

CONFIDENTIAL

gc Master Set

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND THE PRIME MINISTER OF AUSTRALIA, THE RT. HON. MALCOLM FRASER, HELD IN PARLIAMENT HOUSE, CANBERRA ON SUNDAY, 1 JULY, 1979, AT 1500

Present:

The Prime Minister	The Rt. Hon. Malcolm Fraser
Sir John Hunt	The Hon. Ian Sinclair, M.P.
Sir Donald Tebbit	Senator Carrick
Sir Jack Rampton	The Hon. Anthony Street, M.P.
Mr. H.A. Dudgeon	The Hon. Peter Nixon, M.P.
Mr. C.A. Whitmore	The Hon. John Howard, M.P.
Mr. D. Wolfson	Senator Guilfoyle
Mr. B.G. Cartledge	The Hon. Eric Robinson, M.P.
	The Hon. Malcolm MacKellar, M.P.
	The Hon. Victor Garland, M.P.
	Sir Geoffrey Yeend
	Mr. Nicholas Parkinson
	Sir Gordon Freeth

After formally welcoming the Prime Minister, Mr. Fraser observed that she was only the second serving British Prime Minister to visit Australia. He much appreciated that she could come even for two days, so soon after assuming office and introducing her first budget. They had had very useful discussions on a range of subjects, particularly on the forthcoming CHOGM at Lusaka. He expected the meeting to concentrate on other topics.

UK/AUSTRALIAN RELATIONS AND UK POLICIES

Mr. Fraser said that Australia wanted to begin selling its uranium and hoped that the difficulties with the EEC Commission over the Euratom Treaty would soon be overcome. As part of developing Australia's relationship with the Community, Mr. Fraser had written to Mr. Jenkins to propose that there should be annual

/ consultations

CONFIDENTIAL

CONFIDENTIAL

- 2 -

consultations at ministerial level. Commissioner Gundelach had seemed receptive to this idea. Australia was also reassessing her representation in Europe.

Turning to civil aviation matters, Mr. Fraser said that if British Airways were at all susceptible to influence from the British Government, he hoped that a Concorde service could soon begin between Singapore and Melbourne. All the necessary clearances had been given on the Australian side, and there would be no question of curfews or other restrictions.

Mr. Fraser warmly congratulated Mrs. Thatcher on her electoral victory and the courage of her first budget; he wished her all good fortune.

The Prime Minister said she was grateful for the opportunity to come to Australia so soon after assuming office. The British Government had tried to profit from Australia's experience in introducing an early budget and tackling industrial relations. Her own first budget reflected a determination to make an early start on cutting expenditure and following a different path on incentives and taxation. The budget had not applied sudden brakes; but it was a firm and determined start. Britain had come to a belated realisation of her decline in relation to Europe. There was now a determination to emulate the success of some European countries. The years during which the British people had become accustomed to looking to government for solutions to their problems would be replaced by a period in which they would be encouraged to look to their own efforts. People must be as sensitive to their obligations as to their entitlements. Governments could only distribute wealth when it had been created. In the next four years the Government was determined to effect a change in public attitudes. A central objective would be to change attitudes in industrial relations where enormous power was not always entirely matched by responsibility. It would be necessary to make some changes in the law, as well as to encourage changes in traditional Trade Union attitudes:

CONFIDENTIAL / the

CONFIDENTIAL

- 3 -

the unions thought they were fighting the bosses and governments whereas in fact they were just fighting people.

The Prime Minister went on to say that it was important to strike a balance between one's international and domestic responsibilities. A Prime Minister's first job was to look after the home base; but the standard of living of people at home depended to some extent on success at these international meetings, such as those which she had just attended at Strasbourg and Tokyo.

The Prime Minister said that Britain had not been, recently, a very loyal member of the Community. Genuine partnership in an enterprise brought greater benefit from it, and would enable the UK to exert greater influence, particularly in the direction of making the Community more outward looking. Problems within the EEC would be solved more easily if the UK were known to be a friend of the Community. There was at present a serious danger of protectionism, which had been accentuated by the energy crisis.

