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Australia

10 DOWNING STREET

From the Private Secretary

25 May 1982

Dear John,

Call by Australian Foreign Minister
on the Prime Minister

Mr. Street called on the Prime Minister at 1615 hours today at the House of Commons. I enclose a record of the conversation.

I am copying this letter with enclosure to John Kerr (HM Treasury), John Rhodes (Department of Trade) and David Wright (Cabinet Office).

*Yours ever
John Wla.*

John Holmes Esq
Foreign and Commonwealth Office.

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RECORD OF CONVERSATION BETWEEN THE PRIME MINISTER AND THE AUSTRALIAN FOREIGN MINISTER AT 1615 HOURS on 25 MAY 1982 AT THE HOUSE OF COMMONS

Present:

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| Prime Minister | The Hon. Anthony Street MP |
| Sir John Mason | The Hon. Sir Victor Garland |
| Mr. A.J. Coles | Mr. Robertson |

The Prime Minister asked Mr. Street whether he was proposing to attend the United Nations Special Session on Disarmament in June. Mr. Street replied that he was going but Mr. Fraser would not. He understood that Chancellor Schmidt, President Reagan, Mr Susuki and probably M. Mitterrand would attend. The Prime Minister said that she would have to consider whether her own attendance was now appropriate, in the light of the Falklands situation.

Mr. Street said that the recent speech by Mr. Fraser to the Foreign Policy Association in New York reflected a good deal of thought in Australia. Mr. Fraser was concerned that the machinery established in the early days of NATO might no longer be appropriate to the world situation. Perception of the Soviet Union had changed, in particular because of the increasing economic involvement of Europe with Communist countries. This factor, together with the stagnating economic situation especially in OECD countries, had led to tensions within the Alliance and protectionist pressures, with consequent strain for Western economies. It was necessary to ask whether existing institutions were now appropriate.

The second main strand of Australian thinking was that anti-inflation policies might not be sufficient to deal with problems of economic stagnation. As a result of a recent visit to Australia by Mr. George Bush, the Australian Government had crystallised their thinking and decided that three steps were necessary to deal with these problems, namely. (a) a freeze on protectionist measures, (b) progressive reduction in all forms of protection and (c) the phasing out of export incentives and subsidies over a period of five years.

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The United States Administration accepted the underlying principles of this scheme but had reservations about the practical implications. Latterly, the Americans had said that they were considering the proposals very seriously. Mr. Susuki had also received them favourably. Mr. Street had discussed them with the UN Secretary General (who had impressed him considerably). Mr. Perez de Cueller would try to promote them. The Commonwealth Secretary General had said that he would do what he could to secure Commonwealth backing for the ideas.

Mr. Fraser had asked him to visit the Prime Minister in order to establish whether she would support the proposals at the Versailles Economic Summit. Australia did not believe that another round of multilateral trade negotiations would necessarily help. The GATT could not be effective without some stimulus from Versailles. The general objective was, without impeding anti-inflation policies, to try to stimulate world trade.

The Prime Minister said that her first reaction was that the principles set out by Mr. Fraser would well suit those countries which lived by trade provided they were observed by all countries. But the fact was that very few countries did implement such ideas. This was evident at the Commonwealth Conference in Melbourne and at Cancun where discussion revealed that most countries had tariff barriers or protectionist measures of another kind. The difficulty with Mr. Fraser's ideas would be that of translating the principles into practice.

Moreover, they would arise at Versailles at the same time as the problem of Japan. There was, both in Europe and the United States, increasing impatience with Japanese policies. Australia itself maintained protectionist measures against Japanese trade. In general, she believed that Mr. Fraser's package was impeccable in respect of both logic and ideas. But how could it be implemented?

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There was a further point. Was the mere removal of barriers to trade a sufficient measure to produce growth? The American economy succeeded because its people were enterprising. Once inflation had been reduced, growth depended on personal initiative and enterprise. How could they be stimulated? The world was hungry for capital. Mr. Fraser had himself played a big role in trying to improve the lot of developing countries. There were plenty of schemes waiting for development but investment was lacking and this could only come from reduction of consumption.

It would be important to avoid the impression that the superficial endorsement of Mr. Fraser's ideas was sufficient. In the end the question was rather one of how many trade barriers each country was willing to abandon. Chancellor Schmidt might well support the proposals. She intended to discuss them with President Reagan.

Mr. Street said the proposals could never be implemented by unilateral action. Multilateral agreement was necessary and even that was obtainable only if the Seven major economies gave a lead. If the Versailles Summit showed that the Seven would proceed in this direction, the Australian Cabinet was firmly committed to supporting them. The Australian Government had consulted industrial and agricultural interests who had made it clear that they were prepared to support these policies provided Australia was acting together with other major countries. Mr. Fraser was not suggesting that protectionism should be abolished forthwith but that a freeze should be followed by a progressive reduction. In the Australian view, export subsidies were the most destructive form of protection because they destroyed world markets and were essentially an unproductive form of expenditure. If Versailles did not make progress with these ideas, the next opportunity would arise at the GATT meeting in October.

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/The Prime Minister

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The Prime Minister said that it was necessary to consider the likely attitudes of those countries who would be present. Italy, France, Germany and the United Kingdom all imposed restraints of one kind or another on Japanese imports. We were all trying to create jobs. The United Kingdom was more interested in free trade than any other country in the European Community except Germany. One disadvantage in Mr. Fraser's proposals was that about half of world trade was now conducted through Governments rather than by businessmen. But Mr. Street's comments about export subsidies were apt. Cross-subsidies on large overseas contracts were legion. Such contracts were won not by the most efficient but by the richest countries for they could afford the largest subsidy which was termed "development aid". She quoted recent examples in the cases of India and Mexico. She was basically sympathetic towards Mr. Fraser's ideas but all our experience suggested that many countries would sign a document embodying them but that this would make no difference in practice. Perhaps it was right to think in terms of the first proposal, namely a standstill on increases in protectionism. Mr. Street said that he realised that Australia had not given Versailles' participants much notice of these proposals. But the Australian Government had been thinking about them for a long while and he had the impression that other countries were now distinctly interested. Mr. Fraser had written to Chancellor Schmidt and M. Mitterrand. There were indications that Mr. Trudeau could raise difficulties.

Finally, Mr. Street said that he hoped that HMS Invincible was in good shape. The Prime Minister said that he need not worry; it would come back with battle honours. She recalled Mr. Fraser's telephone conversation with her after the sinking of HMS Sheffield and asked Mr. Street to thank him for initiating the call.

The conversation ended at 1710 hours.

A.S.C.

25 May 1982

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