) Central America

To seek British support for maintaining pressure on the Sandinistas eg by means of aid to the Contra insurgents or economic sanctions.

(d) US Economy

To stress gains to world economy from US growth so far and to minimise detriment of high Federal deficits.

To emphasise dollar's appreciation reflects strength of US economy (especially higher rates of return) and weakness outside US.

To suggest European growth faster if structural rigidities eliminated.

(e) Drugs

- Greater UK support for Latin American programme to eradicate cocaine production and trafficking.

- UK support for increased pressure in Pakistan to tackle opium/heroin.

- Effective legislation to deprive drug traffickers of proceeds of crime and to assist in tracing laundered assets.

## V OUR RESPONSE

(a) Arms Control/SDI

- You can be sure of our support for any concrete and specific START or INF proposals which build on agreed Western principles. Hope we can continue to use existing consultative machinery and bilateral channel to discuss ideas in advance.

- We are looking at Weinberger invitation to participate in SDI research. As you know, I hope our scientists will share in this.





- [If raised:] French Eureka proposal still not thought through. No clear link with SDI. Designed to promote research collaboration in Europe in new technologies - some of which are SDI-related. We shall be discussing proposal with French and Germans.

Must not undermine support for deterrence. Historically Alliance has changed strategy when existing policy defective or no longer tenable, and better alternative proven and available. Even then, shift from 'massive retaliation' to present strategy of flexible response took almost a decade. On deterrence, bird in hand worth two in bush.

(b) Arab/Israel

- Clear US support may be indispensable if Hussein is to keep the PLO in line. His efforts sincere and courageous: but cannot risk going it alone.

(c) Central America

- Appropriate pressure on the Sandinistas is needed but the Contras have a poor public image and support for them has a divisive effect on the Western Alliance. Economic sanctions do not work and can be politically counter-productive. We must not force the Sandinistas further into the Soviet camp.

- Whatever action may be taken against Nicaragua it must be consistent with Western values and international law.

(d) US Economy

- Adverse impact on world of high US interest rates and strength of dollar. Now concerned with future world prospects rather than last year's performance.





- Policy mix, especially unchecked fiscal deficits leading to high interest rates and overvalued dollar, clearly unsustainable. Link with slowdown in growth.

Shultz's Princeton speech shows understanding of our position.

- Accept argument that structural rigidities impeding European growth. But tackling problem earnestly eg last European Council.

(e) Drugs

- Already offering assistance in small way to Latin American countries, and considering ways in which this might be increased either bilaterally or through the UN.

- Already had discussion at Ministerial level with Pakistan-Mr Mellor found US briefing helpful. Now considering what more we can do.

- We are committed to legislation viz Cayman, in preparation, and taking part in UN discussion on international agreements.

VI PRESS LINE

(a) Arms Control/SDI

Continuing their discussions last December and February, the Prime Minister and the President reviewed nuclear and space issues and Alliance policy towards the US/Soviet arms control talks in Geneva. (They also agreed on the urgent need for progress towards a CW agreement.)

(b) Arab/Israel

Arab/Israel discussed. Agreed on need for early moves towards a settlement.





(c) Central America

Prime Minister expressed full support for the US objectives in Central America of promoting democracy, stability and development and reiterated our strong support for the Contadora peace process.

(If asked about US support for the Contras.) That is a matter for the President.

(If asked about US Congress vote on funds for the Contras.) That is a matter of US domestic policy.

(If asked about resumption of bilateral US/Nicaragua talks at Manzanillo or recent US or Nicaraguan peace proposals.) The Prime Minister has said that we support the Contadora peace process. Against that background we support any genuine efforts to promote a peaceful solution.

VII BACKGROUND

Arms Control/SDI

- (a) (See points made by Mr Weston at US Ambassador's lunch on 22 March 1985.) Attached below at Annex A.

Central America

- (b) The Prime Minister told Vice President Ramirez of Nicaragua on 8 February that relations with Nicaragua would depend on the establishment of genuine democracy, a reduction in armaments and an end to efforts to destabilize neighbours.
- (c) President Reagan is increasingly concerned and frustrated by his inability to worst the Sandinistas. In his unsuccessful effort to win Congressional support to fund covert assistance to the anti-Sandinista 'Contras' President Reagan has escalated his rhetoric to the point that he has effectively acknowledged that





his aim is to overthrow the Sandinistas. The Congressional rebuff is a serious reverse for the White House. The President has indicated that he will not abandon the Contras but will be casting around for other methods of maintaining pressure on the regime. He may be willing to resume bilateral negotiations with them with the aim inter alia of promoting negotiations between the Sandinistas and the Contras (to which the former have said they will never agree). Direct US military intervention is not at present on the cards; but a secret White House report to the Congress, leaked to the Press, acknowledges this cannot be ruled out as a future option.

- (d) The US are aware that the Contras cannot overthrow the Sandinistas. A major drawback has been the image of the Contras who have committed well documented atrocities and whose principal military leaders were members of Somoza's hated National Guard. Major European partners have publicly expressed dislike for US support of the Contras. UK support would contradict the European Council's statements in favour of Contadora and against the use of force and undermine the EC/Central American dialogue on which UK policy is based.
- (e) The Contadora countries met on 11/12 April to discuss verification procedures for a Contadora Agreement. Some progress was made and adequate verification is now clearly the aim.
- (f) To demonstrate support for US policy and at President Reagan's request, HMG decided to keep our garrison in Belize and support President Duarte. An aid programme to El Salvador was resumed and places at military college offered to one or two Salvadorean officers. The human rights situation has vastly improved but horrendous incidents still occur. Partly for this reason there has been strong and extensive domestic criticism (11 PQs and 136 MPs letters - the majority Conservatives passing on constituents' complaints).



Mozambique

- (g) [Not for use:] State Department have told us in confidence that some members of White House staff trying to persuade President that US should support Renamo 'freedom-fighters' rather than Marxist Machel.
- (h) Prime Minister saw Machel in Moscow on 14 March. She subsequently relayed his concern about security in Mozambique to President Botha.
- (i) Mozambicans have agreed that South African 'civilians' should be deployed in Mozambique on certain security duties.

Ship Visits to New Zealand

- (j) US pleased with firm line Prime Minister took at meeting with Mr Lange on 4 March when we made it clear that he must find appropriate formula if RN visits to take place.
- (k) Mr Lange met Mr Hawke on 17 April when he gave impression he would not change his position.
- (l) Defence Secretary has written to Foreign Secretary proposing we maintain existing bilateral defence programme while not going out of our way to do New Zealand any favours.

India

- (m) Gandhi to visit US in June (after Soviet Union in May). Will express strong concerns about US arms supplies to Pakistan (F-16 aircraft, air-to-air missiles and, possibly, AWACS-type aircraft), and Pakistan's nuclear programme.

Foreign and Commonwealth Office

26 April 1985





BONN ECONOMIC SUMMIT 2 -4 MAY 1983

PRIME MINISTERS BILATERAL MEETING WITH PRESIDENT REAGAN

ADDENDUM ON CENTRAL AMERICA

OUR ARGUMENTS

Add after II(K)

US Economic Sanctions Against Nicaragua

Economic sanctions have limited effect in our experience. A consequence will be to increase Nicaragua dependence on USSR.

Note that US not asking allies to join in sanctions. Understand reasons why US have felt it necessary to keep up pressure but believe this should be linked to solid support for a Contadora agreement.

VI PRESS LINE

Addition to VI(C)

(If asked about US economic sanctions against Nicaragua). Matter discussed, but essentially a matter for the US.

VII BACKGROUND

Add after f)

US Trade Sanctions Against Nicaragua

President Reagan is reported to be about to introduce trade sanctions against Nicaragua to include:





- (a) a ban on direct trade (US buys around 20% of Nicaraguan exports, equal to \$68.9 million in 1984);
- (b) notification to terminate US/Nicaragua treaty of commerce and navigation;
- (c) suspension of landing rights and port facilities for Nicaraguan aircraft and ships.

We understand that the US will not be asking its allies to follow suit but will be looking for 'supportive' comments and 'understanding' of why they have taken the action. Congress will shortly resume discussion of a proposal for \$28 million aid to the Contras for FY 1986. President Ortega has gone to Moscow and other Eastern European capitals, in search of economic aid. US economic sanctions risk driving the Sandinistas further into the Soviet camp.

UK trade with Nicaragua is small. British exports for 1984 were £4.8 million and imports were £2.1 million.





## ANNEX A

SDI/GENEVA : POINTS MADE BY MR WESTON AT US AMBASSADOR'S LUNCH  
22 MARCH 1985

(a) There was every prospect of securing an Alliance consensus around clearly defined goals that were operationally relevant to the time frame within which elected Governments and their political leaders had to think. Thus we already had needed to ensure a corresponding degree of solidarity over efforts to secure a positive outcome from the Geneva process. This was well within reach.

(b) The best way to ensure that the SDI is not mischievously portrayed by the Russians or others as an unstoppable lunge toward a new spiral of military competition in space is to demonstrate clearly to public opinion that since its inception the SDI has been and will remain firmly subject to the process of political control and management by those who hold the responsibility for taking political decisions, in the light of all the factors involved.

(c) Past Alliance experience suggests that a major shift in strategy occurs when:

(i) Allied Governments feel existing policy to be defective or no longer tenable; and

(ii) When the means for moving to a better alternative are proven and available. Even then it was worth recalling that the move from massive retaliation to flexible response took eight years to accomplish before MC14/3 was adopted by NATO as the highest common factor of the Allied interests involved.

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HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

1 May 1985

Dear Charles,

US/UK EXTRADITION

The Prime Minister will recall that negotiations have been taking place with the United States on our bilateral extradition treaty. A new supplementary treaty has now been initialled and there is the possibility of the subject coming up during any conversations the Prime Minister will have with the US President while they are both attending the economic summit in Bonn. This letter provides briefing against that contingency.

