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8 April 1981

Visit of the Prime Minister of Peru

I enclose, with apologies for the delay, the record of the Prime Minister's talk with the Prime Minister of Peru which took place here on 30 March.

M. O'D. B. ALEXANDER

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

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RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER, THE RT. HON. MRS. MARGARET THATCHER, M.P., AND THE PRIME MINISTER OF PERU, DR. MANUEL ULLOA ELIAS, AT No. 10 DOWNING STREET, AT 1200 NOON on 30 MARCH 1981

PRESENT:

The Prime Minister	H.E. Dr. Manuel Ulloa Elias
Mr. Nicholas Ridley, M.P.	Dr. Roberto Danino
Mr. Cecil Parkinson, M.P.	Dr. Sergio Malaga
Mr. J. B. Ure	Vice Admiral Ricardo Zevallos Newton
Mr. M. O'D. B. Alexander	Sra Elvira de Garcia Ribeyo
Mr. P. R. Fearn	

Welcoming Dr. Ulloa the Prime Minister said that Peru's return to democracy, through impeccably conducted elections, had given great pleasure to her friends. This should lead to a new era of closeness between Peru and the UK. It was important for democratic countries to keep together. Dr. Ulloa expressed gratitude for the invitation to the UK. President Belaunde had asked him to emphasise Peru's strong wish for a strengthened relationship with Britain.

Dr. Ulloa said that the national elections in Peru last May and the more recent municipal/provincial elections had given the Government a strong mandate. This wide popular support, in particular from the poorer sectors, was important given the unpleasant measures which would have to be taken in the economic field. The government had inherited a serious inflationary situation, aggravated by price controls and subsidies. Since President Belaunde left power in 1968 the number of public enterprises had increased from 10 to 200: and the foreign debt from US\$1 billion to US\$10 billion. Despite the radical ideology of the previous military government, social conditions had also sharply deteriorated. The new government had already made a start in clearing away the abnormalities and in reorganising the administration of social programmes (in which there had been strong Communist influence). Basic legislation on agriculture (where production had declined by 50 per cent) was in hand; and legislation on mining, energy and oil was being undertaken. But the pace of progress had to adjust to the political realities. The Prime Minister agreed that, in tackling inflation, it might in theory be best to move quickly; but in practice this was not always possible. Dr. Ulloa said that inflation for the first three months of 1981 had been 24 per cent (not on an annual basis). It was hoped that the April figures would be lower. The objective was an inflation rate of 40 per cent in 1981, though with luck it could be less. In

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agriculture, despite the severe drought in recent years and now floods, a 10 per cent increase in production was expected. Peru had not enough arable land and it was therefore necessary to open up the potentially rich areas east of the Andes. Overall it was hoped to get a 6/7 per cent increase in GNP this year.

Dr. Ulloa said that Peru had a serious shortage of skilled labour, together with 40 per cent unemployment. The Government were therefore embarking on major infrastructure programmes (roads, ports, etc.) They hoped to obtain assistance from international financial institutions. A conference under World Bank auspices would take place in Paris in May to discuss investment in public sector projects. It was hoped that some \$600/\$700 million per annum might be forthcoming. The independent private sector was also being actively encouraged.

Reverting to Peru's agricultural problems, Dr. Ulloa said that Peru now had to import grain and rice: and also needed to restimulate sugar production. Mr. Ridley asked whether the UK could be of any assistance in the field of agricultural production. Mr. Parkinson referred to British companies' interests in new sugar factories in Peru.

The Prime Minister referred to the problems caused by Cuban/Soviet subversion. There was worldwide evidence of Communist attempts to exert influence. The situation in Poland was critical. In Latin America there was deep concern over Cuban activities, despite the fact that Cuba's own image (with almost one million refugees leaving that country) had been badly dented. Dr. Ulloa thought that the Cubans were over-reaching themselves. In particular, Cuban support for terrorists in Colombia had been a serious mistake and had alerted the region to the risks. In Central America, there was a fear that, if Poland was invaded, the United States might try to take action against Cuba. This would provoke major political problems in the region and cause concern about the direction of US policy.

