

A905

PART 6.

238

MT

Confidential Filing

Ottawa Economic Summit, July 1981, Policy.

Economic PolicyPart 1: May 1979Part 5: Jan 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
18-3-81		29.6.81					
10-3-81		2.7.81					
26.3.81		5.7.81					
30.4.81		7.7.81					
1.5.81		13.7.81					
5.5.81		15.7.81					
6.5.81		- ends -					
15.5.81							
19.5.81							
12.6.81							
15.6.81							
18.6.81							
23.6.81							
25.6.81							
26.6.81							

PREM 19/445

PART 5 ends:-

15.7.81

PART 6 begins:-

16.7.81

Cabinet / Cabinet Committee Documents

[illegible]

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed C. Wayland

Date 31 March 2011

PREM Records Team

Message from Mr Allan Gotlieb, Canadian Personal Representative,
to other Personal Representatives

Ottawa, July 15, 1981

Dear Robert

I showed to Mr Trudeau the text of the communiqué on which we laboured last week at Montebello. He was genuinely pleased with the results but asked if it could be substantially shortened. He very much has in mind the desire expressed by all Summit participants that we should aim for a brief, clear expression of consensus.

2. I have tried my hand at a revised text and this is attached. It attempts to eliminate unnecessary verbiage, repetitious language, retrospective analysis and illustrations of points. I have however tried to keep all the substantive points of our Montebello text and to cast them in the form of a declaration.

3. The new text obviously removes many of the nuances which we so delicately negotiated and I am sure each of us will miss certain expressions we thought important. You will also notice I have done away with square brackets. This was not the result of an assumption on my part that our differences have disappeared but rather an effort to give you an opportunity to see a clear text with compromise language.

4. I put forward this text at this late stage with some trepidation, appreciating the sensitivities involved, but hope it will be useful when we meet at the Summit next week.

Yours sincerely,

ALLAN E GOTLIEB

CONFIDENTIAL

DRAFT DECLARATION OF THE OTTAWA SUMMIT:
(SHORT VERSION)

We, the Leaders of the major industrial democracies, meeting at a time of rapid change and intense challenge to world economic progress and peace, but impressed by the strength of our bonds on which we intend to build, make the following declaration.

1. We reaffirm our common objectives and joint determination to tackle our problems in a spirit of shared responsibility, both among ourselves and with our partners throughout the world, taking into account the effects on others of policies we pursue.

THE ECONOMY

2. The primary challenge is the revitalisation of the economies of the industrial democracies.

3. There is a prospect in the coming year for moderate growth but little early relief from unemployment and only a modest easing of inflation.

4. The fight to bring down inflation and reduce unemployment must be our highest priority and these linked problems must be tackled at the same time.

5. To meet this priority we require the balanced use of a range of policy instruments which will promote changes in our economies and expectations, and encourage support for change by our social partners.

6. We need to accept and strengthen the application of market disciplines throughout the economy.

7. We see low and stable monetary growth as essential to reducing inflation.

8. To reduce pressures on interest rates as much reliance as possible should be placed on restraint in Government expenditure and containment of budgetary deficits; it is also desirable to minimise volatility of interest rates and exchange rates.

9. In view of the large and persisting payments imbalances, it is in the interests of all that the financial soundness of the international banking system should be fully maintained; we welcome the expanded role of the IMF in financing deficits and encouraging needed adjustment.

RELATIONS WITH DEVELOPING COUNTRIES

10. We support the stability, growth, independence and genuine non-alignment of developing countries and reaffirm our commitment to co-operate with them in a spirit of mutual interest, respect and benefit.

11. We look to developing countries to play a full part in the international system commensurate with their capabilities and responsibilities and to become more fully integrated in it.

12. We look forward to constructive and substantive discussions with them, and believe the Cancun Summit offers an early opportunity to address our common problems in a new light.

13. We are willing to participate in efforts to reach an agreed basis for the launching of global negotiations.

14. We remain ready to support the developing countries in the efforts they make to promote their own economic and social development.

15. We are committed to maintaining substantial and, in many cases, growing levels of Official Development Assistance, and will seek to increase public understanding of this policy.

16. We will allocate the major portion of our aid to poorer countries.

17. We point out that the strengthening of our own economies, increasing access to our markets, and removing impediments to capital flows contribute larger amounts of needed resources and technology and thereby complement official aid.

18. The Soviet Union and its partners, whose contributions are meagre, should make more development assistance available, and take a greater share of exports of developing countries, while respecting their independence and non-alignment.

19. We will maintain a strong commitment to the international financial institutions and work to ensure that they have, and use effectively, the financial resources for their important responsibilities.

20. We call on the surplus oil-exporting countries to broaden their valuable efforts to finance development in non-oil developing countries, especially in the field of energy; we stand ready to co-operate with them for

this purpose and to explore with them, in a spirit of partnership, possible mechanisms, such as those being examined in the world bank, which would take due account of the importance of their financial contributions.

21. We recognise the importance of accelerated food production in the developing world and of greater world food security, and the need for developing countries to pursue sound agricultural and food policies; we will examine ways to make increased resources available for these purposes.

22. We recognise the need for many developing countries to deal with problems of excessive population growth and to develop human resources; we will place greater emphasis on international efforts in these areas.

TRADE

23. We reaffirm our strong commitment to maintaining liberal trade policies and to the effective operation of an open multilateral trading system as embodied in the GATT.

24. We will work together to strengthen this system in the interest of all trading countries and to seek positive structural adjustment to the changing world economic environment.

25. We will implement the agreements reached in the multilateral trade negotiations and invite other countries, particularly developing countries, to join in these mutually beneficial trading arrangements.

26. We will continue to resist protectionist pressures, since we recognise any protectionist measure not only undermines the viability and dynamism of our economies but also aggravates inflation and, over time, unemployment.

27. We welcome the proposal by the consultative group of eighteen that the GATT contracting parties should convene a meeting at Ministerial level during 1982.

28. We will work together with the other OECD countries in their programme of study to examine trade issues.

29. We will keep under review the role played by our countries in the smooth functioning of the multilateral trading system and in ensuring maximum openness of markets.

30. We endorse efforts to conclude by the end of this year an agreement to reduce the subsidy effects of official export credit schemes.

ENERGY

31. We are confident that, with perseverance, the energy goals we set at Venice for the decade can be achieved, enabling us to break the link between economic growth and oil consumption through structural change in our energy economies.

32. Recognising our countries are still vulnerable and energy supply remains a potential constraint to economic growth, we will accelerate the development and use of all our energy sources, both conventional and new, and continue to promote energy efficiency and the replacement of oil by other fuels.

33. To these ends we will continue to rely heavily on market mechanisms, supplemented as necessary, by Government action.

34. We appreciate our capacity to deal with short-term oil market problems should be improved, particularly through the holding of adequate levels of stocks.

35. We intend to encourage greater public acceptance of nuclear energy, being convinced that public concerns can and will be met.

36. We will take steps to realise the potential for the economic production, trade and use of coal and will do everything in our power to ensure that its increased use does not damage the environment.

EAST-WEST ECONOMIC RELATIONS

37. We recognise that there is a complex balance of political and economic interests in our East-West relations and conclude that continuing consultations and, where appropriate, co-ordination are necessary to ensure that our economic policies continue to be compatible with our political and security objectives.

CONCLUSIONS

38. Our conviction has been heightened that the resources of our democratic, free societies are equal to the important tasks we face and that our common problems can be resolved only through close consultation and co-operation.

39. In order to ensure the greatest possible degree of concertation of our approaches, we intend between now and our next meeting to maintain continuing contact with each other with a view to agreeing how our consultation and co-operation can be even closer.

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

Prime Minister
For discussion at G. Monner's
briefing meeting.

OTTAWA COMMUNIQUE

It may be helpful for your briefing meeting on the Ottawa Summit if I record some comments on the draft communique which our representatives brought back from the recent Preparatory Group meeting.

2. As Sir Robert Armstrong has said in his report to you on the preparatory work, Heads of Government are entirely free to modify the draft communique if they wish. Having studied the section on the Economy however I feel that we would have good reason to be satisfied with it if it survived in its present form. While it would be attractive from some points of view to have a much shorter declaration, I fear that we could easily lose from a substantial shortening of the section on the Economy. For example, the French would no doubt like to remove the idea that the economic policy reaction to the second energy price increase has been better managed than the first. The references to inflation and unemployment are a carefully constructed balance which could easily be upset to our disadvantage. We have no interest in deleting phrases which German representatives saw as helpful to Chancellor Schmidt's domestic budgetary arguments. And we also want to preserve the words about interest rates, exchange rates and budgetary deficits which are aimed at the Americans, which they have so far accepted and which largely meet what the Community (and we) would like to say. Finally, I would

/not like to see

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not like to see the section on the Economy made shorter than the section on relations with developing countries.

3. My other main comment is on that section (Part III). Heads of Government will be faced with a choice of formulae on the Global Negotiations. The first and more forward formula corresponds with the one included in the Presidency Conclusions of the Luxembourg European Council and we cannot take the lead in modifying it, particularly given our Presidency role. If however it becomes clear that the first formula does not command general agreement, I trust that we shall move to a position as close as possible to the American formula which on the merits I believe to be more nearly right. The whole concept of Global Negotiations institutionalises the division between North and South which I find so unattractive: and it is long odds that if these Negotiations start they will produce either bitter recrimination or objectionable concessions. I do not suggest that we campaign single-handed against them, or make ourselves a special target as opponents of them but I certainly do not think that we should fight strongly against the Americans in favour of an early start to these Negotiations.

4. I also have some doubts about further institutionalisation of the Summits on the lines envisaged at the very end of the draft communique - especially as the next one will be under French chairmanship. But perhaps we can discuss this at your briefing meeting.

5. I am copying this to the Foreign and Commonwealth Secretary, the Secretaries of State for Trade and Energy and to Sir Robert Armstrong.

(G.H.)

15 July 1981

GRS 540

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PS TO PM 10 DOWNING ST

FM CANBERRA 150047Z JUL 81

TO PRIORITY FCO

TELEGRAM NUMBER 298 OF 15 JULY

MY TELNO 297 : AUSTRALIAN PRIME MINISTER : NORTH/SOUTH

1. MR FRASER OPENED OUR DISCUSSION ON THIS SUBJECT BY SAYING THAT HE HAD FOUND BOTH PRESIDENT REAGAN AND MR HAIG VERY MUCH LESS HARDNOSED, AND MORE SYMPATHETIC, IN THE MATTER OF FOREIGN AID THAN HE HAD EXPECTED. HE CONCLUDED THAT THEIR PUBLIC STANCE WAS AT LEAST IN PART TO CONCEAL THE FACT THAT THEY WERE SEEKING TO GET THROUGH CONGRESS A FORSCVWRW ORYLE 18 PER CENT UP ON THE LAST VOTE.

2. MR FRASER THEN WENT ON TO SPEAK ON THE LINES OF HIS IDEALISTIC QUOTE NORTH/ SOUTH SPEECH IN SOUTH CAROLINA ON 8 JULY (COPY BY BAG). I HAVE TO REPORT THAT MR FRASER HAS IN RECENT MONTHS ACQUIRED AN ALMOST EVANGELISTIC FERVOUR ABOUT 3RD WORLD PROBLEMS: A FERVOUR WHICH HAS PUT HIM WELL AHEAD IN HIS VIEWS OF EVEN THE MOST AID-MINDED OFFICIALS IN CANBERRA: AND VERY FAR INDEED AHEAD OF THE AUSTRALIAN TREASURY WHOSE ONLY COMFORT FROM HIS NEW ATTITUDE IS, THEY SAY, THAT HE HAS NOT YET SHOWN SIGNS OF PUTTING HIS MONEY WHERE HIS MOUTH IS, EXCEPT FOR A SMALL INCREASE, IN REAL TERMS, IN THE FORTHCOMING BUDGET, IN AUSTRALIAN OVERSEAS AID.

3. MR FRASER SAID THAT HE HOPED TO CONVINCE THE PRIME MINISTER OF THE NEED, AT CHOGM, FIRMLY TO SUPPORT THE RESUMPTION OF GLOBAL NEGOTIATIONS. HE VERY MUCH HOPED THAT HE WOULD NOT FIND HIMSELF ON ONE SIDE, WITH THE UNITED KINGDOM AND NEW ZEALAND ON THE OTHER, WITH THE REST OF THE MEETING SUPPORTING HIM. HE WAS CONFIDENT THAT MR TRUDEAU WOULD FULLY SUPPORT HIM, AND INDEED THAT THE CANADIAN PRIME MINISTER WOULD SUCCEED IN EXTRACTING A COMMITMENT TO THE GLOBAL NEGOTIATIONS FROM PRESIDENT REAGAN.

4. I REPLIED THAT MR FRASER WOULD KNOW, FROM HIS FOREIGN MINISTER'S REPORT OF HIS CONVERSATIONS WITH THE PRIME MINISTER IN JUNE, THAT THE PRIME MINISTER WAS NOT ENAMoured OF THE NORTH/SOUTH CLASSIFICATION, NOR OF GLOBAL NEGOTIATIONS. THE PRIME MINISTER BELIEVED IN A DIFFERENT APPROACH, AS SHE HAD EXPLAINED TO MR STREET. I ADDED THAT, SPEAKING PERSONALLY, I HAD BEEN INVOLVED IN 3RD WORLD NORTH/SOUTH MATTERS OVER 20 YEARS AND DOUBTED WHETHER MR FRASER'S APPROACH, AS EXEMPLIFIED IN HIS SOUTH CAROLINA SPEECH, WAS ESPECIALLY APPROPRIATE TO THE REAL NEEDS OF THE 3RD WORLD IN THE PRESENT DAY: IT REMINDED MR, IN FACT, OF THE ATMOSPHERE SURROUNDING THE 1975 CHOGM IN KINGSTON, AND TO THAT EXTENT OFFERED LITTLE NEW. UNDERSTANDABLY ENOUGH, MR FRASER REPLIED NO MORE THAN TO SAY THAT IF THAT WAS MY VIEW I WAS ENTITLED TO IT. HE ADDED, HOWEVER, THAT

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HE HOPED I WOULD REPORT HIS VIEWS QUOTE TACTFULLY UNQUOTE TO THE PRIME MINISTER. I ASSURED HIM THAT I WOULD DO MY DUTY IN THIS RESPECT.

5. WHILE WE MAY FIND MR FRASER'S VIEWS WOOLLY AND INDEED RATHER OLD FASHIONED, WE SHOULD NOT UNDERESTIMATE THE STRENGTH OF HIS ATTACHMENT TO THEM. IT WILL BE A MATTER FOR JUDGMENT HOW HE SHOULD BE ANSWERED WHEN HE EXPOUNDS THEM, AS I EXPECT HIM TO DO, NOT ONLY AT CHOQM, BUT ALSO TO THE PRIME MINISTER ON 27 JULY, IF HE IS GIVEN AN OPPORTUNITY. ONE OPTION WOULD BE TO RIDE WITH THE PUNCH, LETTING HIM HAVE HIS SAY WITHOUT COMMENT. ON THE OTHER HAND, MR FRASER IS A MAN WHOSE THINKING IS FORMED BY A PROCESS OF THESIS, ANTITHESIS AND SYNTHESIS. IF THE PRIME MINISTER WERE TO SPEAK TO HIM AS SHE DID TO MR STREET, THIS MIGHT HAVE A SALUTARY EFFECT IN BRINGING MR FRASER TOWARDS A CENTRE SYNTHESIS. BE THAT AS IT MAY, IT IS IMPORTANT IN MY JUDGMENT TO RECOGNISE THAT MR FRASER'S PRESENT FUNDAMENTALIST APPROACH TOWARDS NORTH/SOUTH PROBLEMS WILL BE AN IMPORTANT FACTOR IN HIS CONDUCT OF THE CHOQM, AND OF OUR ATTITUDE TOWARDS HIM AND IT.

MASON

NORTH/SOUTH LIMITED

ERD	PS/LPS
ES & SD	PS/MR HURD
TRED	PS/MR MARTEN
ESID	PS/PUS
ECD	SIR E YOUDE
UND	MR BULLARD
SPD	LORD BRIDGES
LEGAL ADVISERS	MR BRAITHWAITE
MAED	MR HANNAY
APD	MR EVANS
INFORMATION D	MR HAYES
NEWS D	LORD N G LENNOX
PS	

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THIS TELEGRAM
WAS NOT
ADVANCED

2.
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hw
Alexander

With the compliments of
PROTOCOL AND CONFERENCE DEPARTMENT
CONFERENCE SECTION

*Copied for information -
a few minor amendments.*

FOREIGN AND COMMONWEALTH OFFICE
LONDON, SW1A 2AH

HAUT-COMMISSARIAT DU CANADA,
MACDONALD HOUSE,
1 GROSVENOR SQUARE,
LONDON, W1X 0AB.



CANADIAN HIGH COMMISSION,
MACDONALD HOUSE,
1 GROSVENOR SQUARE,
LONDON, W1X 0AB.

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15 July 1981

copy immediate to PC

Mr. David Wright
Private Secretary
Cabinet Office
70 Whitehall
London SW1A 2AS

Dear David,

Attached is a copy of a telex which
we have received from Ottawa with a request that it be
passed on to Sir Robert.

I would be grateful if you would bring
it to his attention.

Yours sincerely,

Richard Howard

Richard Howard,
First Secretary

c.c. Mr. A.F. Green / FCO

Ref: Telex from Ottawa SPS0375 of 13 July 81
re: ECONOMIC SUMMIT/MSG TO PRS

C O N F I D E N T I A L

FM EXTOTT SPS0375 13JUL81

TO BONN LDN TOKYO WSHDC PARIS ROPE BREEC DELIVER BY 150900
INFO HAGUE POECD GENEV PRMNY BNATO ITCOTT/JOHNSTONE/LATIMER/ELLIOT/
STEWART/DRABBLE/OESTREICHER/DUDOIT/IFD/IER/IPD FINOTT/KELLY
CIDA HULL/MASSE/POL/SHORTLIFFE PCOOTT/PITFIELD/FOWLER/SMITH/CANSUM
BH MSEDOTT/OSBALDESTON/BOND EMROTT/COHEN/HUTCHINSON/CAMPBELL
AGRICOTT/LUSSIER/RDIA/TRANT DE OTT

DISTR DMM JHT WJJ LHS JRM MCC ECR ECD ESE ECO ESI ESS POL

---ECONOMIC SUMMIT/MSG TO PRS

PLEASE PASS FOLLOWING MSG ASAP TO PERS REPS:

OTTAWA

14JUL

DEAR

PARA FURTHER TO THE OUTLINE OF THE SUMMIT PROGRAM ARRANGEMENTS WHICH
DEREK BURNEY PROVIDED TO THE PRS MTG LAST WEEK IN MONTEBELLO, YOU
WILL FIND THE SUMMIT PROGRAM ATTACHED FOR YOUR INFO. FROM IT YOU WILL
NOTE A FEW MINOR CHANGES, EG REGARDING THE FIXED TIMING FOR THE
SESSIONS AND THE SPECIFIC REF TO COFFEE BREAK MONDAY.

PARA YOU SHOULD ALSO BE AWARE THAT THE USA HAS REQUESTED WE PLAN
THAT THE DINNERS ON SUN 19JUL AND MON 20JUL END APROX TWO HOURS
AFTER THEIR COMMENCEMENT, ALTHOUGH OF COURSE LEADERS CAN STAY ON AS
LONG AS THEY WISH AFTER THAT.

PARA YOU WILL RECALL THAT WE HAVE DISCUSSED AT TWO OF OUR MTGS THE
...2

PAGE TWO SPS0375 CONF

POSSIBILITY OF INCLUDING FOREIGN MINS AT THE LUNCHEON OF HEADS OF STATE AND GOVT ON 20JUL. THIS POSSIBILITY WAS RAISED WITH US AGAIN BY THE USA PERS REP AT THE END OF LAST WEEK. MY PRIME MINISTER HAS ACCORDINGLY CONCLUDED THAT IT WOULD PERHAPS BE BEST TO INCLUDE THE QUESTION OF ATTENDANCE AT MONDAYS LUNCH AMONGST THE OTHER ORGANIZATIONAL MATTERS THAT LEADERS WILL DISCUSS WHEN THEY FIRST MEET TOGETHER ON SUN EVENING.

PARA BEST PERSONAL REGARDS,

YOURS SINCERELY,

ALLAN GOTLIEB,

PERS REP.

2.QUOTE

ANNEX A

PROGRAMME

OTTAWA/MIRABEL

SUN 19JUL

- ARRIVALS OF DELEGATIONS AND DEPARTURES BY
- HELICOPTER FOR THE CHATEAU MONTEBELLO

MONTEBELLO

15.00 Trudeau

- ARRIVALS OF DELEGATIONS
- CHATEAU MONTEBELLO

- GREETING BY THE PRIME MINISTER OF CANADA
- AND HIS MINISTERS

...2

PAGE THREE SPS0375 CONF

1900 HOURS

FOR

1930 HOURS

-DINNER FOR HEADS OF STATE AND GOVERNMENT
GIVEN BY THE PRIME MINISTER OF CANADA
THE MANITOBA AND ONTARIO ROOMS
CHATEAU MONTEBELLO
LOUNGE SUIT

At home?

1915 HOURS

FOR

1945 HOURS

-DINNER FOR FOREIGN MINISTERS GIVEN BY
THE SECRETARY OF STATE FOR EXTERNAL
AFFAIRS OF CANADA
THE VANIER ROOM, CHATEAU MONTEBELLO
LOUNGE SUIT

1915 HOURS

FOR

1945 HOURS

-DINNER FOR FINANCE MINISTERS GIVEN BY
THE DEPUTY PRIME MINISTER AND MINISTER
OF FINANCE OF CANADA
THE CARTIER ROOM, CHATEAU MONTEBELLO
LOUNGE SUIT

MON 20 JUL

0930 HOURS

-FIRST SESSION OF THE SUMMIT
CHATEAU MONTEBELLO

0800 Reagan

1030-

-COFFEE BREAK

1045 HOURS

...4

PAGE FOUR SPS0375 CONF

1200 HOURS

-FIRST SESSION CONCLUDES

1245 HOURS

FOR

1300 HOURS

-LUNCHEONS FOR HEADS OF STATE AND GOVERNMENT, THE
PRESIDENT OF THE COMMISSION OF THE EUROPEAN
COMMUNITIES AND MINISTERS (DETAILS TO BE CONFIRMED)
CHATEAU MONTEBELLO
LOUNGE SUIT

1430 HOURS

-OFFICIAL GROUP PHOTOGRAPH (HEADS OF DELEGATION)
THE PATIO, CHATEAU MONTEBELLO

1500 HOURS

-SECOND SESSION OF THE SUMMIT
CHATEAU MONTEBELLO

1700 HOURS

-SECOND SESSION CONCLUDES

? Spadolini

OTTAWA

1800 HOURS

-PRESS BRIEFING BY THE PRIME MINISTER OF CANADA
THE THEATRE, NATIONAL ARTS CENTRE

...5

PAGE FIVE SPS0375 CONF

MONTEBELLO

1930 HOURS

FOR

2000 HOURS

-DINNER FOR HEADS OF STATE AND GOVERNMENT, THE
PRESIDENT OF THE COMMISSION OF THE EUROPEAN
COMMUNITIES AND MINISTERS GIVEN BY THE PRIME
MINISTER OF CANADA

THE PATIO, CHATEAU MONTEBELLO

DRESS CASUAL

MONTEBELLO

TUE 21 JUL

0930 HOURS

-THIRD SESSION OF THE SUMMIT
CHATEAU MONTEBELLO

1130 HOURS

-THIRD SESSION CONCLUDES

1200-

-ARRIVALS OF HEADS OF DELEGATION AND MINISTERS
GOVERNMENT HOUSE

1255 HOURS

-RECEPTION GIVEN BY THE PRIME MINISTER OF CANADA
LOWER GARDENS, GOVERNMENT HOUSE

...6

PAGE SIX SPS0375 CONF D

1300 HOURS

FOR

1330 HOURS

-LUNCHEON FOR HEADS OF STATE AND GOVERNMENT,
THE PRESIDENT OF THE COMMISSION OF THE
EUROPEAN COMMUNITIES AND MINISTERS GIVEN BY
THE GOVERNOR GENERAL OF CANADA
GOVERNMENT HOUSE
LOUNGE SUIT

-LUNCHEON FOR REMAINING MEMBERS OF OFFICIAL
DELEGATIONS GIVEN BY THE SECRETARY TO THE
CABINET, MR MICHAEL PITFIELD
CONFEDERATION ROOM, WEST BLOCK
LOUNGE SUIT

1500 HOURS

-FINAL SESSION OF THE SUMMIT
CONFERENCE ROOM, EAST BLOCK

1645 HOURS

-DEPARTURES FOR THE NATIONAL ARTS CENTRE

1700 HOURS

-JOINT PRESS CONFERENCE BY HEADS OF DELEGATION
THE OPERA, NATIONAL ARTS CENTRE

-FAREWELL COUPE DE CHAMPAGNE FOR HEADS OF
DELEGATION AND MINISTERS GIVEN BY THE PRIME

...7

PAGE SEVEN SPS2375 CONF

MINISTER OF CANADA

THE SALON, NATIONAL ARTS CENTRE

OTTAWA/MIRABEL

19.45

-DEPARTURES OF DELEGATIONS

OTTAWA

WED 22JUL

-DEPARTURES OF REMAINING DELEGATIONS.

UNQUOTE.

CCC/161 150034Z SPS0375

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GRS 385
CONFIDENTIAL

FM OTTAWA 151900Z JUL 81
TO PRIORITY FCO
TELEGRAM NUMBER 371 OF 15 JULY
INFO WASHINGTON (FOR PRIVATE SECRETARY)
SAVING TO UKRAE & NATO

ms

SUMMIT: MR TRUDEAU'S POSITION

1. AS BACKGROUND TO THE TALKS THE PM MAY NOW HAVE WITH MR TRUDEAU ON THE CONSTITUTIONAL TIMETABLE IN THE MARGINS OF THE SUMMIT, YOU MAY LIKE A BRIEF ASSESSMENT OF HIS POLITICAL POSITION HERE, WHICH I GIVE WITH SOME DIFFIDENCE, HAVING BEEN SO SHORT A TIME IN CANADA.
2. DESPITE THIS COUNTRY'S SERIOUS ECONOMIC AND LABOUR PROBLEMS, TRUDEAU'S POLITICAL POSITION IS STRONG, NOT LEAST BECAUSE HIS CONSERVATIVE OPPONENTS ARE WEAK, DISORGANISED AND POORLY LED. EVEN HIS MANY ENEMIES ADMIT THAT IF THERE WERE AN ELECTION TOMORROW HE MIGHT WELL BE RE-ELECTED THOUGH IN MY VIEW THIS IS NOT, AS MR PITFIELD CLAIMS, BECAUSE OF SUPPORT FOR HIS CONSTITUTIONAL PACKAGE. HE HAS THE SOLID STRENGTH OF THE LIBERAL MACHINE, AN UNASSAILABLE MAJORITY IN QUEBEC AND SUBSTANTIAL SUPPORT IN ONTARIO, AND THE BACKING OF MOST PEOPLE WHO PASS FOR HAVE-NOT IN THIS PROSPEROUS LAND.
3. ON THE OTHER HAND, AS PITFIELD ADMITTED TO ME ON 30 JUNE (MY TELNO 318) TRUDEAU IS TOTALLY AT ODDS WITH THE WEST (SEE MY TELNO 2 SAVING) AND WITH THE WHOLE BANKING AND BUSINESS COMMUNITY, AS I FOUND LAST WEEK IN CANADA'S LARGEST CITY, TORONTO. HE HAS VERY LITTLE CONTACT WITH THESE TWO AREAS. FEELINGS AMONG HIS OPPONENTS RUN HIGH. SOBER AND INFLUENTIAL CANADIANS ARE BITTERLY CRITICAL OF HIM. THE HEAD OF THE SECOND LARGEST CANADIAN BANK TOLD ME AT A FIRST MEETING LAST WEEK THAT HE WAS "ASHAMED" OF MR TRUDEAU. THE HOSTILITY TO HIM SPRINGS I BELIEVE FROM A VARIETY OF CAUSES - CONSERVATIVE HOSTILITY TO TRUDEAU'S LEFT-ORIENTATED POLICIES (SIMILAR TO THE HOSTILITY TO FRANKLIN ROOSEVELT IN AMERICAN FINANCIAL AND BUSINESS CIRCLES IN THE THIRTIES) RESENTMENT OF TRUDEAU'S FAILURE

/EVEN

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EVEN TO TRY TO VISIT, UNDERSTAND, AND CONCILIATE WESTERN OR BUSINESS PEOPLE AND OF HIS ABRASIVE STYLE, AND, NOT FAR BELOW THE SURFACE, ENGLISH-SPEAKING RESTLESSNESS WITH A PREDOMINANTLY FRENCH-CANADIAN ADMINISTRATION, LED BY A MAN WHO MAY BE AT HEART A REPUBLICAN AND HAS NO SPECIAL FEELING FOR CANADA'S BRITISH CONNECTION THE CONSTITUTION HAS TENDED TO DRAW US RELUCTANTLY INTO THIS CONFRONTATION, INEVITABLY ON TRUDEAU'S SIDE IF HE GETS THE SUPPORT OF THE COURT. WE MAY NOT BE ABLE TO AVOID DOING WHAT HE WANTS ON THE CONSTITUTION BUT WE SHOULD BEAR IN MIND THAT IN THIS COUNTRY HE IS HIMSELF A DEEPLY DIVISIVE INFLUENCE DESPITE HIS LIFELONG COMMITMENT TO POLICIES DESIGNED TO UNIFY CANADA.

FCD PSE PASS SAVING TO UKREP NATO

MORAN

(REPEATED AS REQUESTED)

CANADIAN CONSTITUTION LIMITED

NAD

CCD

P & CD

PCCU

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PS/MR HURD

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SIR E YOUDE

MR DAY

MR URE

LORD N G LENNOX

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PS/CHANCELLOR OF THE DUCHY OF
LANCASTER

PS/LORD CHANCELLOR

PS/LORD PRESIDENT

MR H STEEL, LAW OFFICERS' DEPT

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2

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Message from Mr Allan Gotlieb, Canadian Personal Representative,
to other Personal Representatives

Ottawa, July 15, 1981

Dear Robert

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2. I have tried my hand at a revised text and this is attached. It attempts to eliminate unnecessary verbiage, repetitious language, retrospective analysis and illustrations of points. I have however tried to keep all the substantive points of our Montebello text and to cast them in the form of a declaration.

3. The new text obviously removes many of the nuances which we so delicately negotiated and I am sure each of us will miss certain expressions we thought important. You will also notice I have done away with square brackets. This was not the result of an assumption on my part that our differences have disappeared but rather an effort to give you an opportunity to see a clear text with compromise language.

4. I put forward this text at this late stage with some trepidation, appreciating the sensitivities involved, but hope it will be useful when we meet at the Summit next week.

Yours sincerely,

ALLAN E GOTLIEB

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DRAFT DECLARATION OF THE OTTAWA SUMMIT:
(SHORT VERSION)

We, the Leaders of the major industrial democracies, meeting at a time of rapid change and intense challenge to world economic progress and peace, but impressed by the strength of our bonds on which we intend to build, make the following declaration.

1. We reaffirm our common objectives and joint determination to tackle our problems in a spirit of shared responsibility, both among ourselves and with our partners throughout the world, taking into account the effects on others of policies we pursue.

THE ECONOMY

2. The primary challenge is the revitalisation of the economies of the industrial democracies.

3. There is a prospect in the coming year for moderate growth but little early relief from unemployment and only a modest easing of inflation.

4. The fight to bring down inflation and reduce unemployment must be our highest priority and these linked problems must be tackled at the same time.

5. To meet this priority we require the balanced use of a range of policy instruments which will promote changes in our economies and expectations, and encourage support for change by our social partners.

6. We need to accept and strengthen the application of market disciplines throughout the economy.

7. We see low and stable monetary growth as essential to reducing inflation.

8. To reduce pressures on interest rates as much reliance as possible should be placed on restraint in Government expenditure and containment of budgetary deficits; it is also desirable to minimise volatility of interest rates and exchange rates.

9. In view of the large and persisting payments imbalances, it is in the interests of all that the financial soundness of the international banking system should be fully maintained; we welcome the expanded role of the IMF in financing deficits and encouraging needed adjustment.

RELATIONS WITH DEVELOPING COUNTRIES

10. We support the stability, growth, independence and genuine non-alignment of developing countries and reaffirm our commitment to co-operate with them in a spirit of mutual interest, respect and benefit.

11. We look to developing countries to play a full part in the international system commensurate with their capabilities and responsibilities and to become more fully integrated in it.

12. We look forward to constructive and substantive discussions with them, and believe the Cancun Summit offers an early opportunity to address our common problems in a new light.

13. We are willing to participate in efforts to reach an agreed basis for the launching of global negotiations.

14. We remain ready to support the developing countries in the efforts they make to promote their own economic and social development.

15. We are committed to maintaining substantial and, in many cases, growing levels of Official Development Assistance, and will seek to increase public understanding of this policy.

16. We will allocate the major portion of our aid to poorer countries.

17. We point out that the strengthening of our own economies, increasing access to our markets, and removing impediments to capital flows contribute larger amounts of needed resources and technology and thereby complement official aid.

18. The Soviet Union and its partners, whose contributions are meagre, should make more development assistance available, and take a greater share of exports of developing countries, while respecting their independence and non-alignment.

19. We will maintain a strong commitment to the international financial institutions and work to ensure that they have, and use effectively, the financial resources for their important responsibilities.

20. We call on the surplus oil-exporting countries to broaden their valuable efforts to finance development in non-oil developing countries, especially in the field of energy; we stand ready to co-operate with them for

this purpose and to explore with them, in a spirit of partnership, possible mechanisms, such as those being examined in the world bank, which would take due account of the importance of their financial contributions.

21. We recognise the importance of accelerated food production in the developing world and of greater world food security, and the need for developing countries to pursue sound agricultural and food policies; we will examine ways to make increased resources available for these purposes.

22. We recognise the need for many developing countries to deal with problems of excessive population growth and to develop human resources; we will place greater emphasis on international efforts in these areas.

TRADE

23. We reaffirm our strong commitment to maintaining liberal trade policies and to the effective operation of an open multilateral trading system as embodied in the GATT.

24. We will work together to strengthen this system in the interest of all trading countries and to seek positive structural adjustment to the changing world economic environment.

25. We will implement the agreements reached in the multilateral trade negotiations and invite other countries, particularly developing countries, to join in these mutually beneficial trading arrangements.

26. We will continue to resist protectionist pressures, since we recognise any protectionist measure not only undermines the viability and dynamism of our economies but also aggravates inflation and, over time, unemployment.

27. We welcome the proposal by the consultative group of eighteen that the GATT contracting parties should convene a meeting at Ministerial level during 1982.

28. We will work together with the other OECD countries in their programme of study to examine trade issues.

29. We will keep under review the role played by our countries in the smooth functioning of the multilateral trading system and in ensuring maximum openness of markets.

30. We endorse efforts to conclude by the end of this year an agreement to reduce the subsidy effects of official export credit schemes.

ENERGY

31. We are confident that, with perseverance, the energy goals we set at Venice for the decade can be achieved, enabling us to break the link between economic growth and oil consumption through structural change in our energy economies.

32. Recognising our countries are still vulnerable and energy supply remains a potential constraint to economic growth, we will accelerate the development and use of all our energy sources, both conventional and new, and continue to promote energy efficiency and the replacement of oil by other fuels.

33. To these ends we will continue to rely heavily on market mechanisms, supplemented as necessary, by Government action.

34. We appreciate our capacity to deal with short-term oil market problems should be improved, particularly through the holding of adequate levels of stocks.

35. We intend to encourage greater public acceptance of nuclear energy, being convinced that public concerns can and will be met.

36. We will take steps to realise the potential for the economic production, trade and use of coal and will do everything in our power to ensure that its increased use does not damage the environment.

EAST-WEST ECONOMIC RELATIONS

37. We recognise that there is a complex balance of political and economic interests in our East-West relations and conclude that continuing consultations and, where appropriate, co-ordination are necessary to ensure that our economic policies continue to be compatible with our political and security objectives.

