



Foreign and Commonwealth Office

London SW1A 2AH

26 March 1981

Dear Michael,

Prime Minister of Peru

// - in folders attached
I enclose two sets of briefs for the Prime Minister's talks with Dr Ulloa at 12.00 on Monday 30 March.

We propose that Mr Ridley and Mr Parkinson should attend the talks, together with John Ure (Assistant Under Secretary), and Robin Fearn (Head of South America Department, who will take a note). Dr Ulloa will be accompanied by the members of the official party listed in the briefing and by the Peruvian Charge d'Affaires, Sr Oswaldo de Rivero.

/ We think it would be useful if the Prime Minister could make a short and complimentary speech at the lunch, to which Dr Ulloa would reply in kind. I enclose a draft. We are in touch with the Peruvians to ensure that the nature and length of the exchange of speeches is clearly understood on their side.

I am sending a copy of this letter to Keith Long in Cecil Parkinson's office (DOT).

yours ever

Roderic Lyne

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VISIT OF THE PRIME MINISTER OF PERU: 29 MARCH - 1 APRIL 1981

LIST OF BRIEFS

1. Steering Brief.
2. Country Brief.
3. EC/Andean Pact Relations.

Bilateral issues

4. Commercial and Economic Relations (including Defence Sales).
5. Investment Promotion and Protection Agreement: Double Taxation Agreement.

International issues

6. East/West Relations.
7. Central America and the Caribbean.
8. Belize.
9. Economic Relations between Developed and Developing Countries.
10. The Falkland Islands.
11. Supplementary brief: Emergency Aid.

Programme of Visit.

List of Official Party.

Personality Note.



VISIT OF THE PRIME MINISTER OF PERU: 29 MARCH - 1 APRIL 1981

BRIEF NO 1: STEERING BRIEF

1. This is the first Ministerial visit in either direction since the election of President Belaunde in 1980 restored democracy in Peru after twelve years of left-wing military rule. Dr Ulloa, who is the most influential figure in Peru after the President, is also Minister of Economy, Finance and Commerce.

2. Our objectives are:

- (a) to advance our commercial interests in Peru;
- (b) to strengthen our political relations following the return of democracy;
- (c) to encourage a helpful Peruvian stance on international issues.

3. Peruvian objectives will be:

- (a) to re-establish top-level contacts in the political, financial and commercial fields;
- (b) to seek finance and investment for Peru's economic development, including possibly an increased aid programme.

4. It would be appropriate to open the talks by underlining our wish to develop our political relationship with democratic Peru, referring also to developments in the Andean Pact. But this might lead on fairly soon to a discussion of the Peruvian economy: and of our (and the Peruvian) interest in improving our trading relations. Time should be left for a brief review of international issues, in particular the situation in Central America.

5. The new Peruvian Government is pro-Western but wishes to avoid

/over-

dependence on the United States. It sees a stronger relationship with Britain as a bridge with the European Community. Dr Ulloa will be receptive to a welcome by us for the return of democracy and stability in Peru: and to a recognition of the more open-market economic policies now being pursued (Brief No 2). We should also reaffirm our general support for EC links with the Andean Pact (Brief No 3). But the Bolivian coup and the Peru/Ecuador border dispute have weakened the Pact, and Peru is cautious about further political integration. We should draw out Dr Ulloa on his assessment of the Pact's future.

6. The Peruvian economy is in a period of vigorous expansion. The new Government is giving priority to controlling inflation, reducing tariff barriers, encouraging the private sector, and developing basic sectors of the economy with the help of foreign capital and expertise. British exports doubled in 1980 and there are good prospects for further improvements. Mr Parkinson hopes to visit Peru this year. We should make clear to Dr Ulloa our wish to participate in Peru's development: and our support for British companies' interest in several major projects. We also wish to promote defence sales, though immediate prospects are poor (Brief No 4). British involvement will be assisted by the conclusion of Investment Promotion and Protection and Double Taxation Agreements (Brief No 5). Dr Ulloa may be looking for an increased aid programme, but there will be no new funds available in the foreseeable future (Brief No 2).

7. Dr Ulloa will welcome a brief tour d'horizon on world affairs. Under the previous military government, Peru was close to the Soviet bloc and active in the Non-Aligned Movement. President Belaunde's stance is moderate and pro-Western, though he has as yet taken no foreign policy initiatives. Dr Ulloa will be interested in East/West relations (Brief No 6), including the situation in Central America (Brief No 7). He may ask about Belize (Brief No 8): and may also seek our views on economic relations between developed and developing countries (Brief No 9). If time permits, a mention of the position on the Falkland Islands (Brief No 10) might be helpful.

