



CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

21 May 1982

Dear John,

Call by Australian Foreign Minister on the Prime Minister, 25 May

I enclose briefing for the Prime Minister's meeting with Mr Street at 4.15 pm on 25 May at the House of Commons.

Mr Street has been with Mr Fraser in the United States, where Mr Fraser launched new proposals on international economic issues and East/West relations, with the Versailles and Bonn Summits in mind. The initiative was in the form of a speech to the Foreign Policy Association in New York on 18 May. I enclose a copy of the speech. Relevant points are also covered in the briefing. The Australian High Commission have passed us a copy (enclosed) of a message on this from Mr Fraser to the Prime Minister; I understand they have sent this directly to you.

Mr Street is likely to draw attention to Mr Fraser's views on international economic matters (Brief No 1), and may also refer to those on East/West issues (Brief No 2). Australian support for us over the Falklands has, as you know, been magnificent (Brief No 3). A general brief (Brief No 4) gives background on Australian internal policies, bilateral and other issues.

Mr Street may also mention Australia's proposed Sterling borrowing, though he is unlikely to wish to discuss it in detail, as he will have seen the Chancellor of the Exchequer earlier that afternoon. I nevertheless enclose a short note.

A copy of Mr Street's programme is also enclosed, together with a personality note.

Yours ever

John Holmes

(J E Holmes)
Private Secretary

A J Coles Esq
10 Downing Street

CONFIDENTIAL

THE WESTERN ALLIANCE: PERCEPTIONS AND REALITY

*The following is the text of an address
by the Prime Minister of Australia, the Rt Hon.
Malcolm Fraser, to the Foreign Policy
Association in New York, U.S.A., on Tuesday, 18 May 1982*

I have come to the United States to talk with President Reagan, and we meet here tonight, just three weeks before the holding of the Western summit conferences in Versailles and Bonn.

Australia will not be attending these conferences, but as a democracy, as an open society of free men and women, and as a member of the wider Western Alliance—we are intensely interested in them and what will flow from them.

Preparations for the July meetings are now underway within the NATO community. In my talks with President Reagan yesterday I was heartened by the efforts which the President and his Administration are putting into establishing a constructive climate for the coming meetings. For I would like to make it clear at the outset that I regard these meetings as potentially the most important to be held by Western leaders since the great formative period of the Alliance in the immediate postwar years.

The Western Alliance facing the most severe challenge of its existence

I believe this because, as I see it, this Alliance—which has served the West well for over thirty years, which has preserved peace through a period of unprecedented tension—is now facing the most severe and dangerous challenge of its existence. Serious, responsible men—men who have always been deeply committed to the Alliance—are using words like 'disarray' and 'crisis' to describe its present state. In my view, they have cause to do so. What are the dimensions of this challenge?

First, and most obviously, the military balance between the Alliance and the adversary it was created to guard against is now less favourable than it has ever been since the Alliance was created. Let us not enter into the complex arithmetic of the nuclear equation, the debate as to whether the Soviet Union enjoys superiority or merely parity. For even on the most optimistic interpretation the Soviet Union now enjoys a stand-off capacity at the nuclear level combined with a clear and growing superiority in conventional forces. And that state of affairs challenges the very basis of the strategic doctrine of the Alliance and undermines the conditions for peace and stability in the world.

Second, at the perceptual level—and we should never forget that politics is largely based on perceptions, that perceptions and resolve are intimately linked—there is very disturbing evidence of an unprecedented divergence in the way members of the Alliance view the world, and particularly in the way they perceive the Soviet Union—its policies, its internal dynamics, its capacity and the most appropriate ways of dealing with it. This divergence was demonstrated only too clearly in the Western response to the imposition of martial law in Poland on 13 December of last year. I will have more to say about it a little later, because I believe it is close to the heart of the matter as far as the future of the Alliance is concerned.