CONCLUSIONS

38. Our conviction has been heightened that the resources of our democratic, free societies are equal to the important tasks we face and that our common problems can be resolved only through close consultation and co-operation.

39. In order to ensure the greatest possible degree of concertation of our approaches, we intend between now and our next meeting to maintain continuing contact with each other with a view to agreeing how our consultation and co-operation can be even closer.

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TRUDEAU'S VISIT TO WASHINGTON: 10 JULY

1. THIS WAS A SHORT VISIT, MAINLY CONCERNED WITH THE OTTAWA SUMMIT. TRUDEAU HAD A 40 MINUTE MEETING WITH THE PRESIDENT ON THE MORNING OF 10 JULY, FOLLOWED BY A WORKING LUNCHEON. HE WAS ACCOMPANIED BY ALAN GOTTLIEB, DEPUTY FOREIGN MINISTER WITH RESPONSIBILITY FOR THE SUMMIT, AND THE CANADIAN AMBASSADOR. ON THE AMERICAN SIDE, REAGAN WAS JOINED BY HAIG AND ALLEN.

2. TRUDEAU'S MAIN MESSAGE IN HIS TALKS WITH REAGAN AS WITH THORN (MY TEL NO 2128) WAS THAT HE WANTED THE SUMMIT TO BE A SUCCESS. IN PARTICULAR, HE WAS ANXIOUS TO AVOID ANY GANGING UP ON EITHER THE AMERICANS (OVER EG HIGH INTEREST RATES) OR THE JAPANESE (OVER CAR EXPORTS). REAGAN AND TRUDEAU ARE REPORTED TO HAVE GOT ON WELL. IN SPITE OF THEIR DIFFERENT BACKGROUNDS AND PHILOSOPHIES, TRUDEAU IS NOT INDIFFERENT TO REAGAN'S CHARM AND WARMTH, WHILE REAGAN ADMIRES TRUDEAU'S INTELLECT.

3. MUCH OF THE DISCUSSION TURNED ON RELATIONS WITH DEVELOPING COUNTRIES, AND GLOBAL NEGOTIATIONS IN PARTICULAR. THE IBRD ENERGY AFFILIATE DOES NOT SEEM TO HAVE FEATURED. REAGAN AND TRUDEAU AGREED ON THE IMPORTANCE OF LISTENING TO THE VIEWS OF THE LESS DEVELOPED COUNTRIES. THE PRESIDENT ARGUED THAT THE BEST THING WE COULD DO FOR THEM WAS TO DEMONSTRATE HOW THEY COULD BRING ABOUT ECONOMIC ADVANCE ON THEIR OWN, EMPHASISING THE ROLE OF THE PRIVATE SECTOR. CANADA AND THE US HAD THEMSELVES BEEN UNDERDEVELOPED COUNTRIES AND HAD DEVELOPED RAPIDLY THROUGH HARD WORK AND PRIVATE ENTERPRISE. HE OUTLINED THE US PLAN FOR THE CARIBBEAN BASIN AND SAID THAT HE HOPED THERE WOULD BE AN OPPORTUNITY TO DISCUSS THIS AT OTTAWA.

4. TRUDEAU AGREED THAT IT WOULD BE USEFUL IF INDIVIDUAL PARTICIPANTS AT THE SUMMIT SAID SOMETHING ABOUT THE REGIONS WITH WHICH THEY WERE MOST CONCERNED WE HAVE NOT YET BEEN ABLE TO GET AN ACCOUNT OF TRUDEAU'S REPLY ON THE NATURE OF GLOBAL NEGOTIATIONS. BUT SEE MY TELEGRAM NUMBER 2129 (NOT TO ALL) FOR RICHARD ALLEN'S COMMENT SUBSEQUENTLY TO THE PRESS.

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5. THE PRESIDENT SUMMED UP THIS PART OF THE DISCUSSIONS BY SAYING IN CHARACTERISTIC FASHION: QUOTE IN ESSENCE WE ARE ALL AIMING FOR THE SAME GOALS. WHAT WE ARE TALKING ABOUT IS THE OBLIGATION AND REQUIREMENT TO HELP OTHERS HELP THEMSELVES. WE ARE TALKING ABOUT OTHERS MAKING THEMSELVES ECONOMICALLY SELF-SUFFICIENT. SO THAT WE CAN ADDRESS THE PROBLEM OF REMOVING SOCIAL INEQUITIES IN COUNTRIES, LESS DEVELOPED COUNTRIES, THAT MAKE THEM TARGETS FOR EXTERNALLY SUPPORTED SUBVERSION AND REVOLUTION UNQUOTE.

6. ASIDE FROM THE SUMMIT, BILATERAL ISSUES RAISED BY THE CANADIAN SIDE INCLUDED ACID RAIN, ON WHICH THE AMERICANS SAID THEY WOULD STAND BY EARLIER UNDERTAKINGS NOT TO EXPORT POLLUTION TO CANADA, AND THE ALASKAN PIPELINE, WHERE THE AMERICANS SAID THEY FAVOURED COMPLETION AND, AGAIN, STOOD BY EARLIER COMMITMENTS. THIS IS TO BE DISCUSSED FURTHER BETWEEN EXPERTS. PRESIDENT REAGAN RAISED THE QUESTION OF RESTRICTIVE INVESTMENT POLICIES IN CANADA, WHICH WERE CAUSING CONCERN IN CONGRESS AND ELSEWHERE. TRUDEAU RESPONDED BY CITING ALL SORTS OF DATA, NOTING, FOR EXAMPLE THAT 72 PER CENT OF THE CANADIAN OIL AND GAS INDUSTRY WAS FOREIGN OWNED, A FIGURE WHICH THE CANADIANS INTENDED TO REDUCE TO 50 PER CENT BY 1990, THOUGH HE STRESSED THAT THERE WAS NO QUESTION OF NATIONALISATION BEING USED IN THIS OR OTHER AREAS WHERE THERE WAS A HIGH DEGREE OF FOREIGN CONTROL. THE QUESTION OF HIGH US INTEREST RATES AND THEIR EFFECT ON PARTICIPANTS IN THE SUMMIT WAS NOT RAISED BY TRUDEAU. AFTERWARDS ALLEN TOLD THE PRESS THAT THE MESSAGE HAD ALREADY GOT ACROSS TO THE AMERICANS. FISH WAS NOT (NOT) RAISED. OTHER ISSUES COVERED BRIEFLY WERE NAMIBIA, THE MIDDLE EAST AND THE EUROPEAN INITIATIVE ON AFGHANISTAN BUT NEITHER SIDE HAS YET VOUCHSAFED IN WHAT TERMS.

HENDERSON

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Prime Minister

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You may like to keep this
along with the Ottawa papers

PRIME MINISTER

Relations with developing countries

Over the next three months we face a series of eleven international meetings at which the problems of the developing countries will be on the agenda, beginning with the Ottawa Summit next week, culminating in the Cancun Summit at the end of October, and including by the way (amongst others) the preparatory meeting of Foreign Ministers at Cancun at the beginning of August; the United Nations General Assembly beginning in mid-September, the Commonwealth Finance Ministers' meeting, followed by the Annual Meetings of the International Monetary Fund and the World Bank at the end of September, and the Commonwealth Heads of Government meeting early in October.

2. I thought that it would be useful if, by way of preparation for this series of meetings, Ministers could be furnished with a general background brief, which would indicate what our objectives should be and how we could make the best of our position. The resulting paper - attached to this note - is related specifically to the Cancun Summit, as the last meeting and culmination of the series, but provides a point of reference for the whole series.

3. I have reviewed the paper with Permanent Secretaries of the Departments most closely concerned. We think that it presents a good account of the objectives we should pursue and the stance we should adopt on present policies. The central question for your judgment and that of your colleagues is whether the position outlined in the paper - presented in the best possible way - will carry us through this series of international conferences.

4. The paper assumes that the aid programmes for 1982-83 and subsequent years already approved are confirmed. It is thus relevant to the review of public expenditure which begins next week and which will come to a head after the recess. In this review the Chancellor of the Exchequer is likely to be seeking further economies from the aid programme; other home economic Departments will be worried about the link between aid and export opportunities; and the Foreign and Commonwealth Secretary is likely to be pressing at least to preserve the present programme and may argue for some increase.

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5. In this series of international meetings we are likely to find ourselves in a rather exposed position. Apart from the pressures from the developing countries themselves, we are likely to find Canada (in the chair at Ottawa), Australia (in the chair at Melbourne) and the Japanese wanting to increase levels of aid and move quickly into the global negotiations. The position of the Italians will be similar. The Federal Chancellor will be worried about the consequences of more aid for his budgetary and balance of payments deficits, but will be constrained by the views of Herr Genscher and his other coalition partners. President Mitterrand is likely to commit France to increasing aid. Even the United States Government is taking credit for asking Congress to approve an increase in its aid provision in real terms for the financial year 1982. It is against this background that Ministers will have to consider, as both a political and an economic issue, whether the present programme and the stance suggested in this paper are sustainable and in the best interests of the United Kingdom.

6. It will not be possible to take a fully informed decision on these matters until after Ottawa and after the Foreign and Commonwealth Secretary returns from his Cancun preparatory meeting in early August. Thereafter the sooner we can come to a considered view the better - no doubt on the basis of specific proposals by the Foreign and Commonwealth Secretary. Even at this stage, however, Ministers may like to have in their minds the range of options within which the choices will have to be made.

7. The first broad option is to stand firm on our present policies (with or without a reduction in the aid programme), and to concentrate on presenting ourselves and our policies in the best possible light. This is not as negative as it sounds, as paragraph 30 of the attached paper shows.

8. The second broad option is to make some more or less marginal modification in our policies, so as to improve our image and reduce the risk of being isolated in the international discussion. Possibilities include:

(i) Energy

We could join other Community countries in favour of setting up an energy affiliate of the IBRD, as a means of securing substantial additional funds, particularly from the OPEC countries, for energy development in the developing countries.

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(ii) Finance

- (a) We could commit ourselves more strongly to the idea of raising the gearing ratio of the World Bank.
- (b) We could give stronger support for practical guarantees of commercial bank loans to developing countries (but this might mean a contingent claim on the aid budget).
- (c) We could support the idea of new allocations of SDRs by the International Monetary Fund, organised so as to benefit low-income countries: this would help developing countries short of reserves, at no cost to OECD aid budgets.

(iii) Global Negotiations

As the Presidency, we are obliged to support the Community position agreed at the last European Council (calling for preparations to be completed as soon as possible); we could make a virtue of this by sounding more enthusiastic ourselves about the Global Negotiations.

(iv) Aid

If Ministers were prepared to contemplate an increase in the aid programme, various possibilities would be open:-

- (a) An addition of, say, £25 million a year to the aid programme.
- (b) A decision to hold the aid programme in real terms steady at this year's level (cost about £83 million in 1982-83 and £88 million in 1983-84).
- (c) A decision to hold the programme level in real terms next year and set it on a rising trend thereafter (a 1 per cent increase in 1983-84 would cost about £100 million).

(v) Overseas Students Fees

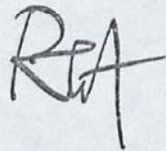
The decision to increase overseas students fees is saving £100 million a year on the Education vote, but has attracted strong criticism in the Commonwealth and in Britain, and

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will no doubt be attacked at the Commonwealth Heads of Government meeting. It might be possible to mute some of the criticism by introducing an expanded scholarship programme for students from developing countries. The cost would depend on the number of scholarships: about ^{100,000} £1 million for every 20 scholarships.

9. These are not decisions nor even recommendations; they are hypothetical and illustrative options, to show what might be available if Ministers wanted to consider the possibilities for some improvement in the United Kingdom's posture in international discussions over the coming months. Decisions do not need to be taken until after Ottawa and after the Foreign and Commonwealth Secretary's visit to Cancun; but it seemed sensible to provide this background briefing before the series of meetings began.

10. I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretaries of State for Industry, Trade and Energy, and the Minister of Agriculture, Fisheries and Food.



Robert Armstrong

14th July, 1981

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THE MEXICO SUMMIT

Report by the Official Committee
on Relations with the Developing Countries

INTRODUCTION

1. The leaders of 22 nations are to meet at Cancun in Mexico on 22 and 23 October for an International Meeting. The purpose of the meeting is "to provide the participating leaders with an opportunity to have an exchange of views on major issues of international co-operation for development in an open and informal manner". The intention is that the meeting should be the occasion for a frank and informal exchange of views on all aspects of the North/South dialogue. It is not the intention that the Summit should have a formal place in that dialogue though many of the participants will see it as a means of breathing new life into the North/South processes which have largely atrophied - and in particular as providing a means of re-launching the Global Negotiations. A note listing the participating countries, and their likely representatives at Cancun is at Annex A, a note on the origins of the Cancun Summit, the nature of the discussion and the likely attitudes of other participants on co-operation and development is at Annex B, and a note on the sequence of relevant international meetings in the period from now to Cancun is at Annex C.

2. This report has been prepared by the Official Committee on Relations with the Developing Countries (DCO) in order to provide Ministers with a convenient background brief; with suggestions for the objectives to be pursued at the Summit and in the run-up to it; and to indicate the kind of stance we will need to adopt in the discussions. The report is explicitly based on the continuance of present policies although the authors are fully aware that the financial framework of those policies is subject to revision in the review of public expenditure on which Cabinet is to embark on 23 July; and in the light of the pressures, both internal and external, which will develop as the present sequence of major international conference unfolds. In short the report shows how the United Kingdom might best approach the Mexico Summit, and defend its interests there, on the twin assumptions that our overseas aid expenditure programme emerges unchanged (in either

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direction) from the public expenditure review and that we do not decide to shift the present balance and priorities of our foreign policies in this area as the pressures unfold.

THE ECONOMIC BACKGROUND

3. Though many developing countries were in poor shape for other reasons, the latest oil price increases have made the economic prospects much worse for all developing countries, except those with their own oil. Between January 1979 and the present, average oil prices have risen by 160 per cent. Prices have now levelled off in a slack market and are falling in real terms, as they did in 1977-78. But the damage has already been done, and the future course of oil prices is difficult to predict.

4. The resulting shifts in external balances can be set out as follows -

Current Account Surpluses and Deficits - \$bn

	1978	1979	1980	1981	1982
OPEC	+3	+69	+112	+100	+90
Industrialised Countries	+30	-11	-47	-22	-16
Non-oil developing countries	-30	-58	-80	-97	-100

These figures and forecasts, taken from the IMF World Economic Outlook (ID/81/1, table 6) assume no further real increase in oil prices. They exclude official transfers: in this calculation aid finance is regarded as part of the capital account.

5. The oil price increases have reduced the ability of OECD countries to help developing countries in difficulty. Inflation must first be brought under control. Growth, when it resumes, is likely to be at a low rate. Budgetary constraints will affect the growth of official aid by OECD donors. United Kingdom and United States aid has fallen in real terms. (United States spokesmen may however emphasise rather that the aid programme for which the administration has sought Congressional approval for the financial year 1982 is about 16 per cent higher in cash terms, and slightly more in real terms, than the level made available for financial year 1981. It is not yet clear how Congress will respond.) Most other donors have promised to increase their aid in real terms over a number of years. The latest Lome Convention and revised Community GSP have only produced some changes of emphasis within the status quo.

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6. The developed Communist countries provide negligible amounts of aid except for their client states and provide a very limited market for the exports of developing countries. Their own problems are now intruding on the world scene - food shortages, the Polish debt and slackening energy production.

7. By contrast some OPEC countries have an important influence over oil prices by their ability to vary supply. They have the power to help to relieve the problems to which they have largely contributed. But OPEC has been loath to admit responsibility and is unlikely to do so. Direct aid from OPEC countries, though large when measured against conventional targets, is still small in relation to their total surpluses and is heavily concentrated on other Muslim countries. Only Saudi Arabia has consistently tried to restrain oil prices and keep up supplies. OPEC members still invest the bulk of their surpluses in the Western banking system, which bears the risk of on-lending and provides an increasingly important source of external finance to LDCs.

THE OUTLOOK FOR DEVELOPING COUNTRIES

8. Developing countries, like developed countries, will have to adjust over the 1980s to higher energy costs and deteriorating terms of trade. Only by improving their economic performance can they keep up the momentum of development and remain creditworthy. This adjustment will be harder for most of them than for OECD countries, even with external financial support. In general their economies are operating from a lower base with less ability to diversify: in particular, they are bound to use more oil and oil products per head as they develop their agriculture, industry and transport. This underlines the need for developing countries to build up their own energy resources where possible.

9. The condition of developing countries varies widely. It is necessary to look separately at low-income countries; middle-income countries; and exporters of manufactures and energy producers (although this division is crude and there are great differences within the groups, eg between the large mixed economies of India and Pakistan and the primitive agrarian countries of the Sahel belt, in the low-income group).

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10. The economic performance of many of the low-income countries (mainly the populous countries of South Asia, numerous small countries of Africa and some in South-East Asia) was poor even before the oil crisis and their economic management is erratic. All of them face bleak prospects in the 1980s. Neither domestic investment nor export earnings (which declined for the group in real terms in the 1970s) are enough to keep development ahead of population growth. Few can attract large private flows and some of them are anyway unwilling to work with transnational corporations. Their ability to sustain debt on commercial terms is low. They will therefore rely heavily on extra official aid. Adjustment for a number of low-income countries, especially in Africa, will therefore be achieved by lower growth and incomes per head, in these countries, will decline in the 1980s.
11. The middle-income countries (chiefly Latin American and Caribbean countries, non-OPEC Arabs and some Africans and South-East Asians - largely commodity exporters) have potentially substantial export earnings and some access to private finance to supplement domestic savings. With sensible policies, which maintain the confidence of creditors and investors, and with help from the IMF and the Development Banks, many should adjust without undue loss of momentum. But some will be hard hit by falling commodity prices in the recession. Some will have great problems in servicing their mounting debt at present interest rates. Some will aggravate their difficulties by over-ambitious or ill-chosen policies (it is largely for political reasons, for example, that new mining investment in these countries is particularly low). In consequence, several countries are already being rescued from bankruptcy (eg Turkey, Jamaica) and others will need similar operations.
12. A fairly small group of newly-industrialising countries and non-OPEC oil producers exists mainly in Latin America and the Far East. Several members of this group have had spectacular growth rates and have been by far the largest borrowers on capital markets. Their exports to OECD markets have grown strongly, though their own markets are often protected. Their position is not unpromising and adjustment should be feasible. But they will be constrained by limits on manufactured imports, especially textiles, maintained by OECD countries; and some have to manage very large volumes of debt. Moreover, some have been deliberately pursuing high risk policies in the effort to maintain growth.

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13. Britain and other OECD countries are politically and economically involved with the fortunes of developing countries in all these groups. What happens to them can affect British exports raw material supplies or the banking system.

THE POLITICAL BACKGROUND

14. The economic problems described so far will surface at the Cancun Summit. But their treatment will be complicated if, as is likely, most participants regard the Cancun Summit as geared to the North/South Dialogue.

15. In the North/South Dialogue the developing countries, including OPEC, organised as the Group of 77 (G77), try to mobilise their weight in numbers. They use this to put pressure on the OECD countries to do more to help them with their economic problems. The collective demands of the G77 are for more aid; for special trade advantages; for changes in the world economic system in their favour; and for a greater say in running the system. Many OPEC members are active in the G77 in promoting these demands, as it takes the pressure off them to do more for oil importing developing countries.

16. Developments in the Dialogue may not greatly influence our bilateral dealing with developing countries. But the Dialogue has become the pattern for collective discussion, especially in the United Nations. This pattern can have a certain value as a process of mutual education and as a safety valve for the frustrations of the 'South'. But it seldom produces solid results. It obscures the essential differences among developing countries and often impedes serious treatment of the issues. However, it has acquired a political reality which cannot be ignored. The G77 has become the grouping which matches the concept of the 'Third World'. Despite poor results and internal grumbling, the members of the G77 have maintained their solidarity. Many of them are not convinced that different tactics would produce a better outcome. In addition, that section of public opinion in OECD countries which is concerned with world poverty has tended to discuss these issues in terms of a simple concept of 'North/South'.

17. The United Kingdom belongs to four groupings which will be concerned with the Cancun Summit: the Commonwealth; the OECD; the Economic Summit countries; and the European Community. The latter two are more important than the others, but all are relevant and have issued or will issue documents with a bearing on the Summit.

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18. A Declaration or Communique will certainly be issued after the Commonwealth Heads of Government Meeting in Melbourne (30 September to 7 October). The Australian Prime Minister wants to make 'North/South' issues the centrepiece of the Melbourne Meeting and may seek to identify specific Commonwealth initiatives for Cancun, eg on food.

19. The Communique issued by the OECD Ministerial Meeting on 16/17 June has a passage on promoting international consultations with developing countries across a wide range, but does not refer directly to the Cancun Summit. As the Summit approaches, OECD non-participants will take an interest in the line we intend to follow.

20. The Ottawa Summit on 21/22 July will consider the Personal Representatives' "aid study", and its communique will include a reference to relations with developing countries. The communique will need to be drafted in such a way as to avoid giving the impression that the major Western countries are ganging up on the developing world. At the Summit discussions themselves it will be in our interest to aim for a meeting of minds so far as possible in preparation for Cancun. We may be able to help to reconcile the positions of the United States and those of the other participants.

21. The European Council on 29/30 June had before it a report on "North/South relations"; and the Presidency's summary of conclusions recorded that -

"The European Council was of the opinion that the preparations for the new round of global negotiations should be completed as soon as possible. It emphasised the crucial importance of a positive impetus to be given to this effect by the Summit conferences in Ottawa and Cancun".

Nearer the time of the Summit, we shall have to reassure other Community members that, since we hold the Presidency, we will take into account their views, even though they may take a more "progressive" line than we do.

22. At the Mexico Summit itself, the developing countries present will be looking to improve their economic condition by any means available and to exert maximum pressure on OECD participants. We must expect demands for

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increased aid, especially through multilateral channels; for trade advantages for developing countries, both in manufactures and commodities; for the creation of new institutions and changes in the structure and practices of existing ones, especially the IMF and IBRD; and for endorsement of the Global Negotiations in the terms favoured by the Group of 77. Some developing countries may press for undertakings in this sense to be embodied in a formal declaration or communique. Five of the developing countries present will be Commonwealth countries - India, Bangladesh, Tanzania, Nigeria and Guyana. Of the four OPEC countries taking part, Algeria and Venezuela are adept at making common cause with non-oil developing countries. Saudi Arabia is likely to be very cautious.

23. Apart from the United Kingdom, seven other OECD countries will be there. At least five - Austria, Canada, France, Japan and Sweden - will be mainly motivated by the wish to show sympathy for the developing countries. The United States and Germany may follow a more rigorous approach. But this is not certain because President Reagan wants good relations with Mexico; and Herr Genscher, who favours a 'soft' line, may have some influence over Herr Schmidt.

THE UNITED KINGDOM'S OBJECTIVES AT CANCUN

24. Although its terms of reference seemed to envisage an informal, low-key meeting, the Cancun Summit will have very high visibility, if only because of its novelty. Though we can try to keep down expectations, it will attract strong press interest - preliminary estimates suggest some 700 journalists will be there. The line we take will therefore become known publicly.

25. The United Kingdom might pursue the following objectives.

26. Stressing the importance of the private sector for development, trade and finance. We could emphasise -

- a. The contribution of private flows to the developing countries (65 per cent of total flows in 1979) and the benefit, notably in technology and managerial skills, that these flows can bring.
- b. The role of trade in promoting growth.

c. The scope for developing countries to assist one another; for example by opening up their markets to each other in a nondiscriminatory way.

d. The insignificance of Soviet bloc assistance to developing countries, for example the paltry level of their help for development and the small market that they offer to developing country exports.

27. Encouraging OPEC to bear greater responsibility. We could stress our common interests with OPEC countries; look for responsible attitudes by OPEC countries to energy pricing and supply policies; and for larger and better distributed OPEC aid flows. But we should not criticise OPEC aid performance publicly and would be ready to co-operate more fully with OPEC members prepared to accept wider responsibilities, eg in financial institutions.

28. Concentrating discussion of aid on its proper use and distribution, not on volume. This will be hard to achieve, especially since we shall be obliged to resist new commitments on aid volume, in the light of the reductions in the United Kingdom aid programme. Other developed countries (though not the USA) may be in a position to accept commitments which we cannot and, if so, they will wish to take credit for this.

29. Maintaining international trade and financial institutions. We shall want to defend the integrity of the GATT, the IMF and the multilateral development banks and their ability to deal with the issues within their competence without external direction, eg by the United Nations General Assembly. We would prefer as loose as possible a link between the Summit itself and the Global Negotiations in the United Nations. We have subscribed to the position taken by the European Council in favour of a 'positive impetus' at Cancun to the early resumption of preparations for the Global Negotiations. We shall have to abide by this; but we can still urge at Cancun general restraint in the proliferation of international organisations and meetings. We do not believe that the Americans will maintain indefinitely their reservations about the Global Negotiations if they are alone in doing so, though they may negotiate toughly on outstanding points of procedures and agenda. It is therefore probable that we shall have to resign ourselves to the Global Negotiations taking place, while ensuring that we are satisfied with the agenda and procedures and that they do not call in question the integrity of the GATT, the IMF and other specialist international agencies.

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30. Putting across a positive image of British policies and attitudes. We shall need to make a major effort to present our policies favourably. The United Kingdom is already seen as one of the most 'hard faced' of the OECD countries on development questions. We shall need to defend our present attitude and record on North/South issues; Annex D gives an outline of the case that might be made. We should also emphasise any proposals which the United Kingdom is in a position to make of a kind which may benefit developing countries and express our support for developments already in progress or prospect. We could -

- a. support a meeting of GATT at Ministerial level in 1982 to establish a programme of work to meet the concerns of both developing and developed countries;
- b. welcome in principle the developing countries' decision to negotiate reductions in barriers to each others' trade under the Economic Co-operation among Developing Countries programme;
- c. announce, as part of our aid programme, new initiatives in some sectors of particular concern to the poorer countries (water supply and sanitation, transfer of technology, agricultural research and perhaps population and energy). (Financial constraints would mean that the new initiatives could be only modest and at the expense of other claims in aid funds);
- d. say that we are ready to explore further proposals for increased World Bank lending for energy development, including the idea of an energy affiliate; and stress the full part we have already played in discussions about the latter idea;
- e. undertake to continue to urge the World Bank and the regional development banks to finance more projects jointly with the private sector or other development agencies;
- f. say that we support further study on the suggestion that the IBRD's gearing ratio should be increased;

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- g. express our support for a large quota increase in the next IMF review, and if necessary market borrowing by the Fund in the interim;
- h. reiterate our support for the negotiation by the International Wheat Council of a mechanism for stabilising wheat prices and supplies;
- i. take credit for the fact that the European Community is negotiating for membership of the International Sugar Agreement (on the assumption that the Council of Ministers adopts a mandate for this purpose before Cancun).

CONCLUSION

31. Cancun is likely to be a difficult meeting for the United Kingdom. Our general line is tougher than that of any other participant except the United States and perhaps Germany. The cuts in our Aid Programme have received wide publicity. The proposals listed in paragraph 30 for action that we can support which may benefit developing countries are of a modest character. We shall therefore have to work very hard to present our policies - as enumerated in Annex D - in the most persuasive way possible.

Cabinet Office

9 July 1981

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MEXICO SUMMIT: PARTICIPANTS

Developed Countries

United States - President Reagan
Japan - Mr Suzuki, Prime Minister
West Germany - Chancellor Schmidt
France - President Mitterrand
United Kingdom - Mrs Thatcher
Canada - Mr Trudeau, Prime Minister
Sweden - Mr Falldin, Prime Minister
Austria - Chancellor Kreisky

Latin America:

Africa:

Asia:

Europe:

Developing Countries

Mexico - President Lopez Portillo
Brazil - President Guerreiro
Venezuela - President Herrera Campins
Guyana - Mr Forbes Burnham, Prime Minister
Algeria - President Bendjedi Chadli
Nigeria - President Shagari
Ivory Coast - President Houphouet Boigny
Tanzania - President Nyerere
China - Mr Zhao Ziyang, Prime Minister
Saudi Arabia - Prince Fahd, Prime Minister
India - Mrs Gandhi, Prime Minister
Bangladesh - not yet known
Philippines - President Marcos
Yugoslavia - Mr Djuranovic, President of the Federal Executive Council

ORIGINS, NATURE OF DISCUSSIONS AND
ATTITUDES OF OTHER PARTICIPANTS

Origins

1. The proposal for a limited Summit of developed and developing countries was first put forward in the Brandt Commission Report. It was taken up by President Lopez Portillo of Mexico and Chancellor Kreisky of Austria, who invited a number of other countries to join them as co-sponsors. The sponsors met in Vienna in November 1980 and March 1981 to work out the timing, participation and format for the Summit. The Foreign Secretary made clear Britain's interest in participating in the Summit during his visit to Mexico in August 1980. But we were not invited to be a co-sponsor and decided not to seek inclusion.

2. The date for the Summit, originally proposed for June 1981, was fixed for 22-23 October, to ensure United States participation.

Nature of Discussions

3. The sponsors agreed in March on an informal Summit, providing for an open and spontaneous exchange of views. It would conclude with the Chairman summing up, rather than a Communiqué or Declaration. There will be no formal Agenda but a framework for discussion based on four themes - trade, food, energy and finance. There would be no precise link with the Global Negotiations.

4. Germany, France and the United Kingdom strongly favour this informal approach. Some others, especially Algeria, argued for a more formal structure - and the Mexicans are now moving in this direction, having prepared a thirty page "framework paper". At the Preparatory Meeting on 1-2 August, we will seek to preserve the informal nature of the Summit itself.

Attitudes of Other Participants

5. The Developing Countries at Cancun will seek to improve their economic situation, pressing for practical commitments from Organisation for Economic Co-operation and Development (OECD) countries. Some at least (Algeria, Tanzania, Yugoslavia) will urge structural change on the lines of the

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New International Economic Order, in the interests of the Group of 77. Some, like Tanzania and Guyana, are highly critical of the International Monetary Fund or, like the Ivory Coast, have radical demands in Committee matters.

6. Of the Organisation of Petroleum Exporting Countries present, Algeria and Venezuela are adept at making common cause with the non-oil developed countries, within the solidarity of the Group of 77. Saudi Arabia is aware of its many common interests with OECD countries, but is likely to be very cautious.
7. Among OECD countries there, Canada, Sweden and Austria will want to respond as sympathetically as they can to the developing countries and Japan will be inclined to follow. France, under its new Government, will take the same approach. (The other Community members, not present at Cancun, will advocate a similar line, and the United Kingdom, as European Community (EC) President, will be expected to take account of this.) German views coincide with ours on many points but their performance in aid and maintaining an open market is better than ours. The United States has been very reserved so far on North/South issues, but President Reagan wants to improve bilateral relations with Mexico.
8. Six Commonwealth countries, in addition to the United Kingdom, will be at Cancun. They will all be pressing for substantial progress from the Summit, some being among the most radical. The other Commonwealth developing countries, plus Australia, New Zealand and the Commonwealth Secretariat under Ramphal, can all be expected to support such an approach at the Melbourne Meeting.

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ANNEX C

FORTHCOMING INTERNATIONAL MEETINGS

19-21 July	Economic Summit, Montebello, near Ottawa
late July-early August	International Cocoa Council, London
1-2 August	Foreign Ministers' Preparatory Meeting for North/South Summit, Cancun
10-21 August	United Nations Conference on New and Renewable Sources of Energy, Nairobi
1-14 September	United Nations Conference on Least Developed Countries, Paris
4-18 September	International Coffee Council, London
15 September-mid-December	United Nations General Assembly
23-24 September	Commonwealth Finance Ministers Meeting, Auckland
26 September-2 October	IMF Interim Committee, IMF/IBRD Development Committee and Annual Meeting, Washington
30 September-7 October	Commonwealth Heads of Government Meeting, Melbourne
22-23 October	North/South Summit, Cancun

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DEFENCE OF THE UNITED KINGDOM RECORD ON NORTH/SOUTH ISSUES

The defence of our present attitude and record in North/South issues could include the following points -

- a. The United Kingdom, like other countries, must adjust to higher energy costs. Our policies achieved savings in oil consumption of 14.5 per cent in 1980 and we expect further savings in 1981. This, together with savings by other OECD countries, has led to over-supply of oil, which has contributed to the recent fall in oil prices. We have not sought artificially to bolster the price of our crude oil.

- b. The priority we give to fighting inflation is not inward-looking. It is a pre-condition of restoring economic growth, an expanding market and increased aid. It is endorsed internationally, eg by the IMF.

- c. Private flows now provide two-thirds of the external finance of developing countries. In 1979 the flow of private capital, including recycled funds, from the United Kingdom was second out of all OECD countries, both in absolute terms (about £4.3 billion) and as a percentage of GNP (2.3 per cent). We have removed all outward exchange controls, and access to our capital markets is free.

- d. Aid is needed especially by the poorer countries. The United Kingdom programme is the fifth largest in the OECD, over £1,000 million this year. 62 per cent of our bilateral aid went to low-income countries in 1980. All those countries which give more aid than the United Kingdom are substantially wealthier than we are.

- e. We give full support to the International Financial Institutions. We have backed larger drawings from the IMF, the capital increase of the IBRD and the 6th Replenishment of IDA (to which we provide 10 per cent). It is essential to maintain the structure of these institutions, or confidence in them will be lost, to the detriment of developing countries.

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f. We support the maintenance and expansion of access for the products of developing countries. In 1979 the proportion taken by Britain of developing countries' exports of manufactures was the highest in Europe, after Germany. The Community's GSP, revised this year, offers greater benefits to the poorer countries.

g. There has been considerable structural adjustment in the United Kingdom (eg textiles, consumer electronics, iron and steel). The Government encourages adjustment by research and development programmes and by fostering competition and greater productivity.

h. The United Kingdom participates in the second Lome Convention, which gives free access to the Community market for all industrial products and 90 per cent of agricultural products from over 60 countries. We will contribute about 18 per cent of the £2.6 billion aid element of the Convention.

i. Britain supports commodity agreements where these are soundly based economically and a majority of producer and consumer countries participate. We have signed the agreement for the Common Fund and have promised a voluntary contribution to its Second Account.

j. We support the negotiations to give greater stability to world cereal supplies, through a Wheat Trade Convention. Though a net food importer, the United Kingdom will contribute about £50 million to food aid this year.

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(2)

Ref. A05248

PRIME MINISTER

*I do not think you need
do more than glance at this for
the moment. The briefing meeting is on
Thursday evening but you would probably
delay detailed study until Saturday.*

Ottawa Economic Summit

Personal Representatives held their final preparatory meeting for the Economic Summit last week, from 6th to 8th July, at Chateau Montebello, the hotel (former country club) between Ottawa and Montreal where the Summit meeting itself is to be held. The meeting was preceded by a meeting of political representatives, at which we were represented by Sir Michael Palliser and Mr. Wade-Gery. Sir Michael Palliser and Sir Kenneth Couzens were with me for the meeting of Personal Representatives. 13/7

2. The Japanese were extremely reluctant to contemplate the inclusion of any purely political matter in the communiqué, but were more relaxed about the idea of a statement on political questions to the press by the Chairman of the Conference (Mr. Trudeau) on the evening of Monday, 20th July. I attach at Annex A the present draft of the statement. It could of course be included as part of a communiqué at the end of the conference, if that was how you and your colleagues eventually decided to proceed. It was agreed that it would probably not be necessary to have a formal declaration (like last year's on Afghanistan) unless by the time of the Summit the Russians had intervened in Poland.

3. The last three years' Summits have all produced declarations on hijacking and terrorism, beginning with the Bonn declaration of 1978 on hijacking. There have been discussions with our Summit partners about having a similar declaration this year. The Bonn declaration included provisions for sanctions (an airline boycott) against countries who harboured or assisted or failed to deal acceptably with hijackers. The behaviour of the Government of Afghanistan in the episode in which a Palestinian Airlines (PIA) aircraft was hijacked certainly qualified for the application of those sanctions. Six of the seven Summit countries are prepared (some more reluctantly than others) to agree to a declaration at the Ottawa Summit which condemns hijacking and says that the sanctions in the Bonn

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declaration should be applied to Afghanistan. The French Government have not been prepared (either at expert level or at Personal Representative level) to agree to apply the sanctions to Afghanistan; they say that there are juridical difficulties in overriding the air service agreements they have with Afghanistan. The Canadians and we argue that, if we are not all prepared to invoke the Bonn declaration in a case in which it is unquestionably applicable, there had better be no statement from the Ottawa Summit: that would be better than a statement which, by confining itself to generalised condemnation and conspicuously failing to invoke the sanctions in the Bonn declaration, drew attention to our unwillingness to back up our words with deeds.