ENERGY (I)

The Prime Minister told Mr. Fraser that the central issues at the Tokyo summit had been world economics and the effects on the West of developments in the energy field. Ironically, OPEC had been meeting at the same time and had raised oil prices very significantly. Australia had considerable relevance to the long-term energy situation. The UK would need very much more uranium. There was not much time in which to plan alternative sources of energy before Britain's ten years of fuel self-sufficiency in oil ran out. The world was very vulnerable to price increases, largely arising from political events in the Middle East. The West was now more reliant than ever before on a small group of countries. Through their decisions, member countries of OPEC could enforce both political and economic decisions on others.

/ The

CONFIDENTIAL

CONFIDENTIAL

- 4 -

The Prime Minister pointed out that the current world oil shortage was comparatively small - 5% (1.5 - 2m barrels a day). An effort was made at Tokyo to find means of depressing demand so as to bring it into line with available supply. Some of the oil exporting countries were in certain respects susceptible to influence: their revenues were invested in the West, and their regimes were vulnerable and dependent on Western support. The danger was that some OPEC members would reduce their output so that their oil could appreciate in the ground.

The short term (five - six years) problem, the Prime Minister said, was how to achieve a realistic pricing mechanism which could help to balance supply and demand. This could be done through an increase in domestic prices; restrictions in public service use of oil; and tax incentives to economise. In the longer term, it was necessary to develop alternative sources of energy. For many countries coal resources would last for some time, but the production of oil from coal was expensive. Others had gas resources, but this, too, was expensive and finite. The conclusion at Tokyo was that, in order to maintain the West's standard of living, greatly expanded nuclear programmes were necessary. The Prime Minister recognised the fears of environmentalists and others. But it was important to educate public opinion to be as much at ease with the concept of radio-activity as with that of electricity. Uranium was as God-given as the waves and the wind, and no one had yet died as a consequence of nuclear power, while many had died from gas or oil explosions. One way of reducing the dangers of a nuclear programme was the use of fast breeder reactors which would burn up a high proportion of plutonium.

The Prime Minister repeated that all countries were vulnerable to OPEC's decision. Their price rises affected Australia, primary producers and, most acutely, the developing countries. Since the latter had to pay far more than before for their oil, they had less money to buy products from the developed world.

/ When

CONFIDENTIAL

CONFIDENTIAL

- 5 -

When the price of oil was last substantially increased, the western countries had tended to accommodate it by printing money. The Prime Minister stressed that, in the UK at least, the battle against inflation would continue. Otherwise confidence would be destroyed, and the poorest people, who had their savings in bonds, would suffer most.

CONF

The Prime Minister said the Commonwealth could become an increasingly important group. It must not simply be a conglomerate of countries. It must stand for something and that stand must be for democracy. Choice, exercised in a free economy, was one guarantee of political freedom and a bulwark against Communism, the modern form of dictatorship and tyranny.

The Prime Minister said that she looked forward to hearing Mr. Fraser's views on economic issues, industrial relations and bilateral matters. Our interests on uranium were complementary. As for Europe, the more closely Australia developed her relations with the EEC, the better for both. The Prime Minister said she would look again at the Concorde question.

NORTH/SOUTH DIALOGUE

Mr. Fraser said that over the years the developing countries had come to see themselves as one bloc. Now, however, they were divided between oil producing and non-producing countries. Mr. Fraser saw a need for the North/South dialogue to develop beyond fixed and rigid positions. Australia had advanced a number of views on the Common Fund. There had been some agreement at UNCTAD on principles of the Fund, but less on commodity programmes. During his recent visit Mr. Gundelach had said that the EEC would probably join the international sugar agreement if the United States did. If in fact the EEC did not do so, the Common Fund would be seen as a sham. The Common Fund was important because it would ensure more stable trade for producer and consumer. Australia had supported a Common Fund because she was a primary exporter (particularly of wool, wheat and sugar) and because a number of developing countries (many on a standard of living of US\$200 a year) needed the prospect of improvement.

CONFIDENTIAL / Aid

CONFIDENTIAL

- 6 -

Aid was not enough. They needed trade on reasonable terms. Protectionism denied the right to developing countries to sell their goods to developed countries. The developing countries would consider the developed world as hypocritical if the Western system of trade and payments gave benefits only to those who had already "arrived". Not simply out of altruism but from hard-headed self interest, Europe and North America should recognise that industrial "take-off" of countries like Korea, Hong Kong and Taiwan would ensure growing markets for developed countries and would also, of course, reduce unemployment. Group B should not regard the developing countries as a threat. They provided an opportunity for growth. Some progress had been made in UNCTAD but there was much more to be done. If the developing countries were impeded in their growth by OECD countries, there would be increasing bitterness. If the West were not seen to help, they would look elsewhere.

