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INFO PRIORITY DTI, MODUK, CABINET OFFICE

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DTI (FOR PS TO S OF S),
MOD (FOR PS TO S OF S),
CABINET OFFICE (FOR CABINET SECRETARY),
NO 10. DOWNING STREET (FOR PS TO PM).

VISIT TO UNITED KINGDOM OF PRIME MINISTER OF AUSTRALIA,
20 - 24 JUNE. m

SUMMARY

1. MR HAWKE WILL BE RATHER PREOCCUPIED WITH THE AUSTRALIAN POLITICAL AND ECONOMIC SITUATION. THIS HAS CHANGED MARKEDLY, AND ON THE WHOLE TO LABOR'S DISADVANTAGE, SINCE THE PRIME MINISTER WAS HERE LAST AUGUST.
2. HAWKE HAS RECENTLY SPOKEN ENTHUSIASTICALLY OF LINKS WITH BRITAIN AND REFERRED TO HIS "EXCELLENT WORKING RELATIONSHIP" WITH THE PRIME MINISTER.
3. THE VISIT SHOULD SET THE SEAL ON THE MORE MODERN AND MATURE RELATIONSHIP WHICH HAS DEVELOPED OVER THE PAST YEAR.

DETAIL

POLITICAL SITUATION

4. POLITICALLY, THINGS ARE NOW NOT SO ROSY FOR THE FEDERAL LABOR GOVERNMENT. THE ECONOMY IS IN TROUBLE (SEE BELOW). THE GOVERNMENT'S EARLIER REPUTATION FOR SKILFUL ECONOMIC MANAGEMENT HAS BEEN DAMAGED. THE OPPOSITION PARTIES BOTH CHANGED THEIR LEADERS LAST MONTH IN OVERNIGHT COUPS AND WITH A RECONSTITUTED FRONT BENCH MAY NOW BE BETTER EQUIPPED TO FIGHT AN ELECTION.
5. RECENT ELECTORAL TESTS (BYE-ELECTIONS ETC) SHOWED THAT, ALTHOUGH VOTERS WERE BECOMING DISENCHANTED WITH LABOR, THEY WERE NOT MOVING IN ANY STRENGTH TO THE OPPOSITION PROBABLY BECAUSE ITS THEN LEADER, JOHN HOWARD, LACKED THE POPULAR APPEAL, AND AUTHORITY WITHIN HIS PARTY, TO WIN AN ELECTION. THE SUBSTITUTION OF ANDREW PEACOCK FOR HOWARD CHANGED THAT PERCEPTION SOMEWHAT, THOUGH IT REMAINS TO BE SEEN FOR HOW LONG. THE OPPOSITION HAVE A GENIUS FOR CONDUCTING INTERNAL SQUABBLES IN PUBLIC AND DID SO WITH VENOM IN THE DAYS FOLLOWING THE LEADERSHIP CHANGES. THEY BADLY NEED TO STAY UNITED NOW AND TO PREPARE FOR AN ELECTION WHENEVER THAT MAY COME. BUT WHEREAS, AT THE TIME OF MRS THATCHER'S VISIT LAST YEAR, FEW WOULD HAVE GIVEN THE OPPOSITION A CHANCE OF ELECTORAL VICTORY, NOW FEW WOULD DISMISS THAT POSSIBILITY (THOUGH PERSONALLY I THINK THEY STILL HAVE A LOT TO DO IF THEY ARE TO BEAT LABOR).
6. WHEN WILL HAWKE GO TO THE COUNTRY? CONSTITUTIONALLY, HE CAN WAIT TILL NOVEMBER 1990. BUT HIS DECISION IS COMPLICATED BY THE FACT THAT HALF THE UPPER HOUSE MUST BE RE-ELECTED BY JUNE 1990. TWO ELECTIONS CLOSE TOGETHER WOULD PROBABLY BE UNPOPULAR AND DIFFICULT TO MANAGE. THUS, HE IS LIKELY EITHER TO HAVE SIMULTANEOUS ELECTIONS FOR THE UPPER AND LOWER HOUSES BY JUNE NEXT YEAR OR, JUST POSSIBLY, DISPOSE OF THE UPPER HOUSE ONE EARLIER AND GIVE HIMSELF THE FLEXIBILITY OF HOLDING THE LOWER HOUSE ONE ANY TIME THEREAFTER BEFORE NOVEMBER 1990.
7. SOME THINK HE MIGHT PLUMP FOR A GENERAL ELECTION IN THE NEXT FEW MONTHS ON THE GROUNDS THAT THE ECONOMIC SITUATION IS LIKELY TO CONTINUE TO DETERIORATE WELL INTO NEXT YEAR AND HIS RE-ELECTION PROSPECTS CAN ONLY GET WORSE. I DOUBT THAT. HE IS MORE LIKELY TO REGARD EARLY ELECTIONS AS TOO HAZARDOUS AND THUS TO PLACE HIS HOPES ON AN IMPROVEMENT IN THE CONOMY LATER. I STILL THINK THAT SPRING, 1990 IS THE MOST LIKELY TIME, WITH NOVEMBER/DECEMBER 1989 AS A JUST PLAUSIBLE ALTERNATIVE. BUT HIS JUDGEMENT IS LIKELY TO BE BASED LARGELY ON HOW HE BELIEVES THE ELECTORATE SEE THE ECONOMIC SITUATION. ANY FAVOURABLE CHANGE IN THEIR PERCEPTION COULD TEMPT HIM.

