



Foreign and Commonwealth Office

London SW1A 2AH

9 June 1981

Dear Michael,

It is just possible that King Khaled will raise the question of PLO observer status at the IMF/IBRD at his talks with the Prime Minister tomorrow.

/ I enclose a short brief.

Yours ever,

(F N Richards)
Private Secretary

M O'D B Alexander Esq
10 Downing Street



PRIME MINISTER'S MEETING WITH KING KHALED, 10 JUNE:
PLO OBSERVER STATUS AT THE IMF/IBRD ANNUAL MEETINGS

Handwritten initials in red ink, possibly 'G' or 'S'.

POINTS TO MAKE (Only if raised)

1. PLO important for prospects of Middle East peace settlement. No question of hostility to them. But we have reservations about whether they are appropriate as observers at financial institutions. Should avoid politicising Fund and Bank.

2. Welcome Saudi support for IMF and World Bank. US role in these Organisations also essential. Concerned that presence of PLO would prevent US Congress from approving contributions. Failure to replenish IDA would hit directly at LDCs. Must take account of American difficulties if Fund and Bank are to play full role in recycling and in supporting developing countries.

3. Our own preference would be for a compromise but recognise the difficulties.



ESSENTIAL FACTS

1. The Arabs have been trying to obtain observer status for the PLO in the IMF and World Bank since 1979. If they are successful, the US Congress will be loath to vote more funds for IMF or World Bank activities. This would be critical to the future of both institutions. On the other hand, both institutions are looking for help from the OPEC surplus countries of the Gulf. The Saudis have already made a large loan to the IMF (SDR 4 billion a year for two years at least and possibly a third).

2. An open row on the subject was averted with difficulty at the 1980 Annual Meetings. The Americans introduced a procedural device to keep the PLO out. But the Arabs were angry, the more so because they thought that the rules of the Fund and the Bank had been manipulated against them. Our aim since then has been to push the Americans to work out a compromise with the Arabs in order to avoid an open row at this year's Annual Meetings.

3. The IBRD and IMF Executive Boards meet on 11 and 12 June respectively to discuss a report to the Governors on observers, and the powers of the Chairman of the Annual Meetings. A Governors' resolution of last September commissioned this report as part of the US procedural device last year which froze the list of observers to those invited in 1979. US now propose an indefinite postponement of Executive Board discussion and have strongly urged all Western partners to support them.



4. UK concerned that a clumsy procedural device of this kind will antagonise the Arabs not only in relation to the IMF but more generally. We are not convinced Americans have fully explored possible compromise formulae. We are seeking to persuade them to move more carefully in the Boards and not to abandon search for compromise (see telegram to Washington attached).

5. The Saudis themselves may privately understand the Americans' dilemma but certainly feel obliged to support the PLO in such a dispute. They would regard a public rebuff by the IMF as extremely unwelcome and their co-operation with the Bank and Fund is likely to be affected, at least for some time.

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TO IMMEDIATE WASHINGTON

TELEGRAM NUMBER 876 OF 9 JUNE

INFO E C POSTS, OTTAWA, CANBERRA, TOKYO, KUWAIT, JEDDA, ABU DHABI,
TEL AVIV.

YOUR TELNO 1707: PLO OBSERVER STATUS AT IMF AND IBRD ANNUAL
MEETINGS

1. THE AMERICANS HAVE FOLLOWED UP RASHISH'S APPROACH TO YOU WITH A 'POSITION PAPER' HANDED TO THE LORD PRIVY SEAL BY THE US AMBASSADOR ON 3 JUNE. THEY SENT A FURTHER DEMARCHE ON 6 JUNE GIVING THEIR ACCOUNT OF THEIR LOBBYING EXERCISE AMONG DEVELOPED COUNTRIES.
2. REPLIES TO OUR OWN SOUNDINGS (FCO TELNO 491 TO EC POSTS) INDICATE THAT ONLY THE FRENCH ARE, AT PRESENT, FIRMLY COMMITTED TO THE AMERICAN LINE. MOST OF THE OTHERS ARE UNEASY ABOUT THE PROSPECT OF A FURTHER CONFRONTATION ON THE IMF/PLO ISSUE.
3. WHILE WE SHARE THE AMERICAN OBJECTIVE OF EFFECTIVELY EXCLUDING THE PLO, WE HAVE DOUBTS ABOUT THEIR TACTICS. THEIR CURRENT APPROACH MAKES A HEAD-ON COLLISION INEVITABLE AND MAXIMISES THE REPERCUSSIONS IN THE MIDDLE EAST. FURTHERMORE, IT DOES NOT (NOT) DISPOSE OF THE PROBLEM SINCE IT WOULD BE OPEN TO ANY MEMBER COUNTRY TO RAISE THE ISSUE AGAIN AT THE ANNUAL MEETINGS. (WE ACCEPT THAT, IN SUCH CIRCUMSTANCES, IT WOULD BE THE ARABS WHO WOULD HAVE TO FIND A QUORUM AND A MAJORITY, BUT THEY COULD STILL KEEP THE ISSUE VERY MUCH ALIVE).