Mr. Fraser added that he knew Britain would take resolute action over inflation although, paradoxically, measures in the recent budget would, in the short term, put up the official inflation figures. He very much hoped that Britain together with Japan and others would seek to influence the United States to attack her domestic inflation.

#### VIETNAMESE REFUGEES

Mr. MacKellar said the actual situation in South East Asia was very serious, and the potential refugee problem very worrying indeed. The key was to get Vietnam to abandon the policies which caused the problems. If not, one could expect a further 1-2 m refugees out of Vietnam and Kampuchea. Dr. Waldheim had called a conference for 20/21 July largely to deal with the humanitarian problem. But Mr. MacKellar said it was as important to tackle the source of the problem as to resettle those who were leaving. In the Australian view international pressures should be placed on Vietnam to change her policies. Like-minded countries should work together to this end. Of those leaving Vietnam, Mr. MacKellar noted that although a majority were of

/ Chinese

CONFIDENTIAL

CONFIDENTIAL

- 7 -

Chinese origin and had paid to get out, there were large numbers of ethnic Vietnamese who presented a different challenge. Mr. MacKellar said that the communique of the ASEAN Prime Ministers (issued 1 July) condemned Vietnam but not sufficiently strongly. There was a commitment for ASEAN Foreign Ministers to act together not to accept more "illegal immigrants" from Vietnam or Kampuchea. Australia favoured bringing the problem to an international conference though he would have preferred a conference to deal with its political as well as its humanitarian aspects. Perhaps Australia and Britain with the United States and Canada could work together towards a longer term solution?

The Prime Minister said the international community must condemn Vietnam, Kampuchea and Laos in no uncertain terms. Vietnam was a cold, callous, communist tyranny. International condemnation could achieve results. Even Communist countries were susceptible to public opinion, as the Soviet Union's release of dissidents had shown. She had asked the Russian Ambassador in London for Soviet help over refugees and had raised the matter with Mr. Kosygin when she passed through Moscow. It was clear that the Soviet Union would not help. Their approach was dominated by their concern over China. The Prime Minister of Singapore had said that Moscow was concerting action with Vietnam with the objective of destabilising South East Asia. Many of the refugees were talented and industrious, hence their unpopularity in some communities. The Prime Minister told Mr. Fraser that at the EEC Summit at Strasbourg, it had been suggested that some current-account aid to Vietnam should be switched to help the refugees. Britain's bilateral aid involved only the heavily subsidised construction of four ships; unfortunately it would cost as much to cancel the order as to complete it.

The Prime Minister said that Britain's large merchant fleet had picked up and would continue to pick up a considerable number of refugees since under the Law of the Sea, internationally agreed in a quite different situation, Captains were obliged to pick up those in danger of drowning. British Captains would, in any case, pick up refugees whose lives were in danger from humanitarian

CONFIDENTIAL / motives

CONFIDENTIAL

- 8 -

motives alone. It was also international custom, not always now observed, for a ship's next port of call to take off those who had been picked up and give them help. The Prime Minister emphasised the difficulties of Hong Kong, which had already taken 55,000 refugees. The problem of refugees was exacerbated there by the number who came over direct from China. In order to control the flow, the British Government had sent a fifth battalion of troops to Hong Kong to guard the frontier. The Prime Minister hoped the Chinese would now monitor their outflow. Britain herself found it difficult to absorb a substantial number of refugees from Indo-China because she had in recent years already taken in 1½ - 2m immigrants from the new Commonwealth. It was important to apply continuing pressure on those who supplied Vietnam - to pillory them every day. The problem must be jointly tackled by the rest of the world. One possible expedient was to buy an Indonesian or Philippine island, not only as a staging post but as a place for settlement - but the Prime Minister recognised the fear voiced by Singapore that such an island might become a rival entrepreneurial city. The Prime Minister said that she would be glad to hear of the Australian approach to the problem.