4. I understand that diplomatic pressure is being brought to bear upon the French to come into line with the rest of us. If that is successful, or if you and your colleagues can manage to persuade the President of the Republic at Ottawa, there will be an agreed text of a declaration available for consideration
____ (Annex B).

✓ 5. At the last moment of our meeting last week the Italians produced a draft of their own on terrorism (attached as Annex C). The Italian Government would like support from the Summit in their own fight against terrorism in Italy. The rest were sympathetic, but there was no time to consider the draft. It was left that the Canadians would discuss the drafting with the Italians, and would circulate a revised text for consideration at the Summit. I would guess that the Italians will attach more importance to having some sort of declaration than to its precise content. Given the problem they have, I would hope that their partners would be willing to meet them on this, and to agree to a declaration, if an acceptable text can be agreed.

6. Personal Representatives discussed the order of business for the Summit. It was agreed that Heads of State or Government would want to have an informal and unstructured discussion, without notetakers, at dinner on their first evening, Sunday, 19th July. They will be able to resume that discussion at lunch on Monday, 20th July and on the evening of that day. They could of course decide to have some of their formal sessions on their own, without other Ministers; but

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the general presumption was that, after a short session first thing on Monday, 20th June to agree the business, they would sit in plenary session to discuss:

- (i) the international economic and financial situation (Monday morning);
- (ii) relations with developing countries (Monday afternoon).

If it is agreed that Mr. Trudeau should make a statement to the press on political matters on Monday evening, Heads of State or Government will probably want to have a session with Foreign Ministers only in the latter part of Monday afternoon. Finance Ministers could meet separately, or could enjoy the amenities of the place (e.g. golf and swimming).

7. Personal Representatives considered a redraft of the report to Heads of State or Government on aid policies and practices commissioned by the Venice Summit. The redraft, prepared by the Canadians, was much better than its predecessors. It remained long, however; and, while it was not seriously objectionable, it was not the document which any of us on our own would have produced. Rather than spend a lot of time trying to reach full agreement on it - which would have taken a long time - we agreed to let the report pass as it stood, with a caveat making it clear that we were not all equally supportive of each conclusion, and we concentrated on the preparation of draft communiqué language. The report is available if you want to read it in full; for present purposes I attach a summary (Annex D).

8. As to the draft communiqué language, we agreed that it would be useful for us to have texts available as a basis for our work at the Summit, and we reached agreement on a set of texts for this purpose. Obviously, however, Heads of State or Government are not committed to them, and they can be modified or rejected at the meeting, as you and your colleagues will.

9. The drafting had been parcelled out amongst us; and Sir Kenneth Couzens and I took on the section on the international economic and financial situation. We started with a short four-paragraph piece; I am afraid that the amendments and additions proposed (notably by the Germans) and accepted have lengthened it somewhat, but it remains an agreed text.

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10. The section on relations with developing countries is also a little longer than it need be; but it too is an agreed text, save for the paragraph (paragraph 2) on the global negotiations.

11. Other sections are reasonably short; and, even if the whole thing were adopted as it stands, the communiqué would be considerably shorter (and better) than the Venice communiqué, and than most of the previous Summit communiqués. The various sections of draft communiqué language are attached as Annex E.

12. Personal Representatives have also agreed a note on the future of Economic Summits for submission to Heads of State or Government (attached as Annex F). This is an agreed paper, drafted by the United Kingdom Personal Representative.

13. On substance, there was great emphasis on the need for the Summit countries to be united in their objectives and messages of hope, both on the international economy and on relations with developing countries. But there are of course differences, to be sorted out or papered over at the Summit if a reasonably united position is to emerge.

14. As you might expect, concerns about unemployment loomed larger in our discussions of the international economic and financial situation this year than they did last year. But everyone (including the French Personal Representative) accepted that the reduction of inflation remained the highest priority, and agreed that it was not possible to secure a soundly based recovery of employment without a reduction of inflation, though the French representative argued that the reduction of inflation was a necessary but not sufficient condition of a reduction of unemployment. We agreed that the two tasks should be given equal priority and pursued simultaneously, even though the results on unemployment would come through more slowly than those on inflation.

15. We got the impression that at next week's Summit we need not expect an outright attack on American monetary policies. Neither the Germans nor the French expect the United States Government to change direction overnight. But

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they remain concerned about the effects of the level and volatility of United States interest rates on European economies and exchange rates, and I think we can expect the Federal Chancellor and the President of the French Republic to urge the President of the United States to consider the scope for reducing the dependence on interest rates as a means of containing the growth of money supply by looking to other techniques of monetary management and a different fiscal policy mix (i. e. a smaller budget deficit), and to consider intervening in the exchange market. My German colleague will no doubt have reported to the Federal Chancellor the forecast he had just heard in New York (where there is considerable scepticism about the Administration's economic and monetary policies): that United States interest rates are not likely to come down during the summer, and may well move up to around 25 per cent by the winter.

16. On relations with developing countries, we avoided any general commitment to increase aid levels; and there was general agreement to concentrate official development assistance to the greatest possible extent on the poorest developing countries. The main points of difference were:

(i) The Energy Affiliate

All of us were agreed upon the need to increase aid for energy development in the ldc's, and to encourage the OPEC countries to provide more funds for this purpose. The continental Europeans, the Canadians and the Japanese favour an IBRD energy affiliate; the United States do not. But the Summit will not have to resolve this difference, and there is an agreed text on this subject in the relevant section of draft communiqué language.

(ii) The Global Negotiations

The Europeans, the Canadians and the Japanese could agree on the language adopted in the Presidency's declaration after the last meeting of the European Council:

"The European Council was of the opinion that the preparations for the new round of global negotiations should be completed as soon as possible. It emphasised the crucial importance of a positive impetus to be given to this effort by the Summit Conferences in Ottawa and Cancun".

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The United States did not wish to commit themselves "to participate as soon as possible in efforts to reach an agreed basis for launching" the Global Negotiations, not least because they do not want this to be the main subject for discussion at Cancun. This difference is reflected in alternative texts of paragraph 2 of the draft communiqué language on relations with developing countries (the First Alternative reflecting the point of view of the Europeans, Canadians and Japanese, and the Second Alternative that of the United States).

17. On trade, we were able to agree upon a reaffirmation of the commitment to liberal trading policies and the open multilateral trading system. The representative of the European Commission, supported by us as the Presidency and by the French and the Italians, but not (I regret to say) by the Germans, sought the inclusion in the draft communiqué language of words about the need to avoid disruption by the concentration of exports in specific markets and in narrow sectors through appropriate international co-operation. Not surprisingly the Japanese, supported by the United States and Canada, were not prepared to go beyond a reference to the safeguard measures provided for in the GATT. There are therefore alternative texts in paragraph 5 of the draft communiqué language on trade.

18. There is not likely to be much discussion on energy at the Ottawa Summit. Acceptable draft communiqué language has been agreed, including references to the need for better progress on the development of coal and nuclear energy.

19. The United States circulated at our last meeting a discussion paper on East-West economic relations (Annex G). By this meeting they had turned this essay into a paper of questions, which looked for all the world like an examination paper (Annex H). They hope for some discussion of the subject at the Summit, and would like a brief reference in the communiqué, but they see this paper as the beginning of a longer debate, and are not looking for conclusions or commitments. The agreed draft communiqué language (a British condensation of a longer American draft) was acceptable to the German representatives, but the French representative, being without instructions, entered a reservation.

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20. On the future of economic summits, the general expectation was that Heads of State or Government should, and would want to, continue to meet about once a year. The Ottawa Summit will mark the completion of the first round of summits. The first summit was held at Rambouillet, and it was clear that the French representatives were expecting their President to invite his colleagues to France in about a year's time.

21. This presents a problem for the Community representatives. In order to meet the susceptibilities of the smaller members of the Community, the President of the European Commission has been invited to attend all Summit meetings so far (on the understanding that he can be excluded if and when matters not within Community competence are discussed), and the Presidency at the Council of Ministers has been represented in the preparatory discussions. Thus for the first six months of the year a Dutchman participated in the meetings of Personal Representatives, though he was not at our latest meeting, the Netherlands by then having handed the Presidency on to us. But it has always been possible to arrange the Summits themselves for dates when one of the four Community partners in the Summit was in the Presidency of the Community, and it has not been necessary to consider inviting to the Summit the Head of Government of one of the smaller Community countries as the President pro hac vice of the European Council.

22. In 1982 Belgium holds the Presidency for the first six months, and Denmark for the second. If the next Summit is to be held in about a year's time, as would be the normal pattern, it will be necessary either to invite the Belgian or Danish Prime Minister to attend as President of the European Council or to reach agreement in the Community that the Presidency should be represented by one of the four big Community countries attending the Summit in their own right.

23. The Italians were particularly anxious to avoid having to invite the Prime Minister of one of the smaller Community members to the Summit; and it was suggested that one possible course might be to postpone the next Summit until the first half of 1983, when the Federal Republic of Germany will be in the Presidency. But the non-European members of the Summit were not keen on that;

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the Japanese in particular said that Japan would not take kindly to the postponement of the Summit from its normal time just because the Europeans could not resolve this internal problem. In any case this would be only a short-term solution of a problem which is liable to recur every time we have a succession of two or more smaller powers in the Presidency, and will be aggravated with the accession of Portugal and Spain.

24. These considerations led Personal Representatives to the view that the timing of next year's Summit should be determined without reference to the succession of the Presidency in Europe, and that, if Heads of State or Government decided that the next Summit should be held in about a year's time, the Community would have to decide how to accommodate to that. There are various possible solutions:

- (1) to invite the Belgian or Danish Prime Minister (whichever is President of the European Council at the time);
- (2) to invite the host country (assuming that to be France) to represent the Presidency;
- (3) to adopt a modified version of the "troika" arrangement practised in the early stages of the Middle East initiative, and to invite either the immediately foregoing President of the European Council (the Prime Minister of the United Kingdom) or the immediately following President (the Chancellor of the Federal German Republic) to represent the Presidency.

25. As we are currently in the Presidency, we should take the lead in discussing possible solutions with the French, Germans and Italians. A decision should be reached at the next meeting of the European Council. We can take it, I think, that the non-European members of the Summit will fall in with whatever solution the Europeans agree upon.

26. Finally, a pre-Summit conference of non-governmental experts has as usual been held. I attach the report on the conference (Annex J). The United Kingdom was represented by Sir Terence Beckett, Mr. David Watt and Mr. Samuel Brittan. All participated in the discussion but Mr. Brittan did not feel that he could subscribe to the report.

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27. I am sending copies of this minute and its Annexes to the Foreign and Commonwealth Secretary, to the Chancellor of the Exchequer, and to the Secretaries of State for Trade and Energy.

REA

ROBERT ARMSTRONG

13th July, 1981

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ANNEX A

DRAFT OF PROPOSED STATEMENT TO THE PRESS BY MR TRUDEAU
AS CHAIRMAN OF THE SUMMIT ON POLITICAL QUESTIONS

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CHAIRMAN'S SUMMARY OF DISCUSSION
OF POLITICAL ISSUES

(This version represents the outcome of the discussions on Sunday and Monday, modified by the addition of suggestions subsequently submitted by the Japanese delegation. Changes suggested by the Japanese delegation are underlined.)

1. We all view with concern the continuing threats to world peace. Lasting peace can only be built on respect for freedom and dignity of nations and individuals. We appeal to all governments to exercise restraint and responsibility in international affairs and to refrain from exploiting crises and tensions.

/Original version/

2. In East/West relations, we are seriously concerned by the international political activities of the Soviet Union and the excessive buildup of Soviet armaments. We will be firm in insisting on political and military balance. We will also be prepared for dialogue and cooperation if Soviet actions make these possible. But we reject any conduct which undermines the fabric of international society.

/Japanese version/

2. In East/West relations, we are seriously concerned with the recent excessive buildup of Soviet armaments. /We will be firm in insisting on military balance./ However, we will also be prepared for dialogue and cooperation under mutually acceptable terms.

/Alternative proposed by A.E. Gottlieb/

2. In East/West relations, we are seriously concerned with the continuing buildup of Soviet armaments. We are concerned as well by Soviet actions that are incompatible with the exercise of restraint and responsibility in international affairs. We will be firm in insisting, therefore, on military and political balance. Equally, we will be prepared for dialogue and cooperation under mutually acceptable terms.

3. On the question of Afghanistan, in spite of the fact that we publicly stated our firm and unanimous position at last year's Venice Summit, the situation remains unchanged. Therefore, with the overwhelming majority of nations, we continue to condemn the Soviet military occupation of Afghanistan. We support international efforts to achieve the complete withdrawal of Soviet troops and to restore to the Afghan people their right to determine their own future. We reaffirm our conviction that respect for independence and genuine non-alignment are important elements of international peace and security.

4. Together with regional organizations or states, we are resolved to do what is necessary to ensure a peace built on the independence and dignity of sovereign nations. All peoples should be free to chart their own course without fear of outside intervention. To that end, we are determined to promote peaceful resolution of disputes and to address underlying social and economic problems.

5. Recalling the Statement on Refugees adopted at the Venice Summit, we are seriously concerned over the growing plight of refugees throughout the world. We reaffirm our support for international relief efforts and our appeal to all governments to refrain from actions which can lead to massive flows of refugees.

/Note: Possibly another paragraph on Kampuchea will need to be added depending on the outcome of the UN Conference.7

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ANNEX B

DRAFT DECLARATION ON HI-JACKING

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OTTAWA SUMMIT STATEMENT ON HI-JACKING

The Heads of State and Government, seriously concerned with the continuation of acts of violence and terrorism, in particular aircraft hijacking, hostage-taking and attacks against diplomatic and consular personnel and premises, reaffirm their determination vigorously to combat such flagrant assaults on human dignity and life. Emphasizing that all countries are threatened by acts of terrorism in violation of the basic principles of international law and in disregard of fundamental human rights, they resolve to strengthen and broaden action within the international community to prevent and punish such acts.

[The Heads of State and Government view with particular concern the recent hijacking incidents which threaten the safety of international civil aviation. They recall and reaffirm the principles set forth in the 1978 Bonn Declaration and note that there are several hijackings which have not been resolved by certain states in conformity with their obligations under international law. They call upon the governments concerned to discharge their obligations promptly and thereby contribute to the safety of international civil aviation.]

[The Heads of State and Government are convinced that, in the case of the hijacking of a Pakistan International Airlines aircraft in March, the conduct of Afghanistan, both during the incident and subsequently in giving refuge to the hijackers, was and is in flagrant breach of its international obligations under the Hague Convention to which Afghanistan is a party, and constitutes a serious threat to air safety. Consequently the Heads of State and Government propose to suspend all flights to and from Afghanistan in implementation of the Bonn Declaration unless Afghanistan immediately takes steps to comply with its obligations. Furthermore, they call upon all states which share their concern for air safety to take appropriate action to persuade Afghanistan to honour its obligations.]

[Recalling the Venice Statement on the Taking of Diplomatic Hostages, the Heads of State and Government approve continued cooperation in the event of attacks on diplomatic and consular establishments or personnel of any of their governments. They undertake that in the event of such incidents their governments will immediately consult on an appropriate response. Moreover, they resolve that any state which

directly aids and abets the commission of terrorist acts condemned in the Venice Statement, should face a prompt international response. It was agreed to exchange information on terrorist threats and activities, and to explore cooperative measures for dealing with and countering acts of terrorism, for promoting more effective implementation of existing anti-terrorist conventions, and for securing wider adherence to them.]

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ANNEX C

ITALIAN DRAFT DECLARATION ON TERRORISM

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The Heads of State and Government, having reviewed with concern the growing incidence of terrorist violence which endangers human rights and the fundamentals of freedom of peoples, have reiterated their commitment to take effective measures for the prevention and suppression of all acts of terrorism.

Convinced that the struggle against terrorism, irrespective of its origins, motivations and aims, is a primary duty of all states and that only the unanimous commitment in this direction and the respect of international obligations can contribute to eliminate its political and economic roots, they have expressed their deepest condemnation for any form of support or approval given by Governments to terrorism and to terrorists. They have, therefore, undertaken to establish mechanisms in order to improve their consultation and co-operation on appropriate political and economic action against states which aid and abet terrorism.

They have also instructed their Foreign Ministers to single out at all appropriate levels, concrete forms of co-operation among the seven countries, under the aegis of the Summit in order to reinforce the struggle against international terrorism. This co-operation will aim at exploring: A) how to simplify the exchange of operative information, in conformity with national legislations and existing international instruments: B) ways by which additional states can be urged to become parties to the conventions dealing with terrorist acts: C) the adoption of new international instruments against terrorism.

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ANNEX D

SUMMARY OF REPORT BY
PERSONAL REPRESENTATIVES
TO HEADS OF STATE OF GOVERNMENT
ON THE AID STUDY

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1. The personal representatives were asked at Venice to review aid and other contributions to developing countries. These findings are presented in the form of suggested objectives and policies which summit countries should pursue. While individually they are not equally supportive of each of the conclusions, they are agreed upon the need to give greater attention to the management of our relations with the Third World, and upon the general approach suggested by the report.

Analysis

2. In a rapidly changing and increasingly interdependent world, the developing countries individually and collectively are becoming more important actors.

3. Pressures on the functioning of the international economic system will increase for a large number of reasons, and neither in industrial nor in developing countries can medium-term growth prospects be expected to be such as to ease these pressures.

4. Our political, security and economic interests, as well as our environmental and humanitarian and cultural concerns, are increasingly interwoven into a complex pattern of relationships with the developing world.

Objectives

5. The growing importance of developing and industrial countries to each other demands a more active approach to north/south issues and a more coherent set of policies towards developing countries based on common objectives.

6. Industrial countries have a fundamental responsibility to their own people to keep themselves strong and to grow. However, macro-economic policies which set the stage for higher economic growth rates and a more stable price environment contribute to developing countries and thus complement official aid. The following set of common objectives is suggested -

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- To encourage developing countries to play a larger part in the international economic system and to become more fully integrated into it;
- to promote their development;
- to strengthen co-operation with developing countries so that our development efforts will be more effective;
- mm* - to seek closer co-operation with the oil producers to help meet the world's energy needs; *- there is a glut of oil at present.*
- to maintain the strength of international institutions;
- to promote genuine independence and stability in the Third World, immunizing it from East/West contention;
- to maintain that the Soviet Union has a responsibility to assist the economic development of the developing countries but should respect their independence and non-alignment;

Policy Mechanisms

7. The following steps may help to increase confidence and make the dialogue more productive -

- working with the south to select an appropriate set of issues for practical negotiations, avoiding confrontation and seeking positive recognition for our record of co-operation;
- making clear that we cannot provide aid where developing countries pursue policies inimical to our deep interests;
- supporting both bilateral and multilateral aid channels.

8. We have not reached a consensus on attitudes we should take towards global negotiations and our report refers the question to leaders.

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9. The following substantive measures are recommended -

- give higher priority to the energy and food sectors, as well as to problems of population growth, and help meet basic human needs of populations;
- improve the energy supply of the non-oil developing countries and help them develop their indigenous resources. (We are not agreed however on attitudes towards a world bank energy affiliate or expanded lending programme.);
- undertake urgent steps to accelerate food production in developing countries and to cope with food shortages;
- urge developing countries to place greater emphasis on population projects and increase our assistance for them;
- make best efforts to increase levels of and where possible, to give priority to the poorest countries in our programmes, and to improve the quality of our aid;
- undertake steps to facilitate private investments;
- foster the smooth functioning of stable capital markets;
- support the international financial institutions, ensuring they have the financial resources to carry out their important tasks;
- maintain a liberal and open international trade environment and take steps to promote trading relationships with developing countries;
- reaffirm our intention to deal with refugee problems and the causes;
- consider further steps to place ODA flows on a more predictable basis.

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ANNEX E

DRAFT TEXTS AGREED BY PERSONAL REPRESENTATIVES AS A BASIS
FOR PREPARING THE COMMUNIQUE OF THE OTTAWA SUMMIT

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I INTRODUCTION

1. We met at a time of intense change and challenge, with serious economic difficulties and increased international political dangers confronting our societies, and all countries of the world, both developed and developing. For several of us, it was the first occasion to meet each other, and for us all it served to underline the strength of our common bonds - of values, of interests, and of aspirations.

2. As leaders of major industrial democracies, we welcomed this opportunity to consult on global economic issues. In the years since the first Summit meeting in 1975 our countries have encountered persistent and deep-seated economic problems. The realities of interdependence require that we tackle these problems in a spirit of shared responsibility, both among ourselves and with our partners throughout the world, and that we take into account the effects on others of policies we pursue. In shaping our long term economic policies care should be taken to preserve the environment, the ecology and the resource base of our planet.

3. We also recognise that economic issues both reflect and affect the broader political purposes we share. We have therefore discussed the relationship between the two overriding concerns before our countries: the challenge to world economic progress and the challenge to world peace.

II. THE ECONOMY

1. The primary challenge we addressed at this meeting was the revitalization of the economies of the industrial democracies. In the year since the Venice Summit, the adjustment to the energy price rise of 1979 has in important respects been better managed than was the case in the middle 70s. The fight against inflation has been pursued with determination and the average rate of inflation has fallen. Energy use and oil dependence have been reduced. Growth in the two years 1980 and 1981 will be higher on average than in 1974 and 1975 in the industrial countries, while inflation is likely to be lower. Growth has been better maintained in the developing countries than in the industrial countries. The large balance of payments deficits which the energy price increase produced have so far been financed in both developed and developing countries at substantial costs but without imposing intolerable adjustment burdens.

2. On the other hand the experience of individual countries has differed within this broad picture. In four of our seven countries inflation remains in double figures. In many countries unemployment has risen sharply and is still rising. There is a prospect for moderate growth in the coming year but at present it promises little early relief from unemployment. Balance of payments surpluses and deficits originating in the oil price increase are likely to persist for some time. Interest rates have reached record levels in many countries. If long sustained at these levels they would threaten productive investment and impose heavy burdens particularly on deficit countries, developed and developing.

3. We are agreed that the fight to bring down inflation and reduce unemployment must be our highest priority. We are agreed too that these linked problems must be tackled at the same time. We must continue to reduce inflation if we are to secure the higher investment and sustainable growth which are necessary preconditions of the durable recovery of employment. To reduce unemployment and to improve the ability of our economies to adapt to change requires the balanced use of a range of policy instruments. We have to convince our peoples and especially the social partners of the need for change: change in expectations about pay and conditions, and about the policy environment in which decisions on both pay and prices have to be made, change in management and labour practices, change in the pattern of industry, change in the direction and scale of investment, and change in energy use and supply.

4. We need urgently to reduce public borrowing; where our circumstances permit or we are able to make changes within the limits of our budgets, we will increase support for productive investment and innovation. We have also to accept and strengthen the application of market disciplines throughout the economy, including heavy reliance on the price mechanism to conserve energy. And we must not let transitional measures that may be needed to ease change become permanent forms of protection or subsidy.

5. We see low and stable monetary growth as essential to reducing inflation. Interest rates have to play their part in achieving this and are likely to remain high where fears of inflation remain strong. But we are acutely aware that levels and movements of interest rates in one country can make more difficult stabilization policies in other countries by influencing their exchange rates and their economies. For these, as much reliance as possible should be placed on restraint in government expenditure and containment of budgetary deficits. It is also highly desirable to minimize volatility of interest rates and exchange rates.

6. In a world of strong capital flows and large deficits it is in the interests of all that the financial soundness of the international banking system and the international financial institutions be fully maintained. We welcome the expanded role of the IMF in financing balance of payments deficits on terms which encourage needed adjustment.

III RELATIONS WITH DEVELOPING COUNTRIES

1. We support the stability, growth, independence and genuine non-alignment of developing countries. We recognize the reality of interdependence and reaffirm our commitment to co-operate and to strengthen our relations with developing countries in a spirit of mutual interest, respect and benefit. We look to them to play a full part in the international system commensurate with their capabilities and responsibilities and to become more fully integrated in it.

2. (First Alternative) [We look forward to constructive and substantive discussions with them, individually and multilaterally; particularly at the Cancun Summit. We reaffirm the positive spirit we expressed at Venice towards the prospect of Global Negotiations, subject to mutually satisfactory agreement on procedures and agenda, and are willing to participate as soon as possible in efforts to reach an agreed basis for the launching of such Negotiations.] ✓

2. (Second Alternative) [We look forward to constructive and substantive discussions with them, individually and multilaterally. The Cancun Summit offers an early opportunity to address our common problems in a new light. Further, recalling the positive spirit expressed at Venice towards the prospect of Global Negotiations, subject to mutually satisfactory agreement on procedures and agenda, we reaffirm our willingness to explore all avenues of consultation and discussion with developing countries in whatever forums may be necessary.]

3. We are deeply conscious of the serious economic problems in many developing countries, and the grim poverty faced especially by the poorer among them. We remain ready to support their efforts to promote economic and social development since these efforts are vital to their success.

4. We are committed to maintaining substantial and, in many cases, growing levels of ODA, and will seek to increase public understanding of this policy. We will allocate the major portion of our aid to poorer countries and we will participate actively in the United Nations Conference on the Least Developed

Countries. It is important to emphasize that the strengthening of our own economies, increasing access to our markets, and removing impediments to nonconcessional and private capital flows contribute much larger amounts of needed resources and technology to developing countries and thereby complement official aid.

5. The Soviet Union and its partners, whose contributions are meagre, should make more development assistance available, and take a greater share of exports of developing countries, while respecting their independence and non-alignment.

6. We support the crucial role played by the International Financial Institutions. We will maintain a strong commitment to those bodies, and work to ensure that they have, and use effectively, the financial resources necessary for carrying out their important responsibilities and for encouraging sound policies in member countries.

7. We attach high priority to the resolution of the problems created for the non-oil developing countries by the damaging effects on them of high costs of energy imports following the two oil price shocks. The surplus oil-exporting countries have, with us, a large stake in the resolution of these problems. We call on them further to broaden their valuable efforts to finance development in non-oil developing countries, especially in the field of energy. We stand ready to co-operate with them for this purpose and to explore with them, in a spirit of partnership, possible mechanisms, such as those being examined in the World Bank, which would take due account of the importance of their financial contributions. A favourable climate for energy exploration and investment in non-oil developing countries is indispensable. We will work for practical achievements of the forthcoming UN Conference on New and Renewable Sources of Energy.

8. In view of our concerns about food shortages and malnutrition, we recognize the importance of accelerated food production in the developing world and of greater world food security; and the need for developing countries to pursue sound agricultural and food policies. We will examine ways to make increased resources available for these purposes. We welcome the emphasis being given to food-related issues within multilateral institutions, including the new facility in the IMF.

9. We recognize the need for many developing countries to deal with problems of excessive population growth, in ways sensitive to human values and dignity; and to develop human resources, including technical and managerial capabilities. We will place greater emphasis on international efforts in these areas.

IV TRADE

1. We reaffirm our strong commitment to maintaining liberal trade policies and to the effective operation of an open, multilateral trading system as embodied in the GATT. We will work together to strengthen it further in the interest of all trading countries. We reiterate our intention to implement the agreements reached in the Multilateral Trade Negotiations and invite other countries, particularly developing countries, to join in these mutually beneficial trading arrangements.

2. Any protectionist measure, whether in the form of overt or hidden trade restriction or in the form of subsidies to prop up declining industries, will not only undermine the viability and dynamism of the economies of industrialized countries but also aggravate inflation, and over time, unemployment. While we have been generally successful in resisting the growing protectionist pressures, we shall redouble our efforts to avoid the erosion of the open, world trading system and to seek positive structural adjustment to the changing global economic environment.

3. Accordingly, we see a need to take new initiatives in the field of international trade to give a new political impetus to the strengthening of the open and multilateral trading system. We welcome the proposal by the Consultative Group of Eighteen that the GATT CONTRACTING PARTIES should envisage the convening of a meeting at Ministerial level during 1982.

4. Bearing in mind in particular the need further to integrate the developing countries into the world economy, we will be prepared to co-operate with others in assuring the implementation of the Tokyo Round, and in analysing both the issues confronting the trading system and the trends and opportunities likely to emerge in the 1980s. We will also work together with the other OECD countries in their programme of study to examine trade issues.

5. We will keep under review the role played by our countries in the smooth functioning of the multilateral trading system with particular emphasis on the need to maximise the openness of markets [while allowing for the safeguard measures provided for in the GATT]. [At the same time, disruption by the concentration of exports on specific markets and in narrow sectors should *must* be avoided through appropriate international co-operation. Within the framework of this co-operation and according to internationally established rules, a timely industrial adjustment should be sought.]

6. We endorse the accelerated efforts to conclude by the end of this year an agreement to reduce the subsidy effects of official export credit schemes since an unbridled export credit race will bring about distortion of trade.

V ENERGY

1. At Venice we set the objective of breaking the link between economic growth and oil consumption by effecting fundamental structural change in our energy economies. That change is now underway. But our countries are still very vulnerable and energy supply remains a potential constraint to revived economic growth over the decade. We must accelerate the development and use of all our energy sources, both conventional and new, and continue to promote energy efficiency and the replacement of oil by other fuels. To these ends we will continue to rely heavily on market mechanisms, supplemented as necessary by government action.
2. We are confident that, with perseverance, our goals for the decade can be achieved. We will continue to watch progress closely. In the meantime, our capacity to deal with short-term oil market problems should be improved, particularly through the holding of adequate levels of stocks.
3. In most of our countries progress in constructing new nuclear facilities is disappointingly slow. We recognize concerns about safety, health, nuclear waste management and non-proliferation but are convinced that these concerns can and will be met. We intend, in each of our countries, to encourage public acceptance of nuclear energy. We will further our efforts in the development of advanced technologies and in spent fuel management.
4. We will also take steps to realize the potential for economic production, trade and use of coal; this could include removal of impediments, and an improvement in the climate which would favour the conclusion of long-term arrangements between buyers and sellers. We will continue to do everything in our power to ensure that increased use of coal does not damage the environment.
5. The successful implementation of our energy strategy will contribute significantly to the health of the global economy. We look forward to improved understanding and co-operation with the oil exporting countries.

VI EAST-WEST ECONOMIC RELATIONS

We also reviewed the significance of East-West economic relations for our political and security interests. We recognised that there is a complex balance of political and economic interests and risks in these relations. We concluded that continuing consultations and (where appropriate) co-ordination are necessary to ensure that, in the field of East-West relations, our economic policies continue to be compatible with our political and security objectives, for example in such areas as strategic trade controls.

VII CONCLUSIONS

This and earlier Economic Summits confirm our conviction that our common problems can be resolved only through close consultation and co-operation. The resources of our democratic, free societies are equal to the tasks we face. This Summit finds us more united than ever in our perception of shared concerns and our attachment to our common values and goals. We shall move forward together and with all countries ready to work with us in a spirit of co-operation and harmony. In order to ensure the greatest possible degree of concertation of our approaches to the fundamental problems which we all face, we intend between now and our next meeting, to maintain continuing contact with each other [both directly and through our Personal Representatives] [with a view to agreeing how our consultation and co-operation can be even closer].

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ANNEX F

FUTURE OF ECONOMIC
SUMMITS

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FUTURE OF ECONOMIC SUMMITS

Note by Personal Representatives

The meeting of Heads of State or Government of Canada, France, the Federal Republic of Germany, Italy, Japan, the United Kingdom and the United States at Montebello, Canada, from 19 to 21 July 1981 will be the seventh such meeting since the first at Rambouillet in 1975. It will thus complete a cycle of annual meetings in which each of the participating countries will have hosted one meeting. Heads of State or Government will wish to take stock of the achievements of these meetings, and to consider the pattern for the future.

Review of Economic Summits

2. The Personal Representative of the Prime Minister of the United Kingdom arranged for us to be provided with a Review of Economic Summits, a copy of which is attached to this note. We commend to Heads of State or Government the conclusion, in paragraph 20, that on balance the time and effort devoted to preparing and holding the summits have been justified by the results and by the impression made on public opinion, though we also believe that there is force in the criticism that the summits have tended to lose the spontaneity originally envisaged for them and to become over-bureaucratic in their preparation.

Pattern of Future Summits

3. We think that the summits should continue. International economic and monetary problems do not seem likely to become easier for the industrialised countries to deal with over the next seven years than during the last. We believe that there will continue to be advantage, to the industrialised countries and to the seven Heads of State or Government themselves, in their gathering together at reasonably regular intervals to exchange views and to seek to ensure, not that all the seven countries are following the same policies, but that they are following policies which are based on as much agreement as possible about international economic problems and prospects, about the common interests of the seven countries

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about relations with the other groups of countries - the oil exporters, the COMECON countries and the non-oil developing countries, and about the general direction and trend of policies which is most likely to serve not only their own interests but those of the other industrial countries (who will need to be reassured that their interests are not being overlooked or overridden if the seven go forward with a second series of Economic Summits) and of the developing countries as well.

4. If Heads of State or Government agree that Economic Summits should continue, they may wish to consider the frequency of meetings. In the first cycle they have been held annually. It is for consideration whether they should be held less frequently - say, once every two years. It could be argued that, if the main concern is with long-run economic and monetary trends, meetings every other year would be sufficient. As against that, international economic events (and even national changes of policy) now move so rapidly that meetings may well need to be held annually if the benefits of working together and seeking to maintain some continuity of policy are to be realised. Another advantage of annual meetings is that a certain continuity of representation persists (though for four of the seven participants in this year's summit it will in fact be their first). If we are right in thinking, as we do, that there is much to be said for seeking to make summits less dramatic and to encourage public opinion not to expect too much from them, then there is much to be said for continuing the pattern of meeting roughly - not necessarily exactly - once a year.

Shape and Content of Meetings

5. In the last few years the preparations for Economic Summit meetings have tended to become increasingly bureaucratic, despite attempts by Heads of State or Government and their Personal Representatives to resist this trend. In particular:-

- (i) Heads of State or Government have tended to arrive at the Summit (as they did in Venice) with a long and detailed communique which has been largely agreed in advance, which is then difficult to change, and which does not necessarily reflect the balance and thrust of their own thinking and discussion at the meeting.

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- (ii) Both at Tokyo and Venice some participants felt, and persuaded their colleagues, that the international energy situation required the seven countries represented at the summit to define in some detail targets for oil imports, for energy conservation or for investment in alternative sources of energy.

6. If the outcome of the meeting is required to be as detailed and specific as this implies, a considerable degree of advance preparation is inevitable. We think, however, that there is much to be said for the view that this is not what summit meetings of this kind should be about. They can of course endorse specific and detailed decisions taken in other international groupings, or by "subject" Ministers of the seven countries represented, when there is some particular reason for them to do so. But the primary purpose of summit meetings should be, we suggest, to provide opportunities for strategic and general discussions among Heads of State or Government. They should not be expected to take detailed executive decisions: they should review prospects, establish identities and differences of view, set directions, and perhaps define and accept broad commitments. The meetings should be such that their success is measured not by the length or the specificity of the communique but by the degree of mutual understanding established among the participants.

7. This cannot eliminate the need for some advance preparation. It is valuable for Personal Representatives to meet in advance of the summit, in order:

- (i) to identify the broad topics which Heads of State or Government are likely to want and need to discuss;
- (ii) to establish where there is likely to be general agreement - and therefore no need for extended discussion at the summit - and where there is likely to be some divergence of views among the Heads of State or Government - and therefore need for discussion to seek to narrow divergence and produce convergence where possible;
- (iii) to consider what should be the content and balance of a communique.

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8. We believe that the meetings of Personal Representatives have proved their value for these purposes, and that Personal Representatives can perform these tasks without excessive bureaucratisation, provided that they are not as a rule expected to produce corporate reports to which all must be formally committed. A technique that has proved useful for the purposes described in paragraph 7(ii) is for one Personal Representative to be invited to prepare a memorandum or study on a particular subject, which provides a focus for discussion in the group.

