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EUROPEAN COUNCIL, VENICE

12/13 JUNE 1980

NORTH/SOUTH

Brief by Foreign and Commonwealth Office

OBJECTIVE

1. To discourage a premature Commission proposal (paragraph 9 below) for an initiative in the financial field and a North/South Summit.
2. To make clear, nevertheless, our concern at the economic problems facing LDCs and their political implications.

POINTS TO MAKE

3. LDCs will soon need urgent help. Use of International Financial Institutions (IFIs) probably the best way forward. Community should continue to take a positive line in IFIs.
4. Practical approach essential but must also take account of need to preserve Community's political interests in the Third World eg by avoiding unduly negative positions in the forthcoming Global Negotiations.
5. Oil producers hold key to world economic prospects. Any attempt at a dialogue requires great caution. Global Negotiations much too cumbersome but could set the scene. An attempt to negotiate with OPEC as such could strengthen the hard liners. Any smaller number, (eg Gulf producers) would be nervous of their OPEC flank. Best posture for Community is to express readiness to talk while feeling our way forward.
6. North/South Summit would need careful preparation and timing. Mexicans and Austrians already engaged. Community initiative untimely.
7. No scope for an increase in British overseas aid until economic difficulties improve.

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REF A : Commission Paper - COM(80) 302 final

8. Other Heads of Government will show interest in this subject. Some have domestic constituencies (Netherlands, Denmark). Others are concerned about oil supplies and hope (rather vaguely) that North/South discussions will help (Germany, Italy, Belgium). The French like to cultivate their image in the Third World. The Commission regard themselves as progressive and exploit their right of initiative.

#### COMMISSION PROPOSAL

9. Commission paper is one of three intended as a basis for discussion of the 7 nation economic summit. They have taken the opportunity to propose a twin initiative in the North/South context:-

(a) To promote the adoption of immediate financial measures, preferably with the involvement of oil producers, designed to:

- (i) increase Official Development Assistance (ODA);
- (ii) strengthen the role of International Financial Institutions (IFIs) in the recycling process;
- (iii) preserve the recycling role of private banks by various measures.

(b) To call for one or several limited North/South Summits to:

- (i) set in hand urgent action in the financial field;
- (ii) maintain political impetus for the Global Negotiations next year.

10. There have been press indications that the Germans will seek discussion of the financial problems facing LDCs. Others will share their concern, as do we. However, we consider that remedies must be based on the IFIs where work is already in hand. / (See Annex) There will be less enthusiasm for a North/South Summit (see paragraph 11 below). It would be better to let others take the lead in opposing these ideas

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lest we be subsequently singled out as responsible for their demise.

NORTH/SOUTH SUMMIT

11. Idea of limited North/South Summit has gathered some momentum. President Portillo and Chancellor Kreisky in the lead. They may well invite selected Heads of Government to Mexico City early next year. (Not for use. Selection of participants from Community bound to be difficult. We should certainly not wish Community to be represented by a single voice. Others may wish the European Council to endorse the idea of a North/South Summit. We should not stand out against this - subsequent economic summit likely to describe it as a 'useful suggestion'.)

BRANDT REPORT

12. Luxembourg European Council taking note of Brandt Commission's Report. We should advocate selective approach, building on some proposals while expressing reservations about others. (Not for use. We would not wish to endorse Report as a whole nor see it negotiated as a package. But we should avoid an unduly negative tone. OD are expected to discuss a Report by officials on 10 June. Parliamentary debate has been promised before economic summit.)

GLOBAL NEGOTIATIONS

13. Global Negotiations are due to start at the UN in January 81 and last about 8 months. They will cover major issues in the fields of energy, raw materials, trade, development, money and finance. They will be formally launched by Special Session of General Assembly in August. Preparations under way in New York in Committee of Whole (COW); they are still at an early stage.

ECONOMIC SUMMIT

14. Discussion of North/South usually brief but there may be more interest this year. The Americans are promoting initiatives on food production and increased lending by the IBRD for the development of energy resources for LDCs. (Not for use. Draft communique welcomes the Brandt Report and says that its recommendations will be carefully considered.)