ECONOMIC SITUATION

8. AUSTRALIANS ARE NOW MORE WORRIED ABOUT THE ECONOMY THAN AT ANY TIME SINCE THE LAST ELECTION (JULY 1987). THE CURRENT ACCOUNT DEFICIT HAS DETERIORATED SHARPLY IN THE LAST SIX MONTHS AND NET FOREIGN DEBT HAS NOW REACHED JUST OVER AUSTRALIAN DOLLARS 100 BILLION. THIS IS ABOUT 31.7 PER CENT OF GDP THOUGH IT SHOULD BE NOTED THAT SOME 60 PER CENT OF THE DEBT IS HELD BY THE PRIVATE SECTOR. HOME MORTGAGE RATES HAVE NOW RISEN TO 17 PER CENT AND MAY GO HIGHER. INFLATION AT 7 PER CENT IS ALSO LIKELY TO RISE FURTHER. APRIL'S PROBABLY INFLATIONARY PACKAGE OF TAX CUTS AND WAGE RISES HAS YET TO MAKE ITS IMPACT. THE PROSPECT IS OF A TIGHT MONETARY POLICY AND HIGH INTEREST RATES FOR MANY MONTHS YET. THE MAIN CURRENT POLICY ISSUE IS WHETHER THE DESIRABLE SLOW-DOWN OF ECONOMIC ACTIVITY CAN BE ACHIEVED WITHOUT RUNNING INTO A RECESSION. THE NORMALLY EBULLIENT TREASURER (KEATING) LOOKS BELEAGUERED AND THE LABOR GOVERNMENT AS A WHOLE IS FACING CRITICISM OF ITS ECONOMIC MANAGEMENT ON AN INCREASINGLY BROAD FRONT.

9. WHILE IN LONDON HAWKE WILL THUS HAVE AT LEAST ONE EYE ON THE AUSTRALIAN ELECTORATE. HE WILL WANT TO APPEAR AS AN EXPERIENCED, RESPONSIBLE FIGURE ON THE INTERNATIONAL STAGE. BOTH FOR POLITICAL REASONS AND BECAUSE OF PERSONAL STYLE HE WILL BE MORE INTERESTED IN THE WORKING CONTENT THAN THE CEREMONY OF THE PROGRAMME.

AUSTRALIAN ATTITUDES TO BRITAIN

10. THE PRIME MINISTER'S VISIT LAST YEAR, AND THE SERIES OF EIGHT MINISTERIAL VISIT TO AUSTRALIA SINCE THEN, HAVE PERSUADED HAWKE AND MANY OTHER AUSTRALIANS THAT THE BILATERAL RELATIONSHIP IS WORTH TAKING SERIOUSLY AGAIN. STRIKINGLY, HAWKE RECENTLY ATTENDED THE INAUGURAL EVENT OF THE NEWLY-FORMED AUSTRALIAN/BRITISH PARLIAMENTARY FRIENDSHIP GROUP. HE MADE AN ENTHUSIASTIC SPEECH ABOUT THE RELATIONSHIP, PRAISING ITS SPECIAL HISTORICAL CHARACTER AND ITS NEW MOMENTUM. HE SAID HE HAD BEEN MOST IMPRESSED BY ALL THE STEPS TAKEN BY MRS THATCHER IN THAT DIRECTION. HE ADDED QUOTE: MARGARET AND I ARE OF DIFFERENT POLITICAL PERSUASIONS BUT WE HAVE AN EXCELLENT WORKING RELATIONSHIP UNQUOTE. (A YEAR AGO THERE WAS NO SUCH GROUP TO ADDRESS AND HAWKE BRUSQUELY REFUSED AN INVITATION TO SPEAK TO THE AUSTRALIA/BRITAIN SOCIETY.)