9. Ideally, if preparatory work on the communique is to stimulate rather than circumscribe discussion by Heads of State or Government, it should not be carried too near to finality before the meeting at the summit itself. In practice the limits on the amount of time available at the summit make it inevitable that some preparatory drafting work should be undertaken. This need not, however, be so inflexible as to constrain discussion, provided that the communique can be seen as primarily a description of the subjects discussed, rather than an account of the discussion; and, in so far as it goes beyond that, as a declaration of general views, policies and objectives rather than a statement of precise and detailed commitments.

Political Questions

10. These summit meetings were instituted to provide opportunities for exchanges of views on matters of international economic and financial policy, and have continued to be primarily economic summits. At recent meetings opportunities have been taken to discuss and to issue declarations on political matters; on aspects of international terrorism at Bonn, Tokyo and Venice, and on Afghanistan at Venice. We think that it is not only inevitable but highly desirable that, when these seven Heads of State or Government meet, they should take advantage of the rare opportunity for them to have a general political discussion of the international problems of the day which are of concern to all of them. It is no less inevitable and right that, if at the time of a summit meeting there is a subject of international political concern which calls for a public comment or declaration by this group of Heads of State or Government, they should use the opportunity that the meeting presents. But we think that it is desirable, and we recommend

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for the agreement of Heads of State or Government, that these meetings should keep, and be seen by the Press and the public to keep, as their primary function and characteristic that of being a forum for discussion of international economic and financial matters; and that the shape and content of the meetings and the balance of the final communiques should be structured accordingly.

Conclusions and Recommendations

11. We invite Heads of State or Government to agree that:
 - (i) Economic Summits of these seven Heads of State or Government should continue to be held approximately once a year;
 - (ii) the object of the meetings should be to provide an opportunity for strategic and general discussion and where possible for agreement on international economic and financial issues, rather than to reach detailed executive decisions or highly specific commitments; and the communiques should be prepared and structured accordingly;
 - (iii) the tendency for the preparation of these meetings to become increasingly bureaucratised should be reversed;
 - (iv) while the opportunity to engage in discussion of political questions will and should be taken, these meetings should keep their function and characteristic as being primarily for economic rather than political discussion.
12. Conclusions on these lines would require no announcement or reference in a communique (though they would no doubt be reflected in background briefing to the Press). The only announcement required would be the date and venue of the next meeting.

May 1981

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ANNEX G

UNITED STATES PAPER
ON EAST-WEST ECONOMIC
RELATIONS (full version)

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East-West Economic Relations:
A Prudent Approach

SUMMARY

This paper establishes a comprehensive framework for discussing East-West economic relations with the Summit countries. It argues that these relations need to be consistent with the broad political and security circumstances and objectives which currently characterize Western relations with the Soviet Union and its Warsaw Pact Allies. The paper does not imply a forced reduction in the level of economic exchanges between East and West, recognizing that economic and employment factors are an important part of these relations, but rather that the Western countries should strengthen and make more meaningful coordinated policies toward trade and financial relations with the East. (The paper does not address China because both political and economic considerations with respect to that country are very different from those with the USSR and Eastern Europe).

The paper divides the task to be undertaken into four parts:

1. Strategic Controls. Posits a strengthening of these controls by a clear identification of significant items to be controlled and by improving the predictability of their administration.

2. Foreign Policy Contingency Controls. Recommends limiting the consideration of the use of these controls to contingency planning, working out among the Western countries areas of agreement and disagreement on the possible use of these controls well in advance of crises.

3. Economic Security. Proposes a new concept for examining economic relations with the East which is less concerned with levels of trade than with guarding against the vulnerability that these levels might imply.

4. Economic Influence. Suggests that Western countries, in pursuing trade and financial relations with Eastern Europe and perhaps eventually the USSR, seek to apply to the extent possible the rules and procedures applied by the West, affecting the allocation of resources in Eastern countries so as to ensure that they service their current and capital accounts with the West. At the very least, the West should not apply terms to this trade with the East (e.g. subsidized export credits) which contravene widely-shared practices among Western countries. It is unlikely that new restrictions on trade or financial ties would be needed under this concept. Rather, this approach suggests that Western government consider how they might orient their broader trade and financial relations so that, to the extent that governments are already involved in these relations, they can utilize what influence they do have to affect the economic and, through the reallocation of resources, the political behavior of these countries in ways which are favorable to Western interests. The recent Polish debt rescheduling negotiations in which Western lenders coordinated their approach is a good example of this concept.

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East-West Economic Relations: A Prudent Approach

Economic relations with the Soviet Union and the Eastern European countries should be consistent with the broad political-security objectives of the Summit countries. These objectives include:

- to nurture cooperation among these nations and enhance the commonality of their purposes and approaches toward the Soviet Union and Eastern Europe;
- to strengthen defenses in order to deal with the reality of a more rapid Soviet buildup in military power;
- to counter the projection of Soviet power both direct and indirect in Eastern Europe, Southwest Asia, Africa, Central America, and Indo-China;
- to encourage Soviet behavior that contributes positively to a pluralistic, free and peaceful world;
- to foster diversity in Eastern Europe by promoting domestic liberalization and foreign policy independence from the Soviet Union.

The Soviet Union and its Warsaw Pact allies remain the principal threat to Western security. The Soviet Union continues to devote an excessively large share of its gross national product to the military sector. This enhancement of Soviet military power coincides with aggressive Soviet foreign policy behavior -- open aggression in Afghanistan, visible threats on the borders of Poland, deployment of theater weapons in Europe (SS-20s) and support for leftist revolutions and terrorism (e.g., Libya, Ethiopia, Angola, El Salvador). Whenever possible the Soviet Union, with the support of other states of Eastern Europe, seeks to exploit indigenous discontent to bring to power elements which are hostile to Western political and economic institutions and, in the process, seeks to enhance its world position.

At the same time, the Soviet Union and some of its Warsaw Pact allies are experiencing unusually difficult times at home, particularly in the economic area. All studies of the Soviet economy show at best very slow growth in the early 1980s; some foresee a continued declining trend in GNP growth. Economic difficulties in Eastern European countries are also severe and will exert a further claim on Soviet resources.

Soviet militancy creates a need and Soviet economic difficulties provide an opportunity for the Western countries to further their objectives by pursuing more competitive or less cooperative policies toward the Soviet Union across a range of issues.

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As the Western nations seek to deter aggressive Soviet actions in Poland and elsewhere in the short-term and to redress the military balance with the Soviet Union over the near term (3 or 4 years), they must explicitly recognize the relationship between these objectives and the conduct of economic relations with the Soviet Union and Eastern Europe. These economic relations may enhance Soviet military capabilities directly, transfer technology not otherwise available which makes a significant contribution to military capabilities indirectly, and contribute more broadly to Soviet ability to support military programs at levels that Western countries with different domestic constraints find it increasingly difficult to match. Further, certain economic relations with the East may lead to levels of dependence which increase Western vulnerability to political influence and coercion by the Soviet Union; and certain economic relations may offer an opportunity to influence future Soviet and Eastern European economic and political behavior.

Given these considerations, the Western countries must review systematically policies toward economic relations with the Soviet Union and the Eastern European countries to take account of the different political-security conditions which prevail today and to influence the future course of Soviet policy in Europe and around the world.

Under what guidelines should the Western countries collectively restrict, monitor, or utilize the influence of their economic relations with the Soviet Union and Eastern Europe to advance broader Western political-security objectives?

In answering this fundamental question, distinctions can be made with respect to four areas of economic relations:

1. strategic controls - controls on exports of strategic goods and technology;
2. foreign policy contingency controls - controls on selective or overall trade designed to further U.S. and Western countries' political objectives, including signaling disapproval of Soviet actions, punishing the Soviet Union and, as appropriate, its Warsaw Pact allies; or deterring these countries from engaging in unacceptable behavior.
3. economic security - monitoring of the levels and terms of trade (e.g. subsidies) to limit dependence on markets or resources of the Soviet Union and Eastern Europe or to reduce vulnerability, arising from such dependence, to the exercise of Soviet influence over the West.

4. economic influence - coordination of broad Western policies toward trade and financial relations with Eastern European countries and in the longer run, the Soviet Union, so that, to the extent that governments are involved, they can utilize whatever influence they may have to affect the economies of these countries and, through the reallocation of resources, their political behavior in ways which are favorable in Western interests.

The most restrictive approach to economic relations between East and West would impose further limits on relations in the first and second areas and hold out little prospect for meaningful progress in the fourth area. The least restrictive approach would promote trade and financial flows in the fourth area, expecting to maximize positive influence, and impose limits only on strategic exports which have a direct and significant impact on Soviet military production.

Present circumstances call for a prudent and careful approach which deals with each area under differing assumptions and principles. Specifically, such an approach should seek to:

- review the adequacy of strategic controls, improve their enforcement, consistency, and predictability of administration;

- recognize that foreign policy controls are a vital aspect of contingency planning and impose these controls primarily in crises, in support of agreed objectives with agreed conditions for lifting them later (otherwise avoid imposing such controls); furthermore, to be effective, foreign policy controls must generally be imposed multilaterally;

- foster discussion and review of levels of dependence on Eastern resources and markets, and development of collective measures to protect against vulnerability from this dependence;

- concert policies to enhance adherence wherever possible of Eastern European countries to the rules and discipline of economic relations as practiced in the West.

Strategic Controls

The Western countries have administered controls on trade in strategic goods and technology with the Soviet Union and Eastern Europe for more than 30 years through the Coordinating Committee (COCOM). Despite its informal nature, COCOM has been relatively successful in slowing the transfer of militarily significant technology to the East. The West has protected important lead times over the Communist countries in the development and application of militarily significant technologies and has added to the costs of Soviet developments in the military sector.

After the Soviet invasion of Afghanistan, the COCOM partners discussed a range of issues involving stricter controls on the export of strategic goods and technology to the Soviet Union and

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have in practice not sought exceptions in COCOM to sell embargoed goods to the Soviet Union. This discussion has focused a number of issues which need to be further reviewed and studied by the Western countries:

-- Should the no-exceptions policy become a permanent feature of COCOM, at least during the near-term period in which the West seeks to overcome Soviet military advantages?

-- Have the COCOM partners identified those significant goods and technologies which should be controlled?

-- Does the existing list of COCOM-embargoed items adequately cover advanced technology of military significance? (For example, COCOM controls on manufacturing technology and software are somewhat ambiguous and there is little coverage in such important defense priority support industries as metallurgy, chemicals, heavy vehicular transport, and shipbuilding.)

-- Are existing national and collective efforts to enforce COCOM decisions adequate? Is there a need and opportunity for more intensive consultation and cooperation among the Western countries in dealing with:

1. new scientific/technical developments -- are there end uses, especially military applications, which are not immediately apparent to the developer;

2. availability -- are comparable technologies available from more than one source;

3. intelligence -- wider and timely sharing of intelligence information on enforcement of COCOM regulations and on Soviet technological capacities and military needs;

4. commercial espionage -- how to restrict Soviet acquisition of technology through other channels;

5. varying national authorities to control strategic exports -- review of respective national authorities and institutions to implement strategic controls.

These discussions should go forward in COCOM and perhaps in meetings of a revitalized Consultative Group. But the Summit countries may wish to consider whether the Western countries need to create a new forum to conduct periodic high-level policy discussions called for by the complex and serious questions raised in this section.

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Foreign Policy Contingency Controls

Foreign policy trade and other economic controls have been less systematically discussed and dealt with among the Western countries than security controls. Perspectives diverge on the necessity and effectiveness of such controls, the objectives to be served by such controls, and the timing and nuance of such controls when used as foreign policy signals to adversaries.

The Soviet invasion of Afghanistan and threatened intervention in Poland have contributed to a more intensive discussion of political or foreign policy controls on exports to the Soviet Union. After Afghanistan, the United States imposed a series of unilateral controls:

1. on grain shipments to the USSR in excess of eight million metric tons per year, the minimum US supply obligation established in the US-Soviet long-term grain agreement;
2. on non-grain agricultural products which might substitute for grain (e.g., soybeans, vegetable oils and meat);
3. on phosphate shipments to the USSR;
4. on Olympics-related equipment, services, and payments;
5. on exports of technologies for the manufacture of oil and gas equipment (as distinguished from the oil and gas equipment itself); and
6. on the diesel engine assembly line for Kama River truck plant.

The United States then sought to persuade other Western countries to cooperate with these embargo measures, particularly the agricultural and diesel engine assembly line controls, and to restrain their companies from undercutting the effectiveness of sanctions imposed by the U.S.

What is clear from past experience is that such controls would be more effective if they are implemented collectively and that the Western countries have been able to agree on the need for such controls more readily in the context of contingency planning for crisis than in the aftermath of crisis. It may be useful therefore to limit the consideration of foreign policy controls to contingency planning. Such consideration might entail not only a determination of what should be controlled under different types of crisis but also what conditions should be fulfilled before the controls would be lifted (e.g. withdrawal of offending adversary troops from a particular territory or, less stringently, initiation of a peace process to effect such withdrawal). Prior to the

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occurrence of a crisis, precise agreement should be reached on goals and on specific actions which might be taken. Firm decisions as to which actions to implement would await the development of the crisis, but preparatory work should include coordinating perspectives in relation to various scenarios and achieving better understanding of national and collective capabilities to undertake important foreign policy responses involving trade controls. Such efforts in the case of contingency planning for Poland have proven fruitful.

The Summit countries may wish to consider various alternatives for conducting more systematic and sustained discussions of the use of foreign policy controls toward the Soviet Union and, to the extent appropriate, other Communist countries in the event of a crisis.

Economic Security

The foregoing discussion suggests that the basis for agreement among Western countries on control of trade with the East is strong in the area of strategic goods and technology and less strong, though nevertheless potentially significant, in the area of contingency planning for the use of foreign policy controls in crisis situations. In the trade area more generally, economic and political interests among the Western countries differ. Geographically and historically, Western Europe has longstanding trade and cultural links with Eastern Europe. The tables in Appendix A show that Western Europe has a much higher stake in trade with the East than the United States, Canada and perhaps also Japan. For Western Europe, this trade is an important source of domestic employment and industrial revenues. These differences cannot be ignored, anymore than the obligation they impose to ensure that there is broad confidence and clarity among the Western countries concerning the levels and terms of trade in their respective economic relations with the East.

The issue in collective consideration of broader economic relations with the East is less restriction of trade and financial flows than careful monitoring of the consequences of such trade, particularly the acquisition by the Soviet Union and Eastern European countries of a degree of leverage over Western countries that permits direct political influence over the policies of Western countries or that sharply reduces the options of Western countries in dealing with Eastern countries. This is a different concern from that which seeks to use Western economic relations to influence the Soviet Union and Eastern European countries (see next section). It deals with Soviet and possibly Eastern European, economic influence over the West. This influence derives in the first instance from the level of dependence of the West on Eastern resources or markets. In purely economic terms, such dependence is reciprocal. A supplier can be beholden to the customer as much as the reverse. The Soviet Union and its Eastern European Allies have economic reasons to preserve such trade as does the West. It benefits them as it benefits us. Nevertheless, in a

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situation such as that which exists between East and West where political - security interests diverge, it would be unwise to rely on the mutually beneficial economic consequences of trade and financial relations to preserve these relations under all circumstances. Parties will be constantly searching for unilateral advantage. If cutting off supplies (or markets) should at any time seem likely to result in greater disadvantage to one party than the other, some incentive and opportunity to exercise leverage would emerge. It must be recognized that the USSR's ability to exercise economic leverage is greater than that of the West because the USSR can more easily exact concerted action from its East European Allies.

The potential for influence thus ultimately derives from vulnerability not dependence. Vulnerability results from failing to review continuously among the Western countries the advantages and disadvantages of various economic relationships and failing to consider measures to protect against efforts by the other party to manipulate these advantages and disadvantages. In their economic relations with the East, the Western countries will have to worry less about the levels of trade and financial relations the more they consider means to protect against the vulnerability which derives from these levels. An essential means of preserving gains in economic relations with the East is for the Western countries to enter into discussions to deal with vulnerability. Unless this is done, the levels of dependence themselves will become matters of controversy and act to undermine confidence among the Western countries in their respective economic relations in the East.

The Western countries should observe a prudent concept of economic security in their economic relations with the East. This concept supplements the more familiar concept of strategic security but is very different in its premises and application. Economic security does not necessarily imply the restriction of trade and other economic transactions between East and West. But it does require building in protection against the disruption of supply of critical materials (e.g., natural gas) from the Soviet Union. This might include back-up emergency supply arrangements among the Western countries, long-term cooperation for development of alternative supplies, etc. The concept of economic security implies, as well, assuring that no single objective (e.g. commercial consideration) drives East-West trade so hard that economic and political pressures will increasingly require the West to trade goods and know-how to the East with concomitant danger to the security of the West.

What is involved in economic security is similar in concept to the protection against the disruption of oil supplies and to the development of alternatives to oil in as rapid a manner as possible. The requirement in East-West trade is to prepare for short-term supply disruptions of Eastern resources and where feasible to develop long-term alternatives.

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The concept also applies to the development of markets in the East for supply of Western goods and financial services (as opposed to the acquisition of goods or resources from the East). In this case, economic security could involve consideration of alternative markets or alternative uses for Western exports if realities should warrant cutting off exports to the Soviet Union and, as appropriate, to other Communist countries. (It also implies, incidentally, maintaining open markets in the West to reduce pressures to expand trade with the East).

There are a host of issues raised by this concept which deserve further discussion and study among the Western countries:

-- Are there alternatives to substantial Western reliance on Soviet sources of supply (e.g. of gas, oil or minerals) or on Soviet markets? (What is the relationship here between access to energy resources in the West and Middle East and decisions to obtain such resources from the East?)

-- Should the Western countries continue to subsidize trade with the East (e.g., concessional export credits) particularly for products and projects that contribute to potentially, troublesome levels of dependence and vulnerability?

-- What are the implications of the debt problem for narrowing Western options in dealing with Eastern European countries and the Soviet Union, especially as long as some of these countries remain free of the discipline of the IMF and other Western institutions? (The point here is can the West afford default any more than the East and, if not, does the financing of higher levels of debt contribute more to our potential leverage over them or their potential leverage over us?)

The Summit countries may wish to adopt the concept of economic security for further discussion and study.

Economic Influence

Considerable trade and financial activity takes place between East and West which does not raise strategic or economic security concerns and which in normal times is not subject to foreign policy controls. This economic activity offers some opportunity to influence Eastern European countries and perhaps less so the Soviet Union, although recent history would suggest that such influence is not very great. Western actions to stimulate economic relations with the East, especially the USSR, are not as significant for improving political and security relations with the East, as some argued in an earlier period. Nor are Western measures to restrict economic relations as effective in adversely affecting the political and security programs of these countries, as others might contend. Nevertheless, given the more competitive character of relations today between East and West,

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it is useful for the Western countries to consider how they might orient their broader trade and financial relations with the East so that, to the extent that governments are involved in these relations, they can utilize whatever influence they may have to affect the economies and, through the reallocation of resources, the political behavior of the countries in ways which are favorable to Western interests. The recent Polish debt rescheduling negotiations in which lenders coordinated their approach is a good example of the concept of economic influence. It is unlikely that new restrictions on trade and financial ties would be needed under this approach.

In this consideration, the Western countries should be guided by several common objectives:

- to foster diversity among the Eastern European countries and particularly increased flexibility and lessened dependence on the Soviet Union;

- to avoid alleviating the costs to the Soviet Union of its hegemonial policies in Eastern Europe and its imperialistic policies, with the support of some Eastern European countries, outside Europe;

- to encourage the Eastern European countries increasingly to subject their foreign and indirectly domestic economic activities to the rules, discipline and eventually institutions of the Western economic system.

In implementing these common objectives, the Western countries must recognize the diversity of their own relations with Eastern European countries, as well as the diversity of the relations of individual Eastern European countries with the West. The Table in Appendix A shows trade data for 1979. While Western trade with the East is more important for some countries than for others, it is not in general a crucial share of total exports or imports. The share is highest for the FRG where exports to the East account for some 6.5% of total exports, with 1.5% of total exports to the GDR alone. French and Italian exports to the East were 2.1% and 1.9% of total exports, respectively. A total disruption of trade would have a noticeable impact on the FRG's economy and employment, especially as much of the FRG's exports are in chemicals, steel products, manufactured goods and machinery. Much of West Europe's exports to the East involves machinery and manufactured goods under long-term contract. On the other hand, trade between North America and Eastern Europe, despite a rather dramatic expansion over the last decade, is still rather modest, although rather important in certain categories. In fact, as a share of total trade, it has stabilized over the last five years.

For the countries of the East, Western markets represent the most significant outlet outside of CEMA. With the exception of Bulgaria, most of these countries have relatively large shares of exports going to the West, representing far higher percentages

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of their total trade than is the case for Western trade with the East. Historically, the Eastern European countries and the USSR have imported more from the West than they have exported and to cover this they have borrowed heavily. However, the Soviets were in surplus on trade account with the West in 1980. Total Soviet trade is a much smaller part of GNP than is the case for all Eastern European countries.

The commodity patterns of East-West trade also exhibit considerable diversity (see Tables IV and V). The bulk of Western exports to Eastern Europe are in food, chemicals, manufactured goods, steel products, machinery and transport equipment. Western Europe exports primarily chemicals and manufactured goods although France also exports a considerable volume of food and live animal products to the USSR and Poland. In contrast the great bulk of exports from North America is in grains and soybeans with only modest amounts of manufactured items. On the import side, fuels and chemicals dominate the picture for Western Europe. Japan's imports are mainly raw materials and some wood and paper products from the USSR. US imports are dominated by meat products from Poland, metals and chemicals from the USSR, and manufactured goods from Poland and Romania.

The West is clearly a more important market for Eastern European countries than vice-versa. This reality should be recognized as an opportunity to coordinate Western policies to increase the influence of Western economic rules, discipline and institutions on the economies and foreign trade, investment and financial policies of these countries.

We should be supportive of efforts by all of the Eastern Europeans to accede to the specialized GATT codes. (e.g. aircraft, standards,) when such accession would clearly offer reciprocal benefits.

Although four countries (Czechoslovakia, Poland, Romania and Hungary) are already full members of GATT, we have experienced problems with regard to their terms of accession and the application of their commitment. In general, these countries should be encouraged to develop their economies in such a way that it will make their commitments under the GATT more meaningful. Hungary has gone the farthest in this direction in moving toward a single exchange rate, decentralization of decision making in the foreign trade sector and the introduction of a relatively meaningful tariff schedule. Steps in this direction by the other Eastern European GATT members would both make their GATT commitment to the other contracting parties meaningful and encourage economic reform. We should not encourage GATT membership by Bulgaria, the GDR or Albania until these countries show a readiness to introduce reforms into their economies which would make such membership economically meaningful and guarantee reciprocal benefits to the other contracting parties.

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On the financial side, the East has come to rely more on hard currency earnings from exports to the West to purchase the equipment it needs for growth. But credit has also become a major component of the expansion of trade. Outstanding Western loans to CEMA have reached nearly \$80 billion. This too is a two-edged sword. On the one hand, it has drawn the Eastern European countries into a closer working relationship with Western financial institutions. The countries of the East are individually vulnerable to a serious drop in mutual trade if they become poor credit risks. They thus have strong incentives not to let this happen. On the other hand, there is considerable leverage in the opposite direction. Western banking institutions, and hence governments, may go a long way to accommodate a debtor rather than run the risk of default. This tendency may be accepted as long as the Eastern European countries are subjected more and more to accountability based on accepted rules and procedures in the Western world. Unless this is done, continued imbalanced Western trade and resultant increases in debt weaken Eastern European capacity to maintain stable economic growth and also serve to alleviate the costs to the Soviet Union of maintaining its relations with these countries.

IMF membership raises some difficult questions. Western countries should study carefully the question of IMF membership for additional Eastern Europe countries, particularly since it is not at all clear that Communist countries can comply fully with the Fund's methods of operations.

The Summit countries may wish to consider the need to establish on an ongoing basis a collective monitoring and review process.

1) to backstop trade and financial negotiations so that to the extent that governments are involved in these negotiations, they can use whatever influence they may have to affect the economies and, through the reallocation of resources, the political behavior of Eastern European countries in ways which are favorable to Western interests; and

2) to coordinate Western efforts to extend the influence of Western rules, procedures and institutions to economic relations with these countries.

Appendix A

Table I

Trade Data for Summit Countries & Eastern Europe

1979	USA	Canada	Japan	UK	France	FRG	Italy	TOTAL
GNP (\$b)	2,369	219	1,030	394	570	760	319	5,661
Exports (\$b)	182	58	102	91	101	172	72	778
Imports (\$b)	207	54	110	103	107	160	78	819
Exports/GNP (%)	7.7	25.1	10.1	22.6	17.1	22.9	22.3	13.7
Exports to USSR (\$m)*	3,607(2.0)	654(1.2)	2,442(2.4)	889(1.0)	2,005(2.1)	3,619(2.1)	1,218(1.7)	14,434(1.9)
Exports to E. Eur. (\$m)	2,066(1.1)	338(0.7)	802(0.8)	1,169(1.3)	2,022(2.1)	7,650(4.4)	1,415(1.9)	15,462(2.0)
Imports from USSR (\$m)	874(0.4)	55(0.1)	1,913(1.7)	1,756(1.7)	1,790(1.7)	3,893(2.4)	2,063(2.7)	12,344(1.5)
Imports from E. Eur. (\$m)	990(0.5)	202(0.4)	320(0.3)	1,202(1.1)	1,500(1.4)	6,533(4.2)	1,804(2.3)	12,551(1.5)

1979	USSR	E. Eur.	Bulgaria	Czech.	GDR	Hungary	Poland	Romania
GNP (\$b)	1,375	427	27	77	89	36	119	79
Exports (\$b) incl. CEMA	65	78	9	14	17	11	17	10
Imports (\$b) incl. CEMA	58	83	9	14	19	12	18	11
Exports/GNP (%)	4.7	18.3	33.3	18.2	19.1	30.6	14.3	12.6
Imports from Summit Countries (\$m)	14,434(24.9)	15,462(18.6)	842(9.4)	1,898(13.6)	3,877+(20.4)	1,895(15.8)	4,133(23.0)	2,817(25.6)
Exports to Summit Countries (\$m)	12,344(19.0)	12,551(16.1)	562(6.2)	1,648(11.8)	3,127+(18.4)	1,686(15.3)	3,305(30.0)	2,223(22.2)

* Numbers in parentheses indicate percent of world exports and imports represented by this bilateral trade.

+ Imports from FRG 2,574; exports to FRG 2,440.

APPENDIX A

TABLE II

TRENDS IN TRADE OF NATO AND JAPAN WITH USSR AND E. EUROPE

EXPORTS TO (\$m.)	EASTERN EUROPE				USSR			TOTAL
	1969	1974	1979	1969	1974	1979	1969	
NATO Europe	2,766	9,560	14,764	1,399	4,198	8,970	4,165	23,734
USA and Canada	159	954	2,404	115	639	4,261	274	6,665
Japan	74	574	802	268	1,095	2,442	342	3,244
TOTAL	2,999	11,088	17,970	1,782	5,932	15,673	4,781	33,643
Total to World							164,710	934,080
% of World	1.8%	2.3%	1.9%	1.1%	1.3%	1.7%	2.9%	3.6%
IMPORTS FROM:								
(\$m.)								
NATO Europe	2,568	7,036	14,266	1,519	4,450	12,096	4,087	26,362
USA and Canada	203	702	1,192	63	374	929	266	2,121
Japan	113	277	320	462	1,417	1,913	575	2,233
TOTAL	2,884	8,015	15,778	2,044	6,241	14,938	4,928	30,716
Total from World							170,771	1,001,493
% of World	1.7%	1.6%	1.6%	1.2%	1.2%	1.5%	2.9%	3.1%

Appendix A

Table III

Summit Countries: Trade with the USSR and Eastern Europe, 1979^{1/}
(by Commodity Classification)

	Big Seven Exports			Big Seven Imports		
	USSR	Eastern Europe (million US \$)	Share in total Big 7 Exports (percent)	USSR	Eastern Europe	Share in total Big 7 Exports
Machinery & Equipment	4,432	5,022	3.1	327	1,279	0.9
Fuels	0	628	1.7	4,864	2,326	3.6
Chemicals	1,555	2,377	5.0	1,117	827	3.6
Metals	3,118	1,728	10.1	75	1,123	3.7
Wood & Wood Products	2	37	0.6	1,251	322	9.3
Foodstuffs, Beverages, Tobacco	3,595	2,566	8.1	204	1,888	2.1
Other Consumer Goods	678	1,265	2.0	155	2,846	-
Other	1,080	1,842	2.5	3,612	2,110	4.1
TOTAL	14,460	15,465	3.9	11,605	12,721	3.0

^{1/} Canada, France, Italy, Japan, United Kingdom, United States, and West Germany.

Source: Western foreign trade statistics.

Appendix A

Table IV

Exports of Summit Countries to E. Europe & USSR
by SITC Commodity Categories, 1979
(\$ million)

	Bulgaria	Czech.	GDR	Hungary	Poland	Romania	Total E. Eur.	USSR	TOTAL
Food & Live Animals	71	280	562	83	942	271	2,209	2,965	5,174
Beverages & Tobacco	10	9	56	4	26	3	108	29	137
Crude Materials	37	121	121	74	238	235	826	709	1,535
Fuels	4	23	352	24	24	200	627	81	708
Animal & Vegetable Oils	1	2	58	4	42	11	118	94	212
Chemicals	151	364	534	412	564	302	2,327	1,413	3,740
Manufactured Goods, by material	271	334	933	484	923	657	3,602	4,166	7,768
Machinery & Transportation Equipment	248	643	1,067	663	1,207	1,025	4,853	4,308	9,161
Miscellaneous Manufactured Articles	38	94	155	116	117	91	611	409	1,020
Not Classified	8	18	30	22	23	9	110	88	198
	839	1,888	3,868	1,886	4,106	2,804	15,391	14,262	29,653

Source: OECD & National Trade Statistics
(Numbers between tables may differ slightly due to differences between sources.)

Table V

Imports of Summit Countries from E. Europe & USSR
by SITC Commodity Categories, 1979
(\$ million)

	Bulgaria	Czech.	GDR	Hungary	Poland	Romania	Total E. Europe	USSR	TOTAL
Food & Live Animals	92	122	330	413	646	164	1,767	159	1,926
Beverages & Tobacco	59	8	20	26	14	16	143	33	176
Crude Materials	39	220	150	133	336	92	970	2,053	3,023
Fuels	110	138	662	79	662	672	2,323	5,905	8,228
Animal & Vegetable Oils	5	6	--	4	13	24	52	8	60
Chemicals	27	125	278	141	120	73	764	1,204	1,968
Manufactured Goods, by material	123	542	779	304	673	475	2,896	980	3,876
Machinery & Transportation Equipment	37	232	317	210	427	163	1,386	329	1,715
Miscellaneous Manufactured Articles	67	228	632	361	424	567	2,279	98	2,377
Not Classified	8	35	25	27	32	9	136	99	235
	567	1,656	3,193	1,698	3,347	2,255	12,716	10,868	23,584

Source: OECD & National Trade Statistics
(Numbers between tables may differ slightly due to differences between sources.)

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ANNEX H

UNITED STATES PAPER
OF QUESTIONS FOR
DISCUSSION ON EAST-WEST
ECONOMIC RELATIONS

CONFIDENTIAL

July 6, 1981

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QUESTIONS HEADS MIGHT ADDRESS ON EAST-WEST ECONOMIC RELATIONS

1. Do Soviet actions in recent years (Afghanistan, Poland, arms buildup and deployment, support for Cuban adventurism) suggest, if not require a review of what we seek to achieve in our economic relations with the Soviet Union?
2. Are the assumptions which led to the development of East-West trade in the 1970s valid today? Still valid in the long-run?
3. In light of our collective efforts to respond to recent Soviet actions, do we need to strengthen the system of security controls which seeks to restrict transfers to the Soviet Union which contribute to their military capabilities?
 - a. Should the no-exceptions policy become a permanent feature of COCOM, at least during the near-term period in which the West seeks to overcome Soviet military advantages?
 - b. Have the COCOM partners identified those significant goods and technologies which should be controlled?
 - c. Does the existing list of COCOM-embargoed items adequately cover advanced technology of military significance? (For example, COCOM controls on manufacturing technology and software are somewhat ambiguous and there is little coverage in such important defense priority support industries as metallurgy, chemicals, heavy vehicular transport, and shipbuilding.)
 - d. Are existing national and collective efforts to enforce COCOM decisions adequate? Is there a need and opportunity for more intensive consultation and cooperation among the Western countries in dealing with:
 - (1) new scientific/technical developments -- are there end uses, especially military applications, which are not immediately apparent to the developer;
 - (2) availability -- are comparable technologies available from more than one source;
 - (3) intelligence -- wider and timely sharing of intelligence information on enforcement of COCOM regulations and on Soviet technological capacities and military needs;

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- (4) commercial espionage -- how to restrict Soviet acquisition of technology through other channels;
 - (5) varying national authorities to control strategic exports -- review of respective national authorities and institutions to implement strategic controls.
4. Given the uncertainty of the evolution of current events and our recent experience in contingency planning for Poland how do we facilitate discussion among the Summit countries concerning the response to future threats to our common interests?
5. If we seek to preserve a sound basis among the Summit countries for existing levels of East-West trade, how do we strengthen confidence among us that this trade does not entail threatening vulnerabilities?
- a. Given the geo-strategic importance of the Soviet Union, can dependence on the Soviet Union for markets for critical materials be treated on the same basis as relations with other, less significant countries?
 - b. Should the Summit countries discuss more systematically the range of alternatives to substantial Western reliance on Soviet sources of supply? or, failing the existence of economic alternatives, to protect against vulnerabilities arising from substantial reliance on Soviet resources?
 - c. Should the Summit countries continue to subsidize trade with the East (e.g., concessional export credits) particularly for products and projects that contribute to potentially troublesome levels of dependence and vulnerability?
6. In pursuit of their economic relations with Eastern Europe, should the Summit countries seek to coordinate their policies more closely to achieve the following objectives:
- to foster diversity in this region;
 - to avoid alleviating the costs to the Soviet Union of its hegemonial policies in the area; and
 - to encourage the countries of Eastern Europe increasingly to subject their foreign and, indirectly, their domestic economic actions to the rules and institutions of the Western economic system?

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ANNEX J

REPORT OF PRE-SUMMIT CONFERENCE OF NON-GOVERNMENT EXPERTS

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The Institute/L'Institut
for Research on Public Policy/de recherches politiques

REPORT ON THE
PRE-SUMMIT CONFERENCE
OF NON-GOVERNMENTAL EXPERTS

Held at the Chateau Montebello

Montebello, Quebec, Canada™

June 19 - 21, 1981

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REPORT ON THE PRE-SUMMIT CONFERENCE
OF NON-GOVERNMENTAL EXPERTS

At the invitation of the Institute for Research on Public Policy, three or four private citizens from each of the seven Summit countries met on June 19, 20 and 21, 1981 in Montebello, Quebec to discuss issues that could arise at the Ottawa Summit in July. They were joined in their discussions the first evening by the Prime Minister of Canada, the Right Honourable Pierre Elliott Trudeau.

The Ottawa Summit takes place at a time of great economic and political difficulty. The economic problem arises from volatile and historically high interest rates, as well as increasing pressures for trade protectionism, which threaten to impair the orderly growth of the western economies. The political problem stems from continued Soviet occupation of Afghanistan, and the strains in Poland, which create new dangers of confrontation. To these, the addition of a number of other detailed issues outlined below assures an agenda that will test the capacity of the seven countries to provide coherent leadership for the western world.

Participants agreed that the Summit countries faced differences in approach and policy unparalleled in recent years. Several stressed the overall linkage amongst the various issues. Others sensed a risk that the issues would not be kept separate and could instead come together in an explosive mixture. Participants also thought that the Summit leaders, meeting a month from now, should discuss candidly their differing views and reactions to issues but could focus most usefully on those elements on which there might be some agreement and commonality of approach.

I. The International Economic Situation and Prospects

The topic on which most time was spent was the international macro-economic situation and policies. While it was felt that economic growth during the current decade would not reach rates attained in the 1950s and 1960s, it was the general view that economic growth in Summit countries had to be sufficient to ensure the attainment of their principal domestic and international objectives. As well as making adjustment to the changing international economic environment easier, higher rates of growth would make it more feasible for the European countries to assume greater defence burdens and for the developing countries to enjoy more opportunities for economic advancement.