The effect of the new supplementary treaty would be to deny fugitives accused or convicted of certain serious offences of violence scope for avoiding extradition on the grounds that their offences are political. Fugitive Irish terrorists have successfully used this political safeguard to avoid extradition. Now that the text of the supplementary treaty has been agreed, the next step will be for the US administration to lobby Senators on the Foreign Relations Committee (US treaties require only Senate approval). Before this process begins, however, Mr Meese, the US Attorney General, wishes to discuss the matter with the President on his return from Europe. If all goes according to plan, the supplementary treaty will be signed in Washington, perhaps in June. It is not yet clear when the supplementary treaty would be formally put to the Senate. For the United Kingdom's part, secondary legislation (one Order in Council, and one affirmative resolution order) will be required before we can ratify. Until the Washington lobbying process starts our public line is merely that both Governments are reviewing the mutual extradition treaty.

This is likely to be a controversial issue in the Senate and success cannot be guaranteed. So far as we know, Mr Reagan has not been briefed on this subject. But, if the opportunity presents itself, the Prime Minister may wish to say how grateful we are for the way the Administration has been able to agree the supplementary treaty and to explain its importance in the eyes of the United Kingdom Government. The Prime Minister may also wish to

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acknowledge the value of carefully preparing the ground in Senate and express the hope that the Administration will be able to put its weight behind the treaty.

I am sending a copy of this letter to Len Appleyard (FCO) and Richard Hatfield (Cabinet Office).

Yours ever,  
Hugh Taylor

H H TAYLOR

Charles Powell, Esq.

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FM WASHINGTON 302322Z  
TO IMMEDIATE FCO

TELEGRAM NUMBER 1441 OF 30 APRIL 1985

INFO IMMEDIATE SAN JOSE

PRIORITY TEGUCIGALPA, MEXICO CITY, BOGOTA, CARACAS, HAVANA,  
MOSCOW, PANAMA CITY, BONN, PARIS, UKREP BRUSSELS.

US/CENTRAL AMERICA: ECONOMIC SANCTIONS AGAINST NICARAGUA

SUMMARY

1. US ON POINT OF ANNOUNCING ECONOMIC SANCTIONS AGAINST NICARAGUA. THESE ARE LIKELY TO INCLUDE BANS ON US IMPORTS FROM AND EXPORTS TO NICARAGUA AND SUSPENSION OF AIR LANDING RIGHTS AND PORT ACCESS. US/NICARAGUA TREATY ON COMMERCE AND NAVIGATION WILL BE DENOUNCED WITH 12 MONTH NOTICE. MOTLEY RESIGNS.

DETAIL

2. JOHNSTONE (DEPUTY ASSISTANT SECRETARY FOR CENTRAL AMERICA) CONFIRMED TO MINISTER ON 30 APRIL WHAT WE HAD ALREADY HEARD EARLIER IN THE DAY FROM OTHER STATE DEPARTMENT CONTACTS, THAT THE PRESIDENT WAS ABOUT TO TAKE A DECISION TO IMPOSE ECONOMIC SANCTIONS ON NICARAGUA. THE DECISION WOULD BE ANNOUNCED EITHER LATER TONIGHT OR TOMORROW.

3. JOHNSTONE SAID THAT THE MEASURES WHICH THE US WERE TAKING UNDER THE INTERNATIONAL ECONOMIC EMERGENCY POWERS ACT WERE:

I. A BAN ON US IMPORTS FROM THE EXPORTS TO NICARAGUA:

II. THE REQUIRED 12 MONTHS NOTICE OF THE SUSPENSION OF THE US/NICARAGUA TREATY OF COMMERCE AND NAVIGATION:

III. SUSPENSION OF NICARAGUAN LANDING RIGHTS IN THE US AND ACCESS TO US PORTS FOR NICARAGUAN VESSELS.

4. JOHNSTONE SAID THAT THESE MEASURES WERE NOT SO FAR-REACHING AS THOSE PREVIOUSLY TAKEN AGAINST CUBA (OR IRAN) IN THAT THERE WERE NO STEPS TO FREEZE FINANCIAL ASSETS AND TRANSACTIONS. THE ADMINISTRATION'S AIM WAS TO TAKE ONLY STEPS THAT COULD BE REVERSED IF PROGRESS WAS MADE TOWARDS US OBJECTIVES IN CENTRAL AMERICA. THE UNITED STATES WOULD BE INFORMING ITS ALLIES BUT IT WOULD NOT BE PRESSING THEM TO FOLLOW SUIT. THEY WOULD HOPE THAT COMMENTS BY ALLIES WOULD BE SUPPORTIVE OF US ACTION AND WOULD SHOW UNDERSTANDING FOR THE REASONS WHY IT HAD BEEN UNDERTAKEN. THEY ALSO HOPED THERE WOULD NOT BE UNDUE DIVERSION OF TRADE TOWARDS WESTERN EUROPE BUT ACCEPTED THAT EUROPEAN COUNTRIES WOULD BE IN NO POSITION TO TAKE GOVERNMENTAL ACTION TO THAT EFFECT.

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5. IN A SEPARATE CONVERSATION WITH WESTON, BURT SAID SHULTZ WAS VERY CONSCIOUS OF THE NEED TO MINIMISE EXTRA-TERRITORIAL IMPLICATIONS OF THE DECISION AND TO AVOID A CLASSIC INTRA-ALLIANCE ROW. HE HOPED THAT BY THE TIME THE PRESIDENT ARRIVED IN BONN, THE LAWYERS WOULD HAVE CRAFTED SOME TECHNICAL LANGUAGE REFLECTING THIS.

6. NILES AND STATE DEPARTMENT LEGAL ADVISERS CONFIRM THAT THE SANCTIONS AT 3(1) ABOVE WILL APPLY TO DIRECT EXPORTS AND IMPORTS AND TO US GOODS TRANSHIPPED THROUGH THIRD COUNTRIES WITHOUT SIGNIFICANT TRANSFORMATION. THEY WILL NOT APPLY TO FOREIGN TRADE WITH NICARAGUE UNDERTAKEN BY SUBSIDIARIES OF US COMPANIES OR PERSONS LOCATED OVERSEAS OR TO FOREIGN EXPORTS WHICH INCORPORATE US TECHNOLOGY OR COMPONENTS. THE INTENTION OF THE REGULATIONS, WE ARE ASSURED, IS TO DETER EROSION OF THE CONTROLS WITHOUT INFRINGING OTHER COUNTRIES' LAWS AND POLICIES. US IMPORTS FROM NICARAGUA IN 1984 WERE VALUED AT DLRS 68.9 MILLION AND US EXPORTS AT DLRS 111.5 MILLION.

7. IN REPLY TO A QUESTION, JOHNSTONE SAID THERE WAS NOTHING IN THIS PACKAGE OF DECISIONS ABOUT POSSIBLE RESUMPTION OF THE US/ NICARAGUA BILATERAL TALKS. THE PRESIDENT'S OFFER TO RESUME THESE HAD BEEN FROZEN AS A RESULT OF THE HOUSE'S REJECTION OF THE 'CONTRA' AID PACKAGE. NOR WAS THERE ANYTHING IN THE PRESENT DECISIONS ABOUT 'CONTRA' AID, THE DISCUSSION OF WHICH WOULD RESUME VERY SHORTLY WHEN THE TWO HOUSES OF CONGRESS TOOK UP THE ADMINISTRATION'S PROPOSALS FOR DLRS 28 MILLION WORTH OF AID IN FY 1986. IT WAS STILL NOT TOTALLY EXCLUDED THAT THE ADMINISTRATION WOULD RETURN TO THE CHARGE ON FINANCE FOR FY 1985, BUT NO DECISION HAD BEEN TAKEN TO DO SO.

8. THE DECISION TO GO FOR SANCTIONS COMES AS NO SURPRISE. THE PRESIDENT HELD OUT THE PROSPECT IN HIS LETTER TO SENATOR DOLE ON 23 APRIL, AND ON 26 APRIL THE PRESIDENT INITIATED A FULL-SCALE REVIEW OF THE OPTIONS OPEN TO THE US FOR MAINTAINING PRESSURE ON THE SANDINISTAS. ALTHOUGH THE PRESIDENT CONCEDED IN HIS 23 APRIL LETTER THAT SANCTIONS WERE UNLIKELY IN THEMSELVES TO PERSUADE THE SANDINISTAS TO MEET US OBJECTIVES, MANY HERE HAVE BEEN OPENLY ADVOCATING INCREASED ECONOMIC PRESSURE AS A MEANS OF DEMONSTRATING THAT US POLICY IS BASICALLY UNCHANGED DESPITE THE CONTRA DEFEAT, AND THAT THE US IS UNITED IN ITS DISLIKE OF THE SANDINISTA REGIME. THERE IS LITTLE PROSPECT OF CONGRESS TAKING SERIOUS EXCEPTION TO THE PRESIDENT'S DECISION (AND ANY POSSIBLE DOUBTS ON THIS SCORE ARE LIKELY TO HAVE BEEN ERASED BY ORTEGA'S MOSCOW VISIT).

9. IN WHAT OUR STATE DEPARTMENT CONTACTS (AND SHULTZ WHEN HE ANNOUNCED IT EARLIER IN THE DAY) ARE INSISTING WAS A TOTALLY UNRELATED DECISION, MOTLEY'S RESIGNATION AS ASSISTANT SECRETARY FOR INTER AMERICAN AFFAIRS HAS BEEN ANNOUNCED. WE HAVE BEEN TOLD THAT MOTLEY - WHO HAD ALREADY HAD AN UNUSUALLY LONG RUN IN THE JOB - DECIDED TOWARDS THE END OF LAST YEAR THAT HE WANTED TO LEAVE THE ADMINISTRATION PRINCIPALLY IN ORDER TO MAKE MONEY, BUT THAT

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/HE



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HE WAS PERSUADED NOT TO ANNOUNCE HIS DEPARTURE IN THE EARLY MONTHS OF THE YEAR IN ORDER TO AVOID THE IMPRESSION OF POLICY DIFFERENCES. HE HAD BEEN PREPARED TO WAIT NO LONGER (BUT OF COURSE TODAY'S TIMING CERTAINLY CREATES THE IMPRESSION THE ADMINISTRATION WISHED TO AVOID). ANOTHER RUMOUR CIRCULATING IN THE STATE DEPARTMENT (BURT) IS THAT MOTLEY HAD HOPED TO BE CHOSEN BY SHULTZ AS REPLACEMENT FOR DAM AS DEPUTY SECRETARY. SHULTZ HAS ANNOUNCED THE APPOINTMENT OF ABRAMS (CURRENTLY ASSISTANT SECRETARY FOR HUMAN RIGHTS) TO REPLACE MOTLEY.