PERU: BASIC STATISTICS

Population: 18.1 million (1980)

Area: 1,285,216 square kilometres (Third largest in South America; twice size of France)

Gross National Product: real growth rate 1970-78: 3.5%
GNP per capita: US\$ 740

International Reserves: November 1980 in US\$ 1922.3 million

Inflation (1980): 59.2%

Debt Service to Exports Ratio: 1980: 30%

Main exports (1979): Petroleum and derivatives (19.4%); copper (18.6%); silver (11.4%); fish meal, coffee, zinc, and sugar.

Main import sources (1979): USA (29.6%); Venezuela (14.5%)
→ Italy (13.7%); FRG (6.7%); Japan (5.8%); UK (2.1%)

| UK Trade with Peru: (£ million) | | <u>UK Imports</u> | <u>UK Exports</u> |
|------------------------------------|------|-------------------|-------------------|
| | 1979 | 61.517 | 23.966 |
| | 1980 | 77.487 | 46.541 |
| UK Trade with Andean Pact: | 1979 | 227.797 | 257.090 |
| | 1980 | 271.413 | 259.759 |

VISIT OF THE PRIME MINISTER OF PERU: 29 MARCH - 1 APRIL 1981

BRIEF NO 2: COUNTRY BRIEF

POINTS TO MAKE

1. Warmly welcome Peru's return to democracy. Impressive election victory of President Belaunde and Accion Popular encouraging for future stability. Your visit gives impetus to strengthening of relations between us.
2. Britain and Peru share problem of containing inflation.
3. Pleased to see Peruvian economy being opened up to foreign investment and competition. Hope British business will play full part. Potential investors need reassurance.
4. (If raised). Concerned at recent flare-up of Peru/Ecuador border dispute. Hope ceasefire will lead to lasting peace.
5. (If raised). Ready to discuss proposals for future aid projects but our economic position will make it difficult to find funds for new activities in next few years. Therefore concentrate on completion of existing projects.



COUNTRY BRIEF

ESSENTIAL FACTSHistory

1. Third largest country in South America (twice size of France). Population 18 million. From 11th to 16th century Inca Empire based on Cuzco in Peruvian Andes. Spanish landed in Peru 1532, founded Lima 1535 and completed conquest of Incas 1572. Independence 1821. Liberation completed 1826. War of the Pacific (1879-83): Peru lost southernmost territory to Chile - still resented. Gained territory from Ecuador in war in 1941.

Political

2. The current President, Fernando Belaunde, was President from 1963 to 1968 when political stagnation and economic chaos led to his overthrow by military "revolutionary nationalist" government under General Velasco, which introduced radical land reforms, nationalisation and worker participation. After mounting economic difficulties General Morales took power in 1975, pursuing conservative economic policies and promising a return to civilian government. Elections to constituent assembly 1978. Congressional and Presidential elections May 1980.

3. Substantial electoral victory for Belaunde and his centrist Accion Popular party. Government also includes members of right-wing Popular Christian Party. The Government has faced labour unrest and terrorist incidents but is firmly in control. Border clashes with Ecuador have diverted popular attention from internal difficulties and strengthened military support for Belaunde.

Economic

4. Peru is rich in natural resources (copper, silver, gold, timber and fish) and with a small exportable surplus of oil. GNP per capita \$740 in 1978. Overspending and mismanagement



by Velasco government led to economic crisis in 1978 but General Morales' IMF-inspired austerity measures secured foreign assistance and established sound financial basis for the civilian government. Balance of payments now strong.

5. Belaunde has promised to create one million new jobs and reduce inflation. Target of 6% growth in GNP set for 1981. Emphasis on development of agriculture, energy, mining, fishing and industry; and need for long-term, low-interest loans as well as foreign capital, technology and expertise. Adequate safeguards promised for foreign investors. Import regulations eased and maximum tariffs reduced from 120% to 60%. Legislation introduced to permit more attractive conditions for foreign oil companies to explore and exploit: Shell and BP are negotiating (Brief No 4).

6. Austerity budget in December 1980 aimed to cut inflation to 40% (1980: 60%) and reduce unemployment. Strict limits on government expenditure but increased public investment in infrastructure development (eg highways, electricity generation, mines). Subsidies on basic foodstuffs and petroleum products reduced, putting up prices by 20-90%. 12% wage increases decreed for public and non-unionised private employees and flat-rate increases for unionised workers. These measures caused protests from the trade unions.

7. Doubts about Peru's economic future centre on ability to control inflation and to finance development programmes. Half of 1981 Budget (of US\$5840 million) devoted to external debt service and defence; half of remainder for public sector costs. Peru has reportedly decided to repay US\$ 360 million of debt to commercial banks in April, but is obtaining new commercial bank credits totalling US\$345 million. This will consolidate Peru's external commercial debts, with only three banks involved instead of 267. The debt service ratio remains high (30%), but is falling.