Third, there are disturbing signs of an erosion of trust, understanding and mutual respect across the Atlantic. One can point to various explanations of this: the passing of the founding generation of NATO; the difficulty of adjusting to changing economic and political balances within the Alliance; disappointment at shortcomings and discontinuities in the past performances of Alliance partners. In any case, it is there.

On the European side it is evident in characterisations of the United States as reckless and immature, and in the tendency of some to define the European role not as one of firm commitment to solidarity with the major Alliance partner but as one of mediation between the two superpowers. On the American side, there are doubts about European resolution, and in some quarters, the advocacy of a more unilateral approach to international affairs and the withdrawal of some of America's forces from Europe. At its worst this process is represented by a crude and destructive process of mutual caricature. But it is not confined to that level. And, while it does not embrace governments, I am afraid that it is evident in quarters that must be taken seriously.

The weakening Western commitment to resisting aggression

I will simply make two observations regarding it. First, and obviously, it represents an extremely dangerous trend. Secondly, I do not take the view that the distribution of blame for this state of affairs is symmetrical and that the truth of the matter is mid-way between the American and the European positions. While neither side is blameless, I believe that the most dangerous and destructive element in the situation is the weakening Western commitment to resisting aggression, and that process is more apparent in parts of Europe than in America.

This brings me to the fourth element of the multiple crisis facing the Alliance. Internally many of the countries of the West are facing a tide of protest against what, until now, have been fundamental assumptions and policies of the Alliance. A wave of anti-nuclear, pacifist, neutralist sentiment is evident in nearly every Western country, one which challenges the political, moral and intellectual basis of the Alliance. While this sentiment is resisted by governments, it puts pressure, in some cases severe pressure on them. It embraces a number of religious movements, significant sections of the young, women's groups, as well as sections of powerful political parties. In Western Europe, it is to a significant degree transnational, a movement of continental dimensions with people moving across borders to participate in its activities.

Quite clearly there is in all this an element of manipulation and exploitation by those with an interest in weakening and destroying the Alliance. But equally clearly, there is more than that. For many, particularly young people, the Alliance and its basic policies no longer carry conviction. Its legitimacy is under challenge. Those who feel like this are clearly in a minority, but the intensity of their feelings and their commitment to action are strong. Recent history suggests that it would be a serious error to treat this phenomenon lightly.

Fifth and last, everything I have described is happening against the background of economic conditions which are extremely grim: little or no growth, stagnating trade, high unemployment, high interest rates, persisting inflation in many countries and a dangerous drift towards protectionism. This is not the occasion to discuss this economic situation in its own right. But I do want to emphasise strongly its political consequences in terms of the Alliance. It creates a political atmosphere of pessimism and uncertainty. It limits political choice and inhibits governments from adopting policies which are politically and strategically desirable but economically costly. It encourages a process of political rationalisation to justify this refusal to take hard decisions. And it contributes towards an atmosphere of mutual recrimination among allies.

Each of these five elements is of major importance in its own right; but the truth is that there is not one of them that can be considered on its own. They have to be confronted simultaneously and their cumulative weight is great. This is why I cannot accept the view that what we are facing is just another period of tension within the Alliance, something which is more or less normal. That seems to me altogether too complacent.

The crucial importance of the meetings at Versailles and Bonn

That is why, too, I consider the coming meetings at Versailles and Bonn to be of crucial importance, as an opportunity to prevent further drift, to seize the initiative and to set in train a process which will restore the sense of purpose and unity of the Alliance. If this is not done, if the opportunity is missed, then a bad situation is bound to get worse—and may become disastrous.

As I see it, the process must begin where the Alliance itself began: with a consideration of its fundamental purpose. The Alliance came into existence because of a shared belief that the Soviet Union represented a clear and present danger to the free societies of the West. Is that belief still shared? Is it valid? What kind of state is the Soviet Union in 1982? Has it become, as some believe, a conservative, satisfied power, or is it an expansionist state purposefully engaged in seeking paramount international power? Is there real evidence of internal change in the Soviet Union?