Participants agreed that Summit leaders would be best advised to review and discuss medium-to-longer term problems. The major problems of policy were agreed by all to be those of economic growth, inflation, savings and investment, trade, and reduced unemployment. In order to achieve productivity gains and increases in the standard of living over time, there was a general view that more resources in the western economies would have to go into investment and that each country would have to overcome inflation in their respective economies if there were to be sustainable, high rates of economic growth.

The primary policy instrument chosen to overcome inflation had been restrictive monetary and fiscal policies, and this was judged by most to be broadly appropriate and to be part of any program. Some participants argued that reliance latterly by the United States on the monetary policy instrument had led, however, to high and volatile interest rates, as well as depreciating foreign exchange values expressed in dollars, and had resulted in undesirable ramifications internationally both for other industrialized countries and for the developing world. Others argued, however, that the primary cause of recent interest rate and foreign exchange market behaviour was the fact of inflation itself. It was further pointed out that earlier Summits had urged the United States, the largest economic power, to undertake a concerted policy to control inflation in the interests of the entire world economy. While one participant suggested that one way of de-coupling the anti-inflationary effect of high interest rates in the United States from their disruptive impact on other countries would be to suspend U.S. tax deductibility for interest payments, leaving the net cost after tax for most unchanged, it was generally agreed that more normal patterns of interest and exchange rates would be restored once inflation had been brought under control.

It was not clear what an appropriate macro-economic policy mix should be in the Summit countries. Some participants suggested that a somewhat more restrictive fiscal policy seemed to be desirable while others argued that more innovative structural policies involving the formulation of a new social consensus, and the adjustment of present indexation systems to reduce the impact of price changes originating abroad, were called for.

All participants looked to a return to a more stable exchange rate environment, once inflation had been contained, which would impose some discipline on individual national economic policies and which would prevent abrupt shifts in competitive positions and ultimately in trade flows. Short of, or in addition to, a return to more stable rates, all participants strongly supported the view that earlier consultation on the part of Summit countries was highly necessary and desirable when it was clear that a certain policy action would cause a significant impact on its economic partners.

Although the price of oil expressed in dollars appears to be stabilizing recently, and a current surplus of that key natural resource has emerged, participants urged their leaders not to be complacent about the energy situation. Oil would remain an important element for many years to come in underpinning the economic and political well-being of the western industrial democracies, as well as of the oil-importing developing countries. While a crisis concerning energy did not appear to face leaders at present, it was felt that any one precipitous change affecting supply could drastically change for the worse the favourable contingent and structural factors prevailing currently. Contingency planning in this context remained very important in order both to moderate price volatility and to assure some sharing of supply vulnerabilities.

Many supply displacement programs, involving the broadening of sources of energy supply and the conservation of energy use, were already well underway in Summit countries. Participants felt that these initiatives should continue as should national, regional and international research and development efforts concerning alternative technology. Such technology is very important to the

long-term security of the west and to the longer-term survival of the developing world.

Participants agreed that notwithstanding declared support for the open trade and payments system, specific actions by certain Summit countries in the recent past were a source of genuine concern. The general framework for international trade was being undermined by ad hoc trade actions to protect specific sectors. Those economies still remaining open could become vulnerable as commodity flows shifted.

While all participants agreed on the existence of the seriousness of the international trade problem, there was some difference as to whether the rules of GATT are now adequate and whether review of the adequacy of existing trade rules should take place within the GATT or more broadly. All agreed that adjustments to changing competitive advantages took time and might cause painful effects for the factors of production involved. The management of this structural adjustment, if recourse to increased protectionism is not to become more frequent, should be a concern of all trading partners.

II. East-West Relations

Participants suggested that the overall western strategy with respect to the U.S.S.R. and its allies should be "two-tracked". This approach would imply both the maintenance and reinforcement of the security posture of the West and also renewed effort by the seven countries to involve the U.S.S.R. and its allies in discussions, consultations, and negotiations over a range of issues including economic cooperation.

Concerning the first aspect of the two-pronged approach, participants stressed the need to maintain and enforce the security posture of the West. They agreed with the NATO decision of December 1979 on modernizing the Theatre Nuclear Force. Several expressed the hope that arms control negotiations, called for in the 1979 NATO decision, would be resumed as soon as possible.

With respect to the second aspect of the two-pronged approach, interaction with the Eastern bloc over a broad range of issues, it appeared that there are important differences in perceptions and priorities amongst the Summit countries. While most participants agreed that the tone of the dealings with the U.S.S.R. and its allies should be low key, clear differences of view existed concerning the advisability and extent of East-West trade and indebtedness, the question of energy dependence, and the transfer of technology, particularly with respect to Siberian oil development. Most would favour, however, western support for energy development within the U.S.S.R. in order to relieve potential world shortages and to avoid Soviet pressure on sources outside the U.S.S.R.

Since these are issues which have important economic and political consequences and could create in some cases differences between the Summit countries, it was felt that they would have to be discussed on a case-by-case basis. Government officials and the private sector would therefore benefit from their leaders' views on these questions. Participants strongly agreed, moreover,

that both these specific issues and the overall strategy of dealing with the Eastern bloc would take on a quite different complexion should the present situation in Poland change dramatically.

III. North-South Relations

Relations between the developed and developing world were discussed in considerable detail, with no overall consensus emerging. One general view expressed was that the objective of the Ottawa Summit could be to reconfirm the political will of the Summit countries concerning the economic development of the less-developed. The other view that evolved during discussion was that no generalized government-to-government commitment need or should be made at this time, that the West would be doing well to maintain present levels of official aid. The access of the developing countries to western trade and technology in this view might well be expanded through the private sector. It was agreed by all, nevertheless, that reality concerning the issues involved in the North-South dialogue had to be faced and that the serious differences of political outlook and priorities among the Summit countries had to be recognized.

Themes stressed by the participants were several. Problems of financing, both in terms of recycling oil money and of maintaining a viable balance of payments, were addressed. It was felt by most that no new international financial institutions were necessary. Several others, however, thought that now was a propitious time for reform of existing institutions, such as the IMF, the IBRD, and related bodies. New means by which these institutions could guarantee the operations of the private banks, promote long-term lending by the oil-surplus countries, or facilitate the stabilization of export earnings and of prices for the primary producers in the developing world might well be added to better assist the structural adaptation of the developing countries.

The continuing need for energy research and the development of new sources of technologies was also referred to. Most agreed that if the opportunity were not seized now to expand and disseminate the production of energy as much and as quickly as possible outside OPEC, the prospects for world economic growth would be seriously impaired.

All agreed with the emphasis being placed in new development strategies on the importance of human capital. Training programs, emphasizing management, language and other skills, located either on-the-job or at educational institutions both in developing countries and the western world, were part of this approach as was the use in small and medium size enterprises in the South of retired experts from the North. Improved health facilities and population control techniques were also critical to improved prospects for the developing world.

On the other hand, it was felt that the trade in armaments, in which certain developing countries had a disproportionately large role, was an increasingly negative aspect of the north-south relationship. Not only were very scarce resources being used up by those countries participating actively in this trade, but also public opinion in the western world could come to doubt the development goals and priorities of the developing countries themselves in these circumstances.

A very open issue, and one requiring a great deal of thought on the part of both developed and developing countries, was that of the appropriate role of private western investment. Differing treatment and confusing signals often surrounded the principal mechanism of such investment, the multinational enterprise, yet it was clear to several participants that this institution was a very efficient means of transferring and upgrading technology and of employing and improving the quality of local labour. Others stressed, however, that this form of investment did not go generally to the poorest countries or into less profitable areas such as agriculture, infrastructure, health, and education.

Finally, several participants stressed the fact that the South was not one bloc but several. Thus generalized policies involving the South were not always appropriate. The General System of Preferences, for example, appear to benefit primarily the more advanced developing countries so that other means of ensuring the access of the poor states to markets should be found.

IV. Inter-Western Relations

In assessing the results of the series of seven Summit meetings to date, participants agreed that the principal achievement appeared to have been in some coordination of macro-economic policies and in the provision of a forum for economic crisis management. Similar success had been attained on energy policies. On trade, it had not been possible to go beyond generalities but this had to be viewed against the background of the on-going multilateral trade negotiations at the time and the fact that the Summits had succeeded in encouraging governments to maintain relatively liberal trade policies through the worst recession of the post-war years. The process had helped to provide political solidarity for the West and had assisted governments in obtaining the support of their electorates for unpopular economic policies by demonstrating the common approach of the Summit countries. The crisis management role was being enhanced by the additional political dimension being given to the discussions.

Nevertheless, it was also the view of many of the participants that the Summits risked becoming a negotiating process rather than a consultative one. This was considered a negative aspect, as was the growing tendency towards the bureaucratization of the process. Furthermore, while it was accepted that the increasing political dimension of the discussions was important, it was pointed out that the Summit countries are less of a coherent group for discussion of this sort than they are for economic issues where together they account for over 80 percent of the western world's economic activity.

In considering the future of the Summit process, participants placed considerable emphasis on the need to maintain the Summit meeting as the supreme consultative body and stressed that it should be reserved for the discussion of topics that only Heads of Government and of State can undertake. These would relate to fundamental medium and longer term policy orientations and possible crisis management and might well benefit from meetings of slightly longer duration. Many thus viewed the Summits as an opportunity for their leaders to meet and discuss issues of importance in a free and informal way thereby fostering personal relationships and understanding amongst themselves.

However, several participants also pointed out certain risks for wider international cooperation in the process of summitry. Too much reliance on the Summits for Western coordination carried with it the serious possibility of weakening the established international institutions and reducing their credibility as well as alienating those western countries not part of the process. These considerations would have to be weighed in any discussion of the future of the Summit process. Participants viewed it as important that consultations with non-participating countries and the international institutions should be improved.

Note: While all participants took part in the discussions, Mr. Samuel Brittan did not feel that he could subscribe to the Report.

Ottawa
July 3, 1981

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FM OTTAWA 072135Z JULY 81

TO IMMEDIATE FCO

TELEGRAM NUMBER 344 OF 7 JULY

CONSTITUTION

1. ACCORDING TO FRED GIBSON IN JUSTICE DEPARTMENT, IT IS CLEAR THAT THERE WILL BE NO SUPREME COURT DECISION BEFORE THE END OF JULY. HE IS NOT PREPARED TO BE CATAGORICAL ABOUT AUGUST, BUT AN OFFICIAL IN THE QUEBEC GOVERNMENT TELLS US THAT ACCORDING TO THE REGISTRAR OF THE COURT THERE WILL BE NO DECISION BEFORE THE END OF AUGUST.

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MR H STEEL, LAW OFFICERS' DEPT

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TELNO 328 OF 5 JULY

B
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Mr Ridley.
Mr Bridge.
Mr Evans.
No 10 Downing St. (2)

HP ERD.
HP Planning Staff.

HP EESD

HP EPSP

HP ESIP

HP EEP (E)

HP TREP

HP MREP

HP MCD

HP MOP

HP PENP

R Chancellor of the
Exchequer

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MIPT: OTTAWA SUMMIT: AGENDA FOR FOREIGN MINISTERS

1. CANADIANS TABLED AN AGENDA THAT WAS IDENTICAL WITH PARAGRAPH 4 OF OUR BRIEF NO 1 (ORGANISATION OF SUMMIT).

2. THE FRENCH EXPRESSED RESERVATIONS ABOUT INCLUDING NAMIBIA AND SOUTH AFRICA. THE CANADIANS AND GERMANS SAID THESE MUST BE DISCUSSED. THE OTHER ITEMS WERE ACCEPTED WITHOUT QUESTION.

3. THE GERMANS SEEM TO THINK THAT THE FOREIGN MINISTERS SHOULD DISCUSS THE LAW OF THE SEA (PRESUMABLY IN ADDITION TO WHATEVER MAY BE SAID BY SCHMIDT TO HIS COLLEAGUES - SEE PARA 2 OF MIPT) AND THE AMERICANS SAID THAT SW ASIA INCLUDING THE GULF AND IRAN SEEMED BOUND TO COME UP AS WELL.

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FM OTTAWA 052340Z JUL 81

TO IMMEDIATE F C O

TELEGRAM NUMBER 327 OF 5 JULY 1981.

MIPT: OTTAWA SUMMIT: TOPICS FOR DISCUSSION AT SUMMIT

1. IN ADDITION TO SUBJECTS LISTED IN GARSIDE'S MINUTE OF 26 JUNE, BRIEFING WILL BE NEEDED FOR THE PRIME MINISTER ON CENTRAL AMERICA AND THE CARIBBEAN (ESPECIALLY US IDEAS ON ECONOMIC DEVELOPMENT), THE LAW OF THE SEA AND SOUTH WEST ASIA (GULF AND IRAN).
2. THE GERMANS SAID THAT CHANCELLOR SCHMIDT WOULD DEFINITELY WISH TO DISCUSS THE LAW OF THE SEA. THERE WAS A QUESTION WHETHER THIS WOULD BE IN A NORTH/SOUTH CONTEXT OR MORE GENERALLY. THE PRIME MINISTER'S BRIEF SHOULD INCLUDE AN ACCOUNT OF THE LIKELY POSITIONS OF THE GERMANS AND THE JAPANESE, AND THE IMPLICATIONS OF THE AMERICAN'S REVIEW OF UNOSCO. (THERE WAS A PRETTY GENERAL FEELING THAT THIS SUBJECT WAS TOO COMPLEX AND DETAILED FOR A USEFUL HEADS OF GOVERNMENT DISCUSSION. BUT I THINK WE MAY NEVERTHELESS NEED A FAIRLY DETAILED BRIEF (OR PERHAPS A GENERAL POLITICAL BRIEF, WITH A MORE DETAILED ANNEX)).
3. THE FRENCH AND JAPANESE EXPRESSED GENERAL RESERVATIONS ABOUT DISCUSSION OF POLITICAL SUBJECTS AT THE SUMMIT, BUT DID NOT OPPOSE IT. PARADOXICALLY THE JAPANESE SAID THAT MR SONODA WOULD HAVE QUITE A BIT TO SAY ABOUT CAMBODIA.
4. THE ITALIANS WERE MOST INSISTANT THAT THERE SHOULD BE POLITICAL DISCUSSION AND THAT THIS SHOULD ALSO BE MENTIONED IN THE COMMUNIQUE. (PRIVATELY THE ITALIANS HAVE TOLD US COLOMBO ATTACHES GREAT IMPORTANCE TO THIS, PARTLY AS A FUNCTION OF HIS RELATIONSHIP WITH HIS OWN PRIME MINISTER, OF WHAT CAGIATI SAID TO ME ON 3 JULY ON THE SAME SUBJECT.

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5. THE CANADIANS SAID THAT TRUDEAU MIGHT OR MIGHT NOT WANT TO DISCUSS CRISIS MANAGEMENT WITH HIS FELLOW HEADS OF STATE OR GOVERNMENT. THIS WOULD DEPEND PARTLY ON THE TIME AVAILABLE AND ON HOW CONSIDERATION OF THIS SUBJECT WENT AT FOREIGN MINISTER LEVEL, WHERE THEIR MINISTER WOULD MENTION IT. BUT THEY ARE NOT PRESSING FOR IT TO BE COVERED IN THE COMMUNIQUE.

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TO IMMEDIATE F C O
TELEGRAM NUMBER 326 OF 5 JULY 1981.

FOLLOWING FROM PUS

OTTAWA SUMMIT: POLITICAL ADVISERS' MEETING OTTAWA 5 JULY

1. POLITICAL ADVISERS OF SEVEN MET TODAY NEAR OTTAWA, UNDER THE CHAIRMANSHIP OF MR GOTLIEB (CANADA), TO CONSIDER THE FOLLOWING ASPECTS OF THE SUMMIT:

- A) TOPICS FOR DISCUSSION AT SUMMIT
- B) AGENDA FOR FOREIGN MINISTERS
- C) ORDER OF PROCEEDINGS, INCLUDING HOW TO MESH POLITICAL AND ECONOMIC DISCUSSIONS, AND
- D) COMMUNIQUE.

2.. DETAILS OF A) AND B) ARE IN MY TWO IMMEDIATELY FOLLOWING TELEGRAMS. I SHALL BE DISCUSSING THE UPSHOT OF ITEM C) WITH SIR R. ARMSTRONG WHEN HE ARRIVES. CONSIDERATION OF ITEM D) IS CONTINUING.

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TO IMMEDIATE F C O

TELEGRAM NUMBER 418 OF 5 JULY

INFO IMMEDIATE OTTAWA (FOR PUS), PRIORITY PARIS, BONN,
WASHINGTON, UKREP BRUSSELS, UKDEL NATO, ROIE, TOKYO

FOLLOWING FROM PRIVATE SECRETARY

SECRETARY OF STATE'S MEETING WITH FRENCH AND GERMAN FOREIGN
MINISTERS ON 5 JULY : OTTAWA SUMMIT

1. THERE WAS A BRIEF DISCUSSION OVER LUNCH. ALL AGREED THAT
PARTICIPANTS SHOULD SEEK TO AVOID SET SPEECHES AND DISCUSSION
OF THE COMMUNIQUE, AND CONCENTRATE ON INFORMAL DEBATE.

2. CHEYSSON THOUGH THE COMMUNIQUE BEING DRAFTED BY OFFICIALS
MUCH TOO LONG. GENSCHER WAS ALSO CRITICAL AND ARGUED THAT
THE AIM OF THE SUMMIT SHOULD BE TO IMPRESS ON THE RUSSIANS AND
OTHERS THE ABILITY OF WESTERN LEADERS TO AGREE ON FUNDAMENTAL
OBJECTIVES. IT WAS NOT REALISTIC TO EXPECT THAT THE SUMMIT
WOULD RECONCILE FRENCH AND US DOMESTIC ECONOMIC POLICIES OR
FRENCH AND GERMAN, AND THERE WAS NO POINT IN DRAFTING TEXTS
BASED ON THE LOWEST COMMON DENOMINATOR. THE SUMMIT WOULD BE
A DISASTER IF INTEREST RATES BECAME THE CENTRAL ISSUE. BUT IT
SHOULD BE POSSIBLE TO AGREE ON THE MAIN OBJECTIVES, AND TO
ALLOW PARTICIPANTS TO EXCHANGE VIEWS ON THE DIFFERENT POLICIES
WHICH THEY INTENDED TO ADOPT TO THAT END. THE IMPORTANT
POINTS TO GET ACROSS WERE THAT WE SHOULD AVOID NEW FORMS OF
PROTECTIONISM, THAT WE SHOULD CONDUCT A RESPONSIBLE POLICY
TOWARDS THE THIRD WORLD AND THAT WE WERE PREPARED TO NEGOTIATE
WITH THE EAST.

KEEABLE

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ERD

PLANNING STAFF

YRED

RESD

ESSD

ESID

ECD (R)

MAED

PS

PS/LAS

PS/PUS

MR BULLARD

MR HANNAY

MR FERGUSSON

CABINET OFFICE

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TO IMMEDIATE FCO

TELEGRAM NUMBER 598 OF 3 JULY 1981

INFO PRIORITY WASHINGTON, BONN, TOKYO, ROME AND UKREP BRUSSELS

MY TELNO 595: OTTAWA ECONOMIC SUMMIT

1. AFP THIS AFTERNOON REPORTS THAT IN A LETTER TO M BERGERON OF THE FORCE OUVRIERE TRADE UNION PUBLISHED TODAY ON THE SUBJECT OF EMPLOYMENT, PRESIDENT MITTERRAND WROTE THAT QUOTE I HAD THE OPPORTUNITY AT LUXEMBOURG ON 29-30 JUNE TO CONFIRM THAT I MADE THE STRUGGLE AGAINST UNEMPLOYMENT THE REAL PRIORITY UNQUOTE. HE ADDED THAT QUOTE YOUR PREOCCUPATIONS ARE THE SAME AS MINE, BUT THE DIFFICULTIES OF COORDINATING ECONOMIC POLICIES SHOULD NEVERTHELESS NOT BE UNDERESTIMATED UNQUOTE.
2. THE LETTER REPORTEDLY WENT ON TO SAY THAT M MITTERRAND WAS IN FAVOUR OF A QUOTE PRAGMATIC DEMARCHE UNQUOTE AND THAT AT OTTAWA HE WOULD OUTLINE THE SAME POLICY GUIDELINES AS THOSE AT LUXEMBOURG, QUOTE DRAWING UPON THE COHESION OF EC MEMBERS STATES WHICH HAD BEEN REAFFIRMED IN PARTICULAR REGARDING INTEREST RATES, NORTH-SOUTH RELATIONS AND TRADE RELATIONS WITH JAPAN UNQUOTE. THE LETTER APPARENTLY CONCLUDED THAT QUOTE IT WILL BE A QUESTION OF REAFFIRMING MORE GENERALLY THE NEW CHOICES MADE BY FRANCE IN THE FACE OF THE (PRESENT) CRISIS, THE TECHNOLOGICAL CHALLENGES AND THE REQUIREMENTS OF DEVELOPMENT UNQUOTE.

HIBBERT.

LIMITED

ERD

PLANNING STAFF

EESD

ES & SD

ESID

ECD (E)

TRED

MAED

PS

PS/LPS

PS/PUS

LORD BRIDGES

MR BULLARD

MR FERGUSON

MR HANNAY

MR BRAITHWAITE

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TO IMMEDIATE FCO

TELEGRAM NUMBER 595 OF 3 JULY 1981

INFO PRIORITY WASHINGTON, BONN, TOKYO, ROME AND UKREP BRUSSELS

YOUR TELNO 200 TO OTTAWA: OTTAWA ECONOMIC SUMMIT

1. THE OTTAWA SUMMIT WILL BE THE FIRST OCCASION ON WHICH M MITTERRAND WILL PARTICIPATE IN A MEETING OF THE SEVEN. HIS IMMEDIATE OBJECTIVE MAY BE TO DEMONSTRATE TO FRENCH AND WORLD OPINION THAT HE IS JUST AS CAPABLE AS HIS PREDECESSOR OF TAKING HIS PLACE AMONG THE FOREMOST STATESMEN OF THE WORLD AND DEFENDING FRANCE'S PRESTIGE AND INTERESTS AT THIS LEVEL. THIS CONSIDERATION MAY INCLINE HIM TO WISH THE SUMMIT TO BE A PRESENTATIONAL SUCCESS IN WHICH FRANCE IS SHOWN TO CONTINUE TO ENJOY EQUAL TREATMENT WITH THE OTHER PARTICIPANTS AND IN WHICH FRANCE'S NEW VOICE IS CLEARLY HEARD. HE WILL CERTAINLY WANT IT TO SOUND NEW.

2. THE ASSESSMENT OF FRANCE'S OBJECTIVES ON THE DETAILED AGENDA POINTS IS BASED ON DISCUSSIONS WITH JEANNENEY (M MITTERRAND'S PERSONAL REPRESENTATIVE) AND PAYE (QUAI D'ORSAY). PRESIDENT MITTERRAND SEEMS NOT YET TO HAVE GIVEN CLEAR DIRECTIVES ON THE LINE WHICH HE WILL TAKE, SO THAT THERE REMAINS AN ELEMENT OF SPECULATION IN THE ACCOUNT GIVEN BY OFFICIALS.

INTERNATIONAL ECONOMIC SITUATION

3. M MITTERRAND APPARENTLY REGARDS THIS SECTION AS THE MOST SIGNIFICANT PART OF THE DISCUSSION. HE IS LIKELY TO ADOPT A SIMILAR LINE TO HIS INTERVENTION AT THE EUROPEAN COUNCIL ON THE NEED TO PLACE FIRST PRIORITY ON MEASURES TO GENERATE EMPLOYMENT AND TO IMPROVE SOCIAL CONDITIONS. THIS WOULD ENTAIL REVERSING THE PRESENT PROCESS OF RESTRICTING BUDGETARY EXPENDITURE AND EMBARKING INSTEAD ON EXPANSIONARY MEASURES ON A MODERATE SCALE, WHILE RETAINING REASONABLE MONETARY AND FISCAL CONTROLS. IN THIS CONTEXT M MITTERRAND WILL WANT THE EUROPEAN PARTICIPANTS TO BE SEEN TO HAVE MADE A FIRM JOINT APPROACH TO PRESIDENT REAGAN TO UNDERLINE THE ADVERSE EFFECTS ON THEIR ECONOMIES OF THE PRESENT LEVEL OF US INTEREST RATES.

RELATIONS WITH DEVELOPING COUNTRIES

4. THIS IS ALSO A SUBJECT ON WHICH M MITTERRAND WILL APPARENTLY WISH TO MAKE A MAJOR CONTRIBUTION. THE LINES OF HIS INTERVENTION ARE STILL NOT CLEAR TO OFFICIALS BUT THE OBJECTIVE IS LIKELY TO BE TO TRY TO ENSURE FIRSTLY THAT PRESIDENT REAGAN GOES TO THE CANCUN MEETING WITH A MORE OPEN MIND THAN THE FRENCH CONSIDER HE

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/HAS SHOWN

HAS SHOWN SO FAR, AND SECONDLY THAT THERE SHOULD BE AN INFORMAL WIDE-RANGING DISCUSSION AT CANCUN. M MITTERRAND IS LIKELY TO ARGUE IN FAVOUR OF THE PROPOSAL FOR AN ENERGY AFFILIATE OF THE WORLD BANK.

TRADE

5. M MITTERRAND IS LIKELY TO TAKE A FIRM LINE ON JAPANESE TRADE POLICIES. HE WILL PROBABLY ARGUE THAT THE BASIS FOR INTERNATIONAL FREE TRADE CANNOT BE SUSTAINED IF CERTAIN COUNTRIES DELIBERATELY CONCENTRATE THEIR EXPORTS IN SENSITIVE SECTORS WHILE LIMITING THE IMPORT OF GOODS FROM OTHER COUNTRIES. HE MAY POINT TO THE DANGERS OF A NEW WAVE OF PROTECTIONISM IF INTERNATIONAL TRADE IS NOT PLACED ON A MORE BALANCED BASIS. HE IS UNLIKELY TO WISH TO GO INTO DETAIL ON SPECIFIC SUBJECTS SUCH AS EXPORT CREDITS OR A NEW TOKYO ROUND.

EAST/WEST RELATIONS

6. PAYE SAID THAT THE US PAPER HAD STILL NOT BEEN SUBMITTED TO PRESIDENT MITTERRAND. HE THOUGHT THAT PRESIDENT MITTERRAND WAS LIKELY TO BE GENERALLY SYMPATHETIC TO THE AMERICAN APPROACH, THOUGH NOT TO ALL THE DETAILED PROPOSALS FOR COORDINATION OF WESTERN POSITIONS.

STRUCTURE OF MEETING

7. ACCORDING TO M JEANNERET PRESIDENT MITTERRAND ATTACHES IMPORTANCE TO HAVING A FREE-RANGING DEBATE AT THE SUMMIT WHICH WOULD NOT BE CONSTRAINED BY A PREFABRICATED COMMUNIQUE. HE IS ALSO ANXIOUS THAT THE SUMMIT SHOULD NOT BECOME A TOP-LEVEL COMMUNIQUE DRAFTING SESSION. HE WOULD LIKE THE PRE-SUMMIT DRAFTING OF THE COMMUNIQUE TO BE SUFFICIENTLY FLEXIBLE TO ALLOW THE FINAL VERSION TO REFLECT FULLY THE ACTUAL CONTENTS OF THE DISCUSSION. IN GENERAL PRESIDENT MITTERRAND'S PERSONALITY AND BACKGROUND FAVOUR A BROAD PHILOSOPHICAL APPROACH TO ECONOMIC AND POLITICAL ISSUES, AND HE WILL PROBABLY WANT TO AVOID DETAILED DISCUSSION OF TECHNICAL MATTERS.

HIBBERT.

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MR HANNAY
MR BRAITHWAITE

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FM BONN 031615Z JUL 81

TO IMMEDIATE FCO

TELEGRAM NUMBER 520 OF 3 JULY

INFO ROUTINE OTTAWA UKREP BRUSSELS WASHINGTON PARIS TOKYO ROME

YOUR TELNO 200 TO OTTAWA: ECONOMIC SUMMIT: OBJECTIVES OF PARTICIPANTS

1. RECENT CONTACTS WITH OFFICIALS IN THE CHANCELLOR'S OFFICE AND ELSEWHERE SUGGEST THAT HERR SCHMIDT ATTACHES GREAT IMPORTANCE TO THE SUMMIT BUT HAS RELATIVELY LOW EXPECTATIONS OF IT. HE SEEMS TO BE INFLUENCED BY HIS OWN DEEP ANXIETIES ABOUT PRESENT TRENDS IN THE WORLD ECONOMY, HARASSED BY THE PROBLEMS OF MANAGING THE GERMAN ECONOMY AND DISAPPOINTED THAT THE EUROPEAN COUNCIL DID NOT PRODUCE A SOLID COMMUNITY IDENTITY OF VIEW ON ECONOMIC POLICY. HE FEELS FORCED TO ACCEPT THAT THERE IS NOT A GREAT DEAL THAT CAN BE DONE IN THE SHORT TERM TO IMPROVE MATTERS, BUT CONVINCED OF THE NEED TO PRESERVE IF WE CAN WHAT REMAINS OF THE CONSENSUS.

2. SCHMIDT PROBABLY JUDGES THE WORLD ECONOMIC SITUATION TO BE THE SINGLE MOST IMPORTANT ISSUE FOR DISCUSSION AT OTTAWA. BUT HIS OFFICIALS TELL US THAT HE FEELS THE DIFFERENCES BETWEEN THE ECONOMIC APPROACHES OF THE U.S. AND NEW FRENCH GOVERNMENTS ARE AT PRESENT SO GREAT THAT THEY CANNOT BE EXPECTED TO REACH SUBSTANTIVE AGREEMENT ON POLICY. THEY SAY THAT HE THEREFORE WANTS INSTEAD TO FOCUS ATTENTION ON WORLD TRADE AND THE FIGHT AGAINST PROTECTIONISM (THIS LAST THE SINGLE POINT OF SUBSTANCE HE PICKED OUT WHEN INTERVIEWED ON TELEVISION AFTER LUXEMBOURG ABOUT HIS HOPES FOR OTTAWA).

3. THESE TACTICAL INTENTIONS WILL PROBABLY NOT STOP SCHMIDT STRESSING THE NEED TO GIVE TOP PRIORITY TO THE FIGHT AGAINST INFLATION, THE NEED TO AVOID LARGE SCALE DEFICIT FINANCING AND THE DIFFICULTIES CAUSED FOR THE GERMANS AND OTHERS BY HIGH AND VOLATILE AMERICAN INTEREST RATES. IF WHAT WE HAVE BEEN TOLD ABOUT HIS TACTICS IS RIGHT HE WILL BE TALKING HERE MOSTLY FOR THE RECORD. BUT HE WILL HOPE ALSO FOR A GENERAL REAFFIRMATION OF PRINCIPLES COMPATIBLE WITH HIS ECONOMIC POLICY TO HELP HIM, IF ONLY PRESENTATIONALLY, IN THE DIFFICULTIES HE WILL FACE ON HIS RETURN IN DEALING WITH GERMAN ECONOMIC PROBLEMS, MOST PRESSINGLY THE 1982 BUDGET AND THE NEED TO CUT PUBLIC EXPENDITURE IF TAXES ARE TO BE HELD DOWN AND THE DEFICIT IS TO BE COVERED.

4. IN TALKING ABOUT WORLD TRADE, HIS OFFICIALS SAY, SCHMIDT WILL BE LOOKING FOR AGREEMENTS, NOT CONFRONTATIONS. BUT HE IS SERIOUSLY CONCERNED BY THE GROWING THREAT OF PROTECTIONISM: THE PRACTICAL KNOCK-ON EFFECTS OF NEO-PROTECTIONIST MEASURES SUCH AS SELF-RESTRAINT: DIFFERENCES OF OUTLOOK BETWEEN JAPAN, THE COMMUNITY AND THE UNITED STATES: CONTINUING SERIOUS PROBLEMS IN THE EUROPEAN AND WORLD STEEL MARKETS: AND THE MULTI-FIBRE AGREEMENT. HE FEELS STRONGLY THAT PROTECTIONISM IN WORLD TRADE HAS A DAMAGING EFFECT ON ECONOMIC POLICY TOO, E.G. BY WEAKENING THE CAMPAIGN AGAINST INFLATION.

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5. ON NORTH/SOUTH ISSUES SCHMIDT WILL WANT TO TRY TO CONVINCE THE HARD LINERS OF THE NEED TO KEEP EFFECTIVE LINES OF COMMUNICATION WITH THE DEVELOPING COUNTRIES OPEN BUT TO REMAIN ROBUST ON SUBSTANCE - THE IMPORTANCE OF TRADE, PRIVATE INVESTMENT FLOWS ETC. HE WILL, HOWEVER, WANT TO AVOID HAVING THE FEDERAL REPUBLIC IDENTIFIED AS A LEADER AMONG THE HARD LINERS. IN A RECENT CONTRIBUTION TO QUOTE FOREIGN AFFAIRS UNQUOTE (VOL 59 NO 4 SPRING 1981) HE LAID EMPHASIS ON:

- I) THE NEED FOR ALL COUNTRIES TO BE REMINDED OF THEIR RESPONSIBILITIES FOR WORLD DEVELOPMENT:
- II) THE OVERWHELMING IMPORTANCE OF SOLVING ENERGY PROBLEMS AND THE NEED FOR OPEC TO MAKE A MAJOR CONTRIBUTION:
- III) POPULATION CONTROL:
- IV) SUSTAINING FINANCIAL AND TRADE FLOWS: AND
- V) A REAL WILLINGNESS ON THE PART OF THE DEVELOPING COUNTRIES TO COOPERATE.

OFFICIALS TELL US THAT THESE ARE THE THEMES IN NORTH/SOUTH ISSUES REALLY CLOSE TO HIS HEART.

6. FOLLOWING TRUDEAU'S RECENT VISIT WE UNDERSTAND FROM THE CANADIANS THAT THE GERMANS WILL RAISE UNLOSC TAKING THE LINE THAT THE U.S. DECISION TO RECONSIDER SHOULD BE TAKEN BY THE REST OF THE WEST AS AN OPPORTUNITY TO CONSIDER WHETHER, COLLECTIVELY, THEY ARE NOT GOING DOWN THE WRONG STREET.

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FM WASHINGTON 232010Z JUL 81

TO IMMEDIATE F C O

TELEGRAM NUMBER 2034 OF 3 JULY

INFO IMMEDIATE OTTAWA, PRIORITY BONN, PARIS, TOKYO, ROME AND UKREP
BRUSSELS.

YOUR TELNO 22: OTTAWA ECONOMIC SUMMIT: U.S. OBJECTIVES

1. THE ADMINISTRATION IS STILL AT THE EARLY STAGES OF FORMULATING OBJECTIVES FOR THE OTTAWA SUMMIT. SECRETARY HAIG HELD A FIRST MEETING ON 1 JULY WITH STATE DEPARTMENT OFFICIALS TO LOOK AT THE ISSUES AND HOPES TO ARRANGE A FURTHER MEETING EARLY NEXT WEEK TO GO OVER THE GROUND WITH SENIOR WHITE HOUSE ADVISERS. THE PRESIDENT WILL DECIDE HIMSELF HOW TO HANDLE THE MOST IMPORTANT ISSUES BUT HAS NOT YET GIVEN ANY INDICATION TO THE STATE DEPARTMENT OR THE NSC OF HIS OWN THINKING. RASHID, AS PERSONAL REPRESENTATIVE, HAS NOT YET BEEN ABLE TO DISCUSS THE QUESTION WITH HIM. THE ASSESSMENT THAT FOLLOWS IS THEREFORE LARGELY SPECULATIVE, AND BASED ON FAIRLY OBVIOUS GUESS-WORK BY SENIOR U.S. OFFICIALS INVOLVED IN THE PREPARATORY WORK. IT MAY BE POSSIBLE TO GIVE A BETTER BASED ASSESSMENT NEARER THE TIME.

