

W. Harris

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10 DOWNING STREET

From the Private Secretary

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Visit of Mr Trudeau*

file

New Providence,

Lunch with Mr Trudeau

As you know the Prime Minister gave a working lunch for Mr Trudeau today. It was attend, on the Canadian side, in addition to Mr Trudeau, by Mr Pitfield, Mr Gotlieb, Mr Fowler and, as a last minute substitute for Mr Drabble, Mr Hardy; and on the British side, in addition to the Prime Minister, by the Lord Privy Seal, the Secretary of State for Trade, the Chief Whip, Sir Robert Armstrong, Lord Bridges and myself.

I have recorded separately the tête-à-tête discussion between the Prime Minister and Mr Trudeau on the patriation of the Canadian Constitution. Although this subject was also discussed at lunch, I believe that the line taken by the other Canadian participants was very similar to that taken by Mr Trudeau with the Prime Minister.

Mr Trudeau's Visits to Bonn and Paris

Mr Trudeau described the visits which he paid yesterday to Bonn and Paris. In Bonn, he had found Chancellor Schmidt in good form. He was, as usual, prepared to express robust views about his allies' policies. He regarded the domestic economic programme of President Mitterrand's Government as "disastrous". However, he seemed less anxious than Herr Schulmann to take issue with President Reagan on the question of the US Government's interest rate policies. As regards President Mitterrand, Mr Trudeau made it plain that he sympathised with President Mitterrand's decision to take Communist ministers into his government. President Mitterrand clearly felt confident of his own ability to manage the situation. Commenting on President Mitterrand's domestic policies, Mr Trudeau said he had told the President he assumed the franc would be devalued before very long. The President had not himself answered the point directly beyond saying: "You said it, not me." But in a separate conversation the French Prime Minister had taken the line that it would not be a case of devaluing the franc but of revaluing the mark! Although the Prime Minister expressed some scepticism about how far President Mitterrand would push his domestic policies, Mr Trudeau and his colleagues evidently thought he was determined to implement much of the manifesto. This might lead to disagreements in Ottawa e.g. on interest rates. On the main international issues, e.g.

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Afghanistan, Poland, East/West relations generally, President Mitterrand had been very firm. He was clearly much preoccupied with North/South issues and would pursue these, of course, at Ottawa.

The Economic Summit

Mr. Trudeau said that he hoped the Economic Summit would be able to take a position in Ottawa on the global negotiations and on the establishment of an energy affiliate to the World Bank. Chancellor Schmidt had made it clear that he would be willing to go along with both these. Neither seemed likely to cause difficulties for President Mitterrand. President Reagan's position was less clear: Mr. Trudeau would be visiting Washington on 10 July to discuss the Summit with him. The Prime Minister said it was essential that President Reagan should not be isolated in Ottawa. Mr. Trudeau said that he was determined as chairman to prevent anyone from being isolated.

Mr. Trudeau said that his general approach to the North/South discussion in Ottawa would be to argue that it would be wrong to leave everything to Cancun. He would be looking for a general statement from the Economic Summit which would put the Seven in a positive posture in the run up to the meeting in Mexico. If the Economic Summit failed to take a positive stance, it might mean that the Cancun meeting could not take place at all. The Prime Minister said that she believed it was essential to give the poorest nations some hope for the future. Improving their economic position was important in helping to keep democracy viable in many of them. (The Secretary of State for Trade underlined the importance of the fact that Britain directed a higher proportion of its official aid to the poorest countries than did any other donor.) If those countries equated hope for the future with the global negotiations the developed nations would have to go that way, however foolish they might consider it. The United Kingdom would continue to make its main effort bilaterally. Mr. Trudeau agreed broadly but added that it would not be enough to repeat cliches. The participants in the Economic Summit had to look for signals that would keep the hopes of the developing countries alive. He thought that those signals would be support for the global negotiations - without attaching too many conditions - and support for the establishment of the energy affiliate.