The Prime Minister asked what Peru would want the US to do about Cuban regional activities. The example of Peru showed the increasing desire within the region to restore democracy and it therefore seemed right to do everything possible to push back Cuban/
/Soviet influence.

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Soviet influence. But, at a critical time, it was particularly important to do the right thing. From her recent discussions in Washington it was clear that the United States wished to consult widely with its friends over Central America and also to keep closer to Mexico. What, in Peru's view, should be the general US stance in the area? Dr. Ulloa said that the stronger leadership being given by the United States had had beneficial effects in Latin America. But it was very important that there should be close consultation on major decisions, so that the implications could be clear to all. The changed US policy towards authoritarian regimes, by removing obstacles to closer relations, also seemed sensible. The Cubans would try to aggravate the historic divisive issues in Latin America. It was for these reasons important that a solution should be found to the Beagle Channel dispute and to the question of Bolivian access to the sea.

Dr. Ulloa said that the recent flare-up in the Peru/Ecuador border dispute was also a concern in this context. The Peruvians believed that there had been some Cuban influence in provoking the Ecuadorean action. The problem was not yet resolved but there were indications of a more realistic attitude by Ecuador. The Peruvians were, however, concerned about Ecuadorean arms purchases. If these continued, it could increase tensions; and Peru had no wish to divert its own limited resources into building up arms on its side. Peru had been particularly concerned by apparent Israeli involvement in providing military training and assistance to Ecuador.

Dr. Ulloa continued that in Peru, the newest democracy in Latin America, considerable efforts were being made by the extreme left to undermine stability. Recent terrorist activities in Peru had revealed links with Libya and with East European countries. The Peruvian Government were taking steps to control these while keeping within the law. But the outcome in Peru would have an important influence in Colombia, Ecuador, Venezuela and elsewhere in the region. The success of democracy in Peru would also have implications for progress in Argentina, Bolivia and Chile. The Prime Minister agreed that Peru could be seen as the litmus paper of the region. It was necessary to take firm steps to ensure that Communist influence did not endanger democracy. This was not always

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easy in an open society. But the evidence was that people were not easily taken in by Communist propaganda. The extension of democracy in Latin America had created a new sense of hope. But the world was going through a difficult period: and the deflationary effects on the world economy of oil prices increased the problems. The important thing was to stick with determination to one's policies. Dr. Ulloa agreed, Peru faced a real challenge but the new Peruvian Government, under the outstanding leadership of President Belaunde, reflected the will of the people.

In conclusion, the Prime Minister referred to the Falkland Islands dispute. This was a difficult problem on which we were seeking to act in the best interests of the Islanders. We could do nothing without taking fully into account the wishes of the Islanders and no solution would be acceptable to Parliament unless this were the case. Mr. Ridley said that progress was being made towards a solution. The Islanders, who were represented at the recent round of Anglo/Argentine talks, were gaining a more realistic understanding of the nature of the problem. Dr. Ulloa said that he had recently visited Buenos Aires and his impression was that the Argentine Government (both outgoing and incoming) were also taking a much more realistic line and were aware that any solution had to take account of the Islanders' interests.

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Foreign and Commonwealth Office

London SW1A 2AH

31 March 1981

Typists mine

Dear Michael,

Prime Minister of Peru

/ I enclose a draft record of the talks between the Prime Minister and the Peruvian Prime Minister on 30 March.

