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[Signature]

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From the Private Secretary

3 August 1988

Dear Bob,

PRIME MINISTER'S MEETING WITH THE AUSTRALIAN PRIME MINISTER

The Prime Minister had a meeting with the Australian Prime Minister in the new Parliament building in Canberra today. The meeting started as a tête-à-tête between the Prime Minister and Mr. Hawke lasting some 45 minutes. This was followed by a plenary session attended by Mr. Bowen (Deputy Prime Minister), Mr. Keating (Treasurer), Mr. Duffy (Minister of Trade), Mr. Button (Minister of Industry), Mr. Beazley (Minister of Defence), Mr. Howe (Minister for Social Services), and Mr. Kerin (Minister for Primary Industries and Energy) as well as a large number of senior officials.

Restricted Session

Quite a large number of points were covered in the restricted session.

Mr. Hawke said that the Australian Government would support Mr. Malcolm Fraser's bid to become Commonwealth Secretary General. The Prime Minister said that we would no doubt be approached for support by several candidates. We would not be able to take up a position until we knew what other candidates might be in the field. Subsequently in the car on the way to the airport, Mr. Hawke told the Prime Minister that he had just heard that the Canadians were not very enthusiastic about Mr. Fraser's candidature. The Canadian representative on the Eminent Persons Group had not given a good report of him. The Prime Minister commented that perhaps General Obasanjo would be better. Mr. Hawke said that he certainly would be, if he were available.

Mr. Hawke raised the question of the Australia Constitution Act. There was a very strong wish in Australia to have one of the originals of this document. The Prime Minister expressed sympathy with the Australian wish but explained that the document formed part of an unbroken archive reaching

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back to the 13th century. To allow it to go to Australia would require an Act of Parliament, and she would not like to go to Parliament on the issue unless she was sure of a successful outcome. But she would investigate further on her return whether there was any way in which the Australian Government could hold an original copy, while it technically remained part of our national archives.

Mr. Hawke raised the question of pensions. The Prime Minister explained the difference between the British and Australian pension systems and pointed to the very considerable cost of uprating for British pensioners in Australia. Mr. Hawke pointed out that Britain had reciprocal arrangements for uprating pensions with a large number of countries. The Prime Minister said that nonetheless these covered only a minority of British pensioners abroad. If we saw any possibility of a change in the situation she would let Mr. Hawke know.

The talk then turned to a number of regional issues. Mr. Hawke expressed concern about Libyan activity in the Pacific region, particularly in Vanuatu. He was also worried about the situation in Papua-New Guinea. He thought that M. Rocard's initiative in New Caledonia would be successful. He commented that considerable numbers of Indians were leaving Fiji. He thought that a majority of the remaining Indians might accept the new Constitution. The Prime Minister remarked that Fiji should then be able to rejoin the Commonwealth. Mr. Hawke agreed. The Prime Minister also recounted to Mr. Hawke what Lee Kuan Yew had told her about developments in Malaysia.

There was also a brief discussion of efforts at the United Nations to end the Iran/Iraq conflict.

The Prime Minister invited Mr. Hawke to pay an official visit to the United Kingdom in 1989 together with a number of his senior Ministerial colleagues. She had in mind something like the bilateral summits which we held with our main European partners. The meeting might be combined with some other event or events. Mr. Hawke accepted with pleasure and agreed that the Prime Minister could announce this in her speech to the National Press Club.

Mr. Hawke did not raise the question of South Africa.

Plenary Session

The Plenary Session fell into two parts: first a discussion of European and trade issues, and subsequently an exchange on East/West relations.

European Community

In response to Mr. Hawke's invitation the Prime Minister gave an account of the European Community's drive to complete

the Single Market by 1992. She saw this as an essential part of the Treaty of Rome's original commitment to economic freedom to underpin political freedom in Europe. It was a massive undertaking, requiring removal of barriers in many areas and harmonisation of standards and regulations. It was important to ensure that new regulations were genuinely enabling and did not just introduce new restrictions. She also wanted to stress that the completion of the Single Market was not intended to erect barriers against the rest of the world: rather it was supposed to be an example to the rest of the world of how to get down barriers. The Single Market should provide opportunities for Australia to increase its trade with Europe. The Prime Minister spoke briefly about discussions in the European Community on further steps towards monetary union, expressing scepticism about a European Central Bank. She concluded that the goal of present efforts in the Community was to bring barriers down within Europe and not to erect new ones on the perimeter.

The Prime Minister continued that it was important to make a success of the new GATT round of multilateral trade negotiations, particularly on agriculture. The European Community had taken important steps in this direction at the Brussels European Council earlier in the year, but these would need to be taken further in the context of the GATT round. There had been some progress at the Toronto Economic Summit, with agreement on use of the producer subsidy equivalent as a mechanism for measuring comparative agriculture protection in the different countries. We should aim for a positive outcome from the interim meeting in Montreal in December.

Mr. Keating said that he shared the Prime Minister's scepticism about a European Central Bank, indeed he went further and doubted whether the European Monetary System could survive. It was not possible to fix exchange rates. At most you could smooth them while the market adjusted. All attempts to manage exchange rates had failed. Equally he could quite understand why other European countries would not wish Herr Poehl to run their monetary systems. But how did the Prime Minister see the future for Britain outside the ERM? The Prime Minister said that we were certainly not likely to join the ERM in the near future. The pound was in a very different position to other European currencies, and the volume of daily transactions on the London exchanges was far higher than in Frankfurt or Paris.

