



*pm.* Prime Minister 2  
*Walter White* *Wm*  
*18/8*

Treasury Chambers, Parliament Street, SW1P 3AG

Stephen Gomersall Esq  
Private Secretary to the Right Honourable,  
the Lord Privy Seal  
Foreign & Commonwealth Office  
LONDON  
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*ms*  
18 August 1981

*Dear Stephen,*

**GLOBAL NEGOTIATIONS AND OTHER RELATIONS WITH DEVELOPING COUNTRIES**

Before going on leave, the Chancellor saw the Lord Privy Seal's reply dated 7 August to his letter of 30 July on this subject. He asked the Financial Secretary to respond on his behalf. The Financial Secretary is out of London today and has asked me to write as follows.

So far as the Luxembourg and Ottawa formulae on the global negotiations are concerned, Treasury Ministers note that the Lord Privy Seal accepts that the two conditions in the latter - namely "mutually acceptable process" and "circumstances offering the prospect of meaningful progress" should be met before we commit ourselves to the start of the negotiations proper. No doubt it will be necessary on occasion to state as a matter of fact that the Luxembourg Council said what it said; but the Treasury do not agree that reference should only be made to the Luxembourg formula and not also at the same time to the Ottawa conditions

The Lord Privy Seal's letter argues the case for acceptance of an additional ODA target of 0.15% of GNP in respect of aid to the least developed countries. I understand that the French are recommending the adoption of such a target as an agreed Community policy - Modev telegram No 5 of 11 August from Paris.

Adoption of a new aid target would be a major change in Government policy and we need to consider the implications very carefully. Our aim to date has been to get away from targetry in this field and to shift emphasis from aid figures on their own to figures for all financial flows to the developing countries. In the paper which he circulated to colleagues on 2 September last year, the Chancellor reviewed a number of major recent developments in international economic affairs which, taken together, has made an official aid target increasingly irrelevant to the real problems of development. He showed that in many ways concentration upon such a target obscured these problems.



It is true, as the Lord Privy Seal says, that the UK's record is relatively good on aid to the poorest countries and we should not reject an opportunity to claim credit for this. But accepting the proposed new target is a different matter. The 0.7% target for o.d.a while unwelcome, is at least clear and defensible in its own terms. But the proposed 0.15% target if seriously applied could lead to strange allocations at the margin. India, for example, which has a GNP per head considerably below several of the countries in the group, is excluded, as is Pakistan. British efforts over many years to help the 750m people of these countries would not score to our credit in the context of this target even though our aid record for "the poorest" as defined by the DAC is extremely good, in contrast to that of many other donors, as the recent World Development Report makes clear. If we were to accept the arbitrary 0.15%, for this rather special category of "least developed countries", we would find ourselves unjustifiably criticised for our record on aid to the poorest.

For this reason, the Financial Secretary feels that our objective at the UN Conference should not be to claim the creation of a new target as evidence of success, but rather, <sup>the</sup> to cast doubt on the true significance of aid targets in general and the proposed new 0.7% target in particular.

Both the points discussed in this letter are relevant to the speech which the Minister for Overseas Development will make at the UN Conference on 2 September. Treasury officials have already made some comments on an early draft of this speech. I should be grateful if Miss Unsworth would ensure that Treasury Ministers have a chance to see the version approved by Mr Marten before it is actually delivered.

I am sending copies of this letter to the Private Secretaries of the Prime Minister, of all members of OD, of the Minister for Overseas Development and of Sir Robert Armstrong.

Yours sincerely,  
David Willetts

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Private Secretary



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Foreign and Commonwealth Office

London SW1

7 August 1981

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*Mr Geoffrey,*

GLOBAL NEGOTIATIONS AND OTHER RELATIONS  
 WITH DEVELOPING COUNTRIES

Peter Carrington, who is now on holiday, has asked me to reply to your letter of 30 July on the Global Negotiations. In it you referred to the preparatory meeting for the Cancun Summit, the UN Conference on New and Renewable Sources of Energy and the UN Conference on the Least Developed Countries. I have comments on all four.

