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PRIME MINISTER

p/w Hqs for OD

Paul

GLOBAL NEGOTIATIONS

I understand that the OD meeting planned for 28 July has now been postponed until 4 August. Given this delay, I thought it would be useful to circulate now some comments on the Foreign Secretary's paper OD(80)51. Time is short before the UN General Assembly which will launch the Global Negotiations. These comments are directed at paragraphs 6-12 of the paper, since we have rather more time to discuss the proposed approach to the oil producers dealt with in the earlier paragraphs.

2. We should remember that the UK does not actually want the Global Negotiations at all. It is the LDCs, organised rather loosely in the G77, who have pressed successively for this new round of talks. They are part of a long series in the North/South dialogue, going back to successive meetings of UNCTAD and the CIEC. Despite intensive pressure in the Committee of the Whole the G77 have not yet agreed with the rest of us on the agenda or on the procedure for the Negotiations. These issues will now have to be settled at the Special Session.

3. The G77 demands cover five areas: trade; aid; food; energy, and international monetary requirements. They raise many problems. Trade policy is an obvious example. We cannot afford to expose British industry to unrestricted competition from the NICs in present circumstances. Nor can we accede to their demands for protection in their own domestic markets against our competition. On aid, it is clear that our own inflation

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problem and our policies on public expenditure preclude any additional assistance from the UK - even if we thought it justified. I believe my colleagues accept this. The G77 proposals on food also present serious problems, but perhaps more for the Americans than for us.

4. Energy is another source of difficulty. So far we have gone along with the wish of the industrialised countries to add energy to the agenda, in the hope of securing something valuable from OPEC in exchange for any concessions we have to make to the LDCs. As you know, I am very much in favour of seeking to replace the traditional North/South confrontation with triangularity, involving OPEC, the North and the LDCs, particularly in order to get OPEC money recycled more quickly, whether through the international financial institutions or through aid. But in practice our experience of North/South discussions in fora of this type over the last few years has shown that it is never practicable to introduce the kind of triangularity that we need. The LDCs and OPEC make common cause in them against the North. So I doubt whether the Global Negotiations give us a useful opening in the discussions with OPEC. Nothing would be lost, in my view, if the energy item were dropped from the GNs.

5. But the G77 target which worries me most is the international monetary system. They tabled their demands, through the G24, just before the Belgrade meeting of the IMF and IBRD last autumn. Put crudely, these involve turning the IMF into an aid-giving organisation, and softening the terms of IBRD assistance in a way which would damage its chances of borrowing on the world capital markets and commit the OECD countries to providing substantially increased capital. Both these would in my view be very dangerous. We should not allow the Global Negotiations

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to determine the future shape of the Bretton Woods institutions. Our main requirements, as set out in paragraph 8 of the Foreign Secretary's paper, are that the GN decisions should not be binding on participant countries. We must therefore stand firm on this question of the competence of the IFIs.

6. We should not, therefore, regard the Global Negotiations as a damage-limitation exercise (the Foreign Secretary's phrase in paragraph 6). Any damage in these critical areas is unacceptable. By comparison, the risk of isolation in international talks may appear less worrying.

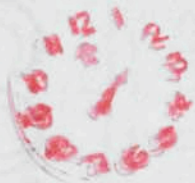
7. In my view we ought to recognise from the outset, and seek to persuade our principal partners of this, that circumstances could arise in which it would be in our long-term interests to refuse to continue to participate in the GNs. There are signs that the US, Germany and Japan might join with us in making this clear to the G77. We should together seek to set clear boundaries to the scope of the GNs. In particular, we should establish from the start that they will not be competent to do more than suggest the direction of possible changes in the IFIs which would then be separately considered in those institutions, without prejudice to the eventual decision. Other colleagues may wish to suggest similar limitations in those areas for which they are responsible. If HMG then agrees on the stand it should adopt, there would be a short period before the Special Assembly in which we might seek, in intensive lobbying in friendly capitals, a concerted line for the major industrialised countries.

8. I am sending copies of this minute to the Foreign Secretary and other members of OD, and to Sir Robert Armstrong.

(G.H.)

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