These questions are crucial in terms of Alliance policies. For what may be a sensible and justifiable policy of compromise and adjustment when dealing with a state which fundamentally accepts the status quo becomes a policy of appeasement when applied to an expansionist state. What may satisfy one will only feed the appetite of the other. That is why it is important that we have a clear, agreed, soundly based idea of what kind of regime the Soviet Union is.

4
There are those who maintain that, whatever it was in the past, the Soviet Union is now essentially a defensive-minded, status quo power. Its leaders, it is said, are cautious, pragmatic men, little influenced by ideology. While the regime is still an unpleasant one in many respects, it is essentially conservative in its foreign policy.

These views have sufficient currency—either as explicitly expressed opinion or as the unstated assumptions of assessments and policies—to merit consideration. Let me say at once that while I in no way impugn the integrity of those who hold these views, I find them utterly unconvincing. They just do not square with key facts, facts which in themselves can not be disputed:

- the Soviet Union has been and is engaged in a massive, sustained, relentless build-up of its armed forces. While its economy is in an extremely bad state, it persists in committing in the order of 13 per cent of its gross national product to military expenditure. From the mid 1960s, until the end of the 1970s—a period over which American military expenditure actually fell—that of the Soviet Union rose by about 60 per cent in real terms. Although it is now, in combined nuclear and conventional terms, the most powerful military state in the world, and while no country in the world shows the slightest inclination to attack it, there is no slackening in this commitment
- while this build-up has been proceeding, the Soviet Union has pursued very active policies, involving large-scale military support commitments, in areas which are far removed from itself and which have little or no relevance to the defence of the Soviet Union—Angola, Ethiopia, the Yemen, Vietnam, Central America. I will not add the brutal invasion of Afghanistan in this list, not because I do not deplore it, but in deference to the argument—used exclusively to excuse the Soviet Union in the contemporary world—that as Afghanistan is unfortunate enough to be a neighbour of the Soviet Union, this attack can be subjected to a 'defensive' interpretation. I utterly reject that interpretation; but in the interest of not obscuring the point, let us set Afghanistan aside
- thirdly, the policies of the Soviet Union in relation to these distant and widely dispersed places have been justified by its leaders in terms not of defence or threat, but of a doctrine of global struggle between what they describe as 'progressive' forces and the forces of 'reaction'—that is, in terms of an ideological doctrine of international class war.

These facts are not explicable in terms of a conservative, basically satisfied state. They are not explicable in terms of fear—unless it be paranoid fear which can not be set at rest short of the achieving of total domination, and which in practice is therefore indistinguishable from aggression. Neither is this behaviour consistent with the view that ideology is no longer an active component in Soviet foreign policy.

The fact that the Soviet Union is cautious when confronted with matching power, that its leaders are rational calculators of risks and opportunities, does not establish that it is conservative or that it has abandoned its ideological goals. Anyone who knows the first thing about Marxism-Leninism knows that it denounces 'adventurism' and insists on a realistic caution and patience—until the 'correlation of forces' is favourable. But when those forces are favourable it demands that opportunities be seized.

5

As I have said, I have no wish to impugn the integrity of those who advance the other case. But I do believe that, increasingly, their interpretation reflects an unconscious desire to escape from the heavy burden involved in meeting the challenge posed by the Soviet Union, a fatalistic adjustment of the spirit to the formidable military power that it now deploys. The distinguished French social philosopher, Raymond Aron, has observed that 'Finlandisation begins in the mind'. He is right; and I am afraid that the process is well advanced. But it is not, I believe, irreversible.

If the perception of the Soviet Union is one side of the coin, self-perception—the image of the West itself by Western men and women—is the other. Here too there is a cause for deep concern.