Foreign Policy

8. In principle, non-aligned. Military government was close to Soviet bloc, and active in Non-Aligned Movement. Belaunde Government more pro-Western but has not yet taken any foreign policy initiatives.

9. Peru was founder member of Andean Pact (Brief No 3) whose headquarters are in Lima. But unhappy with Pact's protectionism and cautious about moves towards political integration. Peru as yet only member of Pact to have recognised Bolivian military regime which came to power last year, overthrowing result of democratic elections.

10. In late January long-standing border dispute with Ecuador (which does not accept 1941 Rio Protocol which deprived it of access to Amazon River basin) flared into several days' fighting. Peru pushed Ecuadorean forces out of outposts in undemarcated border area before ceasefire supervised by guarantors of Rio Protocol, agreed at request of OAS. Tension continues, further undermining unity of Andean Pact.

(Not for use). The UK has sold £9 million of military equipment to Ecuador in past 2 months (including Blowpipe anti-aircraft missiles and cluster bombs). Good prospects for further orders. We would be equally ready to sell to Peru.

UK-Peru relations

11. Traditionally good, though cool under the military regime. Mr Ridley visited Peru in March 1980, and Lord Trefgarne represented The Queen at Belaunde's inauguration in July. Good opportunity to strengthen relations under Belaunde Government, to benefit of our trade interests. Mr Parkinson hopes to visit Peru in July.

12. (Not for use). Lord Trenchard may visit Peru later this year. The Queen may visit Peru in early 1983. President Belaunde may be invited for a State Visit in 1982-83 or later.



13. UK exports to Peru in 1980 reached £46.5 million, almost double the 1979 figure. Imports from Peru totalled £77 million, up from £61 million in 1979. There are good prospects for further improvement (Brief No 4). We have proposed an Investment Promotion and Protection Agreement. The Peruvians are interested in a Double Taxation Agreement (Brief No 5).

14. Aid programme in Peru is running down (1980/81: capital aid £50,000; technical cooperation £875,000). Main projects: Cajamarca Valley Agricultural Development (£1.2 m); geological investigation; industrial training; training awards in UK (52 in 1980/81).



VISIT OF THE PRIME MINISTER OF PERU: 29 MARCH - 1 APRIL 1981

BRIEF NO 3: EC/ANDEAN PACT RELATIONS

POINTS TO MAKE

1. Our and EC interest in developing closer links with Pact.
Glad that technical discussions on economic cooperation framework agreement have been resumed.

2. How does Dr Ulloa view Pact's future: in economic integration and in concerting joint political actions? Will Bolivia remain a member?



EC/ANDEAN PACT RELATIONS

ESSENTIAL FACTS

1. The Andean Pact was founded in 1969 by Bolivia, Chile, Peru, Colombia and Ecuador. Venezuela joined in 1973; Chile withdrew in 1976. Recent developments have undermined its unity. The military coup in Bolivia in 1980 interrupted process of democratisation in member countries (both Ecuador and Peru have returned to democracy since 1978). So far only Peru of Pact members has recognised the Bolivian regime: and, in retaliation, Bolivia is avoiding participation in Pact activities. The recent Peru/Ecuador border clashes have added new tensions. These events (and signs that Venezuela is beginning to look elsewhere for regional partners) have put a question mark on the Pact's future.

2. The Pact's original aims were to foster economic integration: to coordinate development plans, allocating industrial sectors among member states: to eliminate internal tariffs: and to establish a common (protectionist) external tariff, with restrictive rules on foreign investment (Decision 24). Progress in all these areas has been slow, although intra-Pact trade has grown tenfold since its establishment. In recent years Pact has developed a useful political role in support of regional democracy and stability. Members share concern about Cuban subversion: and have concerted a moderate line at Non-Aligned meetings. They all voted for UNGA resolution condemning Soviet invasion of Afghanistan. Recent divisions within Pact have however impeded its political activities (of which Peru is in any case sceptical).

EC/Andean Pact

3. In looking for ways to strengthen its relationship with Latin America, the EC has sought to develop a political/economic dialogue with the Andean Pact. EC and Pact Foreign Ministers met in Brussels in May 1980, and initiated negotiations on a commercial and economic /cooperation



cooperation framework agreement. These were suspended after the military coup in Bolivia, but were resumed at technical level in January 1981, when a Commission delegation visited Lima to study Pact's counter-proposals on EC draft agreement. Progress is likely to be slow, in view of continuing EC restrictions on formal dealings with Bolivia.

