

**CONFIDENTIAL**

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

OD(81) 44

COPY NO

46

16 September 1981

CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

THE MEXICO SUMMIT AND  
RELATIONS WITH DEVELOPING COUNTRIES

Note by the Secretaries

In his memorandum on Relations with Developing Countries (OD(81) 43) the Foreign and Commonwealth Secretary refers to a minute from the Secretary of the Cabinet to the Prime Minister, dated 14 July. A copy of that minute, together with the report by officials annexed to it, is circulated herewith, for the information of the Committee.

Signed ROBERT ARMSTRONG  
R L WADE-GERY  
R L L FACER

Cabinet Office

16 September 1981

**CONFIDENTIAL**

15 JUL 1981

CONFIDENTIAL

PRIME MINISTERRelations 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.

CONFIDENTIAL

CONFIDENTIAL

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:

(1) 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.

CONFIDENTIAL

(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

CONFIDENTIAL

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 <sup>£100,000</sup> £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

Robert Armstrong

14th July, 1981

**CONFIDENTIAL**

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

**CONFIDENTIAL**

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.

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 exporter 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).



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 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 OEC 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.

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', especially since the Brandt Report appeared.

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.

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

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 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.

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;

- 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 A - in the most persuasive way possible.

Cabinet Office

9 July 1981

## 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

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.

## 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

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.

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 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.