An Alliance which embodied the determination of a majority of the free societies in the world to protect their freedom—and to do no more than that—is now under increasing attack, or, at best, given lukewarm, grudging support. The determination to defend oneself is increasingly characterised as aggressiveness. Many in Europe see the Alliance as something imposed on them from above—or from over the Atlantic—rather than as an expression of their own vital interests. Its critical relevance to their liberty, their values, their civilisation is contested or denied.

The Western Alliance should be seen in terms of human values

That this situation exists is, I am afraid, in large part due to a failure on the part of Western leaders, a failure to articulate the meaning and purpose of the Alliance in terms which will impress themselves on the imagination of ordinary men and women, and particularly, on the imagination of a new generation reared in the turmoil of the 1960s and the period of illusions about the nature of detente in the 1970s. The language in which the Alliance is discussed and explained has become the language of military acronyms and technicalities, rather than of values and purpose. The important but essentially second-order questions of force structures and strategic doctrines have been discussed at length, but the fundamental political and moral questions have not. Thus the Alliance is increasingly seen as being about military arrangements, rather than about the preservation of a way of life—an open, liberal, democratic way of life governed by respect for law.

Inevitably, the resulting vacuum has been filled by other ideas, some of which are inimical to the survival, let alone the effective performance, of the Alliance. These are not new ideas. They represent the resurfacing of perennial yearnings for a world without conflict, danger and war. They cannot be brushed aside, but must be respected and answered with patience and reason. Some of you will be familiar with the response once made by a veteran of the ideological struggles of the 1930s and 1940s—a New Yorker as it happens—to someone who had only recently discovered the existence of most of the issues: 'Your questions are so old that I have forgotten the answers'. Well, we simply cannot afford to forget the answers; each new generation has the right to hear them.

6
It is necessary, for example, that those who proclaim a 'peace movement' be reminded that the argument is not between those who want peace and those who want war. No sane person wants war. The argument is between differing views of how peace can best be preserved, and preserved with a respect for human freedom and dignity. It is about means, not about ends—and to persist in denying this is to poison the wells of discussion. Those who believe that peace can better be maintained by unilateral disarmament cannot merely rest on the expropriation of the word 'peace'; they need to make their case, and to make it on the basis of how the world is, not how we would like it to be.

In doing so, they should recall that this debate is not a new one. It happened before in the lifetime of most of the people in this room. In 1943, Walter Lippman wrote of what he called 'the vicious circle of pacifism'. His words bear repeating:

In the name of peace, the nation is made weak and unwilling to defend its vital interests. Confronted with the menace of superior force, it then surrenders its vital interests. The pacifist statesmen justify their surrender on the ground, first, that peace is always preferable to war, and second, that because the nation wants peace so much, it is not prepared to wage war. Finally, with its back to the wall, the pacifist nation has to fight nevertheless. But then it fights against a strategically superior enemy; it fights with its own armaments insufficient and with its alliances shattered.

The generation which most sincerely and elaborately declared that peace is the supreme end of foreign policy, got not peace, but a most devastating war.

While the present situation is not similar to that which existed in the 1930s, there are forces at work which, if unchecked, will make it increasingly so. Already we are faced by a strategically superior enemy. The sombre argument contained in these sentences has not, therefore, lost its force. It has not been rendered irrelevant by the advent of nuclear weapons. For if the advocacy of pacifism or unilateral disarmament increases rather than diminishes the risk of war, it is even more important to be aware of it now.

Pacifism genuinely based on conscience is, of course, a valid moral option for an individual; but in a world of nation states, of power politics, it can never provide the basis for a country's foreign policy, certainly not in a world in which the most powerful military force is a totalitarian, expansionist state. Similarly, neutralism is a valid moral option for a country as long as it is sure that its interests are in no way involved in a conflict; but it is not for a country whose interests are involved and which implicitly depends on the exertions and sacrifices of others to see that those interests are protected.