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**PROGRESS IN THE INTERNATIONAL FINANCIAL INSTITUTIONS (IFIs)**

(See also Brief No 12: International Monetary Problems)

1. Pressure likely from South and others following recommendations in Brandt Report for reform of international monetary system including IFIs. But facilities and programmes of IFIs under constant review. Community initiative would merely duplicate effort and confuse process. Both IMF and IBRD already studying Brandt Report recommendations in detail.

2. Recent improvements in IMF facilities include:

- (a) expansion and liberalisation of Compensatory Financing Facility.
- (b) extension of Extended Fund Facility repayment period from eight to ten years.
- (c) amendment of conditionality guidelines to take account of internal social and political factors.

Current discussions in IMF focussing on increasing borrowing by member countries and expanding Fund's resources by borrowing from Surplus countries and on the market.

3. Recent developments in the IBRD include:

- (a) agreement by members to double the capital of the IBRD from \$40 billion to \$80 billion.
- (b) agreement by members to the 6th Replenishment of IDA amounting to \$12 billion.
- (c) introduction of the structural adjustment loans programme whereby the Bank will make loans against promises to undertake structural adjustment by the borrowers.
- (d) study by the Bank's staff of the recommendations of the Brandt Commission, eg that the Bank capital/lending ratio should be raised from 1:1 to 1:2.

4. The future of 3(a) and (b) is, however, uncertain since as the US Congress has not yet authorised the necessary payments.

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COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 302 final

Brussels, 29th May 1980

REACTIVATION OF THE NORTH-SOUTH DIALOGUE

(Communication from the Commission to the European Council)

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Reactivation of the  
North-South Dialogue

Worsening international tensions and the further deterioration of the world economy following the second "oil crisis" make it even more important, indeed essential, that fresh efforts should be made towards consultation and cooperation between North and South.

The Community will have a central part to play in any reactivation of the dialogue; its own position in the network of international interdependence makes its interest clear, and its special economic and political relationship with a number of developing countries determines its responsibilities.

What is to be gained by further dialogue

The collective aims which the Community should set for a reactivated dialogue are of three kinds:

- i. Countering the threat of deep and widespread recession facing the economies of both North and South: there are clear risks to the international economic system and world peace itself in current developments; these risks could become aggravated with the strangulation of the poorest developing countries and cessation of the growth process in middle-income developing countries.
- ii. Easing world hunger: insecurity of food supplies at world level is beyond doubt the least tolerable of all forms of uncertainty, and it is an absolute moral imperative for the international community to reduce this insecurity.
- iii. Organizing the transition to a less oil-dependent world economy: the foreseeable imbalance between the oil supplies and potential demand over the next few years places a serious question mark over the chances of continuing the growth and development process. The second "oil crisis" and the continuing tremors it has set up show that disorderly escalation of oil prices and uncertainties of supply will remain a problem until some way is found of establishing comprehensive cooperation between energy producers and consumers.

These then are the collective interests which the reactivated dialogue must deal with. No single country or group of countries has the means to attain even one of these objectives. The Community has made progress in establishing contractual relations with groups of developing countries (Lomé Convention, agreements with southern Mediterranean developing countries) and regional groupings (ASEAN, Andean Pact). Dialogue at regional level is now an essential part of the Community's policy for the North-South Dialogue.

But a broader international effort is still needed; clearly, there must be a firm commitment from the industrialized countries as a whole, and at the same time a parallel effort must be made by the developing countries, particularly the oil producers, who now have the financial capacity which such an undertaking requires, and by the state-trading countries.

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It is now acknowledged that a renaissance of North-South cooperation is necessary; but a great deal is at stake and the problems involved are immense. The greatest attention must therefore be given to any developments promoting such cooperation: the Brandt report, which bears the stamp of approval of eminent representatives of both North and South and calls for thought and action on the part of both industrialized and developing countries; the attempt to launch global negotiations on international cooperation under UN auspices.

#### The Brandt Report

The Brandt Commission puts forward a highly ambitious list of objectives for the ensuing decade and beyond, but has nevertheless selected a number of priority tasks enshrined in an emergency five-year (1980-85) programme covering energy, food, transfer of resources and a start on reforms of the international economic system.