4. Peru has hitherto been keen to see progress in the EC framework agreement talks. However, both sides see the agreement as having political overtones, and Dr Ulloa has recently sounded cautious note on Pact's political actions, suggesting they are incompatible with its raison d'etre as vehicle for economic integration and development. For our part we remain interested in eventual conclusion of an agreement, but because of Bolivia and wider doubts on Pact's unity we do not wish to hasten matters along. While confirming our and EC's broad interest in closer links with the Pact, it would be better to probe Dr Ulloa's views on prospects for Pact's future.

5. A delegation from the European Parliament attended a meeting of the Andean Pact Parliament in January.



VISIT OF THE PRIME MINISTER OF PERU: 29 MARCH - 1 APRIL 1981

BRIEF NO 4: COMMERCIAL AND ECONOMIC RELATIONS (INCLUDING DEFENCE SALES)

POINTS TO MAKE

1. Welcome significant increase in two-way trade last year. Aware our trade presence is small. Peru's move towards open market policy gives scope for further increase in British exports.
2. Hope Mr Parkinson will visit Peru this summer, perhaps accompanied by businessmen.
3. British companies keen to participate in major development projects - Cerro Verde II copper mine; Matarani port; jungle sugar factories; Los Olmos irrigation project; oil exploration and development. (Defensive). Will examine sympathetically any proposals for aid towards the development of Peru's copper reserves.

Defence Sales

4. Disappointed UK not involved in helping Peruvian Armed Forces in last few years, but ready to provide future defence equipment needed, including supply of spares and maintenance for equipment manufactured in other countries.
5. Interested in development of naval base at Chimbote: fully support Balfour Beatty/International Military Services project definition study, which will be free.

COMMERCIAL AND ECONOMIC RELATIONS

ESSENTIAL FACTSPeru's World Trade

1. Peru's main trading partners USA, Japan, and Germany. High international commodity prices enabled Peru in 1979 to maintain favourable balance on current account (US\$ 740 million) returning to small deficit (US\$ 84 million) last year.

Anglo/Peruvian trade

2. Peruvian market small but fast-growing for UK exports (up nearly 100% from low point in 1979). UK has less than 4% of market (US 33%, Germany 7%, Japan 6%). With new Peruvian Government's policy of progressively freeing imports it is now an easier market to penetrate. Most import restrictions eliminated in September 1980 and maximum tariffs cut from 120% to 60%. This has led to average tariff of 35% and rapid increase in imports. Further tariff cuts are forecast. There is a traditional imbalance in our visible trade in Peru's favour. Our main imports are metalliferous ores, (mostly copper), textiles and fishmeal. Major British exports to Peru are specialised machinery, power-generating equipment, vehicles and chemicals. The value of trade in recent years has been:-

| | £m | | | | |
|-----------------|-------------|-------------|-------------|-------------|-------------|
| | <u>1976</u> | <u>1977</u> | <u>1978</u> | <u>1979</u> | <u>1980</u> |
| UK exports | 35.8 | 35.5 | 25.2 | 24.0 | 46.5 |
| UK imports | 41.7 | 39.2 | 28.3 | 61.5 | 77.5 |
| Balance to Peru | 5.9 | 3.7 | 3.1 | 37.5 | 31.0 |

We have no formal trade or economic agreements with Peru. Normal ECGD facilities are available.

3. UK companies are being slow to explore the market: only one trade mission has visited since the economy picked up. Mr Parkinson is hoping to visit Peru this summer, probably with a team of businessmen. We also hope to sponsor a UK pavilion at the Lima Trade Fair in November.

/UK project

UK project interests(a) MiningLa Oroya smelter

4. Hill Samuel Developments hoping to persuade Centromin, a Peruvian State mining authority, to negotiate US\$ 90 million contract for extension to La Oroya Smelter.

Cerro Verde II

5. British consortium (Hill Samuel Developments, Selection Trust, George Wimpey & Sons) negotiating with Mineroperu, (another state mining authority) for major expansion of Cerro Verde I copper oxide workings. There is Canadian, American, German and Japanese competition. Level of official support for British consortium not yet decided.

Airborne Mineral survey

6. There have been discussions between Hill Samuel Developments and Centromin about a possible airborne survey of mineral reserves. Hill Samuel may (without authority) have hinted at UK aid for this purpose. Dr Ulloa may mention this. No commitment should be made, other than to confirm our wish to participate and to say that we shall examine sympathetically all proposals designed to promote UK involvement.

(b) Irrigation

7. Majes project in south Peru is very large irrigation and hydro-electric scheme. Cost escalated from estimated \$160 million in late 1960s to some \$1.9 billion and could go higher. \$500 million already spent. Construction problem involve 100 km of tunnels through Andes and necessary canals and roads. Five countries in construction consortium including Tarmac and Skanska (Sweden). ECGD are supporting first phase.