Mr. Duffy said that he was pleased to hear that the United Kingdom was as opposed as Australia was to the concept of a fortress Europe. The Australian Government was grateful for the United Kingdom's efforts to reform the CAP and avoid new barriers. He was reasonably optimistic about

the GATT round, although there were problems over safeguards and the surveillance mechanism. On agriculture, Australia wanted to break the deadlock between the United States and the EC. He thought a reasonable outcome could be secured from the Montreal meeting, provided short term measures were genuinely regarded as a down-payment for longer term reform. Mr. Kerin added that the Australians had been rather disappointed with the outcome of the recent green currency changes in the EC's agricultural price fixing. But by and large he thought that efforts to reform the CAP were moving in the right direction. Australia would like to see progress also on eliminating subsidies on other natural resources, in particular on coal.

The Prime Minister noted that we wished to encourage Australian companies to invest in the United Kingdom as a springboard for their entry to the EC market. Britain for its part was investing heavily abroad, including in Australia.

East/West Relations

Mr. Hawke said that he thought the present generation was privileged to be living in a time of optimism for future relations between the super-powers. The Australian and British positions were very similar. Australia welcomed the realistic way in which the Prime Minister had realized the potential of Mr. Gorbachev at a very early stage. They shared her view that he was a man with whom one could do business. Like the Prime Minister, they also thought he was a man of courage and that he should be helped in the changes he was trying to make. At the same time, we had to maintain caution and even scepticism until we saw that his words were matched by deeds. Mr. Hawke continued that the magnitude of the problems facing Gorbachev were generally underestimated. Personally he would not put much money on Gorbachev's prospects of succeeding. The forces opposed to him were substantial. The Soviet economy was in chaos. Even so, he thought Gorbachev was committed to going on to the next stage of reform.

Mr. Hawke said that Australia was particularly concerned with Soviet activities in the Pacific region and in South East Asia. He had pressed the Soviet Union to use its influence with Vietnam to secure the withdrawal of Vietnamese forces from Cambodia. But Gorbachev could not deal with too many problems at once and for the time being the focus was on Afghanistan. The meeting in Jakarta between the various Cambodian parties had been useful; but in his view there was a serious lack of realism in Sihanouk's proposals. It was ironic that virtually the whole region was seeing rising prosperity while Vietnam was an island of stagnation and hopelessness.

The Prime Minister said that she agreed with much of Mr. Hawke's analysis. Gorbachev was bold, courageous and determined to go through with his reforms whatever

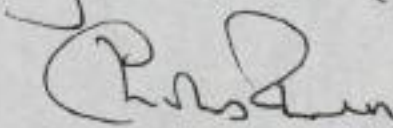
the cost to himself. But the problems were substantial: unchecked bureaucracy, the absence of initiative, the lack of any understanding of a free market. All the same, Gorbachev had gone much further at the recent Party Conference than we had expected and deserved our support.

Turning to arms control, the Prime Minister said that the INF agreement had been a good one. But there would be a problem if Germany tried to go to a third zero for shorter-range nuclear weapons. It was essential to modernise NATO's nuclear weapons: an obsolete deterrent was no deterrent. The next priority was to negotiate reductions in conventional forces and NATO was working out proposals on this. There was little prospect that the START negotiations would be completed in President Reagan's time. The elimination of chemical weapons posed severe difficulties particularly on verification. The precedent established by Iraq's use of these weapons was a very dangerous one.

Turning to various regional issues, the Prime Minister commented that it had been a great achievement to get the Soviet Union to withdraw from Afghanistan and we should not settle for less than the removal of the present regime in Kabul. She shared Mr. Hawke's concern about developments in Vietnam and Cambodia. There seemed to be new generation of political leaders in Cambodia. The situation in the Philippines was also worrying. Mr. Hawke intervened to say that he was more pessimistic than his colleagues about the Philippines. There was a serious lack of leadership from President Aquino. He hoped that the Bases' agreement could be preserved, but he was very pessimistic about the post-1992 prospects and this seemed to be the US view too. If the United States were to leave the Philippines, the whole area would be an entirely different chequerboard.

The Prime Minister concluded the meeting by reporting Mr. Hawke's acceptance of her invitation to visit the United Kingdom with several of his senior colleagues next year.

I am copying this letter to Brian Hawtin (Ministry of Defence), Alex Allan (HM Treasury), Neil Thornton (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

Yours sincerely,


(C.D. POWELL)

R.N. Peirce, Esq.,
Foreign and Commonwealth Office.

PRIME MINISTER'S MEETING WITH MR. HAWKE

Bicentenary

- good image of Australia abroad
- British contribution

Bilateral

- new phase
- modern relationship
- joint interests (reform agricultural trade; Asia-Pacific stability; Western alliance; success of nuclear deterrence; management of relations with Soviet Union; two-way trade; Aids; drugs)
- closer top-level relationship needed

- invitation for next year; bring 2 or 3 Ministers;
1 day of talks, 1 day trade conference
- (if raised) Pensions, Constitution Act, Maralinga;
Commonwealth Secretary-General

International

- Soviet policy
- Asia/Pacific
 - Japan
 - China
 - Hong Kong (refugees)
 - Cambodia
 - Fiji

Vanuatu

British aid to South Pacific

5 Power Defence Arrangements

- Defence Policy, Arms Control

Australia's defence policy

START prospects

Chemical (including Hawke's proposal for regional discussions)

- Uruguay Round

Congrat. on tariff reductions & industry restructuring

Leadership of Cairns Group

Aims for Montreal