10. FCO PLEASE COPY TO HEALEY AND OWENS (DTI).

WRIGHT

[COPIES SENT TO NO 10 DOWNING STREET]

CENTRAL AMERICA  
STANDARD (PALACE)  
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ECD(E)

COPIES TO:  
ASSESSMENTS STAFF, CABINET OFFICE  
MOD D14  
MR EDMONDS BROWN, LACPD, ODA  
MR HEALEY } DTI  
MR OWENS }

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MR DEREK THOMAS  
MR FERGUSSON  
MR EGERTON  
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HD/MED  
HD/UND  
HD/CONSULAR DEPT  
PUSD (2)  
NEWS DEPT  
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CABINET OFFICE DIO

IMMEDIATE

15.11.84

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FM WASHINGTON 011935Z MAY 85  
TO IMMEDIATE F C O  
TELEGRAM NUMBER 1446 OF 1 MAY  
INFO IMMEDIATE AMMAN, TEL AVIV, CAIRO, TUNIS, BONN (FOR SECRETARY OF  
STATE'S PARTY)  
ROUTINE DAMASCUS, BAGHDAD, JERUSALEM, JEDDA, ALGIERS, BEIRUT,  
UKMIS NEW YORK, MOSCOW.

AMMAN TELNO 173: ARAB/ISRAEL

SUMMARY

1. MURPHY'S TRIP NEITHER A SUCCESS NOR A FAILURE. US FACING  
DIFFICULT DECISIONS TO BE TAKEN IN THE LIGHT OF SHULTZ'S TALKS  
WITH KING HUSSEIN.

DETAIL

2. MINISTER CALLED ON MURPHY THIS MORNING TO REVIEW THE WAY AHEAD.  
MURPHY SAID THAT HE WAS DESCRIBING HIS TRIP AS NEITHER A SUCCESS  
NOR A FAILURE. HE HAD REPORTED TO SHULTZ, WHO INTENDED TO SUBMIT  
RECOMMENDATIONS TO THE PRESIDENT AFTER HIS OWN TRIP TO THE MIDDLE  
EAST. HIS TALKS WITH KING HUSSEIN WOULD BE CRUCIAL. SHULTZ WAS  
LOATH TO ACCEPT THAT THE US SHOULD TAKE OVER THE LEADING ROLE  
IN THE PEACE PROCESS. HE BELIEVED THAT US ALOOFNESS HAD  
STIMULATED GREATER REALISM IN JORDAN AND ELSEWHERE. HE WOULD HAVE  
TO BE SATISFIED OF KING HUSSEIN'S REAL COMMITMENT TO TAKING THE  
HARD DECISIONS ON THE ARAB SIDE THAT WOULD BE NEEDED IF ANY  
NEGOTIATIONS WERE TO HAVE A CHANCE OF SUCCESS BEFORE HE RECOMMENDED  
THAT PRESIDENT REAGAN SHOULD TAKE A MORE ACTIVE ROLE. HANNAY  
SAID THAT THE KING WOULD NO DOUBT BE SEEKING THE COMMITMENT  
TO HARD DECISIONS FROM THE AMERICANS. THERE COULD EASILY BE A  
RECIPE HERE FOR TALKING PAST EACH OTHER. MURPHY SAID THIS POINT  
WAS UNDERSTOOD IN WASHINGTON BUT SHULTZ WOULD BE VERY CAUTIOUS.



WAS UNDERSTOOD IN WASHINGTON BUT SHULTZ WOULD BE VERY CAUTIOUS.

3. KING HUSSEIN WAS ASKING THE AMERICANS TO TAKE SOME VERY DIFFICULT DECISIONS. HE INSISTED THAT HE NEEDED AN INTERNATIONAL CONFERENCE AT THE OUTSET OF THE PROCESS AS AN UMBRELLA FOR DIRECT NEGOTIATIONS. THE ESSENTIAL POINT FOR THE JORDANIANS WAS THAT ALL THE PARTIES SHOULD BE INVITED AND NONE EXCLUDED EXCEPT BY THEIR OWN CHOICE. MURPHY STILL BELIEVED THAT THIS RISKED KILLING THE PROCESS RIGHT AWAY. IT RAISED PROBLEMS IN CONNECTION WITH THE US/SOVIET RELATIONSHIP AND ALSO THE DIFFICULT PROBLEM OF PLO REPRESENTATION. KING HUSSEIN'S AIM WAS PRESUMABLY TO LESSEN THE RISK FROM DAMASCUS.

4. KING HUSSEIN ALSO INSISTED THAT THE PLO SHOULD BE COMMITTED TO ANY PROCESS THAT WAS AGREED AND HAD MADE CLEAR THAT THEY WOULD HAVE TO SIGN WHATEVER WAS NEGOTIATED. HE WAS TIRED OF GETTING BETWEEN THE PLO AND THE US. MURPHY COMMENTED THAT US/PLO NEGOTIATIONS REMAINED OUT OF THE QUESTION UNTIL THE PLO SATISFIED THE LONG-STANDING US CONDITIONS. THE RECENT INTERCEPTION OF THE BOAT-LOAD OF FATAH GUERRILLAS OFF THE ISRAELI COAST HAD NOT HELPED TO CONVINCING WASHINGTON THAT THE PLO HAD CHANGED ITS SPOTS. NOR COULD THE ISRAELIS BE PERSUADED TO DEAL WITH THE PLO. UNLESS THEREFORE KING HUSSEIN COULD PERSUADE THE PLO TO STAND ASIDE, AT LEAST IN THE INITIAL STAGES, NO PROGRESS WOULD BE POSSIBLE.

5. MURPHY SAID THAT THE PROPOSAL THAT HE SHOULD MEET A JORDANIAN/PALESTINIAN DELEGATION, WHICH HAD BEEN PUT FORWARD IN RESPONSE TO PRESSURE FROM CAIRO, HAD RATTLED THE PLO WHO SEEMED TO BELIEVE IT A RECIPE FOR CORPORATE SUICIDE. THEY FEARED IT WOULD SET A PRECEDENT FOR PALESTINIAN REPRESENTATION AT FUTURE MEETINGS AND IN DIRECT NEGOTIATIONS. HE BELIEVED THAT SOME PLO MEMBERS NEVERTHELESS WANTED TO TAKE THE CHANCE OF GOING AHEAD. IN MURPHY'S VIEW IT WAS THE ONLY WAY TO GET THE PROCESS STARTED. MURPHY SAID THAT KING HUSSEIN HAD PROPOSED THAT THE SENIOR PALESTINIAN REPRESENTATIVE SHOULD BE THE CHAIRMAN OF THE PNC AND HAD SEEMED CONFIDENT THAT HE COULD GET THE PLO TO AGREE. (MURPHY EMPHASISED THAT THIS INFORMATION WAS SENSITIVE AND SHOULD BE CAREFULLY PROTECTED.) SHULTZ WOULD NOT DECIDE ON THE ACCEPTABILITY OF ONE INDIVIDUAL OR ONE MEETING IN ISOLATION BUT WANTED A CLEARER IDEA OF HOW THE ARAB SIDE SAW THIS MEETING AS LEADING TO DIRECT NEGOTIATIONS WITH THE ISRAELIS. THE US RESPONSE WOULD BE DECIDED IN THE LIGHT OF SHULTZ'S TALK WITH KING HUSSEIN.

6. MURPHY SAID THAT THE PALESTINIANS HE HAD MET IN JERUSALEM HAD TALKED, ALMOST AS IF ON INSTRUCTIONS, OF THE NEED FOR A NEW US STATEMENT ON PALESTINIAN SELF-DETERMINATION. THEY HAD SUGGESTED THAT IT MIGHT BE COINED IN TERMS OF SELF-DETERMINATION IN THE CONTEXT OF CONFEDERATION WITH JORDAN. BUT THIS SUBJECT HAD NOT COME UP AT ALL IN HIS LAST TALK WITH KING HUSSEIN IN AQABA. SUCH A US STATEMENT WAS NOT IMPOSSIBLE AT THE RIGHT TIME. BUT SHULTZ WOULD NOT AGREE TO NEW US POLICY FORMULATIONS OUT OF CONTEXT. IT WOULD BE NECESSARY TO SET IT IN A PRE-ARRANGED SCENARIO LEADING TO DIRECT NEGOTIATIONS.



TO DIRECT NEGOTIATIONS.

7. MURPHY NOTED THAT KING HUSSEIN WAS WORRIED ABOUT THE ATTITUDE OF OTHER ARAB STATES AND HAD TALKED OF VISITING ARAB CAPITALS WITH ZAID RIFAI. KING HASSAN REMAINED FURIOUS AT THE JORDAN/PLO AGREEMENT WHICH QUOTE DISHONoured UNQUOTE THE FEZ DECLARATION. THE SAUDIS WERE NOT PREPARED TO EXPRESS PUBLIC SUPPORT FOR KING HUSSEIN, WHILE CONTINUING TO SAY THAT THEY LOOKED TO THE US TO DO SOMETHING. KING HUSSEIN HAD TOLD HIM THAT THE JORDANIAN FOREIGN MINISTER WOULD BE GOING TO MOSCOW BUT THAT GROMYKO HAD REFUSED TO RECEIVE HIM IF HE WERE ACCOMPANIED BY A PALESTINIAN.

8. MURPHY REPEATED THAT THE ISRAELIS WERE GENUINELY ANXIOUS TO IMPROVE THEIR RELATIONS WITH EGYPT BEFORE EMBARKING ON DISCUSSIONS WITH KING HUSSEIN. BUT THIS PROCESS WAS GOING MORE SLOWLY THAN HAD BEEN HOPED. SUBJECT TO AN ISRAELI INNER CABINET DECISION TODAY ON THE AGENDA, KIMCHE AND TAMIR WOULD BE MEETING THE EGYPTIANS IN CAIRO ON 5 MAY. PERES FAVOURED A LIMITED AGENDA - TABA, THE RETURN OF THE EGYPTIAN AMBASSADOR AND CERTAIN TRADE, TOURISM AND MEDIA ISSUES. SHAMIR THOUGHT IT NECESSARY TO REVIEW ALL EGYPTIAN SHORTCOMINGS: IN HIS VIEW ISRAEL NEEDED IMPLEMENTATION OF THE TREATY NOT NEW COMMITMENTS. MURPHY HOPED THAT MUBARAK WOULD RECOGNISE THAT JORDANIAN/PALESTINIAN CONCERNS SHOULD NOT BE ALLOWED TO OVERLOAD HIS BILATERAL AGENDA WITH THE ISRAELIS. THE EGYPTIANS HAD AGREED TO A NUMBER OF ISRAELI DEMANDS (A RENEWED SEARCH FOR THE DAKAR SUBMARINE AND ACCESS TO AN ISLAND OFF TABA) BUT IMPLEMENTATION, PRIMARILY BECAUSE OF BUREAUCRATIC INERTIA, REMAINED A PROBLEM. MURPHY CONCLUDED THAT IMPROVEMENT IN RELATIONS WITH EGYPT WOULD GIVE AN IMPORTANT BOOST TO PERES AND PUT HIM IN A BETTER POSITION TO GET INVOLVED IN THE PEACE PROCESS.