Peter Carrington took part in the Cancun preparatory meeting. It revealed a general wish that the Summit should give a push to the Global Negotiations, though everyone (except the Algerian) wanted the Summit and the Global Negotiations to be kept clearly distinct. Al Haig did not resist this and agreed that the relationship between the Summit and the Global Negotiations could be reflected in the 'framework for discussion' in the same terms as in the letter of invitation to the Summit. This makes clear that, while there is no formal link between them, the Summit should give a positive impetus to the Global

The Rt Hon Sir Geoffrey Howe QC  
 Chancellor of the Exchequer

/Negotiations





aid funds. So long as our partners stand firm, we should be able to hold to this. We shall have some modest proposals for bilateral assistance, within the aid programme, from which we hope to gain credit.

The position on the Conference on the Least Developed Countries is rather different. A number of our Community partners will be ready, indeed willing, to accept some or all of the various targets put forward by the Group of 77. In our Presidency statement to ECOSOC on 2 July we made clear that the Community would adopt a reasonably positive stance at the Conference and agreed that 'the quality and volume of ODA is clearly of great importance.'

I therefore think it will be difficult for the UK to refuse any wording relating to an increase in aid to the Least Developed Countries. Although we should probably have the Americans alongside, we should, with the possible exception of Germany, be isolated within the Community and might find ourselves preventing a Community position being achieved on this issue.

I do not suggest that we should accept obligations with 'significant public expenditure implications'. But, in order to avoid isolation within the Community, I believe we should if necessary be prepared to go along with the target likely to arouse the most interest and support, namely that developed countries should devote aid amounting to 0.15% of their GNP to the Least Developed Countries. We should accept this only on the same basis as we have accepted the 0.7% target for official aid: as an aim without a target date for its achievement. We should, in the process, stress the high priority

/given to





Negotiations - and to other international activities - without pre-empting them. I should add that Al Haig took a generally conciliatory line. The Americans are clearly aware of the dangers of isolation.

The outcome of the Cancun meeting is quite compatible with the position agreed between officials and set out in paragraph 29 of DCO(81)32. But I cannot agree that, as regards the Global Negotiations, the Ottawa Declaration should be regarded as superseding the Presidency Statement from the Luxembourg European Council. The European Council statement still stands as the collective position of all Community countries. We must abide by this position and restate it whenever our Community role requires us to do so.

When preparatory discussions for the Global Negotiations resume in New York, we will of course want to ensure that they are launched as a 'mutually acceptable process' and 'in circumstances offering the prospect of meaningful progress' (the language of the Ottawa communiqué). Our concern, as before, will be to protect the integrity - not just the formal competence - of the GATT and the International Financial Institutions in the procedural framework for the Global Negotiations and to achieve a balanced agenda on acceptable terms. I agree that, if and when the Global Negotiations come, they could be difficult. But we must recognise the strength of the political pressure to hold them and not fight vainly against it (you will have seen what the Prime Minister said to Malcolm Fraser on the subject on 30 July).

The UN Conference on New and Renewable Sources of Energy opens next week. There is an agreed Community position which, at present, gives no support for any commitment to increased

/aid funds.



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given to the poorest countries in the UK aid programme, with 62% of our bilateral aid going to them in 1980 - a much larger share than most other donors give them. The narrower group of Least Developed Countries received 0.14% of our GNP in 1979, taking bilateral and imputed multilateral aid together ie only just short of the target, though we were probably further away from it in 1980. Such an approach would probably enable us to put together a Community position, though we might wish to make a reservation of some kind. This is a strong part of our own position, and we should make the most of it and not throw it away.

The outcome of this Conference will have an impact on the atmosphere of the more important meetings which will follow it. What we do at Paris will affect our standing at Melbourne and Cancun. A formula such as I have suggested could help us and others to call the Conference a success. It could also enable us to avoid other difficult commitments, such as the extension of the STABEX scheme to Least Developed Countries outside the Lomé Convention. On this basis, I am sure that it will be worthwhile to accept it. The Americans have never accepted the 0.7% target and it is therefore easier for them to take the same attitude towards a target for the least developed; I am suggesting that we also adopt the same attitude in relation to both targets.