7
Western nations should be promoting self respect and freedom

I believe it is time all those who believe in the collective security of the West begin to put these arguments as forcefully as they can, and at every opportunity. I believe it is time that Western governments—including my own, for Australia too faces these problems—commit ourselves to a major effort to marshal their intellectual resources to recreate a convincing and enduring constituency for the Alliance. Whatever else such a constituency requires, it requires a knowledge and understanding by ordinary people of what is at stake for them: not an abstract concept but the liberty which alone gives meaning to their lives. We need a renewed conviction that the opportunities and choices provided by freedom, the self respect and self esteem promoted by democracy, matter not only to ourselves, but as basic responsibilities to our children. It is absurd that we should ever be on the defensive when our intellectual and moral case is so strong.

The need to clarify our minds about what kind of political animal the Soviet Union is and to ensure a firm basis of public support for the Alliance are essential preconditions for any sound long term defence of freedom.

Beyond that, if it is to function effectively, the Alliance must agree on a coherent, sustainable and credible approach to its future dealings with the Soviet Union. At present this is palpably lacking.

'Detente' promised to provide such an approach but did not. It has become a word which means all things to all men, and in practice it has, I am afraid, often been used as a rationalisation for the pursuit of easy options without serious regard for long term consequences.

In working towards a coherent strategy, it is, of course, legitimate that individual countries should expect some consideration for their particular interests and circumstances. But it is also essential that they weigh these against the ultimate value of the Alliance to themselves; that they consider what their position would be without it. For the time when its existence could simply be taken for granted, when its advantages could be pocketed and other concerns given preference, is now over.

I will emphasise three components of such a strategy. First, the logic of the existing strategic balance demands that the West should make a sustained effort in the area of conventional arms, to reduce the advantage the Soviet Union now enjoys in this respect—and the temptation it consequently faces to exploit that advantage. Such an effort is necessary if the West is not to go to the negotiating table disadvantaged. At the same time there should be serious arms control negotiations aimed at creating a more stable strategic balance and reducing the strategic arsenals of both sides in a significant, equitable and verifiable way. I welcome very strongly the initiative taken by President Reagan last week, an initiative which demonstrates a determination to work for realistic arms control.

It seems to me that it is not unilateral disarmament but such a combination of increased effort in the conventional arms field and serious engagement in nuclear arms control negotiations which offers the best means of reducing the risk of nuclear war.

Second, it is particularly important that there be an agreed policy on economic relations with the Soviet Union. For, despite the present problems of the West, economic strength is potentially its most effective instrument in dealing with that country.

The use of that instrument should not be dictated by vindictiveness. But neither should economic relations be conducted without consideration for their political and strategic consequences.

At present the Soviet Union's economic priorities are indicated by its role as the relentless pace-setter in the arms race. Its persistence in that role both undermines the prospects for peace in the world and its own economy. If the arms race is to stop, or to slow down significantly, the Russian leaders must be given powerful economic, as well as political, reasons to change their current arms policies.

While the Soviet Union is efficient in the production of arms, the performance of its economy in other respects—in providing its people with food and the manufactured goods they need, in contributing to the development of higher technology—is disastrously poor. This is not because of intrinsic and unavoidable weaknesses. The country which now imports vast quantities of grain and rationed bread, used to be a great exporter of food. The wounds are self-inflicted, the result of policies dictated by ideology, of a particularly destructive form of bureaucratic interference. It is the result of warped priorities, whereby the demands of war take precedence over the needs of peace.

If we are concerned to change that picture—if we believe that is desirable, for the cause of international peace, in order to free the West from having to match Soviet military spending and in order to facilitate change within Russia itself, that the Soviet leaders should reallocate resources away from arms and towards providing the conditions for a decent and peaceful life for its people—then we must ensure that the West does not, in the name of detente, make it easier for them to persist with their present policies. On the contrary, we must conduct our economic relationships with the Eastern bloc in such a way as to provide strong incentives for such a basic reallocation of resources.