WRIGHT AND HUSSEIN.

DETAIL

2. MINISTRY CALLED ON MURPHY TO REVIEW THE WAY AHEAD.

NNNN SAID THAT HE WAS DESCRIBING HIS TRIP AS NEITHER A SUCCESS

OR A FAILURE. HE HAD RETURNED TO JERUSALEM AND INTENDED TO RETURN





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

Prime Minister  
If you agree, we  
shall include this  
in the briefing  
for the Summit.

PRIME MINISTER

ECONOMIC SUMMIT: UNITARY TAX

Yes Mr

CDP  
25/4

I will be raising this issue at the Finance Ministers' Meeting, but I hope that you will also be able to find time to press President Reagan on it during your discussion with him.

2. As matters stand, there is a serious risk that legislation will not pass this year in California, and that the Administration will back off from the alternative solution of Federal legislation. If nothing happens this year, it seems unlikely that anything will happen in 1986. The Parliamentary pressure to pass Michael Grylls' retaliatory Clause in the course of this year's Finance Bill is likely to be irresistible unless there is real progress in the next 6 weeks or so. But our passing the legislation may not give sufficient leverage to produce a solution.

3. My conclusion from this is that we need to exert all the pressure we can on the Administration to deliver a solution this year, and emphasise the reality of the threat of UK retaliation if they have not produced it by mid-June. I have been pressing this line on Don Regan and - last week - on Secretary Baker. They are making genuine efforts. But when it comes to the crunch, I think a push from the President himself may be necessary. I hope you will be able to raise this briefly when you see him at the Summit.





4. It would, I think, also be useful if you could find time to mention unitary tax to Prime Minister Mulroney when you see him next week before the Summit. Canadian support at the Summit would be useful, and my impression is that he may be prepared to produce it if given a little encouragement.

5. I am copying this to Geoffrey Howe.

N.L.

24 April 1985



BILATERAL WITH MR. NAKASONE

1. Thanks for receiving the 2000 Group.
2. Any points from Summit discussion.
3. Must remember that one country's surplus is another country's deficit. Up to those running large surpluses to do everything possible to remove restrictions and change attitudes to imports in their own markets.
4. They also have a particular responsibility not to stray from agreed practice on credits. Very surprised to find  
/Japan

Japan linking up with Italy - which imposes severe limits on imports of Japanese cars - to offer excessively favourable credit terms on Bosphorus Bridge. Is the lesson that we should similarly restrict import of Japanese cars?

5. Japanese Government should also set an example on import policy in field of public purchasing.



PRIME MINISTER'S BILATERAL WITH MR NAKASONEOur Objectives

(a) To discuss Summit and other international issues, with particular emphasis on continuing need for Japan to reduce all her trade surpluses.

Arguments

(a) Pressing political need for Japan to take action to rectify trade imbalance if demands for protectionism in USA and Europe are to be resisted. Cannot wait for new GATT round: urgent action needed now to create favourable environment for negotiations. Must take account of EC as well as US concerns. (refer to PMV(85)1 + PMV(85)2).

(b) Welcome Mr Nakasone's 9 April statement and look for continuing liberalisation of financial markets and increased purchases of manufactured imports. But Japan will be judged by results. Japanese Government needs to lead by example in areas such as defence procurement and civil airline purchasing. (Harrier; Tornado; BA146 airbus and Shorts' 360 airliner).

Tactical Arguments

(a) Lack of success in Japan by industrial sectors with proven success elsewhere in the world shows that products and marketing are available to meet Japanese requirements.

(b) Appreciate that Japanese low propensity to import is in large part cultural factor. But in our interests (especially Japan's) to preserve and strengthen fully open trading system.

/ His Objectives



His Objectives

- (a) To secure the Prime Minister's understanding of Japan's trade policies and problems (and to enlist her support for an early launch for new GATT round).
- (b) To discuss East/West relations and US/Soviet arms control talks (refer to PMV(85)13 and PMV(85)11).

Your Response

See objectives above.

Background

- (a) Prime Minister last met Mr Nakasone at London Summit and afterwards for his short Guest-of-Government visit to the UK.

UK

- (b) Mr Tebbit met Mr Nakasone on 16 April during his visit to Japan. Record of the call is attached.



CONFIDENTIAL



PRIME MINISTER

MS

Prime Minister  
Mr. Tebbit's account of his  
visit to Japan.  
understand that he intends  
to give Cabinet a brief  
summary tomorrow.

VISIT TO JAPAN : 15-19 APRIL 1985

CDP 24/12.

My visit, the first by a Secretary of State in the Trade or Industry field since January 1983, came at a significant time. In the light of their current preoccupation with their international trading position, it was regarded by them as an important event. Despite the pressure of Government and party business, and a simultaneous visit by the Dutch Prime Minister, Senior Japanese Ministers went out of their way to find time to see me, including the Prime Minister, (who sent his warm regards to you, which I hereby convey) the Foreign Minister and the Ministers for Trade and Industry and Finance. A list of meetings is annexed. Separate records of each meeting have been circulated.

2 Recent events in Japan made the emphasis of my visit necessarily upon trade issues. In response to rising criticism of Japan's increasing trade surpluses coupled with her low propensity to import, reflected most recently in US Congressional pressure for action against Japanese imports and the EC Foreign Affairs Council declaration of 19 March, Prime Minister Nakasone on 9 April announced a further market-opening package. Although this included many of the kinds of limited, though not unimportant, measures contained in its predecessors, such as the promise of tariff reductions and concessions on non-tariff barriers, it represented potentially a significant departure. First it implicitly recognised that the inaccessibility of Japan's market was due to structural or cultural factors as well as formal obstacles. And secondly, it addressed, even if tentatively,

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the key problem of how Japan's propensity to import might be changed. An Action Programme is to be worked out by July, under the personal supervision of the Prime Minister, to secure results over a 3 year period.

3 The immediate reactions to the package will not have reassured Mr Nakasone. There is scepticism both in Japan and elsewhere about the ability of the Government to manage a fundamental change in the attitude of consumers and industry towards imported goods. And there is concern in the Community that the main measures seem tailored principally to meet US objectives in a number of relatively limited and selected fields.

4 In my meetings, and notably with the Prime Minister, I laid stress on two aspects. First, I warned of the urgency of the situation and for the need for early action that would convince all Japan's trading partners that real and measurable results would be produced. I made no threats on the part of the UK; indeed I said that we perhaps had more understanding of Japan's problems than others. However, I did foresee that, if Japan's surpluses with the US and Community continued to rise and her level of imports remained unchanged, unilateral protectionist measures would be proposed which would not just harm Japan but would threaten the whole of the liberal international trading system upon which the UK, no less than Japan, depended. Secondly, I placed emphasis on the need for the Japanese Government to give a firm lead to industry and consumers in purchasing goods from abroad, for example through its procurement policies. Action could not simply be confined to exalting consumers to change their traditional preference for domestically produced goods. I did, however, show some appreciation of the proposal by MITI to call in 60 leading

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Japanese companies to "explain" the problem and the contribution which they could make - that, in Japanese terms, could represent a powerful instrument for change.

5 I placed most emphasis on the multilateral nature of the problem, although naturally referring to our £2.8 billion deficit with Japan. Nevertheless, I did take the opportunity to advance British interests, principally by illustrating ways beneficial to us in which the Japanese Government could show its determination to increase its ratio of imports and its commitment to the liberalisation of its internal markets. I was able to point to the possibility of advancing the purchase of civil aircraft and referred to the competitiveness of the BAe 146, the Shorts 360 and the Airbus. I cited defence equipment as another area where substantial contracts could be placed, mentioning Sea Harrier and Tornado. In the civil field, I confirmed that our firms were interested in supplying telecommunications equipment, particularly peripheral systems, since that is a sector where the US is clearly intent upon securing a preferential position. And, within the general framework of market liberalisation, I pressed for non-discriminatory treatment for our whisky and tobacco exports.

6 In addition to the need for direct action to change the import balance, I raised the issue of the Yen and the liberalisation of the internal financial market, pointing out that were the Yen free to reflect the underlying strength of the performance of the Japanese economy - and were action elsewhere to be taken to correct the over-valuation of the Dollar - it would be reasonable to expect that the problem of surpluses and deficits would, over time, be largely self-correcting. In Japan's case, what needs to be done is to allow interest rates to fluctuate more freely and to

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develop new financial instruments which would facilitate Yen holdings by overseas investors; ultimately, one would also wish to see the Yen becoming more readily used as the basis for international transactions. I believe that these points are understood by the more internationally and liberally-minded Ministers and officials and the Prime Minister's programme includes a reference to the internationalisation of the Yen. It remains to be seen, however, how far and how fast the Government will be prepared or able to go down this road.

7 A road which they are taking, somewhat more slowly than the Prime Minister professes to wish, is the liberalisation of the financial market; an area in which the City naturally has an especially keen interest. Some progress has been made. Two UK institutions have been granted security dealers' licences and Barclays have applied for a licence to carry out cost banking - I was able to give positive support to their ambitions. But we need to maintain strong and persistent pressure, particularly in view of the risk that the US will persuade Japan to afford her institutions favoured treatment.

8 On the question of a new GATT round, I resisted the idea that action to deal with the "Japan problem" could be left for negotiations in that framework; that would be a further excuse for delay. Nevertheless, I emphasised that all participants, including Japan, would have to come to the table prepared to make significant concessions if the round was to be a success. I confirmed our commitment to making early progress, laying particular stress on the importance of thorough preparation.