4. WE THEREFORE FAVOUR FURTHER EFFORTS TO REACH A COMPROMISE SOLUTION WHICH , AT THE LEAST, WILL SHOW THE MODERATE ARABS THAT AN EFFORT HAS BEEN MADE AND WHICH WOULD, PERHAPS, SOFTEN THE IMPRESSION OF WESTERN COUNTRIES SEEKING TO DOMINATE THE IMF AND IBRD.

5. GRATEFUL, THEREFORE, IF YOU WOULD SPEAK TO THE AMERICANS AT AN APPROPRIATE LEVEL ALONG THE FOLLOWING LINES:

(A) WE FULLY UNDERSTAND THE IMPORTANCE OF THIS PROBLEM IN CONGRESS AND WE HAVE TAKEN NOTE OF THE PRESIDENT'S INTEREST.

(B) WE VERY MUCH SHARE THE AMERICAN OBJECTIVE THAT THE PLO ISSUE SHOULD NOT DISRUPT THE WORK OF THE IMF AND IBRD.

(C) WE ARE, HOWEVER, DOUBTFUL ABOUT THE AMERICAN TACTIC OF FORCING THE ISSUE TO A HEAD THIS WEEK. THIS WOULD MAXIMISE RESENTMENT IN THE MIDDLE EAST AND ELSEWHERE, ESPECIALLY IN THE AFTERMATH OF THE ISRAELI RAID ON IRAQ, AND WOULD NOT SUCCEED IN DISPOSING OF THE PROBLEM.

(D) SOUNDINGS OF OUR WESTERN PARTNERS (COPIED TO YOU) SHOW THAT A NUMBER OF THEM SHARE OUR CONCERN ABOUT THE LIKELY EFFECT OF THE AMERICAN PROPOSALS.

(E) WE SUPPORT EXTENDING THE DEADLINE FOR A REPORT BY THE BOARDS TO THE GOVERNORS BY NOTIFYING THEM THAT CONSULTATIONS ARE CONTINUING. BUT WE BELIEVE THAT THIS SHOULD BE INITIALLY FOR A MONTH OR TWO RATHER THAN SINE DIE AS THE AMERICANS HAVE SUGGESTED.

(F) THIS BREATHING SPACE WOULD ALLOW FURTHER CONSULTATIONS TO SEE WHETHER A SOLUTION ON THE SPECIFIC QUESTION OF PLO COULD BE ACHIEVED. YOU COULD TRY OUT THE SUGGESTION IN PARAGRAPH 6 OF FCO TELNO 491. YOU COULD POINT OUT THAT, EVEN UNDER THE GOVERNORS' RESOLUTIONS OF LAST YEAR FREEZING OBSERVERS, THE PLO WOULD BE ABLE (IF THE ARABS WISHED) TO ATTEND THE MEETINGS AS MEMBERS OF A DELEGATION OF ONE OF THE ARAB ORGANISATIONS INVITED IN 1979, (ASSUMING THAT THESE ORGANISATIONS WERE AGAIN INVITED BY THE URUGUAYAN CHAIRMAN). THERE WOULD THEREFORE BE NOTHING TO LOSE, IN PRACTICE, BY OFFERING THIS TO THE ARABS AS A COMPROMISE. NOR WOULD THIS SUGGESTION INVOLVE OFFERING OFFICIAL STATUS TO THE PLO. WE REALISE THAT SUCH A

SOLUTION WOULD BE LESS THAN IDEAL FOR BOTH AMERICANS AND ARABS.
BUT IT WOULD SURELY BE PREFERABLE TO A HEAD ON COLLISION.

(G) WE HOPE THAT THE AMERICANS WILL RECONSIDER THIS POSSIBILITY
VERY CAREFULLY. IF, HOWEVER, THEY COME TO THE CONCLUSION
THAT THEY CANNOT ACCEPT A FURTHER DELAY FOR THIS PURPOSE
YOU HAVE DISCRETION TO SAY THAT WE WOULD, WITH SOME
RELUCTANCE, JOIN THE REST OF THE G10 COUNTRIES IN SUPPORTING
AN AMERICAN PROPOSAL FOR INDEFINITE POSTPONEMENT.

6. WE WILL SPEAK ON SIMILAR LINES TO THE US EMBASSY HERE.

CARRINGTON

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