2. THIS WILL BE PRESIDENT REAGAN'S FIRST ECONOMIC SUMMIT AND INDEED HIS FIRST MAJOR INTERNATIONAL MEETING. HIS OWN OBJECTIVES ARE LIKELY TO BE:

- (A) TO SHOW THE U.S. PUBLIC THAT HE CAN ESTABLISH HIMSELF AMONG OTHER WORLD LEADERS AND GAIN THEIR CONFIDENCE. (RECENT CRITICISM HERE OF THE ADMINISTRATION AS HAVING FAILED SO FAR TO ARTICULATE A COHERENT FOREIGN POLICY WILL ADD POINT TO THIS OBJECTIVE.)
- (B) TO CEMENT RELATIONS WITH THE MAJOR ALLIES OF THE UNITED STATES.
- (C) TO KEEP DISCUSSION AT A BROAD POLITICAL LEVEL, AVOIDING TOO MUCH DETAIL.
- (D) FOR THE SUMMIT TO SHOW THE REST OF THE WORLD THAT THE INDUSTRIALIZED MARKET-ECONOMY COUNTRIES ARE CONFIDENT IN THEIR SYSTEM OF VALUES AND UNITED IN THEIR BASIC OBJECTIVES, IN THE FACE OF BOTH CURRENT WORLD ECONOMIC DIFFICULTIES AND OF THE SOVIET CHALLENGE.

3. PRESIDENT REAGAN WILL AIM TO FOCUS THE DISCUSSION PRIMARILY ON MACRO-ECONOMIC ISSUES. ON THESE, HE WILL WANT THE SUMMIT TO CONVEY A MESSAGE OF CONFIDENCE AND OPTIMISM. HE WILL NOT EXPECT COMPLETE HARMONY OF VIEWS BETWEEN THE PARTICIPANTS ABOUT ECONOMIC MODALITIES,

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BUT WILL WANT THE MEETING TO SHOW AGREEMENT ON ESSENTIAL GOALS - DEFEAT OF INFLATION, REDUCTION OF UNEMPLOYMENT, ENCOURAGEMENT OF SAVINGS AND INVESTMENT - AND CONFIDENCE IN THE ABILITY OF THE PARTICIPATING COUNTRIES TO ACHIEVE THEM. THE PRESIDENT WILL ALSO SEEK, WITHIN THE MEETINGS, TO ACHIEVE A BETTER UNDERSTANDING AMONG HIS PARTNERS OF THE OBJECTIVES OF U.S. ECONOMIC POLICY AND OF ITS EXPECTED RESULTS.

4. ON INTERNATIONAL TRADE, THE PRESIDENT WILL AIM FOR A GENERAL ENDORSEMENT OF THE NEED TO KEEP MARKETS OPEN, TO RESIST PROTECTIONIST PRESSURES, AND TO WORK FOR IMPLEMENTATION OF THE MTN AGREEMENTS AND FOR FURTHER TRADE LIBERALISATION. HE WILL BE ALLERGIC TO ANY SUGGESTIONS THAT THE MARKETS FOR SOME PRODUCTS MAY NEED TO BE ORGANISED AND WILL WANT INSTEAD TO SEE THE ROLE OF COMPETITION STRONGLY EMPHASISED. HE MAY ACCEPT SOME INDIRECT PRESSURE ON JAPAN TO OPEN UP ITS MARKET FOR IMPORTS BUT HE MAY BE EXPECTED TO RESIST ANY CALLS FOR FURTHER EXPORT RESTRAINT BY THE JAPANESE.

5. PRESIDENT REAGAN WILL NOT SEE A NEED FOR STRONG EMPHASIS AT OTTAWA ON ENERGY PROBLEMS. HE WILL SEEK ENDORSEMENT IN GENERAL TERMS OF THE NEED TO MAINTAIN POLICIES AIMED AT REDUCTION OF DEPENDENCE ON IMPORTED OIL, THROUGH MARKET-RELATED PRICING POLICIES, THROUGH SENSIBLE CONSERVATION PRACTICES, AND THROUGH DEVELOPMENT OF NUCLEAR RESOURCES.

6. ON RELATIONS WITH DEVELOPING COUNTRIES, THE PRESIDENT WILL WANT THE SUMMIT'S MESSAGE TO BE POSITIVE BUT REALISTIC. HE WILL AIM TO FOCUS DISCUSSION ON THE PRIMARY IMPORTANCE FOR THE DEVELOPING WORLD OF HIS ACHIEVEMENT OF ECONOMIC RECOVERY IN THE SUMMIT COUNTRIES AND OF AN EXPANSION OF WORLD TRADE AND INVESTMENT. HE WILL STRESS THE NEED TO MAINTAIN THE STRENGTH OF EXISTING INTERNATIONAL FINANCIAL INSTITUTIONS AND TO ENHANCE THEIR ROLE IN COMPLEMENTING PRIVATE SECTOR FLOW. HE WILL WANT TO RESIST CALLS FOR THE CREATION OF NEW INSTITUTIONS (EG AN IBRD ENERGY AFFILIATE). HE WILL ALSO WANT TO RESIST ANY GENERAL ENDORSEMENT OF THE GLOBAL NEGOTIATIONS AT THE UNITED NATIONS. IN LOOKING AHEAD TO THE MEXICO SUMMIT, HE WILL WANT TO ACHIEVE SOME CONSENSUS ABOUT WHAT CAN BE EXPECTED FROM IT, WITHOUT GIVING THE IMPRESSION OF TRYING TO ESTABLISH A SOLID FRONT OF INDUSTRIALIZED COUNTRIES.

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7. ON POLITICAL ISSUES, THE PRESIDENT WILL AIM FOR A DISPLAY OF CONVICTION AND SOLIDARITY AMONG THE SUMMIT COUNTRIES ON RELATIONS WITH THE SOVIET UNION. HE WILL WANT THE SUMMIT TO EMPHASISE THE RIGHT OF COUNTRIES TO DETERMINE THEIR OWN DESTINY. HE WILL HOPE TO ACHIEVE A CONSENSUS ABOUT TIGHTER GROUND RULES FOR EAST-WEST TRADE. HE WILL ALSO AIM TO ACHIEVE SUPPORT FOR THE U.S. APPROACH TO THE PROBLEMS OF THE CARIBBEAN, AND BETTER UNDERSTANDING OF U.S. POLICIES MORE GENERALLY IN CENTRAL AMERICA AND IN THE MIDDLE EAST AND SOUTHERN AFRICA.

F.C.O. ADVANCE TO BAYNE (ERD)

OTTAWA PLEASE PASS COPIES ON TO SIR R ARMSTRONG AND SIR M PALLISER ON ARRIVAL.

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FM ROME 031210Z JULY 81

TO IMMEDIATE F C O

TELEGRAM NUMBER 258 OF THE 3RD JULY 1981

FOR INFO PRIORITY OTTAWA, WASHINGTON, BONN, PARIS, TOKYO
AND UKREP BRUSSELS.

YOUR TELNO 200 TO OTTAWA: ECONOMIC SUMMIT.

1. THE NEW ITALIAN PRIME MINISTER, SPADOLINI, WILL HAVE LITTLE TIME FOR A REALLY CONSIDERED STUDY OF THE DOSSIERS BEFORE THE HEADS OF GOVERNMENT AT THE OTTAWA SUMMIT. IT IS EARLY DAYS TO ASSESS WHERE HIS PRIORITIES WILL LIE, THOUGH YOU AND THE PRIME MINISTER MAY HAVE FORMED AN IMPRESSION AT LUXEMBOURG.
2. ACCORDING TO HIS STAFF, HIS BRIEF WILL SET OUT THE PRINCIPAL ITALIAN PREOCCUPATIONS AT THE SUMMIT AS FOLLOWS:
 - A. THE INTERNATIONAL ECONOMIC SITUATION. ALTHOUGH HIS TREASURY MINISTER, ANDREATTA HAS BEEN MAKING BELLIGERENT NOISES, SPADOLINI HIMSELF WILL BE ANXIOUS NOT TO PROMOTE CONFRONTATION WITH THE US OVER ECONOMIC POLICY WHICH HE

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Head ECR.
Planning Staff
Head ECR (E)
Lord Budge
Mr Bullard
Mr Evans.
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TREASURY MINISTER, ANDREATTA HAS BEEN MAKING BELLIGERENT NOISES, SPADOLINI HIMSELF WILL BE ANXIOUS NOT TO PROMOTE CONFRONTATION WITH THE US OVER ECONOMIC POLICY WHICH HE REGARDS AS INSEPARABLE FROM EUROPEAN/US RELATIONS ON THE POLITICAL PLANE, AT A TIME WHEN THE POLITICAL DANGERS OF RUSSIAN EXPANSIONISM ARE AT LEAST AS GREAT AS THE TEMPORARY EFFECTS OF CURRENT US ECONOMIC POLICIES ON EUROPE. HE WILL, HOWEVER, REGARD IT AS QUITE LEGITIMATE, IN LINE WITH THE CONCLUSIONS OF THE EUROPEAN SUMMIT AT LUXEMBOURG, TO DRAW ATTENTION, IN THE CONTEXT OF A DISCUSSION OF WORLD ECONOMIC PROBLEMS WITH THE US, TO THE EFFECTS OF US ECONOMIC POLICIES ON THE ECONOMIES OF HER PRINCIPAL PARTNERS.

- B. THE NORTH/SOUTH DIALOGUE. THE ITALIAN LINE IS THAT IN THE INTERESTS OF THE FUTURE HEALTH OF THE WORLD ECONOMY THE LDCS SHOULD BEGIN TO SEE THEMSELVES AS AN IMPORTANT ECONOMIC BLOC WHICH WOULD BENEFIT FROM DEVELOPMENT ON THE WESTERN ECONOMIC MODEL, RATHER THAN PLAYING OFF EAST AGAINST WEST IN THE INDUSTRIALISED WORLD. TO ACHIEVE THIS THE INDUSTRIALISED COUNTRIES MUST NOT ONLY GIVE GENEROUS DEVELOPMENT ASSISTANCE BUT MUST ALSO ACCEPT THE COMMERCIAL CONSEQUENCES. (IT REMAINS TO BE SEEN WHETHER THIS RETORICAL LINE WILL BE BACKED BY SUBSTANTIAL ITALIAN POLICIES IN FAVOUR OF THE THIRD WORLD.) ON THE OTHER HAND, THE LDCS SHOULD RECOGNISE WHAT THE INDUSTRIALISED COUNTRIES HAVE DONE ALREADY BY WAY OF CONTRIBUTION TO OPPORTUNITIES FOR GROWTH. THE ITALIANS REGARD THE CANADIAN DOCUMENT ON NORTH/SOUTH AS INSUFFICIENTLY ROBUST ABOUT INDUSTRIALISED COUNTRIES' CONTRIBUTIONS SO FAR.
- C. INTERNATIONAL TRADE. THE ITALIANS ACCEPT THAT IN PRACTICE THIS MEANS DISCUSSION OF TRADE RELATIONS WITH JAPAN. THEIR OWN VIEW IS NOT VERY COHERENT. THEY WILL NOT TAKE THE LEAD IN CALLING FOR JAPANESE RESTRAINT, SINCE THEIR OWN SYSTEM OF NON-TARIFF BARRIERS AND QUANTITATIVE RESTRICTIONS SHIELDS THEM FROM THE WORST EFFECTS OF JAPANESE COMPETITION. BUT THEY SUPPORT THE PRINCIPLE THAT THE JAPANESE AUTHORITIES SHOULD BRING PRESSURE TO BEAR ON JAPANESE EXPORTERS TO LAY OFF EUROPEAN MARKETS TO GIVE A BREATHING SPACE TO ALLOW THE EUROPEANS TO IMPROVE THEIR OWN SALES TO JAPAN. (THE ALSO FEAR BEING SQUEEZED OUT OF THIRD MARKETS).
- D. ENERGY. THE ITALIANS TAKE THE VIEW THAT THE PRESENT WORLD SUPPLY/DEMAND SITUATION IS BROADLY SATISFACTORY., THE VENICE OBJECTIVES REMAIN ON COURSE.. WHAT IS NEEDED IS CONTINUING

D. ENERGY. THE ITALIANS TAKE THE VIEW THAT THE PRESENT WORLD SUPPLY/DEMAND SITUATION IS BROADLY SATISFACTORY., THE VENICE OBJECTIVES REMAIN ON COURSE., WHAT IS NEEDED IS CONTINUING VIGILANCE., THIS TOPIC SHOULD NOT TAKE UP MUCH TIME AT THE SUMMIT.

3. I WOULD NOT EXPECT SPADOLINI TO PLAY A VERY PROMINENT ROLE WHEN HE IS SO NEW TO THE JOB AND THERE ARE NO SPECIFIC, CLEARLY DIFINED, ITALIAN OBJECTIVES TO SECURE, BUS AS A REPUBLICAN HE MAY BE ANXIOUS TO MAKE HIS MARK WITH THE NEW US ADMINISTRATION.

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TO IMMEDIATE F C O

TELNO 2033 OF 3 JULY 1981,

AND TO IMMEDIATE OTTAWA.

Head ERB.
Planning Staff

Head EESTB

Head DESK

Head Bridges

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OTTAWA SUMMIT: DISCUSSION OF POLITICAL ISSUES

1. I UNDERSTAND FROM STREEB (EXECUTIVE ASSISTANT TO RASHISH FOR SUMMIT QUESTIONS) THAT AT A BRIEFING MEETING ON 1 JULY, SECRETARY HAIG INSTRUCTED RASHISH TO TRY TO GET AGREEMENT THAT DISCUSSION OF POLITICAL QUESTIONS AT OTTAWA SHOULD BE CONCENTRATED INTO TWO SESSIONS:-

- (A) THE MEETING OF FOREIGN MINISTERS ALREADY PLANNED FOR THE EVENING OF SUNDAY 19 JULY:
- (B) A LUNCH OF HEADS OF GOVERNMENT AND FOREIGN MINISTERS TOGETHER ON MONDAY 20 JULY. IF ACCEPTED THIS WOULD REPLACE THE PLANNED LUNCH FOR HEADS OF GOVERNMENT ONLY THAT DAY.

2. THE BACKGROUND TO THIS IS SOME CONCERN ON HAIG'S PART THAT WHILE THE PRESIDENT IS AT HOME ON THE BROAD ISSUES OF ARMS CONTROL AND RELATIONS WITH THE SOVIET UNION, HE WILL WANT HAIG'S SUPPORT WHEN IT COMES TO MORE DETAILED FOREIGN POLICY ISSUES.

3. RASHISH HAS ASKED THAT WE SHOULD LET SIR R ARMSTRONG AND SIR M PALLISER KNOW IN ADVANCE OF HIS INTENTION TO RAISE THIS AT MONTEBELLO. ACCORDING TO STREEB, RASHISH DOES NOT INTEND TO MENTION IT TO OTHERS BEFORE HE GETS THERE.

OTTAWA PLEASE PASS COPIES TO SIR R ARMSTRONG AND SIR M PALLISER ON ARRIVAL.

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FM TOKYO 030545Z JUL

TO IMMEDIATE FCO

TELNO 417 OF 3 JULY INFO OTTAWA, UKREP BRUSSELS, WASHINGTON,
PARIS, BONN, ROME.

YOUR TELNO 200: OTTAWA SUMMIT

to RD BRIGGS

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1. PRIME MINISTER SUZUKI'S CREDIBILITY AS AN OPERATOR IN INTERNATIONAL AFFAIRS HAS STILL NOT RECOVERED FROM HIS MISHANDLING OF THE JAPAN/US COMMUNIQUE CONTROVERSY AFTER HIS VISIT TO WASHINGTON IN MAY. HIS VISIT TO EUROPE IN MID-JUNE IS VIEWED HERE AS ONLY A MODERATE SUCCESS. HIS APPROACH TO THE SUMMIT IS THEREFORE LIKELY TO BE HIGHLY CAUTIOUS. HE WILL CONFINE HIMSELF AS MUCH AS POSSIBLE TO 'HARMONIOUS GENERALITIES' AND AVOID CONTROVERSY. THIS LOW POSTURE NOT ONLY FITS IN WITH SUZUKI'S OWN CHARACTER AND PREDILECTIONS, BUT IS SEEN BY OFFICIALS AS BEING SENSIBLE FROM A NATIONAL VIEWPOINT WHEN JAPANESE TRADE POLICY MAY COME UNDER CRITICAL SCUTINY.

2. ON MACRO-ECONOMIC MATTERS, HE WILL WISH THE SUMMIT TO DEMONSTRATE AS UNITED AN APPROACH AS POSSIBLE TO THE OUTSIDE WORLD. THE JAPANESE REGARD THE REPORTED DIFFERENCES ON INFLATION/UNEMPLOYMENT BETWEEN SUMMIT PARTICIPANTS AS ONES OF EMPHASIS. AN PUBLIC PRESENTATION RATHER THAN OF SUBSTANCE AND ARE NOT LIKELY TO HAVE STRONG VIEWS ON COMMUNIQUE LANGUAGE. SUZUKI IS REPORTED TO HAVE TOLD THE US AMBASSADOR EARLIER THIS WEEK THAT HE DID NOT INTEND TO RAISE US INTEREST RATES AT THE SUMMIT.

3. ON RELATIONS WITH THE DEVELOPING COUNTRIFU, SUZUKI WILL WISH TO PRESERVE JAPAN'S REPUTATION WITH THZI SOUTH AS A COUNTRY SYMPATHETIC TO ITS ASPIRATIONS. HE WILL THEREFORE WISH THE SUMMIT TO DEMONSTRATE UNDERSTANDING OF THE PROBLEMS OF THE DEVELOPING WORLD, RECOGNISING IN PARTICULAR THE IMPORTANCE OF ODA, WHILE AVODING ANY NEW AID COMMITMENT. IN DISCUSSION OF GLOBAL NEGOTIATIONS HE WILL GIVE DISCRETE SUPPORT TO THOSE CRITICAL OF THE AMERICAN VIEWPOINT.

4. ON INTERNATIONAL TRADE, HIS AIM WILL BE TO SECURE A COMMITMENT BY THE SUMMIT TO FREE TRADE AND AVOIDANCE OF PROTECTIONISM. HE WILL ATTEMPT TO DEFLECT CRITICISM OF JAPAN'S TRADE POLICIES BY URGING THAT A MULTILATERAL RATHER THAN BILATERAL APPROACH SHOULD BE ADOPTED TO CORRECT TRADE FRICTIONS AND WILL STRESS THE DESIRABILITY OF GREATER INDUSTRIAL AND TECHNOLOGICAL COLLABORATION AS A MEANS ALSO OF OVERCOMING THEM.

5. ON EAST/WEST ECONOMIC RELATIONS , WHILE
RECOGNISING THAT STRATEGIC CONSIDERATIONS ARE OF SOME
IMPORTANCE WHEN ALLOCATING ODA E.G. JAPANESE AID TO
TURKEY, PAKISTAN AND THAILAND SUZUKI IS LIKELY TO
ARGUE THAT THEY ARE ONLY ONE FACTOR AMONG MANY TO BE
BORNE IN MIND IN DETERMINING AID POLICY.

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MR RICKETT

Ottawa Economic Summit: Briefing Meeting

The Prime Minister is to hold a briefing meeting for the Ottawa Economic Summit at 4.00 pm on Thursday 16 July. We need to consider who should attend the meeting in addition to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer, who are going to the Summit.

2. The Secretaries of State for Trade and Energy will not be going to Ottawa, but the Prime Minister may feel that they should be invited to the briefing meeting. She may also wish to consider inviting the Minister for Overseas Development (Mr Marten).

3. Sir Robert Armstrong thinks that, apart from himself, the following officials should be at the briefing meeting: Sir Michael Palliser, Sir Kenneth Couzens (who will both also be going to Ottawa), Sir Kenneth Clucas, Sir Donald Maitland and Sir Peter Preston. I should be grateful if you could let me know whether you agree with these proposals so that we can arrange for those involved to be invited.

Agreed

D J Wright
D J WRIGHT

2 July 1981

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Prime Minister
Content with these suggestions?
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FM OTTAWA 302135Z JUN 81

TO PRIORITY FCO

TELEGRAM NUMBER 317 OF 30 JUNE

INFO ROUTINE WASHINGTON, PARIS, BONN, TOKYO, ROME, UKREP BRUSSELS

MIPT (attached)

OTTAWA SUMMIT: NORTH/SOUTH ITEM

1. IF IT PROVES IMPOSSIBLE TO REACH THE SORT OF AGREEMENT ON NORTH/SOUTH ISSUES MR TRUDEAU HAS IN MIND, IT IS LIKELY THAT HE MAY SEEK TO LAY THE BLAME ON THE UK AND THE US. THE GROUNDWORK HAS ALREADY BEEN LAID FOR THIS IN TWO RECENT PUBLIC STATEMENTS BY MR MACQUIGAN WHO ON ONE OCCASION SAID:

QUOTE THE MAJORITY OF THE EUROPEAN COUNTRIES, AT LEAST I THINK, HAVE A STRONG INTEREST AND THE THATCHER GOVERNMENT IN BRITAIN CERTAINLY HASN'T BEEN IN ANY WAY OBSTRUCTIVE. I THINK IT'S NOT A HIGH PRIORITY OF THEIRS BUT THEY HAVEN'T BEEN CAUSING ANY PARTICULAR DIFFICULTY OVER IT. UNQUOTE

[Ltd Distr (NH/ST)]
ADVANCE COPY

Hd/ERD

Hd/En SSD

Hd/Planning Staff

Hd/TRED

Hd/ESID

Hd/ECOD (E)

Hd/UMD

ODA (APD)

PS

PS/LPS

PS/McHurd

PS/McNorton

PS/PUS

Mr. Brattkwaite

No 10 DS.

(-14)

ml

NOT A HIGH PRIORITY OF THEIRS BUT THEY HAVEN'T BEEN CAUSING ANY PARTICULAR DIFFICULTY OVER IT. UNQUOTE

AND ON ANOTHER QUOTE ASIDE PERHAPS FROM GREAT BRITAIN AND OF COURSE THE UNITED STATES WHICH HAS CONCERNS OF ITS OWN, THE OTHER SUMMITTEERS BY AND LARGE ARE QUITE INTERESTED IN NORTH/SOUTH ISSUES AND QUITE INTERESTED IN ADVANCING THEM. UNQUOTE

SPEAKING SPECIFICALLY OF THE AMERICANS, MACGUIGAN WENT ON:

QUOTE WE URGE THEM AND ALL OTHER COUNTRIES TO INCREASE THEIR SPENDING ON FOREIGN AID. THE AMERICAN RECORD IS RATHER PITIABLE. THERE WERE SOME SUGGESTIONS THAT WE WEREN'T DOING WELL. WHILE WE'RE GETTING UP TO POINT FIVE PER CENT OF OUR GNP THE AMERICANS ARE LESS THAN HALF THAT AND THEY HAVE A LONG WAY TO GO BEFORE THEY ARE EVEN RESPECTABLE AMONG COUNTRIES WITH RESPECT TO THE AMOUNT OF FOREIGN AID THEY GIVE. UNQUOTE

2. IN THE LIGHT OF THESE STATEMENTS I HAVE IN A TELEVISION INTERVIEW, POINTED OUT THAT WE ARE CURRENTLY GIVING TWO BILLION DOLLARS GOVERNMENT AID PER ANNUM AND INVESTING FOUR AND A HALF BILLION POUNDS IN THE THIRD WORLD, MORE THAN FRANCE AND GERMANY PUT TOGETHER.

MORAN

NNNN

MP FCO

[Ltd Distr]
ADVANCE COPY

RR UKREP BRUSSELS

RR WASHINGTON

RR BONN

RR PARIS

RR TOKYO

RR ROME

GRS 470

Hd/ORD

Hd/Planning Staff

Hd/EESD

Hd/ENSSD

Hd/ESID

Hd/ECDD (E)

Hd/TRED

Hd/MAED

Mr. Braithwaite

PS.

No 10 DS.

X-10

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FM OTTAWA 302101Z JUN 81

TO PRIORITY FCO

TELEGRAM NUMBER 316 OF 30 JUNE

INFO ROUTINE UKREP BRUSSELS, WASHINGTON, BONN, PARIS, TOKYO, ROME

YOUR TELNO 200

OTTAWA ECONOMIC SUMMIT - OBJECTIVES OF PARTICIPANTS

1. AS YOU AND THE PRIME MINISTER SAW MR TRUDEAU ON 26 JUNE YOU WILL KNOW HIS LATEST THINKING. SO FAR AS THE CANADIANS ARE CONCERNED THE SUMMIT IS VERY MUCH HIS PERSONAL AFFAIR. AS A PRIME MINISTER WITH EXCEPTIONAL EXPERIENCE AND ABSOLUTE FLUENCY IN BOTH FRENCH AND ENGLISH HE WILL HAVE ADVANTAGES AS HOST AND CHAIRMAN WHICH HE CAN BE EXPECTED TO EXPLOIT TO THE FULL.
2. HE WILL, I BELIEVE, BE ABOVE ALL ANXIOUS TO ENSURE THAT THE SUMMIT CAN BE PRESENTED PUBLICLY AS A SUCCESS FOR WHICH CANADA AND HE PERSONALLY CAN TAKE MUCH OF THE CREDIT. HE WILL DO ALL HE CAN TO AVOID DISAGREEMENTS THAT CANNOT BE PAPERED OVER.
3. ON MACRO-ECONOMIC MATTERS HE WILL SUPPORT MOVES FOR CLOSER INTERNATIONAL CO-OPERATION TO ENSURE THAT THE EFFECTS IN OTHER COUNTRIES OF NATIONAL ECONOMIC POLICIES - PARTICULARLY US POLICY - ARE TAKEN INTO ACCOUNT AND CAN BE MONITORED. CANADA IS LIKELY TO BE AMBIVALENT ABOUT US INTEREST RATE POLICIES ALTHOUGH THESE AFFECT CANADA MORE DIRECTLY THAN ANY OTHER COUNTRY. GIVEN THE

ARE TAKEN INTO ACCOUNT AND CAN BE MONITORED. CANADA IS LIKELY TO BE AMBIVALENT ABOUT US INTEREST RATE POLICIES ALTHOUGH THESE AFFECT CANADA MORE DIRECTLY THAN ANY OTHER COUNTRY. GIVEN THE LEVEL OF INFLATION AND THE CONTINUING FEDERAL DEFICIT THE BANK OF CANADA'S POLICY IS TO IMPOSE MONETARY RESTRAINT AND HIGH INTEREST RATES. THIS COINCIDES WITH US POLICY AT PRESENT AND THE US IS A CONVENIENT SCAPEGOAT, BUT CANADA HAS LITTLE OR NO ROOM TO MANOEUVRE IN FUTURE.

4. MR TRUDEAU HAS STRESSED NORTH/SOUTH AS ONE OF THE MOST IMPORTANT THEMES OF THE SUMMIT. HE IS GENUINELY INTERESTED IN THE SUBJECT AND IN REINFORCING CANADA'S ROLE AS A BRIDGE BETWEEN DEVELOPING AND DEVELOPED COUNTRIES. BUT CANADA'S ABILITY TO ACT IS LIMITED BY HER INABILITY AND UNWILLINGNESS TO MAKE DRAMATIC INCREASES IN AID EXPENDITURES AND HER RELUCTANCE TO LIBERALISE HER TRADE POLICY FURTHER IN THE INTERESTS OF LESS DEVELOPED COUNTRIES. MR TRUDEAU WILL BE LOOKING FOR AN AGREEMENT AT THE SUMMIT WHICH WILL ALLOW HIM TO SHOW THAT THE ISSUE HAS BEEN DISCUSSED SERIOUSLY AND CONSTRUCTIVELY AND, IDEALLY, THAT NO DECISIONS HAVE BEEN TAKEN WHICH PREJUDGE SUMMIT COUNTRIES' POSITIONS AT THE MEXICO SUMMIT. ON THIS PLEASE ALSO SEE MY MIFT.

5. ON TRADE, MR TRUDEAU WILL CONTINUE TO SUPPORT A RELATIVELY OPEN SYSTEM. CANADA IS CONCERNED ABOUT THE RISING LEVEL OF JAPANESE - NOTABLY CAR - IMPORTS, BUT IN VIEW OF THE HEALTHY TRADE SURPLUS WITH JAPAN IS UNLIKELY TO TAKE THE LEAD AND WILL FOLLOW IN THE WAKE OF THE COMMUNITY ON THIS SUBJECT.

6. ON ENERGY, MR TRUDEAU WILL SEEK TO AVOID COMPROMISING THE PRINCIPLES AND PRICING SCHEDULES LAID DOWN IN THE NATIONAL ENERGY PROGRAMME ALTHOUGH IT NOW LOOKS AS IF, IN THE LIGHT OF TALKS WITH ALBERTA, THE FEDERAL GOVERNMENT MAY BE PREPARED TO MAKE CONCESSIONS OVER PRICES WHICH WILL GIVE CANADA MORE FLEXIBILITY IN INTERNATIONAL FORA. NEVERTHELESS THE PRINCIPLE OF ECONOMIC PRICING HAS STILL NOT BEEN FULLY CONCEDED AND CANADA WILL ALSO CONTINUE TO DISCRIMINATE IN FAVOUR OF CANADIAN OIL COMPANIES.

MORAN

NNNN

SIR ROBERT ARMSTRONG

Briefing for the Ottawa Economic Summit Meeting

The Prime Minister has seen your minute to me of 25 June on this subject. She is content with the list of briefs attached to your minute.

MICHAEL ALEXANDER

29 June 1981

9

W. Harris

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10 DOWNING STREET

From the Private Secretary

26 June, 1981

Copy filed on

*Canada April 80
Visit of Mr. Trudeau*

file

Dear Rodric,

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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- 4 -

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).

Yours ever

Michael Alexander

Roderic Lyne, Esq
Foreign and Commonwealth Office

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Ref. A05164

MR. ALEXANDER

①
Prime Minister
Yes not
Continue with attached list of
briefs?
Rmt

Briefing for the Ottawa Economic Summit

I minuted the Prime Minister on 12th June about the preparations for the Ottawa Economic Summit, following the meeting of Personal Representatives in Vancouver. There is to be a further meeting of Personal Representatives from 6th to 8th July when we expect to conclude our preparations as far as the documentation for the Summit is concerned. The Canadians will also then no doubt let us have the final programme.

2. I should now like to put in hand the preparation of briefing for the Summit so that we can let you have it by Friday, 10th July, so that it is available for reading over the weekend before the briefing meeting for the Summit which has, I understand, been arranged for Thursday, 16th July at 4.00 pm. The briefs will have to cover both economic and political topics. Although some modification of the list may be necessary after the final meeting of Personal Representatives, I think that the attached list is about as comprehensive as it can be for the time being. If you agree, I will arrange for these briefs to be commissioned and for their preparation to be co-ordinated by the Cabinet Office. In preparing briefs, Departments will be instructed to bear in mind the fact that we will be participating in this Summit not only in our own right but also by virtue of our Presidency of the European Community.

RA

ROBERT ARMSTRONG

25th June, 1981

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LIST OF BRIEFS FOR OTTAWA ECONOMIC SUMMIT 19th-21st JULY 1981

<u>PMVL(81)</u>	<u>Subject</u>	<u>Lead Department</u>	<u>In consultation with</u>
1.	Steering Brief	FCO	Treasury Trade Energy
	<u>Economic Subjects</u>		
2.	International Economic and Monetary Situation (including interest rates)	Treasury	FCO
3.	(a) Relations with Developing Countries (i. e. the Aid Study)	FCO	Treasury and as appropriate
	(b) Mexico Summit	FCO	Treasury and as appropriate
4.	Trade (including EC, Japan)	Trade	FCO Treasury
5.	Energy	Energy	FCO Treasury
6.	East-West Trade	FCO	Treasury Trade and as appropriate
7.	Communique: Economic Subjects	Treasury	FCO Trade and as appropriate
	<u>Political Subjects</u>		
8.	East-West Relations (including Poland, Afghanistan, Cambodia)	FCO	Treasury and as appropriate
9.	Other Crisis Areas (e.g. Middle East, including Lebanon, South Africa and Namibia)	FCO	Treasury and as appropriate

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<u>PMVL(81)</u>	<u>Subject</u>	<u>Lead Department</u>	<u>In consultation with</u>
10.	Other Questions (eg Refugees, Terrorism including hi-jacking, Law of the Sea)	FCO	as appropriate
11.	Consultations and Crisis Management (if Canada produces paper as promised)	FCO	as appropriate
12.	Communique: Political subjects	FCO	as appropriate
	<u>Others</u>		
13.	Bilateral Meetings	FCO	as appropriate

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Copy filed
Canada April 80
Visit of Mr. Trudeau

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

Ref: A05155

25th June 1981

Dear Andrew,

Visit of Mr. Trudeau

The Canadian High Commissioner, Mrs. Jean Casselman Wadds, called at her own request on Sir Robert Armstrong on Tuesday, 23rd June. She was accompanied by the Minister in the Canadian High Commission, Mr. Christian Hardy, and by Mr. Richard Howard.

Mrs. Wadds said that she wished to have Sir Robert Armstrong's views on the Prime Minister's approach to the forthcoming Ottawa Economic Summit and on the Summit's main themes in advance of Mr. Trudeau's visit on Friday, 26th June.

Sir Robert Armstrong said that the Prime Minister was looking forward to this occasion as an opportunity for the Heads of State or Government (four of whom would be new to office since the last Summit) to get to know each other better and to have a wide-ranging exchange of views. In particular, she thought that the Summit would be important as the first occasion on which President Reagan would be meeting and exchanging views with Heads of State or Government of his principal allies. Sir Robert Armstrong stressed the importance which the Prime Minister attached to the opportunity which the Summit would provide for an informal exchange of views rather than for reaching specific decisions. She had found that the Venice Summit had concentrated too much on trying to reach decisions and had moved too far away from the original concept of informal discussion.

As for the main themes of the Summit, Sir Robert Armstrong said that there were likely to be three: the international economic and financial situation, relations with developing countries, and Trade. On the first the continental Europeans and the Japanese would take a tough line about the impact of United States interest rates on the economies of other industrialised countries and the consequential strains which these would produce on relations within the Western Alliance. There was some sign at the recent OECD Ministerial meeting that there might be some basis for a line which would steer clear of public confrontation on these issues at Ottawa. But the position of the French Government was as yet unclear and it was difficult to be sure what effect President Mitterand's views would have on discussions at the Summit.

/On relations

R. A. Burns, Esq

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On relations with developing countries, Ottawa would present an opportunity for the industrialised world to see how far they could establish an identity of views as a prelude to Cancun. But this would not go as far as an attempt to form a united front against the interests of developing countries. In this field too, uncertainties about the position of the French Government, the reluctance of the Germans to increase their official development assistance and the reserved position of the United States towards Global Negotiations all meant that there were likely to be differences of opinion at the Summit.

On Trade, Sir Robert Armstrong thought that the Summit would acknowledge the need to preserve the principles of the open trading system against protectionist pressures. But at the same time the Europeans would be looking for some indication that the Japanese were prepared to address the trading problems which their increased exports to industrial markets presented. In response to a question Sir Robert said that the Summit would not be used for "Japan bashing" but it was important to ensure that this opportunity to keep up the pressure on the Japanese was not lost.

Mrs. Wadds asked further questions about the following subjects:-

- (a) The Communique. Sir Robert Armstrong said that the Prime Minister's wish would be for a short communique, and one not fully baked in advance.
- (b) Advance Press Briefing. Sir Robert thought that there would be little of this and only on a background basis to national Press before the Summit began.
- (c) The United States East/West paper. This was to be slightly revised to make it more interrogative. Sir Robert did not think that the United States would be looking for a planned follow-up of specific decisions.
- (d) Political Discussions. Mrs. Wadds suggested that Poland and Afghanistan would be discussed in the political exchanges. Sir Robert agreed but did not think that any declaration would be issued unless serious developments were to intervene in Poland.
- (e) Future Summits. In pointing out that the Ottawa Summit would be the last of the present cycle of Summits, Sir Robert said that he thought the Prime Minister would favour their continuance.
- (f) Energy. This was unlikely to dominate this Summit as it had done on previous occasions. But Britain would favour any encouragement which the Summit gave to further action to speed up the development of nuclear power and coal.

Mrs. Wadds also asked about the Prime Minister's views on President Mitterand. Sir Robert Armstrong pointed out that they had not yet met but would do so at the forthcoming European Council in Luxembourg. It had been apparent at the recent Vancouver meeting of Personal Representatives

/that the

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that the new French Government was tending to concentrate its attention on the social implications of economic policy and also on the "moral and ethical" dimensions of North/South Relations. But President Mitterand could be expected to adopt a fairly pragmatic approach to the problems which he faced, and there was no reason to expect any fundamental change in the French position at Ottawa.