According to Mr. Trudeau it was time to widen the circle of responsibility for handling world economic problems. Nations like Saudi Arabia had to be brought in. Chancellor Schmidt had stressed this point the previous evening. The creation of an energy affiliate to the World Bank was one way of achieving this. It might be even better to offer nations like Saudi Arabia more direct involvement with the World Bank but the United States would not go along with this. The Prime Minister wondered whether the Saudis themselves would favour this approach. They had in the past been cool towards the energy affiliate. It was essential that we should not appear to be telling them what to do. Mr. Trudeau agreed that the Saudis had in the past often preferred to give aid bilaterally. He had had some success during his visit to Riyadh in persuading them of the need to involve themselves more in international organisations. The effects of his visit had in large measure been undone by Chancellor Schmidt on his subsequent visit. But one way or another the Saudis and similar governments had to be given more real responsibility. We should not drag our feet when, for instance, they wanted to increase their role in the IMF. The Prime Minister commented that the Saudis at least had shown a much increased sense of responsibility lately.

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On the role of international organisations generally, the Prime Minister said that she did not want to see too much money channelled through them. Bilateral relations were important, so was the role of private capital. A great deal of British money flowed through private channels. The Americans had enormous amounts of private capital to deploy. There was a need to make the climate for this as favourable as possible. The Americans, for instance, should not be allowed to think that this kind of involvement would be rejected or resented. The Secretary of State for Trade commented on the desirability of having a code of conduct governing private investment. Mr. Trudeau did not deny the importance of the role of private capital but said that he did not want the Prime Minister's arguments to be used to let the United States Government "off the hook". The fact was that companies like EXXON would not invest money in countries where they could not make a profit.

Concluding this part of the discussion, the Prime Minister said that she did not think that Mr. Trudeau would in the event have much difficulty in securing an agreed line on North/South problems in Ottawa. Language could be found to smooth the issue out of the way. The relevant passage in the communique must be such as to give sober hope to the poorest nations without arousing excessive expectations. It should encourage those who were tending towards democracy. The meeting at Cancun must take place. At the very least, if it were not to take place, it must not be the fault of the developed countries. Mr. Trudeau agreed.

Other Issues at the Summit

Mr. Gotlieb commented that Chancellor Schmidt had expressed the hope that there would be more time for political discussion in Ottawa. In particular he seemed to expect East/West problems to loom large. The Prime Minister said that she too thought this important. She was worried about the threat posed to world peace by peripheral conflicts. Hence the importance of the Rapid Deployment Force. The Prime Minister and Mr. Trudeau agreed on the importance of allowing President Reagan time to express his views and to develop a confident relationship with his fellow heads of government. To this end it might prove desirable for heads of government alone to discuss political issues together not only on Sunday night but also during and after dinner on Monday night. However a decision on this could be left until the meet assembled.

The Prime Minister and Mr. Trudeau agreed that every effort should be made to keep the communique as short as possible. There was a case for trying to produce a text in which each subject was dealt with in a single paragraph of, say, fifteen lines. However, both heads of government recognised that this was perhaps a counsel of perfection.

Canadian Domestic Issues

There was some discussion of Canadian domestic issues. It seemed clear from Mr. Trudeau's comments on the disagreements with the government of Alberta about the price of energy that he expected a compromise would be reached at somepoint between the present dem

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of provincial and federal governments. Mr Trudeau's comments on the five-year contract for the supply of grain that had recently been signed between Canada and the Soviet Union made it clear he would not easily be persuaded to denounce the contract. He commented that in the event of Soviet misbehaviour, he would no doubt have to cut back on contacts in the sphere of high technology! When it was suggested the contract should have made beneficial results for shipping and shipbuilders, Mr Trudeau said the consequences of the grain contract in these sectors would be much less important than those flowing from increased Canadian activity in developing the natural resources of the Arctic.

I am sending copies of this letter to John Wiggins (HM Treasury), John Rhodes (Department of Trade), Julian West (Department of Energy) and David Wright (Cabinet Office).

Johns over

Michael Alexander

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