11. ON 5 JUNE I REMINDED HAWKE THAT WHEN I FIRST CALLED ON HIM IN MARCH, 1988 HE ASKED ME WHAT I HOPED TO MAKE OF MY MISSION TO AUSTRALIA. I HAD REPLIED THAT I WANTED A MORE MODERN BRITISH/AUSTRALIAN RELATIONSHIP BASED ON WIDE PRACTICAL COOPERATION (MY TELNO 202 OF 1988). THE EVENTS OF THE LAST YEAR, AND HIS OWN SPEECHES ON THE SUBJECT, SHOWED THAT WE WERE WELL ON THE WAY. WE HOPED THAT HIS VISIT TO BRITAIN WOULD SET THE SEAL ON THIS MORE MODERN AND MATURE RELATIONSHIP. HE SAID THAT HE ENTIRELY AGREED WITH THESE REMARKS. HE WAS MOST IMPRESSED BY THE BRITISH EFFORT.

12. I ADDED THAT WE HAD AIMED TO GIVE HIM A PROGRAMME 'OUT OF THE ORDINARY'. THE INVOLVEMENT OF THE ROYAL FAMILY, THE MANY HOURS THAT HE WOULD SPEND AT NO. 10 DOWNING STREET, THE TRADE AND INVESTMENT CONFERENCE AND THE PARTICIPATION IN THE PROGRAMME OF ABOUT 10 BRITISH CABINET MINISTERS DID INDEED MAKE IT UNUSUAL. HAWKE SAID HE HAD NOTED THAT: THE PROGRAMME WAS EXCELLENT AND ACCEPTABLE IN VERY WAY. THE THREE MINISTERS HE WAS BRINGING WITH HIM HAD IMPORTANT PORTFOLIOS AND WERE SUBSTANTIAL FIGURES IN THEIR OWN RIGHT.

13. M.I.F.T. CONTAINS OBSERVATIONS ON THE SUBSTANCE OF THE TALKS, BASED PARTLY ON MY DISCUSSIONS WITH HAWKE AND OTHERS.

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NO. 10 DOWNING STREET (FOR PS TO PRIME MINISTER).

M.I.P.T.: VISIT TO UNITED KINGDOM OF PRIME MINISTER OF AUSTRALIA:
SUBSTANCE OF TALKS.

SUMMARY

1. THE AUSTRALIAN PRIME MINISTER AND OTHERS COMMENT ON THE SUBJECTS TO BE DISCUSSED IN LONDON.

DETAIL

2. ON 5 JUNE I HANDED MR HAWKE AN "INFORMAL CHECK-LIST OF POINTS" FOR HIS TALKS, EMPHASISING THAT WE DID NOT ENVISAGE A FORMAL AGENDA AND THAT ON THE DAY THE TWO PRIME MINISTERS WOULD OF COURSE DISCUSS WHATEVER THEY CHOSE TO.

3. MY LIST WAS AS IN YOUR TELNO 415 EXCEPT THAT
(A) I DELETED REFERENCE TO INWARD INVESTMENT PROBLEMS, FROZEN PENSIONS, THE CONSTITUTION ACT AND COAL SUBSIDIES, WHICH I DID NOT WISH TO ENCOURAGE HIM TO RAISE, AND DEFENCE SALES AS BEING MORE APPROPRIATE TO DEFENCE MINISTERS.
(B) I ADDED THE GALLIPOLI ANNIVERSARY COMMEMORATION, TO SMOKE HIM OUT, AND A SPECIFIC REFERENCE TO EDUCATION AND SCIENCE COLLABORATION TO REMIND HIS PEOPLE THAT WE WANTED THEIR EARLY AGREEMENT TO AN EXCHANGE OF LETTERS.