Yours ever,

Francis Richards

(F N Richards)
Private Secretary

M O'D B Alexander Esq
10 Downing Street
LONDON SW1

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~~DRAFT~~ RECORD OF CONVERSATION BETWEEN THE PRIME MINISTER,
THE RT HON MRS MARGARET THATCHER MP, AND THE PRIME MINISTER
OF PERU, DR MANUEL ULLOA ELIAS, AT 10 DOWNING STREET:
1200 ON 30 MARCH 1981

The Rt Hon Mrs Margaret
Thatcher MP

Mr Nicholas Ridley MP

Mr Cecil Parkinson MP

Mr J B Ure
Mr M O'D Alexander

Mr P R Fearn

H E Dr Manuel Ulloa Elias

Dr Roberto Danino

Dr Sergio Malaga

Vice Admiral Ricardo

Zevallos Newton

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The Prime Minister

1. Welcoming Dr Ulloa Mrs Thatcher said that Peru's return to democracy, through impeccably conducted elections, had given great pleasure to her friends. This should lead to a new era of closeness between Peru and the UK. It was important for democratic countries to keep together. Dr Ulloa expressed gratitude for the invitation to the UK. President Belaunde had asked him to emphasise Peru's strong wish for a strengthened relationship with Britain.
2. Dr Ulloa said that the national elections in Peru last May and the more recent municipal/provincial elections had given the Government a strong mandate. This wide popular support, in particular from the poorer sectors, was important given the unpleasant measures which would have to be taken in the economic field. The government had inherited a serious inflationary situation, aggravated by price controls and subsidies. Since President Belaunde left power in 1968 the number of public enterprises had increased from 10 to 200: and the foreign debt from US\$1 billion to US\$10 billion. Despite the radical ideology of the previous military government, social conditions had also sharply deteriorated. The new government had already made a start in clearing away the abnormalities and in reorganising the administration of social programmes (in which there had been strong Communist influence). Basic legislation on agriculture (where production had declined by 50%) was in hand; and

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legislation on mining, energy and oil was being undertaken. But the pace of progress had to adjust to the political realities. ^{P.N.} ~~Mrs Thatcher~~ agreed that, in tackling inflation, it might in theory be best to move quickly; but in practice this was not always possible. Dr Ulloa said that inflation for the first three months of 1981 had been 24% (not on an annual basis). It was hoped that the April figures would be ~~down to 2-2-1/2%~~ ^{lower,} 2-1/2%. The objective was an inflation rate of 40% in 1981, though with luck it could be ^{less} lower. In agriculture, despite the severe drought in recent years and now floods, a 10% increase in production was expected. Peru had not enough arable land and it was therefore necessary to open up the potentially rich areas east of the Andes. Overall it was hoped to get a 6%/7% increase in GNP this year.

3. Dr Ulloa said that Peru had a serious shortage of skilled labour, together with 40% unemployment. The Government were therefore embarking on major infrastructure programmes (roads, ports, etc). They hoped to obtain assistance from international financial institutions. A conference under World Bank auspices would take place in Paris in May to discuss investment in public sector projects. It was hoped that some \$600/\$700 million per annum might be forthcoming. The independent private sector was also being actively encouraged.

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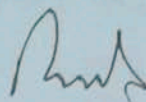
mistake and had alerted the region to the risks. In Central America, there was a fear that, if Poland was invaded, the United States might try to take action against Cuba. This would provoke major political problems in the region and cause concern about the direction of US policy.

6. ^{PN} ~~Mrs Thatcher~~ asked what Peru would want the US to do about Cuban regional activities. The example of Peru showed the increasing desire within the region to restore democracy and it therefore seemed right to do everything possible to push back Cuban/Soviet influence. But, at a critical time, it was particularly important to do the right thing. From her recent discussions in Washington it was clear that the United States wished to consult widely with its friends over Central America and also to keep closer to Mexico. What, in Peru's view, should be the general US stance in the area? Dr Ulloa said that the stronger leadership being given by the United States had had beneficial effects in Latin America. But it was very important that there should be close consultation on major decisions, so that the implications could be clear to all. The changed US policy towards authoritarian regimes, by removing obstacles to closer relations, also seemed sensible. The Cubans would try to aggravate the historic divisive issues in Latin America. It was for these reasons important that a solution should be found to the Beagle Channel dispute and to the question of Bolivian access to the sea.

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