

Ref. A05057

PRIME MINISTER

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Meeting of Personal Representatives, 4 to 6 June 1981

Personal Representatives met in Vancouver last week to continue their preparations for the Ottawa Economic Summit.

2. The former French representative, Monsieur Bernard Clappier, resigned after the French Presidential election; and though I believe that he was asked to see this Summit through, there was no Personal Representative of the French President at our meeting. France was represented by Monsieur Jean-Claude Paye, of the French Foreign Ministry (who has regularly accompanied the Personal Representative to these meetings). Since the meeting the President has announced the appointment as his Personal Representative of Monsieur Jean-Marcel Jeanneney (71), formerly a Professor of Social and Political Economics and a Minister in President de Gaulle's Governments in the 1950s and 1960s. Monsieur Jeanneney first declared himself as a supporter of Monsieur Mitterrand in the second round of the 1974 Presidential elections (he had supported Monsieur Chaban-Delmas in the first round). He was Chairman of a committee on co-operation with developing countries, and has written books on international economics. He is also Monsieur Paye's father-in-law.

3. Monsieur Paye indicated that we were not to expect great changes in the new President's approach to Summit issues, as compared with his predecessor's, though there might be a more social dimension to his thinking on economic issues (the French contribution to yesterday's "Jumbo" Council of Ministers tends to confirm this), and in his election campaign he had stressed the moral and ethical dimensions of aid to the developing countries.

4. The Italian Personal Representative was present and active, but was clearly uncertain whom he was representing and who would represent Italy at Ottawa.

5. Our discussions in Vancouver suggested that the three principal issues with which the Ottawa Summit will have to deal are the international economic situation, relations with the developing countries, and trade. The President of the United States will want a good politico-economic discussion on East-West relations - not least with the object of diverting attention from United States interest rates and questions of aid to the developing countries. Energy seems likely to feature less significantly this time than at the previous two Summits: the oil market is at present relatively easy, and there has been reasonably good progress towards the medium-term objectives laid down at Venice for energy conservation and use and development of alternative sources. But Heads of State or Government will be invited to eschew complacency, and to emphasise the need to improve progress on the development of the exploitation of coal and on nuclear energy.

#### INTERNATIONAL ECONOMIC SITUATION

6. The most significant feature in our meeting was the development of a strong attack upon the United States Administration for the effects of the high level and volatile movements of their interest rates upon the economies and the exchange rates of their partners. The attack was led by the German Personal Representative, speaking from the text of a speech by the Federal Chancellor in the Bundestag on 3 June, and making his points strongly and repeatedly. Herr Schmidt was quoted as saying that, if the United States continued to keep their interest rates at present levels and to rely on this instrument for the achievement of their inflation objective as exclusively as they were now doing, at best the recovery of the German and other European economies would be delayed and at worst there would be a major economic crisis in Europe. He was supported by the French representative, who spoke of United States interest rate policies as "killing our economies"; and the Japanese were apprehensive about the effects on the exchange rate of the yen. The Canadians were less critical at the meetings, but are hardly less apprehensive in private. The British representatives said that the British Government was in sympathy with the objectives and thrust of United States economic policy, but reminded the United States representatives that the fact that the dollar was the principal international reserve currency imposed certain responsibilities on the United States Administration, whether they liked it or not, to consider the international consequences of their domestic policies. A representative of the United States Treasury put up a robust, not to say unyielding, defence of the United States' position. He regretted the effects on other economies, but said that their partners had

pressed them to reduce inflation: how else would the partners suggest the United States might proceed? Suggestions included greater reliance on fiscal policy, but the United States Treasury representative denied that there was any direct link between budget deficits and interest rates, and sought to throw the brunt of the blame on to the Federal Reserve System. The United States Personal Representative (Mr Rashish, from the State Department) said that his Treasury colleague had no room for manoeuvre, though the Secretary of the Treasury and the Secretary of State might have a little, and the President a little more. The President had a policy, but he was sensitive to its impact upon others, and would listen to reasonably argued and non-confrontational representations. Mr Rashish acknowledged that there had been some failure of consultation, and thought that we should consider how to improve the process: perhaps Heads of State or Government at Ottawa could agree upon modalities for improved consultation on the impacts of domestic economic policies on other countries.

7. This is clearly going to be a principal subject of discussion at Ottawa. The Federal Chancellor, and probably the French President, will be highly critical of the effects of United States economic policies, and particularly of the level and volatility of their interest rates, on the German and French economies; and they will no doubt wish to be able to tell their national media that they have been. We shall have to consider carefully how you should play the hand at Ottawa (and before), and what our role should be. My discussions at Ottawa on the way home showed that the Canadians had not overlooked the American suggestion that Heads of State or Government should agree upon modalities of improved consultation. Some degree of confrontation may be unavoidable, but there may be a prospect of finding common ground on a greater American acknowledgement of the need to control their fiscal deficit, on some response on the volatility of their interest rates, and at least on a measure of agreement on a procedural proposal on modalities of consultation.

#### RELATIONS WITH THE DEVELOPING COUNTRIES

8. We considered a revised (Canadian) draft of the report commissioned from the Personal Representatives at the Venice Summit on aid policies and practices. It was shorter than the first draft, but still unnecessarily long; and, although there was not a great deal that we need positively object to, there were some points on which we may well not be able to

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reach agreement, and it may be necessary to report conflicting positions. My well-intentioned proposals for shortening the paper did not go down very well with the Canadians (or others), but I fell back on a proposal for a short summary at the beginning of the paper, and this was accepted. The intention is that it should be really short - three pages - and confined to the essential points for Heads of State or Government.