The European Community must therefore help promote the emergency programme, which is well calculated to deal with the most urgent problems of the current situation and the tasks immediately before us. The Brandt Report is also a vital instrument for mobilizing public opinion.

#### The UN global negotiations

The developing countries took the initiative at Havana - a move welcomed by the Community - of proposing that global negotiations be held under UN auspices, with energy included on the agenda.

As regards energy, the Community must endeavour to get a cooperation process set up, plus a statement of principles and rules aimed at achieving a dynamic energy supply and demand balance at world and regional levels, and greater security and predictability. The talks will cover all forms of energy.

The Community will also have to endeavour to involve the oil-producing countries in a joint effort with the industrialized countries to help oil-importing developing countries realize their energy potential and reduce their dependence on imported oil. This obviously means that the Community must hold itself open to discussion of the problems directly concerning the oil-exporting countries.

the future global negotiations could therefore have a clear import, although there is a twofold danger - inherent in international forums - of fragmentation of the work without any concern as to selectivity or cohesion or of the negotiations following their own course, at expert level, without a regular political impetus being given in order to overcome possible deadlocks, sketch out solutions or refocus priorities.

Furthermore, important as they may be, the initiatives mentioned here are hardly likely to bear fruit in the short term: the Brandt reports' emergency programme looks to the period 1980-85, and the global negotiations could provide tangible results in 1982 at the earliest. However, the scale of the second oil crisis makes certain actions on the part of the international community far more urgent, namely steps to improve the process of recycling funds and financing development.

#### Political orientation for the Community for the relaunching of the North-South Dialogue

In this situation, the Community must act in two complementary directions at its highest political level: it must promote the adoption of immediate measures in the financial field and express clearly the political importance it attaches to the North-South Dialogue.

1. If it is not to lose all credibility, relaunched North-South cooperation must immediately tackle the most practical and urgent problems of the developing countries that are threatened with strangulation as a result of the new increase in oil prices. Collective action, which must involve the oil-producing countries, should move towards extending the possibilities for action of the existing international institutions (IMF, World Bank and regional development banks) and improve their effectiveness in the direction traced out by certain proposals in the Brandt Report.

This would involve in particular:

- (i) substantially increasing official development assistance to the poorest countries in the form of aid that can be rapidly disbursed through bilateral or multilateral channels. In this respect, the replenishment of IDA resources is a matter of urgent necessity;
- (ii) strengthening the position of the international financial institutions (World Bank, IMF, regional development banks) and of other official machinery in the recycling process. This means in particular making it easier to have recourse to the various IMF facilities at the appropriate moment and implementing rapidly the new formula of World Bank structural adjustment loans. To enable the Bank to meet its increased responsibilities, it is essential that the doubling of its capital should be undertaken as rapidly as possible. It will also be necessary to examine in this context the establishment of interest-rate subsidization machinery within the framework of the above institutions;
- (iii) ensuring, in a situation of increased risks, the continuation of the recycling carried out by private banks by means of intensified cooperation between those banks and the multilateral institutions coordinated action to ensure improved market stability. The introduction at international level of credit guarantee and investment protection machinery will also have to be considered.



2. For many reasons, which have already been mentioned, the Community must demonstrate the political importance it attaches to the relaunching of the North-South Dialogue and must translate into practical terms the direct participation of its political leaders in the process of discussions between industrialized and developing countries. It is to the Community that the latter are looking for an initiative; it is the Community that is already the best-placed interlocutor of the developing countries within the United Nations, and lastly it is the Community that has been able to indicate the path of change in its relations with the developing countries at regional level.

In addition then to merely solemnly reaffirming the importance it attaches to North-South questions, it therefore seems essential for the European Council to propose without delay that a real political dimension be given to the North-South Dialogue. This orientation could take the form of convening one or more summits (the composition of which could vary according to the occasion) of leaders from the North and the South, the objectives of which would be twofold:

- (i) to establish and set in train an initial series of international operations to resolve the most urgent problems of the developing countries, notably in the financial field;
- (ii) to provide and maintain a constant political impetus for the global negotiations which will take place within the United Nations framework as from 1981, notably by providing for the possibility at all times of recourse to political initiatives in the event of the negotiations becoming blocked.