There was also a brief exchange between Sir Robert Armstrong and Mrs. Wadds over the Canadian Constitution. Mrs. Wadds confirmed that there now seemed little likelihood of an early Supreme Court decision. The Court had risen for the holidays without pronouncing and it was unlikely to resume its sittings for some time. The Chief Justice would be in Britain next month and there was little chance of a judgment being issued in his absence.

Copies of this letter go to Jonathan Phillips (Trade), Ian Fitzpatrick (Energy), Jill Rutter (Treasury), Vi Read (ODA) and Michael Alexander (No. 10).

Yours ever,

David

(D. J. Wright)

Ref. A05135

MR ALEXANDER

Top copy
Germany, July 79
Anglo / German Relations
EE

Mr Manfred Lahnstein, the State Secretary in the Federal German Chancellery, visited London on Friday 19 June. During the course of a long conversation which I had with him, he made three points which, he made clear, he was putting at the Chancellor's request, for transmission to the Prime Minister.

The German Political Situation

2. The first point related to the complications of the Chancellor's domestic political situation and of the management of the coalition. Mr Lahnstein said that the size of Germany's budget deficit presented the Government with a great problem about the future of the social transfer system. The present system of transfer payments and social benefits had been designed and brought into effect many years ago, when a continuing high rate of economic growth was taken for granted. Since that time, German society had matured and some of the clan which fuelled the "economic miracle" had evaporated. For other reasons, not confined to Germany, a much lower rate of growth was to be expected in the coming years. Finally, demographic changes since the system was introduced, and notably the increase in the number of old people, had greatly increased the burden of the social transfer system upon the Federal budget. It was now necessary to review the whole system with a view to reducing that burden. This was something into which the Government would be turning its attention in the coming months, with a view to the 1982 budget.

3. This was potentially a very divisive political issue. Germany was conditioned to the existing system of social transfers, which was probably one element in the social cohesion of the country. It followed that a change in the system could have implications for the maintenance of social cohesion. It would also present great difficulties for the coalition. The Free Democratic Party (FDP) might well not be able to agree upon what would need to be done, and it could not be taken for granted that the FDP would be able to remain in a coalition with the Social Democrat Party (SDP) for the rest of the present Parliament.

4. The size of the budget deficit also had implications for defence planning (though these were minor), and for aid to developing countries. Here, too, there could be problems in the coalition. I asked whether it might also present problems from the point of view of the European Community; Mr Lahnstein seemed to think that this was less likely.

5. Mr Lahnstein said that the Federal Chancellor wanted the Prime Minister to be aware of this background to the way in which he would have to deal with domestic and international political problems over the coming months.

6. I said that my impression at Chequers had been that the Federal Chancellor had recovered a good deal of the resilience which appeared to have deserted him after the last election. Mr Lahnstein confirmed this, and attributed it three reasons:

- (i) He had stopped smoking, and the process of adjustment had been very hard for him, but it was now accomplished.
- (ii) He had recently had a medical check-up, and his doctors had given him a good report: that had been very reassuring.
- (iii) He felt that he had now taken the measure of his political problem: at least he knew what he had to try to achieve, and could concentrate on trying to achieve it, though he knew well enough that there could be no guarantee of success.

The Ottawa Summit

7. Mr Lahnstein and I also had some discussion of the arrangements for the Ottawa Economic Summit. On this Mr Lahnstein said that the Federal Chancellor was conscious that four of the participants (five if one included Monsieur Thörn), would be attending their first Summit. The Chancellor thought that it would be important that Heads of State or Government should have as much time as possible for unstructured and informal discussion among themselves during this meeting, so that they had a chance to get to know each other properly and have a real exchange of views. One reason for allowing more time for such discussion was the language problem: it seemed likely that on this occasion at least three of the participants would not be able to cope in English. But the more important reason lay in the need to establish a better

relationship with President Reagan, and to draw him out more extensively on international political issues.

8. Mr Lahnstein said that the Federal Chancellor did not yet know quite what to make of President Reagan. He tended to divide American Presidents into two categories: the pure figureheads like Eisenhower and those who were very much actively in charge of their Administrations, like Kennedy and Carter. President Reagan did not seem to fit neatly into either of these categories. Moreover, he would be coming to the Ottawa Summit with some definite purpose in mind and looking for some advantage or result, but the Germans had not yet worked out what that might be. For all these reasons it would be important for the other Heads of State or Government to draw him out at the Ottawa meeting, to get him to contribute to the discussion and declare his positions.

The Middle East

9. Mr Lahnstein's third main point related to the "Near East". He said that the Federal Chancellor had noted at Chequers that the Foreign and Commonwealth Secretary had said that the Camp David initiative ought to be allowed to run its course until the completion of the Sinai agreements. The discussion had not made clear what the Foreign and Commonwealth Secretary thought should happen after that, or what future he saw for the Camp David process once that was done. I said that I did not know exactly what the Foreign and Commonwealth Secretary had in mind, but that our general view was that there was no possibility of progress in the Middle East without the Americans, that the Camp David process had to be allowed to go forward to the "natural break" which would come when the Sinai agreements were completed, but that we doubted whether it had much potential to carry progress further thereafter. The process would then have to be broadened out, and one purpose of the European initiative was to prepare for that. Mr Lahnstein asked whether we envisaged that the process of broadening out should include the Russians. I said that we were thinking more in terms of a combined United States and European effort.

10. I am sending a copy of this minute to the Private Secretary to the Foreign and Commonwealth Secretary.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

23 June 1981

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Ph. Lankster
Prime Minister

PRIME MINISTER

INTERNATIONAL ECONOMIC SITUATION: US INTEREST RATE POLICIES

In his report to you of 12 June about the Vancouver meeting of personal representatives to prepare for the Ottawa Economic Summit, Sir Robert Armstrong has described the strong attack, led by the German representative, upon the United States Administration for the effects of the high level and volatility of their interest rates upon the economies and the exchange rates of their partner countries.

2. The atmosphere at the Finance Council in Luxembourg on 15 June - when we discussed the matter, formally and informally, at some length - was more restrained. We had the benefit of a full (oral) report from Gordon Richardson, as Chairman of the Committee of European Community Central Bank Governors: he had just come from their regular meeting in Basle. As recorded in Luxembourg telegram No.96 of 15 June, the Chairman, van der Stee, was able to record in his summing-up agreement that Finance Ministers should urge their Heads of State and Government to adopt a cautious approach on this subject at the Ottawa Summit. The Finance Council instructed the Monetary Committee to study the effect of interest rates on the economies of the Member States and to report in good time for a further discussion by the Finance Council at its next meeting on 6 July.
3. Other developments may alter the perspective before 19 July. But we cannot be sure what line Schmidt and Mitterrand will take

/on this issue

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on this issue at the European Council later this month and at the Ottawa Summit. They may decide, despite the moderate tone of Monday's Council, to criticise the United States sharply. We need therefore to think carefully about the line that the United Kingdom should adopt.

4. On the substance, our position appears to allow us to adopt a line intermediate between Europe and America. This may offer a chance of averting anything like a publicised quarrel between the two sides of Ottawa. A summit ending in tension and dispute on this issue could only be unhelpful to the financial and foreign exchange markets, and thus to everyone's efforts to bring better balance to their economies.

5. You have made it clear that we support all the main lines of United States policy. They are closely parallel to our own. Moreover, there are ambiguities about the European position. They claim to support the priority given to countering inflation. They have to acknowledge that a weak dollar has in the past brought severe disadvantages. They are not at all specific about what the United States should do to get lower interest rates while adhering to the basic policy and the anti-inflationary campaign. Neither France nor Italy, nor perhaps even Germany, can at present claim that they are entitled to criticise President Reagan's efforts. And the size of the German current account deficit is one reason why they - unlike the Japanese, whose current account is strong - have had to endure high interest rates in the wake of American conditions: it is not all the Americans' fault.

6. But we too are suffering in some degree from the behaviour of US interest rates. They have played a part in the recent fall in sterling, and have worsened our inflationary prospect. If, as we must expect, our current account weakens from the extreme strength of the end of 1980, we shall be more exposed to US

/interest rates.

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interest rates. It would be very hard if the effort made and embodied in this year's Budget, so as to get our interest rates down, was nullified because the US was trying to reach its monetary targets too much through interest rates and not enough through expenditure cuts or tax measures. And we cannot deny that the seemingly endless switchback movement of US interest rates is destabilising and damaging.

7. So there is good reason why we should not distance ourselves from Europe by siding wholly with the Americans, however firm our support for the thrust of President Reagan's policies.

8. Can we help to find a practical outcome to the dispute? I think we might. For one thing I am told that the American Treasury Under Secretaries with whom the issues have been discussed in several fora over recent weeks may now begin to understand more clearly that they should not expect simply to set in place policies in the United States which affect others closely, and receive uncomplaining acquiescence. At the very least there should be greater willingness to explain and discuss, and an awareness of others' problems. The Europeans for their part cannot possibly expect, and indeed would not really want, any radical departure from the American anti-inflationary policy.

9. So the line might be that we all fully support the American determination to reduce inflation and to control monetary growth. But if too much weight has to be put on high interest rates in pursuit of these objectives, harmful burdens are thrust on to the other industrialised countries, who already face their own manifold difficulties in getting their economies on to a better basis. So it is fair to ask that enough of the burden should be carried by fiscal policy. And it would be helpful if the Americans could do more to make it plain that they are not relying solely on high interest rates, that their fiscal policy

/is designed to buttress

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is designed to buttress their monetary policy, and that it will continue to do so not only this year but as the subsequent years of the President's programmes evolve. In addition we invite the Americans to consider again very earnestly whether they cannot reduce the volatility of their interest rates. This might involve looking at major changes in methods: but one thing which might be avoided somehow is the apparently excessive attention paid to the published weekly figures - in the UK we try to avoid too much emphasis being given even to monthly figures. Finally, we ask the Americans to bear in mind more generally that the fact that the dollar is the main world reserve currency does impose responsibilities on US policy-making, which include having regard to the effects of policy on others.

10. The European countries might want to press still harder the point about the US having responsibilities to others. But I do not believe that, when it comes to the point, Chancellor Schmidt would be able to bring himself to deny the correctness of the anti-inflationary stance; and I have not heard that any of the Europeans have more positive proposals to make about US methods of achieving their ends than the ones I have outlined. So I think that if you were to speak on broadly these lines you might find that you had made a contribution to a more harmonious Summit.

11. I am very conscious of the need not to part company from the Germans over this, if we can help it, since we need their support over other important Community matters in the coming months. But we do support President Reagan's approach. And, however frank the discussion in the course of the Ottawa Summit, it would be very serious if it could not be brought, at the end, to some kind of an agreed conclusion.

12. We shall be offering you a speaking note for the European Council.

13. I am sending copies of this minute to the Foreign Secretary and to Sir Robert Armstrong.

h.m. (G.H.)

18 June 1981

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Team Pol JS

SIR ROBERT ARMSTRONG

ECONOMIC SUMMIT: MEETING WITH PERSONAL
REPRESENTATIVES

The Prime Minister has seen and taken note
of your minute to me of 12 June.

She has asked that the following statistics
should be included in her briefing for the Summit:

- (a) deficits of the participating
countries as a percentage of their GDP;
- (b) oil prices at the time of the last
two Summits;
- (c) defence expenditure as a proportion
of GDP.

I should be grateful if you could arrange
this.

MODBA

15 June 1981

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Ref. A05057

PRIME MINISTER

Meeting of Personal Representatives, 4 to 6 June 1981

Personal Representatives met in Vancouver last week to continue their preparations for the Ottawa Economic Summit.

2. The former French representative, Monsieur Bernard Clappier, resigned after the French Presidential election; and though I believe that he was asked to see this Summit through, there was no Personal Representative of the French President at our meeting. France was represented by Monsieur Jean-Claude Paye, of the French Foreign Ministry (who has regularly accompanied the Personal Representative to these meetings). Since the meeting the President has announced the appointment as his Personal Representative of Monsieur Jean-Marcel Jeanneney (71), formerly a Professor of Social and Political Economics and a Minister in President de Gaulle's Governments in the 1950s and 1960s. Monsieur Jeanneney first declared himself as a supporter of Monsieur Mitterrand in the second round of the 1974 Presidential elections (he had supported Monsieur Chaban-Delmas in the first round). He was Chairman of a committee on co-operation with developing countries, and has written books on international economics. He is also Monsieur Paye's father-in-law.

3. Monsieur Paye indicated that we were not to expect great changes in the new President's approach to Summit issues, as compared with his predecessor's, though there might be a more social dimension to his thinking on economic issues (the French contribution to yesterday's "Jumbo" Council of Ministers tends to confirm this), and in his election campaign he had stressed the moral and ethical dimensions of aid to the developing countries.

4. The Italian Personal Representative was present and active, but was clearly uncertain whom he was representing and who would represent Italy at Ottawa.

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5. Our discussions in Vancouver suggested that the three principal issues with which the Ottawa Summit will have to deal are the international economic situation, relations with the developing countries, and trade. The President of the United States will want a good politico-economic discussion on East-West relations - not least with the object of diverting attention from United States interest rates and questions of aid to the developing countries. Energy seems likely to feature less significantly this time than at the previous two Summits: the oil market is at present relatively easy, and there has been reasonably good progress towards the medium-term objectives laid down at Venice for energy conservation and use and development of alternative sources. But Heads of State or Government will be invited to eschew complacency, and to emphasise the need to improve progress on the development of the exploitation of coal and on nuclear energy.

INTERNATIONAL ECONOMIC SITUATION

6. The most significant feature in our meeting was the development of a strong attack upon the United States Administration for the effects of the high level and volatile movements of their interest rates upon the economies and the exchange rates of their partners. The attack was led by the German Personal Representative, speaking from the text of a speech by the Federal Chancellor in the Bundestag on 3 June, and making his points strongly and repeatedly. Herr Schmidt was quoted as saying that, if the United States continued to keep their interest rates at present levels and to rely on this instrument for the achievement of their inflation objective as exclusively as they were now doing, at best the recovery of the German and other European economies would be delayed and at worst there would be a major economic crisis in Europe. He was supported by the French representative, who spoke of United States interest rate policies as "killing our economies"; and the Japanese were apprehensive about the effects on the exchange rate of the yen. The Canadians were less critical at the meetings, but are hardly less apprehensive in private. The British representatives said that the British Government was in sympathy with the objectives and thrust of United States economic policy, but reminded the United States representatives that the fact that the dollar was the principal international reserve currency imposed certain responsibilities on the United States Administration, whether they liked it or not, to consider the international consequences of their domestic policies. A representative of the United States Treasury put up a robust, not to say unyielding, defence of the United States' position. He regretted the effects on other economies, but said that their partners had

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pressed them to reduce inflation: how else would the partners suggest the United States might proceed? Suggestions included greater reliance on fiscal policy, but the United States Treasury representative denied that there was any direct link between budget deficits and interest rates, and sought to throw the brunt of the blame on to the Federal Reserve System. The United States Personal Representative (Mr Rashish, from the State Department) said that his Treasury colleague had no room for manoeuvre, though the Secretary of the Treasury and the Secretary of State might have a little, and the President a little more. The President had a policy, but he was sensitive to its impact upon others, and would listen to reasonably argued and non-confrontational representations. Mr Rashish acknowledged that there had been some failure of consultation, and thought that we should consider how to improve the process: perhaps Heads of State or Government at Ottawa could agree upon modalities for improved consultation on the impacts of domestic economic policies on other countries.

7. This is clearly going to be a principal subject of discussion at Ottawa. The Federal Chancellor, and probably the French President, will be highly critical of the effects of United States economic policies, and particularly of the level and volatility of their interest rates, on the German and French economies; and they will no doubt wish to be able to tell their national media that they have been. We shall have to consider carefully how you should play the hand at Ottawa (and before), and what our role should be. My discussions at Ottawa on the way home showed that the Canadians had not overlooked the American suggestion that Heads of State or Government should agree upon modalities of improved consultation. Some degree of confrontation may be unavoidable, but there may be a prospect of finding common ground on a greater American acknowledgement of the need to control their fiscal deficit, on some response on the volatility of their interest rates, and at least on a measure of agreement on a procedural proposal on modalities of consultation.

RELATIONS WITH THE DEVELOPING COUNTRIES

8. We considered a revised (Canadian) draft of the report commissioned from the Personal Representatives at the Venice Summit on aid policies and practices. It was shorter than the first draft, but still unnecessarily long; and, although there was not a great deal that we need positively object to, there were some points on which we may well not be able to

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reach agreement, and it may be necessary to report conflicting positions. My well-intentioned proposals for shortening the paper did not go down very well with the Canadians (or others), but I fell back on a proposal for a short summary at the beginning of the paper, and this was accepted. The intention is that it should be really short - three pages - and confined to the essential points for Heads of State or Government.

9. The German representative, who is close to the Federal Chancellor, remains robustly realistic and hard-nosed on these matters; but even he recognises the political pressures in Germany for greater openness towards the developing world, and the German position at the Summit itself may reflect more of Herr Genscher than was evident to us. The United States representatives seemed to us to be notably more cautious and less hawkish on this subject than at our previous meetings: they talked about the United States being "aware of her responsibilities", and we heard less about their reservations on the international financial institutions and on multilateral aid. They continued to have deep reservations about the Global Negotiations; but they were clearly wanting to adopt a reasonably conciliatory approach to the "North-South" Summit at Cancun in October.

10. The Personal Representatives' Report is to be further revised, in the light of our discussion, and will be considered again, together with draft communique language, at the final meeting of Personal Representatives early next month.

TRADE

11. There was general approval for an unexceptionable Japanese paper on the importance of preserving the principles of the open trading system and of resisting tendencies to protectionism. It was agreed to propose to Heads of State or Government that they should call for a Ministerial meeting of the GATT next year, to pursue progress on the follow-up to the Tokyo Round. The representatives of the Presidency of the Council of Ministers and the President of the Commission on the European Community (EC), supported by all the representatives of EC member countries, said that it would be necessary to discuss at Ottawa, within the context of the world trading system, the strains caused by persistent large imbalances of trade

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among the industrialised countries (ie the problems of Japanese exports to the EC and to North America, and the difficulties of access for imports to the Japanese market). The representative of the President of the Commission said that the Commission would be proposing arrangements to keep these problems under review, and would also propose draft communique language on this subject.

OTHER MATTERS

12. It remains the intention that Heads of State or Government should meet on their own (with or without Monsieur Thorn) for dinner on the evening of Sunday, 19 July for a wide and free-ranging political discussion.

13. The United States have tabled a paper on East-West trade in the post-détente era. Essentially it proposes, not that the West should not trade with the East, but that there should be more careful and deliberate calculation of political costs and benefits in the approach to trade with the Soviet Union and East European countries, with a view to minimising Western dependence on Soviet sources of energy and materials, eliminating subsidies to the Eastern bloc, and minimising the political advantages accruing to the Soviet Union from trade with the West. The Americans are looking for a discussion of these issues at Ottawa, partly (I think) with a view to diverting attention away from their interest rate policies and aid questions. They see the discussion as part of a continuing debate, but not for decisions or declarations. On this basis the Germans will be content to have a discussion, though they are extremely wary on the issues. That discussion will no doubt spill over into the purely political aspects of East-West relations.

* 14. Whether or not there needs to be any kind of political declaration from Ottawa - as there was on Afghanistan from Venice - really depends on what happens in Poland. If the situation remains as it is, probably no need; if the Russians invade, or there is some dramatic deterioration in the situation, there may well need to be. Political Representatives will meet separately, early in July, to consider whether any current issue calls for such a declaration and, if so, what it should say.

* As you know we are now floating the idea of a general declaration on East West relations. *And*

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15. A draft declaration on hijacking and international terrorism is likely to be submitted to the Heads of State or Government at Montebello. It will have been fully discussed and, probably, agreed in advance.

ARRANGEMENTS

16. The present plan calls for the whole circus to move from Montebello to Ottawa at breakfast time on the morning of Tuesday, 21 July, for a morning session in the Parliament Building, lunch with the Governor-General, and a Press Conference later in the day. This will no doubt be fine, if proceedings have gone smoothly the previous day and the conference has dealt with all the issues sufficiently to enable Personal Representatives to get the drafting of the communique near to finality overnight. If there is a lot of unfinished business when the conference adjourns on Monday evening, the arrangements on Tuesday may be both inconvenient and chaotic; but we have to face that it will not be at all easy to change them.

CONCLUSION

17. I am sending copies of this minute to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer, and to the Secretaries of State for Trade and Energy.

RIA

Robert Armstrong

12 June 1981

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SECRET - BURNING BUSH

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10 DOWNING STREET

From the Private Secretary

12 June 1981

Political Discussion at the Ottawa Summit

The Prime Minister has seen your letter to me of 12 June on this subject. She would be content for our representative at the meeting of Political Directors on Monday 15 June to float the idea of making a declaration at Ottawa on East-West relations.

M. O'D. B. ALEXANDER

Brian Fall, Esq.,
Foreign and Commonwealth Office.

SECRET - BURNING BUSH

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Top Copy
Foreign Policy
for 80, Quadripartite
mtgs.

Ref. A05061

MR. ALEXANDER

I attach a report to the Prime Minister on last week's meeting of Personal Representatives. I have sent copies of the report to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, and the Secretaries of State for Trade and Energy.

2. This afternoon I had a talk with the American Personal Representative, Mr. Myer Rashish, who is in London on his way to meetings in Paris next week. He is proposing that, when Personal Representatives have their final pre-Summit meeting early next month, they should devote one session of it to discussing the approach of the seven countries concerned to the Cancun Summit, with a view to discovering how far it is possible to arrive at a common approach. He sees this, rightly I think, as being separate from (though related to) the report of the Aid Study and the preparation of draft communiqué language on relations with developing countries for the communiqué on the Ottawa Summit.

3. I think that we ought shortly to discuss with you and Mr. Whitmore various aspects of the arrangements for the Ottawa Summit - including what we ought to propose to the Prime Minister for bilaterals. I shall be getting in touch with you and with Sir Michael Palliser (to whom I am copying this minute) with a view to arranging a meeting shortly.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

12th June, 1981

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Foreign and Commonwealth Office

London SW1A 2AH

12 June 1981

*Don Michael,*Political Discussion at the Ottawa Summit

On 17 February, George Walden wrote to you about preparations for the political side of this year's Seven-Power Summit. Your reply of 18 February recorded the Prime Minister's approval of Lord Carrington's recommendation that the preparations should be started in the quadripartite forum.

Since then there has been some brief discussion in meetings of quadripartite Ministers and Political Directors. There is a general feeling, which Lord Carrington shares, that any political discussion at Ottawa should be in an East-West framework, and that the question of trade and economic relations with the Soviet Union, on which the Americans have circulated a paper, will probably have to be discussed in this same general context.

If the Russians invade Poland between now and the Summit, the latter will no doubt issue a statement of condemnation. But the uncertainty over Soviet intentions may well persist until the Summit, which begins on the day after the Polish Party Congress is due to end. If so, the Summit is unlikely to wish to make any very specific declaration on East-West relations. Lord Carrington would however see merit in a declaration, if this could be secured, about the overall approach of the Seven Powers in East-West relations. This would be a signal of unity between the major NATO powers and Japan. It would also show that the three new Heads of State or Government (American, French and Japanese) are at one with those leaders who have been in office for some time. We would seek a declaration which set out a policy designed both to deal with the Soviet Union and to unite the West. The policy should embrace the elements which have been mentioned in the Prime Minister's speeches on East-West relations: firm defences, thorough Western consultations, East-West contacts at all levels, negotiations (CSCE, arms control as an element in security policy) and efforts to reduce the scope for Soviet opportunism in the developing world.

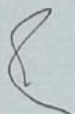
A quadripartite meeting of Political Directors is to take place in London on 15 June. Lord Carrington suggests that our representatives should float the idea of such a

/declaration.



declaration. If our partners reacted well, Lord Carrington would have a draft prepared for the Prime Minister to consider. But if our partners were reluctant, as it seems the French may be, we should look at the matter again.

I am copying this letter to David Wright in Sir Robert Armstrong's office.

Yours ever,


(B J P Fall)
Private Secretary

M O'D B Alexander Esq
10 Downing Street

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Foreign and Commonwealth Office

London SW1A 2AH

19 May 1981

Sir Robert Armstrong KCB CVO
CABINET OFFICE

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Sir Robert,

FUTURE OF ECONOMIC SUMMITS

1. You asked for my early comments on your draft paper on this subject, enclosed with your letter of 18 May.
2. I am in full agreement with the general message of your draft paper, which seems to me to cover the ground very well. I have only three minor points to suggest, which you might like to incorporate. These are:-
 - (a) If we propose a further round of seven power economic summits, we should reiterate the need to calm the suspicions of smaller, non-participating countries that their interests are not being over-ridden. This is a point for your paragraph 3, or perhaps the conclusions.
 - (b) Your paragraph 3 rightly notes that the summits should seek an identity of view on relations with developing countries. You might also say that the summit countries, on occasion, could consider their relations with the oil producers and East European countries, as they have done in the past.
 - (c) On the timing of future summits, I agree that we should stick to the annual pattern. But you might suggest summits need not be at intervals of exactly twelve months. If the preparatory process is simplified, it would be easier to vary the rhythm of summits, if there were a special need to hold one rather more or rather less than a year after the last.
3. Perhaps I should mention two other points which are not for inclusion in your paper but which we should bear in mind if the Personal Representatives - or the Heads of State and Government - come to discuss this subject.

/4.

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4. The first concerns Community participation. It has been agreed since 1977 that the Commission and the Presidency should represent the Community. Since then we have always manipulated the dates so that, at each summit, the Presidency is held by a major Community member which would be attending the summit anyway. But we cannot do this in 1982, when the Presidency will be held by Belgium in the first half of the year and Denmark in the second. The summit countries will therefore have to decide whether, exceptionally, the participating countries should be increased to eight for the 1982 meeting, to accommodate the Presidency. We are reflecting on this problem, but our initial feeling is that we should argue for such an exception.

5. The second problem concerns the year in which the United Kingdom is host to the summit. If the second cycle of meetings reproduces the first, we should be hosts to the summit in 1984. This could fall awkwardly in our electoral timetable and 1983 might be no better. Unless we want to be host to the first summit of the new cycle next year, it would be better to ensure that we do it after 1984.

Tommaso

Michael

Michael Palliser

cc: Sir Kenneth Couzens KCB
HM TREASURY

M O'D B Alexander Esq
10 DOWNING STREET



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Mv*

Sir Kenneth Couzens, KCB
Second Permanent Secretary
Overseas Finance

19 May 1981

Sir Robert Armstrong KCB CVO
Cabinet Office
70 Whitehall
LONDON SW1A 2AS

Dear Robert

Thank you for copying to me the draft paper reviewing economic summits which you sent to Michael Palliser on 18 May.

I would like to suggest the attached redraft of paragraph 3. I think the Chancellor would not want to make it a specific and separate function of the economic summits to consider the "needs of the developing countries and of the contribution which the industrialised countries can make to them". That would emphasise the "North/South" approach which he is anxious to de-emphasise. In the attached redraft I have tried both to cure this point, and to avoid the implication in the present draft that the 7 countries should think about their common interests, but not about the interests of the smaller industrial countries not represented at the summit. I have also dropped the reference to "compatible policies". It seems to me that in present circumstances that phrase is liable to feed the argument about US interest rate policy and its effect on Europe. It is in fact a potentially awkward phrase for us since, like the USA, we put the main emphasis of our economic policy on getting the domestic economy right rather than on external compatibility.

My second comment relates to the end of paragraph 4. I wonder whether this does not put too much weight on the proposition that a bi-annual summit would be even more of an "International Event" than an annual one. I would have thought that there is something in the point, but not much. I fear that the public generally may by now have become pretty blasé about summits. 7 Power economic summits, thrice yearly European summits and a succession of high level bilateral meetings make something of a continuum of the whole business. So if we want to argue for continuing annual summits, I would simply say that there is something to be said for encouraging public opinion to regard them as rather routine and therefore not to expect too much from them. I would

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also add that international economic events now move so rapidly (oil price increases, sharp changes in current account positions and in the situation of exchange rates, even national changes of policy arising from changes of government) that annual meetings are justified if the experience of working together and maintaining some continuity of policy is to be achieved.

My third point arises on paragraphs 6 and 11(2). I very much agree that summits oughtn't to set detailed energy targets and I think paragraph 6 is right to say that Heads of Government "should not be expected to take detailed executive decisions". However, paragraph 11(2) may go a bit too far in rejecting "specific decisions" or "particular commitments". For example, it may be with hindsight that some people would regard the set of commitments entered into in the Bonn Summit as mistaken. But they were not detailed executive decisions like those on energy targets, and it seems to me possible that at some future summit Heads of Government might want to make a bargain or enter into reciprocal agreements of a very broad kind. I don't think we are arguing that the economic summits should of necessity be reduced simply to talking shops. My remedy would be to add a few words to paragraph 6 to the effect that excluding detailed executive decisions need not exclude commitments of a broad kind. I would also alter paragraph 11(2) to read something like:

- (2) The object of the meetings should be to provide an opportunity for strategic and general discussion, and where possible for agreement, on international economic and financial issues rather than to reach detailed executive decisions; and the communique should be prepared and structured accordingly;"

I am copying this letter to Sir Michael Palliser and to Michael Alexander

Yours ever

Ken

K E Couzens

REVISED PARAGRAPH 3

3. We think that the summits should continue. International economic and monetary problems do not seem likely to become easier for the industrialised countries to deal with over the next 7 years than during the last. We believe that there will continue to be advantage, to the industrialised countries and to the 7 Heads of State or Government themselves, in their gathering together at reasonably regular intervals to exchange views and to seek to ensure, not that all the 7 countries are following the same policies, but that they are following policies which are based on as much agreement as possible about international economic problems and prospects, about the common interests of the 7 countries, and about the general direction and trend of policies which is most likely to serve not only their own interests but those of the other industrial countries and of the developing countries as well."

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CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

Ref. A04924

18th May, 1981

A review of economic summits prepared in the Foreign and Commonwealth Office was circulated to Personal Representatives for their meeting in Paris in April. It was welcomed by them with unanimous approval, and even acclaim; and several of them said that they were going to make sure that their Heads of State or Government read it before the Ottawa meeting.

We had a brief discussion about the future of summits, and I undertook to prepare a draft of a paper which Personal Representatives might agree and submit to Heads of State or Government for the Ottawa meeting.

I now attach a draft paper. I should welcome your comments on it, before it goes round to other Personal Representatives. If they are to have it in reasonable time before Vancouver, we ought to get it out by the end of this week; and I should therefore be grateful for your comments, and those of Ken Couzens, to whom I am copying this letter and the draft, by midday on Wednesday 20th May.

I am also sending a copy of this letter and the draft to Michael Alexander.

ROBERT ARMSTRONG

Sir Michael Palliser, GCMG

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FUTURE OF ECONOMIC SUMMITS

Note by Personal Representatives

1. The meeting of Heads of State or Government of Canada, France, the Federal Republic of Germany, Italy, ^{Japan,} the United Kingdom and the United States at Montebello, Canada, from 19 to 21 July 1981 will be the seventh such meeting since the first at Rambouillet in 1975. It will thus complete a cycle of annual meetings in which each of the participating countries will have hosted one meeting. Heads of State or Government will wish to take stock of the achievements of these meetings, and to consider the pattern for the future.

Review of Economic Summits

2. The Personal Representative of the Prime Minister of the United Kingdom arranged for us to be provided with a Review of Economic Summits, a copy of which is attached to this note. We commend to Heads of State or Government the conclusion, in paragraph 20, that on balance the time and effort devoted to preparing and holding the summits have been justified by the results and by the impression made on public opinion, though we also believe that there is force in the criticism that the summits have tended to lose the spontaneity originally envisaged for them and to become over-bureaucratic in their preparation.

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Pattern of Future Summits

3. We think that the summits should continue. International economic and monetary problems do not seem likely to become easier for the industrialised countries to deal with over the next seven years than during the last, and we believe that there will continue to be advantage, to the industrialised countries and to the seven Heads of State or Government themselves, in their gathering together at reasonably regular intervals, to exchange views and to seek to ensure, not that all the seven countries are following the same policies, but that all are following compatible policies in that they are based on as much agreement as possible about international economic problems and prospects, about the common interests of the seven countries, and about the general direction and trend of policies which is most likely to serve those interests. It is also desirable that they should seek to establish as close an identity of view as possible on the problems and needs of the developing countries and of the contribution which the industrialised countries can and should make to meeting those needs.

4. If Heads of State or Government agree that Economic Summits should continue, they may wish to consider the frequency of meetings. In the first cycle they have been held annually. It is for consideration whether they should be held less frequently - say, once every two years. It could be

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argued that, if the main concern is with long-run economic and monetary trends, meetings every other year would be sufficient. As against that, one of the virtues of annual meetings is that a certain continuity of representation persists (though for four of the seven participants in this year's summit it will in fact be their first). A biennial summit would become even more of an International Event than an annual summit, and correspondingly more would be expected of it by public opinion. If we are right in thinking, as we do, that there is much to be said for seeking to make summits less dramatic and to encourage public opinion not to expect too much from them, then there is much to be said for continuing the pattern of meeting roughly once a year.

Shape and Content of Meetings

5. In the last few years the preparations for Economic Summit meetings have tended to become increasingly bureaucratic, despite attempts by Heads of State or Government and their Personal Representatives to resist this trend. In particular:

- (1) Heads of State or Government have tended to arrive at the Summit (as they did in Venice) with a long and detailed communiqué which has been largely agreed in advance, which is then difficult to change, and which does not necessarily reflect the balance and thrust of their own thinking and discussion at the meeting.

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- (2) Both at Tokyo and Venice some participants felt, and persuaded their colleagues, that the international energy situation required the seven countries represented at the Summit to define in some detail targets for oil imports, for energy conservation or for investment in alternative sources of energy.

6. If the outcome of the meeting is required to be as detailed and specific as this implies, a considerable degree of advance preparation is inevitable. We think, however, that there is much to be said for the view that this is not what summit meetings of this kind should be about. They can of course endorse specific and detailed decisions taken in other international groupings, or by "subject" Ministers of the seven countries represented, when there is some particular reason for them to do so. But the primary purpose of summit meetings should be, we suggest, to provide opportunities for strategic and general discussions among Heads of State or Government. They should not be expected to take detailed executive decisions: they should review prospects, establish identities and differences of view, and set directions. The meetings should be such that their success is measured not by the length or the specificity of the communiqué but by the degree of mutual understanding established among the participants.

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7. This cannot eliminate the need for some advance preparation. It is valuable for Personal Representatives to meet in advance of the Summit, in order:

- i. to identify the broad topics which Heads of State or Government are likely to want and need to discuss;
- ii. to establish where there is likely to be general agreement - and therefore no need for extended discussion at the Summit - and where there is likely to be some divergence of views among the Heads of State or Government - and therefore need for discussion to seek to narrow divergence and produce convergence where possible;
- iii. to consider what should be the context and balance of a communiqué.

8. We believe that the meetings of Personal Representatives have proved their value for these purposes, and that Personal Representatives can perform these tasks without excessive bureaucratisation, provided that they are not as a rule expected to produce corporate reports to which all must be formally committed. A technique that has proved useful for the purpose described in paragraph 7ii. is for one Personal Representative to be invited to prepare a memorandum or study on a particular subject, which provides a focus for discussion in the group.

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9. Ideally, if preparatory work on the communiqué is to stimulate rather than circumscribe discussion by Heads of State or Government, it should not be carried too near to finality before the meeting at the Summit itself. In practice the limits on the amount of time available at the Summit make it inevitable that some preparatory drafting work should be undertaken. This need not, however, be so inflexible as to constrain discussion, provided that the communiqué can be seen as primarily a description of the subjects discussed, rather than an account of the discussion; and, in so far as it goes beyond that, as a declaration of general views, policies and objectives rather than a statement of precise and detailed commitments.