9. The German representative, who is close to the Federal Chancellor, remains robustly realistic and hard-nosed on these matters; but even he recognises the political pressures in Germany for greater openness towards the developing world, and the German position at the Summit itself may reflect more of Herr Genscher than was evident to us. The United States representatives seemed to us to be notably more cautious and less hawkish on this subject than at our previous meetings: they talked about the United States being "aware of her responsibilities", and we heard less about their reservations on the international financial institutions and on multilateral aid. They continued to have deep reservations about the Global Negotiations; but they were clearly wanting to adopt a reasonably conciliatory approach to the "North-South" Summit at Cancun in October.

10. The Personal Representatives' Report is to be further revised, in the light of our discussion, and will be considered again, together with draft communique language, at the final meeting of Personal Representatives early next month.

TRADE

11. There was general approval for an unexceptionable Japanese paper on the importance of preserving the principles of the open trading system and of resisting tendencies to protectionism. It was agreed to propose to Heads of State or Government that they should call for a Ministerial meeting of the GATT next year, to pursue progress on the follow-up to the Tokyo Round. The representatives of the Presidency of the Council of Ministers and the President of the Commission on the European Community (EC), supported by all the representatives of EC member countries, said that it would be necessary to discuss at Ottawa, within the context of the world trading system, the strains caused by persistent large imbalances of trade

among the industrialised countries (ie the problems of Japanese exports to the EC and to North America, and the difficulties of access for imports to the Japanese market). The representative of the President of the Commission said that the Commission would be proposing arrangements to keep these problems under review, and would also propose draft communique language on this subject.

## OTHER MATTERS

12. It remains the intention that Heads of State or Government should meet on their own (with or without Monsieur Thorn) for dinner on the evening of Sunday, 19 July for a wide and free-ranging political discussion.

13. The United States have tabled a paper on East-West trade in the post-détente era. Essentially it proposes, not that the West should not trade with the East, but that there should be more careful and deliberate calculation of political costs and benefits in the approach to trade with the Soviet Union and East European countries, with a view to minimising Western dependence on Soviet sources of energy and materials, eliminating subsidies to the Eastern bloc, and minimising the political advantages accruing to the Soviet Union from trade with the West. The Americans are looking for a discussion of these issues at Ottawa, partly (I think) with a view to diverting attention away from their interest rate policies and aid questions. They see the discussion as part of a continuing debate, but not for decisions or declarations. On this basis the Germans will be content to have a discussion, though they are extremely wary on the issues. That discussion will no doubt spill over into the purely political aspects of East-West relations.

\* 14. Whether or not there needs to be any kind of political declaration from Ottawa - as there was on Afghanistan from Venice - really depends on what happens in Poland. If the situation remains as it is, probably no need; if the Russians invade, or there is some dramatic deterioration in the situation, there may well need to be. Political Representatives will meet separately, early in July, to consider whether any current issue calls for such a declaration and, if so, what it should say.

\* As you know we are now floating the idea of a general declaration on East West relations. And

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15. A draft declaration on hijacking and international terrorism is likely to be submitted to the Heads of State or Government at Montebello. It will have been fully discussed and, probably, agreed in advance.

ARRANGEMENTS

16. The present plan calls for the whole circus to move from Montebello to Ottawa at breakfast time on the morning of Tuesday, 21 July, for a morning session in the Parliament Building, lunch with the Governor-General, and a Press Conference later in the day. This will no doubt be fine, if proceedings have gone smoothly the previous day and the conference has dealt with all the issues sufficiently to enable Personal Representatives to get the drafting of the communique near to finality overnight. If there is a lot of unfinished business when the conference adjourns on Monday evening, the arrangements on Tuesday may be both inconvenient and chaotic; but we have to face that it will not be at all easy to change them.

CONCLUSION

17. I am sending copies of this minute to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer, and to the Secretaries of State for Trade and Energy.

RIA

Robert Armstrong

12 June 1981

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Foreign Policy  
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Ref. A05061

MR. ALEXANDER

I attach a report to the Prime Minister on last week's meeting of Personal Representatives. I have sent copies of the report to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, and the Secretaries of State for Trade and Energy.

2. This afternoon I had a talk with the American Personal Representative, Mr. Myer Rashish, who is in London on his way to meetings in Paris next week. He is proposing that, when Personal Representatives have their final pre-Summit meeting early next month, they should devote one session of it to discussing the approach of the seven countries concerned to the Cancun Summit, with a view to discovering how far it is possible to arrive at a common approach. He sees this, rightly I think, as being separate from (though related to) the report of the Aid Study and the preparation of draft communiqué language on relations with developing countries for the communiqué on the Ottawa Summit.

3. I think that we ought shortly to discuss with you and Mr. Whitmore various aspects of the arrangements for the Ottawa Summit - including what we ought to propose to the Prime Minister for bilaterals. I shall be getting in touch with you and with Sir Michael Palliser (to whom I am copying this minute) with a view to arranging a meeting shortly.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

12th June, 1981

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*Team Pol JS*

SIR ROBERT ARMSTRONG

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ECONOMIC SUMMIT: MEETING WITH PERSONAL REPRESENTATIVES

The Prime Minister has seen and taken note of your minute to me of 12 June.

She has asked that the following statistics should be included in her briefing for the Summit:

- (a) deficits of the participating countries as a percentage of their GDP;
- (b) oil prices at the time of the last two Summits;
- (c) defence expenditure as a proportion of GDP.

I should be grateful if you could arrange this.

MODBA

15 June 1981

*P*