9 My assessment, in relation to the question of Japan's

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international trading position and the associated issues of market opening and trade surpluses, is that the Nakasone package was conceived originally as part of a strategy to buy more time and to carry Japan through the period of preparation before a new round. The strength of feeling in the US, and to a lesser degree in the Community, was not foreseen and the Prime Minister has been shocked by the expressions of dissatisfaction at, for example, the OECD Ministerial meeting. (He has still to convince all his colleagues of the seriousness of the position and the need for concrete action but there is a growing realisation that promises and token market-opening gestures will not be enough. The difficulty which the Government faces is what to do. I think that the Action Programme will now contain more specific steps than would otherwise have been the case and that the Government may make, perhaps through public purchasing, a demonstration of their intention to buy more from abroad. (But it will be hard to make a real impact in the short term, and it is the short term that will count.

10 Our approach must be to maintain the pressure for change but to avoid, so far as we can bring influence to bear, either the US or the Community resorting to precipitate protectionist measures against Japan. That would be immensely damaging to the international trading system; it would end any hope of a new GATT round and would represent yet a further threat to the survival of that institution. These are considerations which will need to be heeded carefully at the Bonn Summit.

11 I will also be raising the question of the US and Community's attitude to Japan during my visit to Washington in two weeks time. I shall explore the possibility of a concerted effort by the US and the Community to speed the

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process of Japan's integration into the international trading and financial system. But I shall equally stress the need for the Administration to resist Congressional pressures for damaging protectionist measures - against any of the US's trading partners.

12 Although trade issues took up the greater time in my discussions, I was able also to impress upon Ministers and senior industrialists the importance which we attach to increasing industrial collaboration between Japanese and UK companies and to attracting investment of a kind that contributes positively to the UK economy through jobs, the transfer of skills and technology, and import substitution. The message was well received, partly because there is, I believe, a real appreciation of the progress which we have made in strengthening the economy, improving the operation of the market and enhancing the profitability of companies. We already account for a high proportion of Japanese (and US) investment in Europe and I believe that we can maintain our rate of success. I took every opportunity to promote interest in the "Britain Means Business" campaign which I launched earlier this month.

Not many  
jobs  
lost

13 In addition to a general exchange of views with the Keidanrein on trade investment, I met individually the Presidents of Nissan and Honda. With Nissan, I emphasised the importance which we attached to their making maximum use of UK component suppliers both for UK and Japan-built cars and resisted any suggestion that we would be prepared to relax our requirements on imported content. (In the case of Honda, I explained why we were not able to come to an immediate decision but assured Mr Kume that we would consider carefully and quickly the recent propositions, within the framework of a revised BL Corporate Plan. Both he, the Prime

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Minister and the Minister for Trade and Industry went out of their way to assure me of their enthusiasm of further collaboration between the companies and showed themselves sensitive to our concern that this should take a form which strengthened BL's future competitiveness and created a positive flow of trade in both directions.

14 I believe that my visit will prove useful. Its timing lent force to the message delivered and I hope that I have done something to counteract the tendency of Japan to place rather too much weight on her relations with the US to the exclusion of the Community's interests.

15 I was left in no doubt of our current standing. We are regarded as a friend but a firm and critical one. That is a position which we must maintain.

16 Finally, I would record my thanks to Sir Sydney Giffard and his staff both for the careful preparation for my visit and for the expert support given during my stay. Our interests in Japan, not least in the trade and commercial field, are very efficiently and effectively served.

17 I am sending copies of this minute to Geoffrey Howe, Nigel Lawson, Peter Walker, Michael Heseltine, George Younger, Nicholas Edwards, Nicholas Ridley, David Young, and to Sir Robert Armstrong, Sir Michael Butler and our Ambassadors in Washington, Tokyo and Bonn.

N T

April 1985

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VISIT OF SECRETARY OF STATE FOR TRADE AND INDUSTRY  
TO JAPAN : 15-19 APRIL 1985

LIST OF MEETINGS:

Mr Nakasone,	Prime Minister
Mr Abe,	Foreign Minister
Mr Takeshina,	Minister of Finance
Mr Murata,	Minister of International Trade and Industry
Mr Komoto	Minister for Market-Opening Measures
Mr Kaneko	Director, Economic Planning Agency
Mr Sato	Minister for Posts and Telecommunications
Keidanren	(Some Thirty or so Leading Industrialists)
Mr Ishihara	Nissan
Mr Kume	Honda

JH5AZJ





Lunch with Mr Esaki and other Members of The Special Research  
Council on External Economic Affairs of The Liberal  
Democratic Party

Lunch with Leading Representatives of Japanese Financial  
Institutions.

JH5AZJ



SECOND BOSPHORUS BRIDGE: ATP: CLEVELAND BRIDGE  
BACKGROUND NOTE

The Project

Cleveland Bridge Ltd led an international consortium in a bid for this project which involves a contract for the building of the second Bosphorus Bridge, and immediate approach roads packaged together with three other contracts for some 160 kilometres of related motorway. The main competition was from a Japanese led consortium including the Italians. Cleveland Bridge's particular interest was in the bridge itself. The company applied for ATP support and ECGD cover for the minimum necessary UK content for the bridge only. They recognised that it would be impossible to secure agreement to any further ECGD cover sufficient to have allowed greater UK involvement in either the bridge or the roads.

The Bids

2. Ministers decided at EX that the ECGD cover limit for Turkey should be increased which allowed Cleveland Bridge to bid with an offer of £10 million ATP support and export credit cover of £40 million for the UK content of the bridge. But the Cleveland consortium (including US, West German and Turkish firms) had to put in a bid for the whole project. They did this with commercial finance which included \$300 million officially supported US credit for the 90% plus balance of the project.

3. The Japanese competitor's bid for the bridge itself was slightly higher (\$114 million against Cleveland's \$111 million), but their offer which involved \$206 million yen loan at 5% over twenty five years represented a mixed credit subsidy of some 37%. It was therefore agreed to increase ATP for Cleveland's bid to almost £15 million. This matches the subsidy level of the Japanese offer but not of course the overall amount which remained some four times greater.



4. It has to be emphasised that the Japanese led consortium's bid for the whole project, including the road (\$550 million) was, irrespective of aid, some 20% cheaper than the Cleveland consortium at \$675 million. This pricing together with the inability of Cleveland Bridge to secure US or German government aid support put the Japanese in an unassailable position.

5. In the context of the Japanese offer the Italian official support was largely marginal but added to the attractiveness of the Japanese/Italian bid.

#### Japanese Methods

6. The Japanese might very well have won the project on price even without an injection of aid. The OECF aid money that was put in was offered on their usual supposedly 'untied' basis. The Japanese often claim their aid is untied because contractors from LDCs as well as Japanese companies are eligible to compete for it. In practice this results in effectively tying the aid to Japanese companies. However we cannot really complain about more than the pretence of Japanese "untied aid" practices. Their offer is not counter to international rules and indeed our own aid offer was also tied.

7. It is also understood that in making their aid offer the Japanese government made it conditional upon the Japanese consortium winning the whole project thus ensuring that they beat Cleveland on the bridge. But there is <sup>no</sup> absolute evidence of this, and in any case it is difficult to argue that it is illegitimate as a commercial tactic.



ECON. POL: Bonn Summit: Pt 18



From: JOHN WILKINSON, M.P.  
(Ruislip - Northwood)



HOUSE OF COMMONS  
LONDON SW1A 0AA

26 April 1985

*Dear Michael,*

I have sent the enclosed note to the Prime Minister for the forthcoming Bonn Summit. It is of the greatest importance that she should very briefly promote the merits of Tornado to the Japanese Prime Minister, Mr. Nakasone.

There is a definite potential military requirement for the aeroplane in Japan and it would help reduce the huge trade imbalance in Japan's favour between Japan and Western Europe.

*Yours ever*

*John*

JOHN WILKINSON

The Rt. Hon. Michael Alison, M.P.



From: JOHN WILKINSON, M.P.  
(Ruislip - Northwood)



HOUSE OF COMMONS  
LONDON SW1A 0AA


26 April 1985

I am writing to you as a matter of urgency to ask that you raise the possibility of Japan's buying the Tornado aircraft to meet the requirements of the Japanese Air Self-Defence Force and to redress the serious trade imbalance between Japan and Europe.

There is definite interest in the aircraft in Japan and Norman Tebbit did his best to promote the aeroplane during his recent visit to Tokyo.

The Japanese Government has shown an appreciation recently of the problems caused by its huge trade surplus and I am sure that if you could very briefly promote the merits of Tornado to Prime Minister Nakasone at the Bonn Summit, it would be very worthwhile.

As you know, it is necessary to demonstrate political support at the highest level and I hope that Chancellor Kohl and Signor Craxi may be able to do likewise. Nevertheless I am sure that it is your support for the aeroplane that would carry most weight with the Japanese.



JOHN WILKINSON

The Rt. Hon. Margaret Thatcher, M.P.,  
Prime Minister,  
10 Downing Street.



**BRIEFING PAPER FOR THE PRIME MINISTER OF GREAT  
BRITAIN FOR HER FORTHCOMING MEETING  
WITH PRIME MINISTER NAKASONE AT THE SUMMIT  
CONFERENCE IN BONN**

**TORNADO FOR JAPAN**

The Japanese Defence Agency (JDA) is now studying how best to replace its ageing fleet of Mitsubishi F-1 ground attack aircraft which will need to be phased-out in the early 1990's. For this FSX project there are three basic options open to the government:

- a) To modify and extend the life of existing aircraft.
- b) To design and build an aircraft in-house.
- c) To select a suitable foreign aircraft either off-the-shelf or for license-manufacture.

To replace completely the Mitsubishi F-1 fleet, the Japanese Air Self Defence Force (JASDF) final order could be around 100 units. At 1984 prices 100 aircraft, including spares for two years and ground support equipment, would amount to approximately US\$ 2.6 Billion. With the trade deficit between Japan and the EC running at over US\$ 10 Billion and between Japan and the TORNADO nations at over US\$ 5 Billion a TORNADO purchase would be a significant step towards re-dressing the trade imbalance. Over 500 companies and 70,000 people are involved in the TORNADO programme and, therefore, a TORNADO purchase would have a wide ranging impact on the economies of Britain, West Germany and Italy.