8. Tarmac also hope, again with Skanska, to win another major irrigation project, Los Olmos. First phase of project valued at \$1.2 billion with a possible second stage and associated hydro-electric power stations. Tarmac hope Peruvians will enact law to permit contract to be negotiated. Russians offered to



undertake project some years ago, but have been prevaricating. We believe Peruvians may be ready to look at other options.

(c) Oil

9. Government hoping to increase attractions of oil exploration and development following approval of latest oil law which allows tax credits for foreign oil companies. BP, Shell, Cluff Oil, Foster Wheeler, and Clyde Petroleum interested.

(d) Ports

10. Strong British interest in Matarani port in south (Wimpey and Tarmac).

(e) Jungle Sugar project

11. There are plans for construction of four sugar factories. Tate and Lyle have had preliminary talks with President Belaunde and Minister of Agriculture. Major hurdle is provision of Government guarantees. Consortium financing would be needed for all four sugar factories.

Defence Sales

12. Little success in recent years. Peru has made large purchases from USSR, and also bought from France and Italy. We can supply spare parts and maintenance techniques for this equipment. Current UK prospects include communications systems (Marconi and Racal) and trucks (Marshalls of Cambridge).

13. Peruvian Navy wish to develop base at Chimbote. Peruvian Government want HMG involved. International Military Services co-operating with Balfour Beatty. UK team now in Lima negotiating proposal for free project definition study, funded half by DOT, half by Balfour Beatty. Main contract will be worth £70 million. Only competitors Dutch.



VISIT OF THE PRIME MINISTER OF PERU: 29 MARCH - 1 APRIL 1981

BRIEF NO 5: INVESTMENT PROMOTION AND PROTECTION AGREEMENT
(IPPA): DOUBLE TAXATION AGREEMENT

POINTS TO MAKE

1. Keen to open negotiations on Investment Promotion and Protection Agreement on basis of our model.

2. Would welcome Double Taxation Agreement. Inland Revenue have studied Peruvian draft. Ready to negotiate with Peruvian counterparts.

INVESTMENT PROMOTION AND PROTECTION AGREEMENT: DOUBLE TAXATION
AGREEMENT

ESSENTIAL FACTS

IPPA

1. IPPAs are intended to stimulate the flow of new investments between the two signatory states; to protect investments under the laws of the host country; to provide adequate provision for the transfer of profits and exchange of currency, and, in the event of expropriation, to provide for prompt, adequate and effective compensation of expropriation. They also provide for the settlement of investment disputes.
2. Peru (and other members of the Andean Pact) have so far refused to sign these Agreements.
3. Our model draft was given to Dr Ulloa by our Ambassador at Lima on 27 October 1980.

Double Taxation Agreement

4. Dr Ulloa first raised the subject last October with our Ambassador. In December Peruvians forwarded model draft agreement. In February we forwarded counter-draft. We have not yet received any comments from Peruvians.
5. Peruvian draft unacceptable because it gives far too much weight to taxation in country of source of income as opposed to taxation in country of residence of recipient. Our draft provides for greater degree of tax-sharing on lines of OECD model. Drafts of a developed and a developing nation often differ fundamentally. Direct talks between competent authorities will establish scope for compromise.
6. Peru has only one comprehensive agreement - with Sweden dating from 1966 - which differs fundamentally from what we would regard as satisfactory. Germans have recently commenced negotiations with Peru and have made significant progress in moving Peruvians towards acceptable measure of tax sharing between country of source and country of residence.

VISIT OF THE PRIME MINISTER OF PERU: 29 MARCH - 1 APRIL 1981

BRIEF NO 6: EAST/WEST RELATIONS

POINTS TO MAKE

1. Noted comparatively restrained tone of Brezhnev's speech to Party Congress last month. Carefully considering his proposals, restated in a subsequent letter to me. Many are familiar; some vague and need elucidation (CBMs). Suggestion of summit is for US Administration. Would need careful preparation.
2. East-West relations will remain poor unless Russians practice restraint. They cannot have detente in Europe while flouting it elsewhere. Pressure on them to withdraw all troops from Afghanistan must be maintained.
3. The situation in Poland remains critical. Vital that the Poles should be left to seek their own solutions.



EAST/WEST RELATIONS

ESSENTIAL FACTS

1. Brezhnev's speech to the Congress was a restatement and justification of present policies. He set out to appear willing to settle all problems by negotiation in an attempt to regain respectability post-Afghanistan and to put pressure on US Administration to complete policy reviews quickly or risk antagonising West European public opinion. Brezhnev's offer to apply traditional confidence-building measures to entire territory of European USSR was made dependent on an expansion of the relevant area on the Western side. Not clear what this means; may refer to US and Canadian territory but could involve air and maritime zones.