As for the meetings later in the year - the Commonwealth Heads of Government meeting and the International Meeting for Cooperation and Development (as the Cancun Summit is now called) - Peter Carrington, in his minute of 28 July, promised to return to the question of whether the policies set out in DCO(81)32 will suffice very early after the Summer holidays. This remains our aim.

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I am copying this letter to the Prime Minister and other members of OD, and to Sir Robert Armstrong.

*Yours*

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Treasury Chambers, Parliament Street, SW1P 3AG  
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30 July 1981 *Prime Minister*

The Rt. Hon. Lord Carrington,  
Secretary of State for Foreign and  
Commonwealth Affairs

*Rec'd after your  
meeting with Mr Fraser*

*Dear Peter*

*ms. Hunt*

GLOBAL NEGOTIATIONS

On the global negotiations, we were anxious at Ottawa not to find the United Kingdom and the United States put in the dock together as opponents of aid to the developing countries. The United States had the same feeling and therefore accepted in the communique a low key reference to "preparations for a mutually acceptable process of global negotiations in circumstances offering the prospect of meaningful progress".

The global negotiations will, I am sure, be discussed at a number of international meetings between now and mid-September. First in time and importance is the preparatory meeting for Cancun which you are attending on 1 August. Next there is the United Nations Conference on new and renewable sources of energy in Nairobi starting on 10 August; then the United Nations Conference on least developed countries opening in Paris on 1 September; and finally the next Community meeting dealing with the subject will be the high level of North/South Working Party which meets in Brussels on 9 September.

I think it is important for our stance at all these meetings to consider what could come out of the global negotiation process once it had begun. There is a tendency for those who support these negotiations in the developed countries to talk about this in very general terms. I see for example that Malcolm Fraser has just called for a declaration from Melbourne on momentum in the North/South dialogue comparable - literally - in rhetorical conviction to the Gettysburg Address and the Atlantic Charter.

Among the important aims of the Group of 77 would be pledges of more aid, preferably with some automatic mechanism for increasing it. But we cannot go beyond the Ottawa formula on that, especially in view of our domestic needs for expenditure on youth employment etc. Another aim will be to turn the IMF into an aid agency and redistributive mechanism, with changes in voting rights to entrench this. This is equally unacceptable and, as the US Secretary of the Treasury said to me in Ottawa, the US is not going to contribute 30 per cent of the costs of international

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financial institutions in which the developing countries are given a majority of voting power. There would certainly be heavy pressure for trade concessions supported by some developed countries. For us that leads straight into the problem of the MFA. There are lesser issues which might be less difficult for us, like the Energy Affiliate: the prospect for that depends primarily on the open-handedness of the Saudis on the one hand and the US Congress on the other.

However at the end of all this there seems to me a real risk of much recrimination; of efforts by some developed countries to push the onus onto others (e.g. Japan on protectionism and France on aid), with the UK a natural victim; and of a dangerous process of isolation of the United States (to the satisfaction of the Soviet Union).

In these circumstances I hope we are agreed that during the period of the various meetings referred to above, we should give no indication of any change of front relative to present policy. That includes maintaining our views on the need to maintain the independence of the IMF and World Bank; and to avoid new targets on aid or other proposals (like guarantees for private sector loans or investment) with significant public expenditure implications. I hope we agree too that we can now focus attention in discussions with our Community partners and other allies on whether the two conditions in the Ottawa declaration are met: a mutually acceptable process, and circumstances offering the prospect of meaningful progress. The Heads of Government of the four largest Member States of the Community agreed to the Ottawa formula, which on grounds of realism as well as on other grounds must now be regarded as superseding the then Presidency wording on this subject in the Luxembourg Communiqué; though I do not suggest that our representatives in the Community argue this in an aggressive way.

We shall no doubt have an opportunity to take stock before the further sequence of meetings which includes the Commonwealth Finance Ministers' meeting on 22/23 September, Melbourne on 30 September/7 October and Cancun itself on 22 October.

I am copying this letter to the Prime Minister and other members of OD, and to Sir Robert Armstrong.

GEOFFREY HOWE





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