For the last 5 years, PANAIA has covertly maintained close contact with the key decision-makers in Japan. The JDA and JASDF have been regularly updated on TORNADO and possess technical information, logistics support plans, aircraft performance information and a budgetary proposal, and this will be followed by a license build and in service support proposal.

At present PANAIA continues to stimulate discussion of TORNADO in Japan with the military and political leaders. Since the issue of a new 5 year defence plan is imminent, the FSX decision-making process is reaching a critical point and it is now necessary for the TORNADO topic to be brought into the open. It is therefore important that, during the meeting in Bonn, TORNADO's economic and military benefits for Japan are brought to the attention of Prime Minister Nakasone and his accompanying ministers. This is an essential move if TORNADO is to remain in the competition.



Although there is considerable enthusiasm for the development of an in-house aircraft within Japanese Industry, this option has several drawbacks:

1. It will be an expensive exercise in comparison with the off-the-shelf or license manufacture option.
2. Japanese Industry does not possess the necessary technological know-how to develop and build an aircraft capable of meeting the Soviet threat.
3. An in-house aircraft will take in excess of 10 years to develop thus committing the JASDF to obsolescent equipment well into the 1990s.

On the other hand, a TORNADO purchase would:

1. Give Japan access to the latest European technology.
2. Be a firm base from which to tackle later aircraft replacement requirements.
3. Bring Japan closer to Europe and NATO, diversify its source of weapons and become less dependent on the United States and,
4. Be a no risk solution to a tough military requirement.

#### **Conclusion**

It is vital that TORNADO is mentioned at the Bonn Summit. Prime Minister Nakasone is unlikely to make any immediate commitments but he will alert his staff to the issue and set in motion the necessary high level debate. It is hoped that Chancellor Kohl and Prime Minister Craxi will also raise this issue but it is the comments of Prime Minister Thatcher that carry the greatest weight. Prime Minister Nakasone is expecting all three leaders to declare their full support for the sale of TORNADO to Japan.

15.4.1985

Prof. Dr. Riccius  
PANAVIA Marketing  
089/9217366



PRIME MINISTER

1 May 1985

ECONOMIC SUMMIT

Locomotive Reflation: Should the Non-US Economies Expand?

If US interest rates start to come down because the US Government decides to cut its Budget deficit, it would be damaging for the other Western nations then to expand their Budget deficits. It would limit reductions of interest rates.

On Treasury figures for 1984, the UK general government financial deficit was 3.25% of GDP, and the US one 3.5%. In 1985, the UK deficit is scheduled to fall, whereas the US deficit will rise; but, allowing for the sale of public sector assets (counted as negative public spending, but in practice a way of financing a deficit) the UK Budget deficit remains very similar to that of the US. France, Canada and Italy also have high deficits; whereas Japan and Germany - which have much lower rates of unemployment - have substantially lower general government deficits. Hardly evidence that bigger deficits lower unemployment.

Heh-Fr  
-Can  
-It.

The major Western countries are growing quite healthily - 5.25% on average in 1984, and another 3.5% forecast for 1985. The Western European countries are markedly slower than Japan, the States and Canada. The backdrop for concerted action to bring together monetary policies and currencies is not favourable. The table on Annex 7 of the



Treasury's Economic Brief shows just how widespread the variations are in the growth of money: from Italian money growth of 19.5% in the second half of 1984, to a decline in Canada.

Following the surge of the dollar, no-one can have any confidence that, at the current level of exchange rates, we have a viable reflection of long-term values which international central banks ought to defend for any length of time. The Japanese yen still looks very undervalued, as measured by the Japanese trade account and the underlying strength of the Japanese economy. Unless the US is going to tighten and tighten again its money policy and put rates up, the US currency still looks expensive - particularly against the yen. The German currency looks cheap against some of its weaker Western European neighbours.

Against such a background, you cannot peg the rates for any length of time by expensive intervention; nor should you believe that any international agreement on desirable rate bands would produce anything other than a set of political problems.

#### GATT Round

In contrast, the idea of a new GATT round is extremely attractive, and should be encouraged at every convenient turn. There is a growing mass of evidence to suggest that



tariffs and other barriers to trade destroy jobs around the world, and tend to make international economies poorer rather than richer.

A major stumbling block is that France and Italy may insist on "international monetary reform" as a condition for a new GATT round. Our tactics have been to separate the two issues and play down the exchange rate question. You might argue that it is not the overvalued dollar per se which harms the world economy, but excessive American borrowing, which pulls up interest rates and harms growth. The undervalued yen exposes manufacturing sectors to excessive Japanese competition.

The right answer is not to try to manipulate exchange rates - this would be expensive and unsuccessful - but to remove distortions in capital markets which contribute to the exchange rate problem. There are two in particular - tax relief on interest in the USA, and banking "caution" towards consumer borrowing in Japan.

The other difficulty in concerting a Summit position on the GATT round is the French and German insistence that the round must not tamper with the CAP. Since the CAP is an afront to a liberal trading system, with its variable import levies and massive dumping policies, the round won't make progress unless the CAP is open to discussion. The CAP problem can only be solved by switching its emphasis away



from price support for all and towards direct "social" income support for small, uneconomic farms. This must imply an alignment of prices towards world levels and a greater exposure to free trade.

### The United States

The crucial battle is that over the Budget. The table beneath summarises the proposals before the Senate Budget Committee:

Projected Budget Deficit:	1985/6	1986/7	1987/8
	\$bn	\$bn	\$bn
(a) No action projection by Office of Management and Budget:	227	245	244
(b) President's Budget proposal:	180	165	144
(c) Senate/White House compromise Budget:	175	145	99
(Cuts under Senate/White House compromise):	(52)	(100)	(145)

Over one-third of the total expenditure reductions planned in the so-called "compromise" now involves halving the planned real growth in defence spending. Other cutbacks will be in Medicare, Medicaid and Social Security. If US economic growth falls significantly below the 4% per annum rate assumed in these figures, then the Budget arithmetic

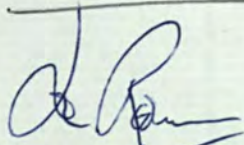


will look even worse. The Senate has now passed the Administration/Senate Budget Committee compromise proposal, <sup>but</sup> some Republicans will impose individual measures during the later stages. The proposal are likely to be watered down -

At the same time, the state of the American financial industry is not getting any better. The savings and loans industry now has a tangible net worth of less than 0.5% of its total assets. Nine savings and loans failed last year, and more failures are likely in the future. Simultaneously, there is a high level of bank failures, which have risen from an annual average of less than 10 in 1977-81, to 34 in 1982, 45 in 1983, and 78 in 1984. Some 800 banks under the surveillance of the Office of the Controller of the Currency now require special supervisory attention - a fourfold increase in 5 years. (Source: N M Rothschild's Monthly Newsletter.) This background is always there, and at any time can force the US authorities into easier money as they flare up.

### Conclusion

The world background still remains difficult. Locomotion will not help. A new GATT round can. Given the enormous swings possible in the US banking, monetary and currency position, any concerted effort to intervene or control exchange rates would be doomed to failure at considerable political and financial cost.



JOHN REDWOOD



ADVANCE COPIES

57

ECONOMIC SUMMIT

MR BRAITHWAITE  
MR MAUD  
HD/ERD  
HD/PLANNING STAFF  
PS

PS/NO 10 J. S.

RESIDENT CLERK

Prime Minister

12.4.85

The Foreign Secretary  
may try to squeeze  
in. I think you should  
stand firm. It's only  
a short meeting. It's better  
to have a single spokesman  
C.D.P.

CONFIDENTIAL  
FROM BONN 011700Z MAY 85  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 432 OF 01 MAY  
INFO IMMEDIATE WASHINGTON

**IMMEDIATE**

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ADVANCE COPY

WASHINGTON TELNO 1442  
BONN ECONOMIC SUMMIT: BILATERALS

1. JOHNSTON (WHITE HOUSE STAFF) HAS INFORMED US THAT IT HAS BEEN DECIDED THAT PRESIDENT REAGAN WILL BE ACCOMPANIED AT HIS BILATERAL WITH THE PRIME MINISTER BY SHULTZ, MCFARLANE AND POSSIBLY A NOTE-TAKER. IT WAS HIS UNDERSTANDING THAT NO SEPARATE BILATERAL IS PLANNED BETWEEN SHULTZ AND YOU.

2. WE SAID THAT WE UNDERSTOOD THAT THE PRIME MINISTER WOULD BE ACCOMPANIED ONLY BY HER PRIVATE SECRETARY.

FCO PLEASE ADVANCE TO PS, PS/NO 10.

BULLARD



DG2AHN

file



10 DOWNING STREET

*From the Private Secretary*

SIR ROBERT ARMSTRONG

BONN ECONOMIC SUMMIT: POLITICAL DECLARATION

The Prime Minister has considered the revised version of the Political Declaration for the Bonn Economic Summit submitted under cover of your minute of 29 April. She has no difficulty with the two amendments identified in paragraph 3, subparagraphs 1 and 2 of your minute, but finds the French objection to any reference to the United States in the context of the Geneva talks petty to a degree (though recalls a similar problem at the London Summit last year). She would wish to be supplied with alternative drafts, some of which would be considerably more objectionable to the French Government, in the hope of being able to arrive at a more balanced final version.

I am copying this minute to the Private Secretary to the Foreign and Commonwealth Office.

Charles Powell

SWH

1 May 1985



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FILE

L02 ADL

cc: PC

10 DOWNING STREET

*From the Private Secretary*

1 May 1985

SOVIET AIR SPACE RESERVATIONS IN THE BERLIN AIR  
CORRIDORS

The Prime Minister has considered the Foreign and Commonwealth Secretary's minute in which he sets out the course of action which he proposes to pursue to preserve Allied rights in the Berlin air corridors.

The Prime Minister is content with this. But she would indeed wish to be consulted again before any major decision were taken, particularly a decision on demonstration flights.

I am copying this letter to the Private Secretaries to the Secretaries of State for Defence and Transport, the Private Secretaries of the other members of OD, to Sir Robert Armstrong and to the Chairman of the JIC.

CHARLES POWELL

Len Appleyard, Esq.,  
Foreign and Commonwealth Office.