2. Brezhnev had nothing to offer on Afghanistan and gave no hint of any willingness to withdraw Soviet troops. He made only passing mention of Latin America.



VISIT OF THE PRIME MINISTER OF PERU: 29 MARCH - 1 APRIL 1981

BRIEF NO 7: CENTRAL AMERICA AND THE CARIBBEAN

POINTS TO MAKE

1. Concerned at situation in El Salvador. Salvadorean people should be allowed to determine their own future peacefully and democratically. Evidence provided by Americans demonstrated large scale support for Salvadorean guerrillas by communist countries. We will not supply arms, but consider American response to evidence of communist supply of arms entirely understandable. (Defensive). We do not know what action US might take against Cuba, so would sooner not speculate on our likely reaction.
2. Bad year for Cuba, continuing economic failure. Crop failure. Refugees. But still on look out for opportunities to extend influence, notably in Central America.
3. Encouraging political trend in Caribbean in past year or so. Series of election victories by moderates. But no room for complacency. Economic problems remain.



CENTRAL AMERICA AND THE CARIBBEAN

ESSENTIAL FACTSEl Salvador

1. US evidence suggests co-ordinated communist campaign to provide arms for guerrillas in El Salvador, although press reports suggest supply of arms through Nicaragua has slowed recently (perhaps following US decision to stop aid disbursement to Nicaragua). Americans have indicated they need to tackle the problem at its source by 'doing something about Cuba'. We have no details of what they intend.
2. Guerrillas still represent serious threat to Salvadorean Government: reports of possible further offensive in May. Likely however that provision by US of arms, ammunition and military advisers to Salvadorean army will suffice to keep internal situation under control. President Duarte has announced formation of committee to prepare for elections in 1982.
3. The EC are to supply food and other emergency aid worth approximately £360,000 to Salvadorean refugees, via the International Committee of the Red Cross.

Nicaragua

4. The Sandinistas appear to be extending their control, preventing political activities by moderates. Following walk-out of moderates from Council of Ministers in November 1980, Council has not been reconvened. Reports that moderates' place will be taken by other Sandinista front organisations.

Cuba

5. Seemed on crest of wave at end 1979 following Chairmanship of Non-Aligned Movement Heads of Government meeting in Havana. But events since, including Cuba's obviously embarrassed support

/for



for Soviet invasion of Afghanistan and exodus of 125,000 refugees have severely dented Cuban image. Meanwhile, sugar and tobacco crops have been ravaged by disease.

Political trends in the Caribbean

6. Since December 1979 moderate pro-Western governments have won or retained power in elections in St Vincent, St Kitts-Nevis, Antigua, Dominica and Jamaica. But voters may not have been voting consciously for the right so much as against inefficiency of previous governments. If new ones cannot deliver economic goods, reaction is likely.

7. Britain remains large aid donor (about £30 million last year) and has secured significant concessions from the Community for Caribbean ACP countries under Lome arrangements. Also playing active part by aid and training to improve internal security, principally in the Eastern Caribbean, so as to lessen possibility of armed coups such as that which brought the Marxist Peoples Revolutionary Government to power in Grenada.



VISIT OF THE PRIME MINISTER OF PERU: 29 MARCH - 1 APRIL 1981

BRIEF NO 8: BELIZE

POINTS TO MAKE

1. Grateful for Peru's support for Belize at the UN and in OAS.
2. The Heads of Agreement are significant advance. Provide basis for full and honourable settlement. The next steps require detailed negotiation, but with continued good will all round, we are confident of success. The Constitutional Conference will open on 6 April.
3. (Defensive). The date for independence will be a matter for discussion at the Conference. However, the UN Resolution calls for Belize to be fully independent before the 36th General Assembly ends, effectively the end of 1981. As for British forces, we shall be considering security of Belize after independence as part of our preparations for independence.

BELIZE

ESSENTIAL FACTS

1. Heads of Agreement were signed on 11 March on basis of which full settlement is to be negotiated between the United Kingdom and Guatemala. Guatemala will recognise independent State of Belize within its existing frontiers. In return Guatemala will be assured access to Caribbean with use of the two southernmost groups of offshore islands, and rights in areas of the sea adjacent to these islands. Guatemalans unlikely to be ready to begin negotiations until end April. We estimate it will take months rather than weeks to reach final agreement for a Treaty of Settlement.

2. A settlement will allow for the earlier withdrawal of British troops from Belize than would otherwise have been possible, but not at once after independence. We shall need time for the new relationship between Belize and Guatemala to be established. In any case, we are committed to retaining military personnel to help enhance the capability of the Belize Defence Force.