4. ON 6 JUNE I WENT OVER THE GROUND FOR THE TALKS WITH THE CABINET SECRETARY AND OTHERS.

5. IN THE LIGHT OF THESE EXCHANGES THE FOLLOWING POINTS MAY BE USEFUL.

GENERAL

6. HAWKE AGREED THAT THE LIST COVERED MOST OF THE GROUND BUT
(A) HE WANTS TO ADD "THE MIDDLE EAST, ESPECIALLY THE LEBANON" TO THE GROUP OF INTERNATIONAL ISSUES. HE HAS TAKEN A PARTICULAR INTEREST IN LEBANON RECENTLY UNDER DOMESTIC PRESSURE FROM ARAB COMMUNITIES AND HAS A LONG-STANDING INTEREST IN THE ARAB/ISRAELI PROBLEM. POST-KHOMEINI IRAN SHOULD OBVIOUSLY BE INCLUDED AS WELL:
(B) HE WOULD LIKE THE NATO ITEM TO READ: "EAST-WEST RELATIONS INCLUDING NATO SUMMIT". SINCE HE ENVISAGES A BROADER DISCUSSION OF EAST/WEST RELATIONS THAN YOUR LIST IMPLIES.

BILATERAL RELATIONS

7. SEE PARAS. 10 AND 11 OF M.I.P.T. FOR HAWKE'S COMMENTS ON THE BILATERAL RELATIONSHIP. HIS OFFICIALS HAVE SINCE SAID TO ME THAT BOTH SIDES WILL NO DOUBT HAVE SOME SPECIFIC ISSUES TO RAISE UNDER THIS HEADING. I HAVE LITTLE DOUBT THAT HAWKE WILL RAISE THE QUESTION OF FROZEN PENSIONS. I DOUBT THAT HE WILL RAISE OUR FAIRLY SEVERE DIFFERENCES OVER AIR SERVICE AGREEMENTS BUT HIS FOREIGN MINISTER MAY RAISE THESE WITH YOU (THOUGH NO-ONE HERE HAS YET SUGGESTED HE WILL).

CONSTITUTION ACT

8. MY TELNO 536 REPORTS THAT CODD WISHES TO DISCUSS THIS WITH SIR ROBIN BUTLER, THE IMPLICATION BEING THAT HAWKE MAY NOT RAISE IT PERSONALLY.

TRADE AND INVESTMENT

9. GIVEN AUSTRALIA'S CURRENT ECONOMIC DIFFICULTIES (M.I.P.T.) IT WILL NOT BE SO EASY FOR THE AUSTRALIAN TEAM AT THE CONFERENCE TO PORTRAY AUSTRALIA AS A GOOD PLACE FOR BRITISH INVESTMENT AND EXPORTS BUT THEY SHOULD BE ABLE TO POINT TO VALUABLE OPPORTUNITIES IN THE LONGER TERM. I AM NOT SURE THAT HAWKE WILL WISH TO DISCUSS DIFFICULTIES OVER AUSTRALIAN INVESTMENT IN BRITAIN BUT IT IS CERTAINLY RIGHT TO BRIEF DEFENSIVELY ON THE MATTER.

10. ACCORDING TO THE LATEST OFFICIAL FIGURES TOTAL AUSTRALIAN INVESTMENT IN UK INCREASED SHARPLY DURING THE LAST FINANCIAL YEAR (1987/8), RISING FROM AUSTRALIAN DOLLARS 7.5 BILLION TO AUSTRALIAN DOLLARS 12.3 BILLION (18 PER CENT OF THE TOTAL, SECOND IN SIZE TO THE U.S. WITH 28 PER CENT). UK INVESTMENT IN AUSTRALIA ALSO INCREASED STRONGLY, FROM AUSTRALIAN DOLLARS 37.1 BILLION TO AUSTRALIAN DOLLARS 44 BILLION, AND WE HAVE OVERTAKEN THE U.S. TO BECOME THE LARGEST FOREIGN INVESTOR IN AUSTRALIA.