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ew



CONFIDENTIAL
 TPm  
 HOME OFFICE  
 QUEEN ANNE'S GATE  
 LONDON SW1H 9AT

1 May 1985

DEAR CHARLES,

US/UK EXTRADITION

The Prime Minister will recall that negotiations have been taking place with the United States on our bilateral extradition treaty. A new supplementary treaty has now been initialled and there is the possibility of the subject coming up during any conversations the Prime Minister will have with the US President while they are both attending the economic summit in Bonn. This letter provides briefing against that contingency.

The effect of the new supplementary treaty would be to deny fugitives accused or convicted of certain serious offences of violence scope for avoiding extradition on the grounds that their offences are political. Fugitive Irish terrorists have successfully used this political safeguard to avoid extradition. Now that the text of the supplementary treaty has been agreed, the next step will be for the US administration to lobby Senators on the Foreign Relations Committee (US treaties require only Senate approval). Before this process begins, however, Mr Meese, the US Attorney General, wishes to discuss the matter with the President on his return from Europe. If all goes according to plan, the supplementary treaty will be signed in Washington, perhaps in June. It is not yet clear when the supplementary treaty would be formally put to the Senate. For the United Kingdom's part, secondary legislation (one Order in Council, and one affirmative resolution order) will be required before we can ratify. Until the Washington lobbying process starts our public line is merely that both Governments are reviewing the mutual extradition treaty.

This is likely to be a controversial issue in the Senate and success cannot be guaranteed. So far as we know, Mr Reagan has not been briefed on this subject. But, if the opportunity presents itself, the Prime Minister may wish to say how grateful we are for the way the Administration has been able to agree the supplementary treaty and to explain its importance in the eyes of the United Kingdom Government. The Prime Minister may also wish to

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2.

acknowledge the value of carefully preparing the ground in Senate and express the hope that the Administration will be able to put its weight behind the treaty.

I am sending a copy of this letter to Len Appleyard (FCO) and Richard Hatfield (Cabinet Office).

Yours aw,  
Hugh Taylor

H H TAYLOR

Charles Powell, Esq.

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T.P.M.  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

1 May 1985

Dear Charles,

BONN ECONOMIC SUMMIT

..... Following our conversation earlier today,  
I attach a note on the international drugs  
problem for the Prime Minister's use if she  
wishes to raise this during the course of the  
Summit.

I am copying this letter and the enclosure  
to Len Appleyard (FCO) and Richard Hatfield  
(Cabinet Office).

Yours ever,

Hugh Taylor

H H TAYLOR

Charles Powell, Esq.



## INTERNATIONAL DRUGS PROBLEMS

### Line to Take

The drugs problem is growing in nearly every Western and Third World country. Record amounts of heroin and cocaine are being manufactured and seized throughout the world. Most countries are reporting increasing numbers of addicts. The profits generated by illicit drug trafficking are enormous (heroin and cocaine have a street value 10-20 times that of gold). The risk of corruption, particularly in the less developed countries, is considerable. There is a major risk to the stability of societies and governments, particularly in Latin America and the Caribbean. The problem is likely to continue to get worse before it begins to improve.

Clearly international co-operation is vital. We need to tackle both the supply of and demand for drugs. We also need to take account of the political realities in the drug producer and transit countries. The United Nations has a key role but its drugs bodies in Vienna are not always as well co-ordinated as they might be. To our disappointment, a good deal of energy at February's session of the UN Commission on Narcotic Drugs was expended in unproductive discussion about whether a new international convention is needed or whether the existing conventions should be strengthened. We welcome the initiative of the Latin American countries in raising the issue, and hope that all countries will respond positively to the UN's current invitation to submit proposals for elements to be included in the new international instrument on drug trafficking. In particular, we believe it essential to provide for effective law enforcement and deterrent measures to combat drug trafficking. There is certainly scope for developing draconian proposals to confiscate the proceeds of drug traffickers: the UK has played an active part in international



discussions, and is urgently preparing legislation - a key element is the need to provide for arrangements to trace and seize assets held in other countries. Countries also need to provide for the imposition of the most severe penalties upon convicted drug traffickers.

We would also support the work of the UN Fund for Drug Abuse Control in developing programmes to eliminate poppy and coca-bush cultivation. Not all those countries represented at the Summit have been particularly generous in contributing to the Fund. The UK had made a specific contribution in respect of Pakistan and is now considering a contribution for Latin America. While money is important, help in training police and Customs services in other countries or in providing technical know-how can be just as effective. Co-operation among police and Customs services on an international level is also vital, bilaterally as well as through such bodies as Interpol and the Customs Co-operation Council.

We also need to examine whether there are more effective ways of preventing people, especially the young, from experimenting with drugs and treating those who become addicted. Much can be learned from the experience of other countries, and we are using our chairmanship of the Council of Europe Pampidou Group to develop co-operation in this area.

[At this stage we do not propose to put forward any specific proposals for new forms of international co-operation. But if colleagues would find it helpful we could have a more extensive discussion at the next Economic Summit.]



TPM

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Ref. A085/1235

MR POWELL

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Speaking Note on Economic Issues

I attach, as requested, a revised draft Speaking Note on economic issues for the Prime Minister's use at the Summit.

2. I am sending copies of this minute and the attachment to Len Appleyard and Rachel Lomax.

R. HATFIELD

R P HATFIELD

1 May 1985

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BONN ECONOMIC SUMMIT : SPEAKING NOTE ON ECONOMIC ISSUES

At our meeting last year, I said that we must send a clear message from the Summit. We did. We said: "Our strategy is the right one. We intend to stick to it."

We are seeking real growth, real jobs, real prosperity, all within a free society. We are not interested in quack remedies and quick fixes. We must stick to our strategy not for one year or two years, but for as long as it takes to establish in our own countries and extend to others the benefits and rewards of sound non-inflationary growth.

Since our last Summit, the levels of inflation have been lower and the rates of growth have been better in our countries than many people expected.

In Britain we have now seen four years of continuous growth of real output. We expect output this year to reach three and a half per cent. And we expect our growth to continue in 1986. We believe that our success comes from following policies of fiscal and monetary discipline. We intend to maintain them. But we also need to be flexible, to adapt to changes in demand and to technological opportunities.

First and foremost is the continuing and distressingly high level of unemployment. The pain for those unemployed is all the greater when they see the paradox of rising output and rising living standards for those in work. I believe that the right way to tackle unemployment is not to boost demand by more public spending - demand is already rising steadily in our economies and the lessons of the 1970s warn us of the danger of boosting it artificially still further. The right way to bring more people into work in Britain, and indeed in the rest of Europe, is to do all we as Governments can do to let initiative and enterprise flourish. We need to identify and cut out the regulations, practices and habits which prevent markets from working, especially the labour market. Governments must leave the way free for private enterprise to



take the initiative in the creation of wealth and jobs. We have seen that in America the less regulated environment has encouraged the enterprise culture and brought new jobs with it especially among small businesses. And I know from my recent talks with the Canadian Prime Minister that he has the same ambitions for Canada. This then is the task for Europe.

The dynamic recovery of the United States economy has already made a great contribution to the improvement of the world economy as a whole. And the United States market has made the biggest single contribution towards ending the stagnation of world trade. This has in turn enabled the developing countries to begin expanding their economies and repaying their debts. It is natural that that expansion should now be moderating, and right that the United States should be taking steps to put its continued economic growth on a solid and sustainable basis. The size of the Federal Budget deficit, the pressures of the trading deficit, high interest rates and the excessive rate of the dollar, are all problems that will require careful management and political will if they are to be brought under control. The Administration's actions in this area affect us all. I know that this responsibility is recognised and accepted by the Administration. I welcome the steps which President Reagan has already taken and wish him success in his efforts. For this is the central issue where all the others meet.

Japan has an enviable record of industrial growth, of low unemployment and of expansion of exports. But we must not forget that one country's surplus is another country's deficit. Barriers of distance and language, and long habit, mean that the Japanese economy is far less open to foreign imports. Foreign banks and foreign distributors find their activities blocked by impenetrable regulations. Foreign producers of electrical appliances find that internationally accepted scientific tests are not accepted in Japan. Of course the foreign trader suffers. So does the Japanese consumer whose choice is restricted.



Prime Minister Nakasone has recognised the need to dismantle these barriers. His programme of measures to promote imports is an encouraging declaration of intent. But unless it leads rapidly to real increases in imports, the pressure for protectionist moves against Japanese exports and commercial interests will inevitably grow in Europe as in North America and risks becoming irresistible.

I have no doubt that the time has come for a new round of trade negotiations in GATT. The agenda is clear. We need to deal with the classical barriers of tariffs and quotas. We need to devise rules for trade in services which are becoming increasingly important in the world economy. We need to get a grip on the world trade in agriculture. We need to ensure that the newly industrialising countries, whose competitive edge causes us all many domestic problems, accept the responsibilities as well as the rights which are imposed by the international trading system. We need to make it easier for the debtors and particularly for the poorer developing countries to earn their living by trade rather than relying on handouts from the rich industrial countries of the world.

The move towards a new round of trade negotiations has already begun. It is now accepted that a preliminary meeting should be held in Geneva in the summer. That is the first stage. I see no reason why the new round should not be formally launched early next year. I believe that, if we give a clear lead, and if we are responsive to the needs and problems of the developing countries, we can carry the third world with us.

Of course money and trade go together: it does not however follow that there should be a mechanical link between new trade talks and discussion of a reform of the international monetary system. The old Bretton Woods fixed exchange rate system broke down mainly because too many countries allowed inflation and monetary indiscipline to blow it apart. It is desirable to get back to a more stable - not fixed, but more stable - relationship between currencies. We



can expect that only if we all follow convergent policies. At Williamsburg we asked the G10 Finance Ministers to examine the working of the international monetary system as it now is. They are to hold their final meeting in June. I hope that their report will show how the workings of the present international monetary system can be improved. That report will then be studied in the Interim Committee of the IMF. I do not believe that we need go beyond that to seek out some radical reform.

Increased trade and more open trading are the most important means by which the developing and debtor countries can improve their lot. Debts cannot be repaid if we deny the debtors the markets in which to secure the necessary export earnings. Debt restructuring agreements with the commercial banks and governments have a contribution to make. And the aid we give them is of course substantial and significant. But even more important is the adoption by the debtor countries of economic policies designed to use their resources wisely and attract resources, without fear of nationalisation or expropriation, from the outside world. I am sure that the strategy for debt on which we decided last year in London remains correct.