Mr. Fraser said that Australia had stopped aid to Vietnam of all kinds, not only because of the refugee outflow but also because of Vietnam's attack on Kampuchea. Perhaps Japan was reluctant to reduce its food aid programme to Vietnam because she did not wish to prejudice a future market in Vietnam for her products. But Vietnam would not respond to "love and kisses". It was important to deter other countries from giving aid to Vietnam and to fulfil their humanitarian instincts by giving it to the refugees instead.

Mr. MacKellar said that Australia was trying to contain the number of illegal entrants. So far, 51 boats had arrived with 2011 refugees. While public opinion was strongly opposed to the resettlement of illegal arrivals, it was more tolerant of those who arrived after official processing. Contrary to popular

/ belief,

CONFIDENTIAL



CONFIDENTIAL

- 9 -

belief, Australia did not have in the short term an unlimited capacity to absorb and resettle refugees. A marked increase in numbers could cause real stress, not only on Australia's infra-structure but on the readiness of the Australian people to accept refugees at all. Mr. MacKellar agreed that continuing pressures must be maintained against Vietnam.

The Prime Minister re-emphasised that today's Vietnam was a stark example of communism in practice.

Mr. Fraser suggested that Britain and Australia should, together with like-minded countries, try to agree a concerted plan on refugees. The Prime Minister agreed. Australia was Britain's link with this part of the world. Mr. MacKellar hoped Britain and Australia could seek to arrive at a common approach before the conference called for 20/21 July. The Prime Minister said there was not much time but she would ask the Foreign Secretary to consider the question urgently. Mr. MacKellar suggested that the United States and Canada might also be associated with a joint approach to the problem. He wondered whether France should be asked to participate?

Mr. Fraser, reverting to the question of a cutting of aid to Vietnam, said the question could be argued in two ways. Some felt that if the West cut off aid, Vietnam would become the more dependent on Russian aid. On the other hand, Vietnam perhaps would not wish to become totally dependent on Russian aid and therefore a total cut in Western aid might have a real effect.

The Prime Minister commented that the whole issue of refugees seemed to revolve round three points - condemnation of Vietnam; switching aid from Vietnam to refugees; and resettling refugees.

ENERGY (II)

Mr. Robinson asked whether the United States would move to parity prices for oil. The Prime Minister replied that the United States had said that by the end of 1981 they would move to world

/ parity

CONFIDENTIAL

CONFIDENTIAL

- 10 -

parity prices (which were much below what consumers actually paid in Britain because the greater part of the cost of petrol in Britain was revenue tax). Mr. Fraser said that Australia taxed petrol. Should not the United States move to world parity prices but tax petrol to act as a deterrent to over-consumption? The Prime Minister said that by 1985 Mr. Carter was aiming for the United States' level of oil imports to be no more than the 1977 figure. The pressures at Tokyo would help him to pursue this policy at home. His difficulty was that people in the United States thought the crisis was a synthetic rather than a real one. They did not realise that, for example, Mexico, which they saw as an answer to their problems, would absorb a good deal of its production as the standard of living increased of its own large population. Unfortunately because of low prices, the United States was guilty of profligate petrol consumption.

In answer to a question from Mr. Garland, the Prime Minister said that the sale of North Sea Oil was being linked with imports of crude oil supplies. The oil majors had observed this linkage; BNOB had not. Ironically although we were an oil producer, we had a greater oil shortage than Italy, France or Germany; we had not been buying on a highly expensive market. In answer to a question from Mr. Nixon, the Prime Minister said that she felt that something positive would emerge from Tokyo. But Japan's consumption was rising. Europe was aiming to stick to the 1978 import figure. Reduction in consumption could be achieved through price mechanisms, some Government regulation and indirectly through world recession.

#### INFLATION

Mr. Fraser asked whether there had been at Tokyo an enhanced determination to avoid inflation. What about Germany in particular? The Prime Minister said that at the Bonn Summit Germany had been asked to expand her economy. She had done so. Now she had additional inflation and an extra demand for oil. It was not her fault. She had simply done what had been asked of her. Perhaps

/ Britain,

CONFIDENTIAL

CONFIDENTIAL

- 11 -

Britain, because we were reducing our imports of oil, could make up for the difficulty which Germany would now face in reducing her imports. A great difficulty for us all was imported inflation as a result of all the extra money floating around in the world. In answer to a question from Mr. Fraser, the Prime Minister said she thought the United States would have to take action against inflation in the next 18 months, regardless of the forthcoming presidential election.