VISIT OF THE PRIME MINISTER OF PERU: 29 MARCH - 1 APRIL 1981

BRIEF NO 9: ECONOMIC RELATIONS BETWEEN DEVELOPED AND DEVELOPING COUNTRIES

POINTS TO MAKE

1. Outlook for world economy gives serious cause for concern. Severe balance of payments problems for many developing countries combined with high unemployment and inflation in industrialised countries. We shall play a constructive role in international search for solutions.
2. Believe greatest contribution industrialised countries can make is to restore buoyant rate of growth to economy and keep markets open for developing countries' products. IMF/IBRD can also make important contribution.
3. Further progress on global negotiations unlikely till views of US Administration are clearer. How do Peruvians see prospects for a constructive dialogue on energy issues?
4. (If raised). Mexico Summit could contribute to practical progress. Welcome US willingness to attend, facilitated by co-sponsors' agreement to postpone Summit until October.
5. (If raised). International Copper Agreement Negotiations. We are prepared to continue discussions in UNCTAD. But we believe there must be more thorough study of copper market and implications of market intervention arrangements before decisions can be reached.

ECONOMIC RELATIONS BETWEEN DEVELOPED AND DEVELOPING COUNTRIES

ESSENTIAL FACTS

1. Former Peruvian radical stance has moderated since her return to democracy. Change is reflected in low profile adopted by Peruvians on Global Negotiations and their omission from list of participants for Mexico Summit.
2. We consider IMF/IBRD have an important role to play. With our support, they are adapting quickly to changing conditions eg.
 - (i) access to IMF facilities recently increased to 600% of quota over three years;
 - (ii) Conditionality now takes account of political and social factors;
 - (iii) 7th quota review (an increase across the board of 50%) will soon be in operation;
 - (iv) World Bank has just embarked on new programme of structural adjustment lending.
3. Global negotiations consultations in New York are stalled while US Administration settles in. Further progress unlikely until Americans have taken a position. (Not for use). Some developing countries believe that, if agreement is not reached by May, there will be no point in pursuing consultations. Such an outcome would be satisfactory to us but we should not be seen to be working for a failure.
4. Mexico Summit has been postponed to late October to accommodate President Reagan. Co-sponsors have decided to limit invitations to the 21 countries originally proposed, plus China; in addition a further approach will be made to establish whether the Soviet Union will attend. No firm decisions on agenda have yet been taken but four main areas are expected to be covered:

- food and agriculture; trade and industrialisation;

/finance



finance and monetary questions; energy and international cooperation.

Peru is not a Summit participant, but as an oil producer is likely to show interest in the energy question.

Copper

5. In November 1980, discussions on an International Copper Agreement (one does not exist at present) were suspended indefinitely when main producers and consumers failed to agree on usefulness of further discussion. The UNCTAD Secretary-General was asked to undertake consultations with governments and to make proposals on further action. The Peruvians are the most vociferous proponents of a market intervention agreement. We have strong reservations about the desirability or feasibility of such an approach for copper.



VISIT OF THE PRIME MINISTER OF PERU: 29 MARCH - 1 APRIL 1981

BRIEF NO 10: FALKLAND ISLANDS

POINTS TO MAKE

1. Islanders are of British stock and wish to retain British way of life. No doubts about British sovereignty.
2. Want to negotiate peaceful solution with Argentina. But for us, Islander wishes must be paramount.
3. Understand Peru's wish to show solidarity with Argentina. But hope you can agree that Islanders have right, as laid down in UN Charter, to determine their own future.



FALKLAND ISLANDS

ESSENTIAL FACTS

1. Britain has exercised sovereignty over the Falkland Islands without interruption since 1833. Argentina claims sovereignty as inheritor to Spain's title, as occupant of the Islands between 1820 and 1832 and because of the geographical contiguity.
2. In recent years Argentina has pressed her claim with increasing vigour and has won support of Non-Aligned Movement and United Nations. Most recent UN Resolution which was strongly pro-Argentina, in 1976 supported by 102 countries (including all South American countries), 32 abstained. Only UK voted against.
3. When Mr Ridley met the former Peruvian Foreign Minister in Lima in March 1980, the latter stated that problem could only be solved by negotiation. Peru would not support use or threat of force by Argentina over the Falklands. In practice the Peruvians are most unlikely not to side with the Argentines, both for general reasons of Latin American solidarity, but also for the particular reason that Argentina is one of the guarantors of the agreement which established the line of Peru's border with Ecuador and the Peruvians will not wish to do anything which might prejudice their goodwill.
4. The most recent round of Anglo-Argentine talks was held in New York in February. UK delegation, led by Mr Ridley, included two Island Councillors. We put forward the idea of a freeze to the dispute, which the Argentines rejected. However, the atmosphere was good and it was agreed to meet again. At present there is something of a hiatus pending the change of government in Argentina at the end of March.