We should nevertheless not be blind to the political and social pressures that this inevitably places upon governments in the developing countries themselves. It is in our interest to sustain them, not only because they will otherwise be less willing and able to repay their debts, but also because of the need to promote political stability in the developing world.

Above all we have been faced in this last year with the immense suffering in Africa. To this there is no easy or early solutions. Britain and the rest of Europe, America, Canada and Japan, gave generous food aid this year to meet the immediate need. Thanks to our initiatives the UN emergency system is working much better. But it is no good thinking that the long term solution is for the United States and



Europe to grow surplus food, to sell or give away to African countries. That would be far too expensive and wasteful of resources. But even more, it would be a cynical solution. The real need is to help the African countries to grow the food to feed their own people. This means encouraging them ~~towards~~ sensible policies which provide incentives to farmers - as some of them, such as Malawi have demonstrated successfully - and environmental policies which prevent the land becoming a desert.

The conclusion which I reach is that we are on the right course and must have the courage to stick to it. There will be a need for some adjustments and I have said what I think these need to be, above all measures to encourage enterprise and remove restrictive practices as the best way to bring more people into work. It means patient and persistent pursuit of the policies to which we have committed ourselves at earlier Summits. We must not put at risk the gains which we have made.





*Copy to Alison*

10 DOWNING STREET

1st May 1985

*Dear Miss Rae,*

Thank you for your letter of 26th April, with which you enclosed a copy of a letter Mr Newton had received from his constituent, Mr Stephen Ogle.

I will ensure that the points which Mr Ogle makes in his letter are brought to the Prime Minister's attention before she departs for the Economic Summit in Bonn.

*Yours sincerely  
Michael Alison*

MICHAEL ALISON  
Parliamentary Private Secretary

Miss B D Rae  
Private Secretary to Anthony Newton MP



TONY NEWTON, O.B.E., M.P.



HOUSE OF COMMONS  
LONDON SW1A 0AA

*from*

26th April, 1985

Dear Mr. Alison,

Mr. Newton has asked me to forward the enclosed letter he has had from his constituent, Mr. Stephen Ogle, 42 Mayfield Road, Writtle, who, as you will see, is concerned about the Bonn Summit and Overseas Aid.

As you will see, Mr. Ogle asks Mr. Newton to contact the Prime Minister directly, which is why I am sending the letter on to you. However, I am also copying the correspondence to the Minister for Overseas Development.

Yours sincerely,

*Luise Rae*  
Private Secretary.

The Rt.Hon.Michael Alison, M.P.,  
Parliamentary Private Secretary to the  
Prime Minister,  
10 Downing Street,  
S.W.1.



42 Mayfield Rd  
Wittle  
Chelmsford  
Ctli 3EL

21st April 1985

Tony Newton M.P.  
House of Commons  
London SW1A 0AA

Dear Mr. Newton

The Economic Summit taking place  
in Bonn on 2nd to 4th May gives  
the British Government another opportunity  
to take an initiative to fight  
hunger and poverty in the Third World

Will you please ask the Prime  
Minister whether the Government is  
prepared to act at the Summit



a) to honour last year's commitment  
to maintain and develop possible  
income reserves for aid;

b) to work for fundamental improvements  
in the economic position of these  
fifty poorest countries by agreeing  
with other summit nations to phase  
out restrictions on textile and  
clothing imports from these poorest  
countries and writing off or rescheduling  
their aid or other government debts.

I look forward to a copy of  
the Prime Minister's reply.

Yours sincerely

Stephen Ogle





*C. G. Gershon*

10 DOWNING STREET

1st May 1985

*Dear Miss Stockwell,*

Thank you for your letter of 26th April, with which you enclosed two letters which had been sent to Mr McCrindle by his constituents, Mr Greenslade and Mrs Gershon.

I will ensure that the points which they make in their letters are brought to the Prime Minister's attention before she departs for the Economic Summit in Bonn.

*Yours sincerely  
Michael Alison*

MICHAEL ALISON  
Parliamentary Private Secretary

Miss F J Stockwell  
Private Secretary to Robert McCrindle MP



ROBERT A. McCRINDLE, M.P.



HOUSE OF COMMONS  
LONDON SW1A 0AA

26th April, 1985

Dear Private Secretary,

I write on behalf of Mr. McCrindle, who is in China with the Trade and Industry Select Committee.

With this letter, I am attaching two letters from Mr. McCrindle's constituents, Mr. James K. Greenslade of Chestnut Tree Cottage, Great Warley Street, Brentwood, Essex and Mrs. M. Gershon of 10 Hogarth Avenue, Brentwood, Essex, and I know Mr. McCrindle would be most grateful if you would ask Mr. Alison to convey the contents of both letters to the Prime Minister.

Yours sincerely,

*F. J. Stockwell*

F.J. Stockwell (Miss)  
Private Secretary

Private Secretary to  
Michael Alison, Esq., M.P.,  
10 Downing Street,  
London, SW1.



Robert Mc Grindle MP.  
House of Commons.

Chestnut Tree Cottage,  
Great Warley St,  
Brentwood  
Essex  
CM13 3JF.

24<sup>th</sup> April 1985.

Dear Sir,

From your reply about the Aid Debate last autumn I know you are in sympathy with these issues but I would like them to be put concisely to the Prime Minister before the Bonn Summit next week. Especially to make a major commitment to co-ordinate help for the poorest countries.

The main issues include an increased channelling of MORE aid, NOT tied to business deals, TOWARDS LOCAL farmers, co-operating with able organisations such as the International Fund for Agricultural Development.

Also the crippling Debt burden which imposes a 'vicious circle' of restrictions leading to an unbearable cost of living in affected countries. We should be far more generous in this field, allowing them the freedom to develop. Allied to this is a need to remove unfair barriers to trade.

Please would you give this letter to the Prime



Minister and I would be grateful to know both  
yours and the governments response.

Yours faithfully,

James K Greenlede.



Brentwood (0277)  
215411

10 HOGARTH AVENUE  
BRENTWOOD  
ESSEX  
CM15 8BE

25th April 1985

Dear Sir,

BONN, 2 - 4 May 1985

Would you be good enough to put to the Prime Minister the following questions:

Is the government prepared to act at the summit to

- (a) honour its commitment at last year's summit to maintain and wherever possible increase resources for the aid programme;
- (b) announce a substantial increase in the proportion of Britain's African aid programme that is allocated to agriculture and in particular to subsistence farmers and to contribute at least \$50 m to the new replenishment International Fund for Agricultural Development;
- (c) agree with other summit nations to phase out the restrictions under the Multi Fibre Arrangement on textile and clothing imports from all the fifty poorest countries;
- (d) write off existing official aid debts and offer more generous and longer term rescheduling of other outstanding government debts of the fifty poorest countries.

I should be grateful if you would kindly forward this letter to the P.M. and let me have a copy of the government's reply.

Many thanks,

Yours faithfully,

*M. Gershon*

Robert McCrindle Esq. M.P. (Mrs.) M. Gershon



PART 18 ends:-

MAFF to PM 30/4/85

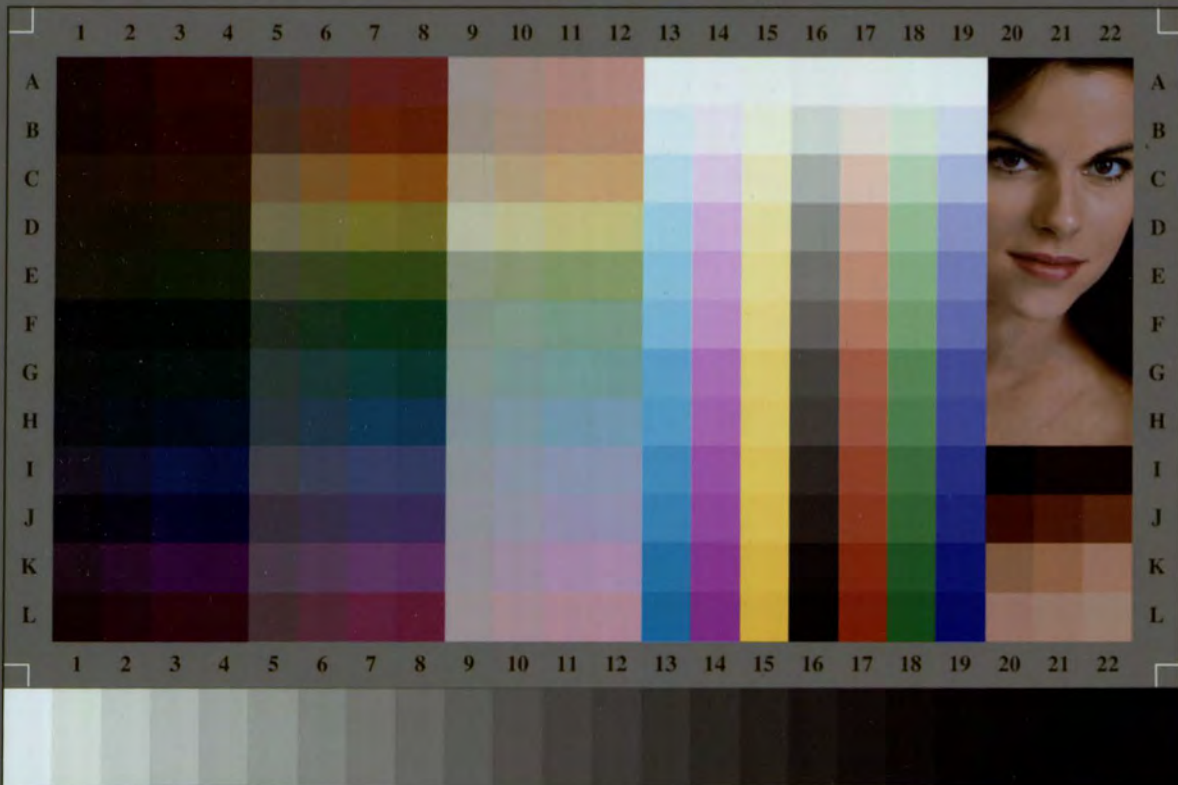
PART 19 begins:-

M. Allison to Sec. to McCrummole Mt.



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