EAST/WEST RELATIONS

Mr. Sinclair, referring to the Prime Minister's stopover in Moscow, asked for her thoughts on Soviet intentions. The Prime Minister said that 13% of Soviet GNP was being spent on very sophisticated and accurate armaments. It was only in electronics (especially micro-electronics) that the Soviet Union lagged behind the United States. The latter had slipped from; great superiority to equality in ballistic missiles. And Russian naval strength, including surveillance vessels, had increased at a remarkable rate. None of this was surprising to the Prime Minister. Soviet aims never changed: the aim was world Communism. This could be achieved through Moscow being so powerful that no shot need ever be fired; by proxy (e.g., Cubans in Africa and, more worryingly, - because they combined a Nazi past with a communist present - East Germans in such countries as Zambia); and subversion. There had been no discussion of this at Tokyo. But when she had raised the question with Mr. Kosygin a few days before in Moscow, he had stressed that the Soviet Union was "very ~~peace~~-loving" and that there was not a tank round every corner. The Prime Minister replied that he was being too modest about Soviet power.

Mr. Fraser said that when Mr. Kissinger was Secretary of State the United States had sought to apply counter pressure whenever the Soviet Union had achieved success in a particular area. What counter pressures was the Carter Administration now prepared to apply? The Prime Minister said that the counter

/ balance

CONFIDENTIAL

balance now was Russia's great fear of China, a country which was unique in that not only could it use nuclear weapons, but, with 800 to 900 million people it would be less hesitant in pressing the button. Answering a question from Mr. Street, the Prime Minister said that Chinese communism was just as bad as the Soviet variety although the Chinese were at present more concerned about developing their own internal standards of living.

The Prime Minister went on to describe the worrying situation in the Middle East where Egypt had fallen out with all other Arab countries and was now obtaining aid from the United States instead of from Saudi Arabia. A lasting wide agreement with Israel would be more difficult to achieve in the light of the continuing Palestine problem. All of this would have effects on oil.

#### Pakistan and nuclear weapons

In answer to a question from Mr. Fraser, the Prime Minister said that many countries were trying to prevent Pakistan from acquiring nuclear weapons. She did not know how successful international pressure would be. There was little one could do if a country was determined to obtain nuclear weaponry. Mr. Fraser observed that Pakistan wanted to get ahead of India. If she acquired nuclear weapons this would have a cumulative effect and the whole non proliferation regime could break down. Was enough concerted pressure being exerted on Pakistan? He would be inclined to trust India rather than Pakistan over the development of a nuclear weapon.

#### Domestic inflation

The Prime Minister asked whether Mr. Howard had any advice to offer on how to tackle inflation. Australia seemed to have been more successful than Britain in the fields of inflation and control of wages. Mr. Howard said that the British general approach was not markedly different from that of Australia. The most difficult thing was restraint of expenditure, particularly when people had developed unreal expectations.

One of the most difficult areas to reduce was social benefits. Senator Guilfoyle said that she agreed with the Prime Minister that it was impossible to withdraw a benefit once given. The Prime Minister said that she often emphasised there was no "pot of gold"; the money must be earned before benefits could be given. Asked whether the British Government had agonised long over their "tax mix" the Prime Minister said that decisions had had to be taken quickly. It was necessary to cut public expenditure heavily in the first year (following Australian experience), and to reduce borrowing. The British Government had switched from a tax on the pay packet to a tax on goods sold. In answer to a question Mrs. Thatcher said there was a differential in profits tax for small and large companies. To avoid abuses careful drafting of tax legislation was necessary.

Envoi

The Prime Minister expressed particular gratitude to Australian Ministers for sacrificing a Sunday for discussions with her and hoped that both sides could soon again be in contact. Mr. Fraser thanked the Prime Minister for putting herself out to come to Australia for discussions which the Australians had found very valuable. He looked forward to meeting again soon.

The discussion ended at 1635.

*ML.*

2 July, 1979.