Political Questions

10. These Summit meetings were instituted to provide opportunities for exchanges of views on matters of international economic and financial policy, and have continued to be primarily economic summits. At recent meetings opportunities have been taken to discuss and to issue declarations on political matters: on aspects of international terrorism at Bonn, Tokyo and Venice, and on Afghanistan at Venice. We think that it is not only inevitable but highly desirable that, when these seven Heads of State or Government meet, they should take advantage of the rare opportunity for them to have a general political discussion of the

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international problems of the day which are of concern to all of them. It is no less inevitable and right that, if at the time of a Summit meeting there is a subject of international political concern which calls for a public comment or declaration by this group of Heads of State or Government, they should use the opportunity that the meeting presents. But we think that it is desirable, and we recommend for the agreement of Heads of State or Government, that these meetings should keep, and be seen by the press and the public to keep, as their primary function and characteristic that of being a forum for discussion of international economic and financial matters; and that the shape and content of the meetings and the balance of the final communiqués should be structured accordingly.

Conclusions and Recommendations

11. We invite Heads of State or Government to agree that:

- (1) Economic Summits of these seven Heads of State or Government should continue to be held approximately once a year;
- (2) the object of the meetings should be to provide an opportunity for strategic and general discussion of international economic and financial issues, rather than to reach specific decisions or undertake particular commitments, and the communiqués should be prepared and structured accordingly;

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- (3) the tendency for the preparation of these meetings to become increasingly bureaucratised should be reversed;
- (4) while the opportunity to engage in discussion of political questions will and should be taken, these meetings should keep their function and characteristic as being primarily for economic rather than political discussion;

12. Conclusions on these lines would require no announcement or reference in a communiqué (though they would no doubt be reflected in background briefing to the press). The only announcement required would be the date and venue of the next meeting.

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Foreign and Commonwealth Office

London SW1A 2AH

15 May 1981

Sir Robert Armstrong KCB CVO
CABINET OFFICE

W. Whitmore *15.5.*
Phms

Dear Robert,

OTTAWA SEVEN POWER SUMMIT: POLITICAL PREPARATIONS

1. We are up against a rather tricky problem in preparing for the political aspects of the Ottawa Economic Summit in July. I think I ought to set out the issues as I see them, and indicate how best we might proceed.
2. At the quadripartite Ministerial dinner in Rome on 3 May, the French Foreign Minister accepted that there should be political discussion at the Ottawa Summit. He said, apparently for the record, that he hoped that this would not necessarily become the rule at these Seven Power Summits. The French thus having fallen into line, the four Ministers were therefore able to agree that the political discussion should be prepared in the same way as we prepared for the Venice Summit. You will recall that in the spring of last year Robert Wade-Gery and I had a meeting with Deputy Secretary Warren Christopher, State Secretary van Well and the French Political Director. The arrangements worked admirably. We were able to mastermind the preparations for the political discussion in Venice without the Italian hosts knowing that we were doing so and in such a way that the real issues were tackled in the most effective manner.
3. Ideally, we should have hoped to do the same this year, but the result of the French presidential election has considerably complicated matters. The normal preparations for the Ottawa Summit will clearly continue: the Personal Representatives agreed at their meeting in London that the Political Directors of the Seven should meet in Ottawa (or Montebello) in the early days of July. In principle, therefore, we would have wanted to aim for a quadripartite meeting in June. It so happens that one of the normal series of quadripartite meetings of Political Directors is due to take place in the week beginning 15 June when Eagleburger is coming over to Europe on other business and the sensible course would be to use that meeting as an occasion to prepare for Ottawa as well. It is the French turn to play host, though we could offer to do so.

/4.



Foreign and Commonwealth Office

London SW1A 2AH

15 May 1981

Sir Robert Armstrong KCB CVO
CABINET OFFICE*W. Whitmore* *15.5.*
*Ph...**Dear Robert,*

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/4.



4. Unfortunately, it is by no means clear that the new French administration will be in a position by then to decide to cooperate with these quadripartite arrangements, let alone join the other three in the even more delicate business of pre-cooking in some measure the preparations for Ottawa. And even if the French were to decide in principle to cooperate, it might well be too soon for them to make much of a contribution on the substance. Equally seriously, it is very far from certain that the Americans would be prepared to contemplate participating in any quadripartite meeting, whether in the normal series or in preparation for Ottawa, without knowing whether the eventual French Government to be formed after the legislative elections will contain Communists. As you will have seen from Washington telegram number 1454, Eagleburger has already said that if there are Communists in the French Government, the Americans will not continue to play the quadripartite game.

5. Clearly, however, we cannot leave matters in limbo. The quadripartite forum is of crucial importance to us and so too will be an effective preparation for Ottawa. You will recall that in Rome Eagleburger suggested that the discussion there should 'be in an East-West framework'. The matters covered might include a possible Reagan/Brezhnev summit, arms control, Poland and Afghanistan. The communique should make a brief 'uncomplicated' reference to the Soviet threat. We agree with the Americans that the discussion should focus on East-West relations. The Polish Party Congress, if it happens on schedule, will have finished on 18 July, the day before the Summit. If others were willing to go further and consider the problem of Soviet expansionism in the Third World generally, or with reference to specific examples, we could gladly go along with this.

6. In the circumstances I have asked Julian Bullard to explore with the Americans whether in principle they would agree to a meeting in the middle of June, possibly in London. Eagleburger himself will be here on 15 and 16 June to deliver the key-note address at a Chatham House conference on Challenges to the West, before going on to a NATO meeting in Brussels. In the light of his views we could approach the Germans similarly. We may need to leave open for the time being the question of whether the French should be involved. If we can sort something out, even tripartitely, I would be ready to participate myself if the level of American and German participation made that appropriate; otherwise I should myself be wholly content for Julian Bullard to represent

/us.



us. Naturally, for the discussion about Ottawa, a representative from the Cabinet Office would be welcome. Our primary concern however must be to preserve the authority and integrity of the quadripartite forum and we shall need to deal carefully therefore with the American as well as French susceptibilities. In this regard we may know more about American attitudes after the Quadripartite Ambassadorial lunch in Washington on 19 May.

Thurs

Michael

Michael Palliser

cc: M O'D B Alexander Esq
10 DOWNING STREET



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OO OTTAWA

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FROM FCO 061600Z MAY 1981

TO IMMEDIATE OTTAWA

TELEGRAM NUMBER 133 OF 6 MAY.

INFO IMMEDIATE OSLO.

FROM NAD

POSSIBLE MEETING BETWEEN THE PRIME MINISTER AND MR TRUDEAU

1. ROME TELEGRAM NUMBER 154 OF 5 MAY QUOTED MACGUIGAN AS WONDERING, IN THE CONTEXT OF THE CANADIAN CONSTITUTION, WHETHER IT WOULD BE HELPFUL IF MR TRUDEAU WERE TO HAVE ANOTHER WORD WITH THE PRIME MINISTER. LORD CARRINGTON AGREED THIS MIGHT BE USEFUL. WE HAVE MEANWHILE CONSULTED NUMBER 10 ABOUT A POSSIBLE MEETING BETWEEN THE TWO LEADERS IN THE CONTEXT OF PREPARATION FOR THE ECONOMIC SUMMIT. THIS FOLLOWED INFORMAL INQUIRIES ABOUT THE POSSIBILITY OF SUCH A MEETING INITIATED BY MICHAEL KIRBY DURING HIS RECENT VISIT HERE.

2. WE ASKED NUMBER 10 WHETHER THE PRIME MINISTER WAS HAPPY TO SEE MR TRUDEAU DURING HIS VISIT TO EUROPE TO SEE OTHER LEADERS INVOLVED (WHICH WE NOW KNOW WILL TAKE PLACE IN MAY) OR WHETHER BECAUSE OF THE CONSTITUTIONAL QUESTION, SHE WOULD PREFER TO WAIT UNTIL THE SUPREME COURT HAD PRONOUNCED, IE JUNE/JULY. THE PRIME MINISTER'S VIEW IS THAT IF MR TRUDEAU IS HOLDING A SERIES OF MEETINGS WITH THE OTHER PARTICIPANTS HE WILL PROBABLY WISH ALSO TO HAVE A MEETING WITH HER. SHE IS ALSO INCLINED TO THINK THAT IT WOULD BE EASIER IF THE MEETING TOOK PLACE BEFORE THE SUPREME COURT'S VERDICT.

3. IT IS LIKELY TO BE DIFFICULT TO FIND A DATE WHICH WILL SUIT BOTH PRIME MINISTERS. I WOULD THEREFORE BE GRATEFUL IF YOU COULD APPROACH THE CANADIANS SOON AT THE LEVEL YOU JUDGE APPROPRIATE, EXPLAIN THE BACKGROUND AND ASK THEM TO SUGGEST DATES (AS MANY AS POSSIBLE PLEASE)

WHICH WOULD FIT IN WITH MR TRUDEAU'S OTHER PLANS. YOU COULD REFER BOTH TO MR MACGUIGAN'S CONVERSATION WITH THE

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SECRETARY OF STATE AND TO KIRBY'S INFORMAL SOUNDINGS.

4. WE ARE INFORMING THE HIGH COMMISSION HERE BUT LEAVING
SUBSTANTIVE ACTION WITH YOU.

CARRINGTON

CANADIAN CONSTITUTION LIMITED

NAD

CCD

P & CD

PCCU

PARLIAMENTARY UNIT

NEWS D

INFORMATION D

PS *← ERD*

PS/IPS

PS/MR RIDLEY

PS/MR BLAKER

PS/MR HURD

PS/PUS

SIR E YOUNG

MR DAY

MR URE

LORD N G LENNOX

CABINET OFFICE *← LORD BRIDGES*

MR EVANS

COPIES TO:

SIR I SINCLAIR }
MR FREELAND } LEGAL ADVS.
DR PARRY }

LORD MORAN C/O HDS OF MISSION POD

PS/CHANCELLOR OF THE DUCHY OF
LANCASTER

PS/LORD CHANCELLOR

PS/LORD PRESIDENT

MR H STEEL, LAW OFFICERS' DEPT

[COPIES SENT TO NO 10 DOWNING ST]

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10 DOWNING STREET

From the Private Secretary

5 May 1981

POSSIBLE MEETING BETWEEN THE PRIME
MINISTER AND MR. TRUDEAU

The Prime Minister has seen your letter to me of 1 May on this subject. She considers that if Mr. Trudeau is holding a series of meetings with the other participants, he should also have a meeting with her. She does not agree that the meeting should take place until after the Canadian Supreme Court has delivered its opinion. Indeed, she is inclined to think it might be easier if the meeting were to take place before the Supreme Court's verdict.

It will not be easy to fit in a meeting in June. The sooner we start to try to fix a date the better. I should be grateful if you could arrange for the Canadians to be asked to suggest dates which would fit in with Mr. Trudeau's other plans.

I am sending a copy of this letter to David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

R. M.J. Lyne, Esq.,
Foreign and Commonwealth Office.

Q

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File 16

10 DOWNING STREET

From the Private Secretary

SIR ROBERT ARMSTRONG

The Prime Minister has seen your minute to me of 1 May summarising your impressions of the recent meeting of Personal Representatives in Paris. She has commented that the most important point in Ottawa will be to carry out the aid remit from Venice. All the participants in Venice, in the Prime Minister's view, were concerned that too much money was going to the international institutions.

I am sending a copy of this minute to Mr. Walden (Foreign and Commonwealth Office).

M. O'D. B. ALEXANDER

5 May 1981

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Ref. A04805

MR. ALEXANDER

The most important thing to do
carry out the Aid review from Venice. We
were all concerned Prime Minister
that too much work to the
International Institution.
P.M.

I attended a meeting of Personal Representatives in Paris last week, to continue the preparations for the Ottawa Economic Summit. I was accompanied by Sir Michael Palliser and Sir Kenneth Couzens.

2. I shall be circulating a detailed record, but it may be worth putting ^{down} some of the main impressions which I formed.

3. It looks as if the main subjects for discussion at Ottawa are likely to be the international macro-economic situation, "North-South" relations and the aid study commissioned at Venice, and international trade. Energy seems likely to feature less prominently at Ottawa than it did at Tokyo or Venice, unless there is some at present unforeseen crisis in the supply or price of oil.

4. On the international economic situation we had before us a review by the new Chairman of the Council of Economic Advisers of the United States, Mr. Murray Weidenbaum. This review was not in final form: Mr. Weidenbaum will be discussing it with some of his colleagues in the Economic Policy Committee of the OECD (including Sir Douglas Wass). But it was clear that the general balance and emphasis of the report would be perfectly acceptable to the United Kingdom Government.

5. The German representative drew attention to the high level and the volatility of United States interest rates, and to the difficulties which these created for economic and exchange market management in other industrialised countries. I judged that in this he was reflecting the views of the Federal Chancellor as well as the Finance Minister. There was some support from the French representatives, although the French representatives contributed little to this meeting in view of the imminence of the French elections. The American representatives did not show much sign of being affected by what the German representative had said. If United States interest rates continue to be high and volatile through to the Ottawa Summit, this may well feature in the discussion there.

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6. We were still a long way from reaching agreement on a report to the Ottawa Summit on the aid study commissioned at Venice. The Canadian representatives produced a long draft which was characteristically soft. At the other end of the spectrum the American representatives were taking a pretty hard-nosed line. The Italian and Japanese representatives were notably soft on these questions. The German delegation was divided: the German Personal Representative himself, Dr. Schulmann, was taking a line which we should regard as unexceptionable, but his colleagues, Herr Per Fischer and Herr Franz Fischer, were taking a much softer and at times anti-American line. Herr Franz Fischer was one of those who assisted in the preparation of the Brandt Report, a document to which he was overtly referring during the course of the meeting.

7. On international trade, all of us were conscious of the development of protectionist pressures and of the need for the Ottawa Summit to protect the open trading system. European Community countries and institutions all spoke of the need to discuss at Ottawa the problems of trade between the United States and Europe on the one hand and Japan on the other, in the context of world trade, and the Japanese representative (who had prepared a paper) showed some signs that the Japanese were aware of the need to respond. But I formed the strong impression that the Americans were about to do a deal with the Japanese on American trade with Japan, and that, once they had done so, they would lose interest in the idea of discussing these problems at Ottawa. We could, I think, find the Americans and the Japanese combining to make it difficult for the Europeans to make much impact on Europe-Japanese problems at Ottawa.

8. Both Sir Michael Palliser and I were concerned about the signs of an emerging anti-American attitude among the German representatives, and particularly in the two Fischers. It would be useful if the Prime Minister and the Foreign and Commonwealth Secretary were able to take advantage of the forthcoming visit of the Federal Chancellor and Herr Genscher to explore the German position, in particular on "North-South" relationships and on aid

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matters. If the Germans were to line up with the Canadians, the Italians and the Japanese at Ottawa, we could find ourselves isolated with the Americans on attitudes to these matters; and that would not be the best preparation for the Mexico Summit which will follow later in the year; any divisions among the industrialised countries would be bound to be exploited by the developing countries at Cancun.

9. I am sending a copy of this minute to Mr. Walden.

RA

ROBERT ARMSTRONG

1st May, 1981

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Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

1 May 1981

Would you like us to try
to arrange a meeting with
Trudeau? (Am not sure that we need
his very hand: but perhaps appearances should be
Dear Michael, preserved.

*If Trudeau
is doing a
series of meetings
in Europe - we
must be on
schedule.
m.*

Possible Meeting between the Prime Minister and Mr Trudeau

Mr Michael Kirby, the Canadian Secretary to the Cabinet for Federal-Provincial Relations, and close to Mr Trudeau, called on us yesterday mainly to discuss the Canadian Constitutional issue. He also told us that prior to the Economic Summit in Ottawa on 20/21 July, Mr Trudeau had firm plans to meet all other participants. He had, however, been hesitating about whether to suggest a meeting with Mrs Thatcher as this was liable to be linked with the constitutional question and this linkage could have harmful results. Mr Kirby asked us whether there would be a problem from Mrs Thatcher's point of view if Mr Trudeau saw the other leaders concerned and not her. At the same time, Mr Kirby left us with the impression that, other things being equal, Mr Trudeau would like to discuss Economic Summit issues with Mrs Thatcher, though he would not in any way be offended if she either thought it inappropriate or if a date could not be found which would suit her and Mr Trudeau.

We told Mr Kirby that we would sound you out informally on this question and convey your response, equally informally, to the Canadians. We added that it might anyway be difficult at this short notice to find a date which both leaders could manage.

There is obviously a danger of a meeting between the Prime Minister and Mr Trudeau being linked in a damaging way to the constitutional issue; but this will be minimised if such a meeting were to take place after the Canadian Supreme Court had delivered its opinion. This is expected at the beginning of June. At the other end of the timescale, there would not be much point in a meeting between the two leaders within, say, a fortnight of the Summit itself. This leaves a window between, say, mid-June and the end of the first week in July for a meeting. On balance we favour a meeting at this time. Although the Prime Minister's approach to some of the issues for the Economic Summit may differ from that of Mr Trudeau, there would be some advantage

*I should have
thought it
would be
easier before
the Supreme
Court decision
because
nothing could
do it while
it was waiting.*

/in

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- 2 -

in clearing the air in advance - but we recognise that the chances of securing a mutually convenient date are probably slight.

I am sending a copy of this letter to David Wright in the Cabinet Office.

Yours ever
Roderic Lyne

(R M J Lyne)
Private Secretary

Michael Alexander Esq
10 Downing Street

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PERSONAL AND CONFIDENTIAL

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SIR ROBERT ARMSTRONG

OTTAWA ECONOMIC SUMMIT

The Prime Minister has seen your minute to me of 30 April on this subject. She has no strong views on the points raised in it and is content to leave it to others to make the running. But she has noted that M. Thorn is not a Head of Government.

I am sending a copy of this minute to George Walden (Foreign and Commonwealth Office).

M. O'D. B. ALEXANDER

1 May 1981

PERSONAL AND CONFIDENTIAL

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Ref. A04792

MR ALEXANDER

Yes - but this is not a head of gov. ①
Prime Minister
Are you content to leave it to others to make the running on the question of whether or not Mr. Thorn should be at the dinner on the first evening of the Ottawa Summit?
Ottawa Economic Summit

In the margins of last week's meeting of Personal Representatives, the Canadian Personal Representative told me that Monsieur Gaston Thorn, the President of the European Commission, had approached Mr Trudeau, as the Chairman of the Summit, about his attendance at the proposed dinner for Heads of State or Government only on the evening of Sunday 19 July. According to Mr Gotlieb, Monsieur Thorn had said to Mr Trudeau that, if at the dinner the leaders were going to discuss the management of the meeting, then he ought to be there. If, on the other hand, they were going to use the dinner on the Sunday evening purely for a general political discussion, then he would accept that he need not be there.

2. Mr Gotlieb's first instinct was to think it likely that the Heads of State or Government would want to discuss the management of the meeting, and that Monsieur Thorn should be invited to the dinner. I warned him that there was a good deal of history to this question. Mr Roy Jenkins had fought and won a battle to be represented throughout the proceedings of the Summit, including at the dinner for Heads of State or Government only, against the opposition of the President of the French Republic, Monsieur Giscard d'Estaing. It looked to me as if Monsieur Thorn was expecting that this issue might come up again with the change in commissionership, and might be afraid that, if the battle had to be fought again, he would not win it, and was therefore preparing for himself an honourable way out.

3. I said that I did not know whether other Heads of State or Government would want to make an issue of this matter on this occasion. It might be that President Giscard d'Estaing (if he was re-elected) would want to do so; even if he did not, someone else - perhaps the Federal Chancellor - might want to do so.

I did not know what the Prime Minister's position would be, but I thought that she might well be fairly neutral, and might not want to press either for his inclusion or for his exclusion from the dinner. I suggested to Mr Gotlieb that this was not a matter to be raised at the table during the meeting of Personal Representatives, but that he might raise it privately with the French and German Personal Representatives, as he had raised it with me. Mr Gotlieb said that he thought that this was a matter which the European Community leaders represented at the Summit would have to settle among themselves; the non-European leaders would probably settle for whatever their European colleagues were agreed upon.

4. Finally, I said to Mr Gotlieb that it seemed to me very likely that the Heads of State or Government would want to use the dinner on Sunday 19 July for a wide-ranging political discussion, particularly as it would be President Reagan's first Summit. It might be prudent for Mr Trudeau to think in terms of not discussing the management of the Summit meeting at the dinner on the Sunday evening, but to keep that discussion for the opening session of the meeting on the Monday morning: it had already been proposed by Mr Trudeau, and the Prime Minister was content, that Heads of State or Government should start on their own on the Monday morning with a discussion of the management of the business.

5. I am sending a copy of this minute to Mr Walden.

REA

ROBERT ARMSTRONG

30 April 1981

Eco BL

26 March, 1981.

I enclose a letter from the Prime Minister to the Prime Minister of Canada. It is in reply to a letter from Mr. Trudeau about the arrangements for the Ottawa Summit. I should be grateful if you could arrange for its delivery by the High Commission in Ottawa.

M. O'D. B. ALEXANDER

F.N. Richards, Esq.,
Foreign and Commonwealth Office.



10 DOWNING STREET

THE PRIME MINISTER

26 March, 1981.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 55/81

Dear Pierre,

Thank you so much for your letter of 10 March. The arrangements you have in mind for the Summit in July seem to me admirable. I am much looking forward to the meeting.

Yours sincerely,

(SGD) MT

The Right Honourable Pierre E. Trudeau, PC.

sb

SUBJECT.



CANADA

PRIME MINISTER • PREMIER MINISTRE

Ottawa, K1A 0A2
March 10, 1981

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PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 50/81

Dear Margaret,

You will know that I have given a great deal of thought to the kind of Summit we will want next July and have been particularly conscious of the desire expressed by you and some of our colleagues to have more time for informal sessions among ourselves. I wanted to give you a preliminary outline of the arrangements I have in mind which are intended to fulfill that objective.

I propose that Heads of State and Government and Ministers stay at the Château Montebello for the first two evenings and nights (Sunday, July 19 and Monday, July 20) and the first full day of the Summit (Monday). The Château is a unique and beautiful resort located 66 kilometers from Ottawa on a secluded stretch of the Ottawa River in a natural setting of forest, rivers and lakes.

The Right Hon. Margaret Thatcher
Prime Minister of Great Britain
London

The whole site will be closed off, enabling us to move about freely. The setting should provide a relaxed atmosphere for us to meet, in some cases for the first time. The format I have in mind is, I believe, conducive to the personal rapport and productive dialogue which we seek.

During the second day, Tuesday, July 21, we would meet in the East Block of the Parliament Buildings. The Joint Press Conference will conclude the Summit later on Tuesday.

I expect that at our dinner Sunday evening we will want to take stock of the serious challenges confronting our countries and to have a general discussion of the international situation including some of the underlying issues, whether East/West, North/South, or macro-economic. We will also want to have a preliminary discussion on how best to approach the conduct of the Summit, including the priorities for our work.

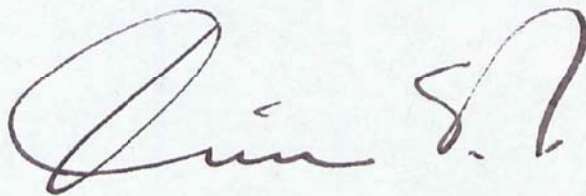
At the opening session, on Monday morning, I suggest that at the outset the Heads of State and Government meet briefly alone to decide formally how best to organize our meetings and the work of our ministers. We would then go into plenary session (that is, accompanied by two ministers) and stay in plenary at all of the subsequent meetings. However, I suggest two exceptions. First, we could, as in Venice, have only our foreign ministers with us when we discuss political questions. Secondly, we could decide to go back into closed session at any time if we thought that would be useful. Of course, we would always have notetakers with us.

- 3 -

I understand that our Personal Representatives have been meeting to discuss preparations for our Summit and see no particular problem in the arrangements I have just outlined. Specific details are being provided to your officials and every effort will be made to respond to individual requirements. I am also attaching a brief outline of the programme.

I look forward to hearing from you.

Yours sincerely,

A handwritten signature in dark ink, appearing to read "Jim S. B." with a large, stylized initial "J" and a flourish at the end.

PROGRAMME OUTLINE: 1981 SUMMIT

Sunday, July 19

- Delegations arrive in Ottawa. The principals and their immediate parties (approximately 15 in total) are transported via helicopter (twenty minutes) from the airport to the Château Montebello.
- (The remainder of the delegations and all media to be lodged in Ottawa.)
- Separate working dinners for the Heads of State/Government and accompanying ministers at Montebello.

Monday, July 20

- Morning session at which Heads of State/Government will meet initially among themselves for a short period followed by a session with one or two ministers present.
- Luncheon arrangements as for Sunday dinner.
- Afternoon session with ministers as required and with the possibility of a further limited session among Heads of State/Government late in the afternoon or any other times as necessary for the organization of our work.
- Dinner arrangements: joint or separate (to be decided).

Tuesday, July 21

- Delegations move by helicopter to Ottawa for a session in the East Block of the Parliament Buildings, a State Luncheon, a further session, as required, and a Joint Press Conference.

Delegations depart from Ottawa Tuesday evening or Wednesday, July 22.

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10 DOWNING STREET

From the Private Secretary

18 February 1981

Handling of Political Questions
at the Ottawa Summit

The Prime Minister has seen George Walden's letter to me of 17 February and has approved the line proposed in its final paragraph. This is just as well since the relevant discussion among Personal Representatives took place last night and Sir Robert used the line suggested!

I am sending a copy of this letter to David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

KRP-

F.J. Richards, Esq.,
Foreign and Commonwealth Office.


Bonnie Minister.
(1)

Foreign and Commonwealth Office

London SW1A 2AH

17 February 1981

Basically the mixture as before. After that Sir R. Armstrong should take the line in the final paragraph?
Dear Michael,
Ans: 17/2 Yes m

Handling of Political Questions at Ottawa Summit

In two minutes to you of 16 December, Sir Robert Armstrong gave an account of discussion at the December meeting of Personal Representatives about the handling of political questions at the Ottawa Summit. At that meeting all were agreed that some part of the Summit should be devoted to purely political matters, but they saw a need to seek instructions from their Heads of Government before next week's meeting in London. Having seen the accounts of Sir Robert Armstrong's recent discussions with the Canadian Personal Representative (in David Wright's letters of 12 and 16 February to Andrew Burns) Lord Carrington has been reflecting on the line which the Prime Minister's Personal Representative should take on this aspect of the preparations.

It seems probable that there will continue to be a consensus on the need for some political discussion at Ottawa, but it is worth noting two recent indications of French and American attitudes. In his television interview of 28 January, Giscard expressed general scepticism about the role of summits, but said that he valued Economic Summits as an opportunity to survey the world scene. He went on to say however they were not the proper forum in which to discuss current political problems requiring decisions. He seems to have had it in mind that when actual decisions need to be taken this should be done through some other consultation machinery. As for the Americans, the present indication from Washington is that the new Administration may view the Summit as the occasion for a general exchange of views rather than for reaching agreement on courses of particular action. No doubt we shall learn more about the various national attitudes in the course of next ~~next~~ *this* week's meetings.

Lord Carrington himself is convinced that political discussion in Ottawa will be timely and can make an important contribution to the continuing process of concerting Western policies on the major issues confronting us.

On the assumption that it will be agreed that there should be a political discussion we shall need to consider what preparations should be made in advance. You will recall that last year preparatory work done in the quadripartite forum (at which Sir Michael Palliser and Mr Bullard were our representatives) played a valuable role in establishing broad objectives

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for the Summit discussion - particularly on Afghanistan - without tying down the Heads of Government to excessive detail. Having reached agreement among the Four, we were able to steer the preparatory meeting of the Seven, so far as we could tell, without the Italians, Canadians or Japanese being aware of our prior concertation. Lord Carrington's view is that we should aim to do so again this year. There is, of course, a danger that the Canadians may themselves want to stage-manage that part of the Summit and that in consequence they may rumble what is going on; but the quadripartite group has shown itself adept at discreet work behind the scenes and Lord Carrington believes that we should be able to manage matters successfully on this occasion.

*Sideline passage
in attached letter*

Most of those who will be attending ^{the} ~~next~~ week's meeting will not be the right people with whom to discuss these political preparations in any detail. Lord Carrington thinks that the line taken by Sir Robert Armstrong with Mr Gotlieb on 12 February is the right one. The Personal Representatives might be told that we favour holding one, or at most two, preparatory meetings of the Seven on political subjects. The need for a political section of the Communique or separate political declaration can only be discussed usefully nearer the time; and that these matters might best be looked at when the Summit arrangements are rather further advanced. Meanwhile we shall need to check with our quadripartite partners that they can go along with these thoughts. It should be possible to take matters further with the Americans in the course of the Prime Minister's visit to Washington later this month.

I am copying this letter to David Wright in Sir Robert Armstrong's office.

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(G G H Walden)
Private Secretary

M O'D B Alexander Esq
10 Downing Street

Mr Alexander

Ref. A04271

16 February 1981

Ottawa Summit: Meeting of Personal Representatives

I should report briefly on two telephone conversations which Sir Robert Armstrong had on 12 February with Mr Gotlieb and Herr Schulmann.

Mr Gotlieb telephoned to consult Sir Robert about his wish to be accompanied throughout next week's meetings and discussions by his Deputy as Personal Representative, Mr Larry Smith. It was agreed after some discussion that Mr Smith would attend the plenary meetings and the meetings of Personal Representatives but not the meals among the Personal Representatives alone.

This led on to a discussion of indications which Mr Gotlieb had received from Mr Rashish that the latter not only wished to be accompanied next week by 4 officials from Washington but also that he thought that the agenda should be changed to reduce the attention given to the Aid Study. It was agreed that Mr Gotlieb should go back to Mr Rashish to indicate that if he wished to make any general points about reorientating the focus of the Summit, this should be done over dinner on 17 February. The Aid Study discussions would then continue as planned. It was conceivable that the discussions on the afternoon of 18 February, which had originally been intended to be between Personal Representatives alone, could go wider in which case other officials might be drawn in to allow the United States team to describe their own views on the macro-economic points to which they expected Heads of State and Government to pay particular attention at the Summit. There might be some advantage in this, if it happened, since it could help to tease out possible difficulties and differences of view (particularly between the Americans and Germans) in time for action to be taken to deal with them over the coming months.

Mr Gotlieb thought that Personal Representatives would probably have to conclude at next week's meeting that at their next meeting they should be accompanied by their economic experts and political experts to discuss the preparation of the Summit in these two areas. Sir Robert Armstrong agreed

/ with this.

R A Burns Esq

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with this. It would follow directly from the arrangements to prepare for last year's Venice Summit. It was consistent with the principle that Personal Representatives should be accompanied by only 2 other senior officials. It would also be especially important for consultation over the Summit's political content since only a few of the Personal Representatives were in a position to talk about political questions. Sir Robert Armstrong suggested that it might prove in the end most convenient to tackle the political preparations for Ottawa like the political preparations for Venice, by means of special meetings of political representatives.

In a subsequent conversation with Herr Schulmann, the questions of possible Schultze-type study of macro-economic questions or alternatively a further paper on recycling like that of the Dini Group, were raised. Herr Schulmann said that he was opposed to the idea of a further paper on recycling alone. He thought that recycling questions should be dealt with in a wider and mainly macro-economic paper. As for the possible authorship of the macro-economic paper, Schulmann considered it inappropriate to assume that this might fall to Weidenbaum. This implied that the Chairman of the OECD Economic Committee had a lien on the job, which was not the case. Sir Robert Armstrong said that he thought that Douglas Wass would be ready to undertake it, if that was the general will; or the German representative on the Economic Committee might be asked.

Copies of this letter go to Jonathan Taylor and Joseph Halligan (Treasury), Jonathan Phillips (Trade), Chris Wright (Energy) and Vi Read (ODA).

D. J. WRIGHT

(D J Wright)
Private Secretary



Michael Alexander.

With the Compliments
of the
Private Secretary
to the
Secretary of the Cabinet

Cabinet Office,
London, S.W.1.

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12th February, 1981

Ottawa Summit and Meeting of Personal Representatives

As I told you on the telephone, Mr. Alan Gottlieb called on Sir Robert Armstrong on Tuesday 10th February and discussed with him a number of aspects of both the Ottawa Summit and the forthcoming meeting of Personal Representatives in London.

Ottawa Summit Format

Mr. Gottlieb said that he had heard that the State Department had indicated that it was not likely that President Reagan would wish to be without Secretary of State Haig during most of the Summit. If Mr. Haig was present, this would obviously have implications for the attendance of other Foreign Ministers. Mr. Gottlieb had recently discussed this question with Prime Minister Trudeau, who had suggested that the Heads of State and Government might meet alone over dinner on the first night of the Summit (the Sunday night). That would no doubt be an occasion for a wide-ranging informal discussion. They might then meet alone on the Monday morning for a short opening session, when they could both discuss how they wished the Summit to proceed and commission work as necessary. They could always reserve the right to return to restricted session (for instance, at the end of the first day) if that seemed necessary or appropriate. Sir Robert Armstrong commented that he thought that this formula would be acceptable to the Prime Minister, if it were to be proposed by the Canadians. He emphasised that her position had not changed since he last outlined it in Paris and that she attached importance to having discussions with the other Heads of State and Government alone.

Economic Topics for Ottawa

In response to a suggestion from Sir Robert Armstrong that there was probably no need for the Ottawa Summit to be dominated by energy questions in the same way as the previous two Summits, Mr. Gottlieb agreed and said that he thought that the Canadians might wish to propose the commissioning of a study of

/recycling

R.A. Burns, Esq.

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recycling questions. This had been raised at previous Summits, and although he was not yet in a position to suggest what the remit or conclusions of a recycling study might be, he thought that it could very usefully consider how to handle recycling in the medium and long term so as to avoid crises. On macro-economic questions, Mr. Gotlieb agreed that it would be necessary to consider whether a paper should be commissioned similar to those drafted by Mr. Schultze for previous Summits. His financial officials thought that on balance there should be a paper, but it was for consideration whether it should be drafted by Shultze's successor, Mr. Weidenbaum, or by someone else. It could be prepared for discussion at the Personal Representatives' meeting in May and then updated for the Summit.

Political Questions

Mr. Gotlieb thought that Heads of State and Government at Ottawa would want to give a good deal of attention to the management of East-West relations. He had been struck when he had attended recent discussions between Mr. MacGuigan and Secretary of State Haig that a major turning point had been reached in East-West relations following recent developments in Poland: it was no longer true to assume that all the Western industrialised nations had the same basic interests in their relations with the Soviet Union. The absence of common interest meant that it was much more difficult for the West to agree how to react to crises and to see their reaction in terms of the West's long-term relations with both the Soviet Union and the Eastern European satellite states. Mr. Gotlieb thought that a wide-ranging discussion of East-West relations at Ottawa would be welcome to all Heads of State and Government, not least to the Americans. It would allow them to put the work of the aid study into a greater strategic perspective than might otherwise be the case if the Summit were merely to concentrate on aid in isolation. It was clear that Secretary of State Haig realised both the political role of United States aid policy and the importance of not tying the hands of the new United States Administration on aid and North-South questions. Aid to the developing world could be a major tool in the new Administration's strategy towards its relations with the Soviet Union.

Sir Robert Armstrong agreed that there was much to be said for considering what sort of framework the West needed to devise for handling its relations with the East and that this could well be a greater focus of attention at Ottawa than aid alone.

Trade

Sir Robert Armstrong said that he was not aware of any multilateral trade issues which were likely to require attention either at the Personal Representatives meeting or at Ottawa. He did, however, mention to

/Mr.

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Mr. Gottlieb that Europe's trading relations with Japan were likely to be in the minds of the Personal Representatives representing European Governments and institutions, though the matter would probably not surface at this meeting.

Copies of this letter go to Joseph Halligan (Treasury), Chris Wright (Energy), Jonathan Phillips (Trade) and Vi Read (ODA).

D. J. WRIGHT

(D. J. Wright)
Private Secretary

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10 DOWNING STREET

From the Private Secretary

2 February 1981

Economic Summit: Aid Study

The Prime Minister has seen Sir Robert Armstrong's minute of 30 January on this subject. She has agreed that Sir Robert Armstrong may circulate to the other Personal Representatives the paper attached to his minute.

I am sending copies of this letter to George Walden (FCO), John Wiggins (HM Treasury), Stuart Hampson (Department of Trade), Julian West (Department of Energy) and Susan Unsworth (ODA).

M. O'D. B. ALEXANDER

D.J. Wright, Esq.,
Cabinet Office.

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