VISIT OF THE PRIME MINISTER OF PERU: 29 MARCH - 1 APRIL 1981

PROGRAMME

Sunday, 29 March

2200 Arrive Heathrow by Concorde flight BA 192 from New York. Met by Special Representative of the Secretary of State for Foreign and Commonwealth Affairs.

Proceed to Claridges Hotel.

Monday, 30 March

1000 Mr Nicholas Ridley MP, Minister of State for Foreign and Commonwealth Affairs, will call on Dr Ulloa at Claridges.

1200 Talks with the Prime Minister at 10 Downing Street.

1300 Luncheon given by the Prime Minister at 10 Downing Street.

1500 Call on the Chancellor of the Exchequer.

1600 Call on the Minister of State for the Civil Service.

1745 Discussion meeting on the Peruvian economy sponsored by the Latin America Trade Advisory Group at Canning House.

1930 Reception by the Peruvian Embassy at Claridges.

Tuesday, 31 March

1045 Call on the Lord Mayor of London.

1130 Talks at Lloyds of London.

1245 Luncheon given by the Governor of the Bank of England.



Tuesday, 31 March contd

- 1500 Attend Prime Minister's Question Time, accompanied by Mr James Lamond MP, Chairman of the British/Peruvian Parliamentary Group.
- 1600 Call on the Secretary of State for Trade
- 1700 Call on the Minister of State for Defence.
- 2000 Dinner given by the Lord Privy Seal at 1 Carlton Gardens.

Wednesday, 1 April

- a.m. Free
- 1230 Press conference at Claridges
- 1500 Depart for Zurich.

RESTRICTED



VISIT OF THE PRIME MINISTER OF PERU: 29 MARCH - 1 APRIL 1981

SUPPLEMENTARY BRIEF: EMERGENCY AID

POINTS TO MAKE

1. (If raised). We were distressed to learn of the recent severe flooding in Peru. We will look carefully at any specific requests for assistance for those affected by the floods. ~~to be~~

RESTRICTED



EMERGENCY AID

ESSENTIAL FACTS

1. Recent heavy rains in Peru, which in places ended a five-year drought, have caused the worst flooding for fifty years. Roads and railways have been severed, farmlands flooded, housing and bridges destroyed over a wide area, and the flow of oil through the Trans-Andean pipelines disrupted, apparently as the result of a landslide. Dr Ulloa may ask if we can give any assistance towards repair of the damage.

2. There are two possible sources of aid:

- (a) ODA's Disaster Unit supply only humanitarian assistance to meet the immediate needs of people affected by disasters. It may already be past the period when this would be appropriate;
- (b) Aid for reconstruction would have to come from the main aid budget, which is already fully committed for 1981/82.



VISIT OF THE PRIME MINISTER OF PERU: 29 MARCH - 1 APRIL 1981

OFFICIAL PARTY

HE Dr Manuel Ulloa Elias

Prime Minister and Minister of Economy, Finance and Commerce.

Via Admiral Ricardo Zevallos
~~Dr Jorge Trelles~~ *ADC to the Prime Minister.*
~~Secretary General, Prime Minister's Office~~ *(NOT NOW coming)*

Dr Roberto Danino

Secretary General, Ministry of Economy, Finance and Commerce.

Dr Sergio Malaga

Director Superior, Ministry of Economy.

Sra Elvira de Garcia Ribeyro

Private Secretary to Dr Ulloa

(Sra de Ulloa and Sra de Danino will take part in social occasions in the programme).

ULLOA ELIAS, SR MANUEL

Appointed Prime Minister and Minister of Economy, Finance and Commerce from 28 July 1980. Also holds title of President of Council of Ministers, although President Belaunde chairs the Cabinet.

Born in 1922.

His father was a senator and international jurist of standing. A successful self-made man, he has substantial business and newspaper interests, including mining and other companies. Forced into exile following the coup d'etat in 1968, he was permitted to return in 1976. During his time abroad he became a Wall Street banker and financier of international repute. Is now a wealthy and well-connected businessman who is highly regarded by private enterprise, with a pragmatic approach to economic problems.

Minister of Finance from June - October 1968 under President Belaunde, he then introduced a number of very necessary and overdue measures to reform the Government finances, Is bringing a very professional approach to the problem of Peru's economic planning and development. Is also responsible for the appointment to key posts of experienced international technocrats like the Minister of Mines and Energy.

Married three times. A tall, impressive figure with a handsome head and shrewd, sharp mind. He is a convincing and articulate speaker. His position makes him the most powerful and influential man in the country after President Belaunde. If successful, he will undoubtedly be in the running for Presidential candidate when President Belaunde steps down.

He speaks excellent idiomatic English.