GALLIPOLI ANNIVERSARY

11. HAWKE TOLD ME THAT AUSTRALIA WANTED TO MAKE MUCH OF THE 75TH ANNIVERSARY, NOT LEAST BECAUSE BY THE 100TH ANNIVERSARY NONE OF THE GALLIPOLI SURVIVORS WOULD STILL BE ALIVE. AS A MATTER OF COURTESY HE WOULD WISH TO DISCUSS THE PLANS WITH THE PRIME MINISTER.

REGIONAL ISSUES

12. HAWKE IS GRAVELY CONCERNED ABOUT THE LATEST EVENTS IN CHINA WHICH HE DESCRIBED TO ME AS 'TRAGIC'. HE AND AUSTRALIA HAVE INVESTED MUCH IN THE CHINESE RELATIONSHIP AS A CENTRAL ELEMENT OF THEIR FOREIGN POLICY AND ARE NOW DEEPLY WORRIED THAT THIS WILL BE SERIOUSLY STRAINED. HAWKE CONSIDERS ZHAO ZIYANG TO BE A PERSONAL FRIEND AND IS CONCERNED ABOUT HIS FATE.

13. I TOLD HAWKE THAT HE WOULD OF COURSE FIND BRITISH MINISTERS PREOCCUPIED WITH THESE EVENTS AND THEIR IMPACT ON HONG KONG AND ALSO MUCH CONCERNED ABOUT THE LATTER'S PROBLEM WITH VIETNAMESE BOAT-PEOPLE.

INTERNATIONAL ISSUES

14. HAWKE MADE NO PARTICULAR COMMENT ON THIS PART OF THE LIST BUT HIS OFFICIALS HAVE SINCE SAID THAT THEY ASSUME THE DISCUSSION OF CHOGM WILL INCLUDE SOUTHERN AFRICAN. I REPLIED THAT WE WOULD NOT BE SURPRISED IF THE AUSTRALIAN SIDE RAISED IT.

URUGUAY ROUND

15. AUSTRALIA'S AIMS FOR THE URUGUAY ROUND, AND ITS NEW CAMPAIGN TO HAVE COAL SUBSIDIES DEALT WITH, WILL OF COURSE BE A TOP PRIORITY FOR HAWKE.

ENVIRONMENT/ANTARCTICA

16. THE ENVIRONMENT HAS IN THE LAST 2 OR 3 MONTHS SUDDENLY COME TO THE FORE AS A MAJOR POLITICAL ISSUE IN AUSTRALIA. THE GREEN MOVEMENT WAS A FACTOR IN THE WESTERN AUSTRALIA ELECTIONS LAST FEBRUARY: FOLLOWING LAST MONTH'S ELECTIONS IN TASMANIA THE GREENS NOW HOLD THE BALANCE THERE AND MY SOON FORM GOVERNMENT AS A MINORITY PARTNER WITH LABOR. THE HAWKE GOVERNMENT HAS MOVED QUICKLY TO IDENTIFY ITSELF WITH ENVIRONMENTAL CONCERNS. THIS POLITICAL CONSIDERATION WAS A FACTOR IN THEIR DECISION NOT TO SIGN THE ANTARCTIC MINERALS CONVENTION. BUT IT WAS NOT THE ONLY ONE. IT WOULD BE A MISTAKE TO ASSUME THAT THE AUSTRALIAN POSITION ON THE CONVENTION IS NECESSARILY TEMPORARY OR THAT IT WILL EASILY BE CHANGED. THE MATTER IS NOW FIRMLY WITH MINISTERS AND LARGELY OUT OF THE HANDS OF THE AUSTRALIAN OFFICIALS INVOLVED EARLIER IN NEGOTIATING THE CONVENTION. THE FEDERAL OPPOSITION IS ALSO OPPOSED TO SIGNATURE. (I AM TELEGRAPHING SEPARATELY AND IN MORE DETAIL ABOUT AUSTRALIAN ATTITUDES TO THE CONVENTION.) I EXPECT THAT HAWKE WILL WANT TO EXPLAIN HIS THINKING ON THIS ISSUE TO THE PRIME MINISTER, AND HOPE WE WILL ASK HIM TO ANYWAY. I EXPECT HIM TO BE PARTICULARLY KEEN TO ANNOUNCE OUR PROPOSED SCIENTIFIC COLLABORATION ON THE GLOBAL ENVIRONMENT, AGREED DURING MR BAKER'S VISIT.

COLES