This, I believe, should be the underlying principle determining Western economic policy towards the Soviet Union. Detente, yes; but a detente based on an appreciation of the long term interests both of the West and of the people of the Eastern bloc, not on a short-sighted competitive scramble to provide one's adversary with the means to continue investing in war.

Urgent need for co-ordinated policies beyond Europe

The third task facing the Western Alliance which I would like to stress—both because of its intrinsic importance and because of its particular relevance to Australia as a member of the Alliance far away from the NATO area—is the urgent need for concerted, or at least co-ordinated, policies beyond Europe.

For while the greatest political danger at present lies in Europe, the most immediate military dangers exist outside it, in the chronically unstable regions of the Third World. It is there that the temptation for the Soviet Union to exploit its vast military power is strongest. And we have the evidence of Afghanistan, Angola, Ethiopia, the Yemen, Vietnam, and Central America that that temptation is not being resisted.

9

In these circumstances, unless there is a Western response in good time, the traditional pattern in which wars have begun in Europe and have then engulfed the rest of the world, could well be reversed. For vital European interests are not confined to Europe, and in the last resort NATO countries will have to prevent the erosion of those interests.

It is not simply a matter of co-ordinating defence policy. I believe profoundly—and here I am more in agreement with current thinking in Europe than in Washington—that a forthcoming, constructive and generous approach to North-South issues will serve the West's interests—is in fact a necessary part of an effective Western policy to counter the Soviet exploitation of breakdown and conflict in the Third World.

The role of Australia

I should add that in this matter Australia is practising what it preaches. Both our defence spending and our aid have increased significantly in the last year. We have been very active in attempting to find ways of breaking the impasse in North-South negotiations. And at the same time we are co-operating closely with the United States on security matters, within our region, and beyond. Our current participation in the Sinai MFO is only the most recent manifestation of this.

We believe that it is important that members of the North Atlantic Alliance realise that other members of the Western community play a significant supportive role, that we have a vital interest in the development of policies whose implementation may well involve our participation.

There is one final and critical point I wish to make. So far, what I have said has focused on political and strategic questions. But the best laid political and strategic policies, even if fully agreed on, will be undermined and frustrated if there is no economic recovery. For nearly a decade we have rightly preached a policy of restraint, of reining in the growth of government spending, of moderating the growth of real wages and of encouraging private initiative and investment. Some of us, but not all, have even followed these policies. We have also spoken of the importance of trying to reduce the general levels of protection, but it is clear that there are particular difficulties facing an individual country acting alone in reducing protection. Much more could be achieved if the reduction in protection were carried out in concert with other industrial countries.

10

The need to reduce protection to promote economic recovery

In some parts of the world, particularly in the Asia-Pacific region, there are striking examples of newly industrialising countries organising their economies on a market basis and achieving high growth records. In the United States and parts of Europe, progress has been made in containing and now reducing inflation. Of course, the economic problems we have been confronting have been especially severe; the oil shocks were quite unexpected and inflation has proved a far more virulent and tenacious disease than many expected. But the fact is that there are 30 million unemployed in the West today. They constitute a human problem—and a political one—of great gravity. For them the present outlook is grim. World trade did not grow in 1981, for the first time in over twenty years. Moreover, the latest three month figures for six of the seven major industrial countries show a fall in industrial production. The message is clear: we have no alternative but to try harder if we are to stop the acid of disillusionment biting deeper into the spirit of Western peoples.

When at the end of World War II, the West last faced economic problems of similar magnitude—when fears of a return to the Depression of the 1930s were strong, when the formidable task of converting back from a war economy and coping with the demobilisation of millions of soldiers faced us, and when there was massive support for communist parties in Western Europe—Western leaders displayed an imagination and creative energy to found what was virtually a new liberal economic order. Out of that came the greatest surge of economic prosperity in the history of the West, a prosperity which was significantly shared by the rest of the world.

No less a response is needed now. While we must maintain our essential policies of fighting inflation and raising productivity there is a desperate need for effective circuit breakers which will speed up the growth of international trade and end the processes by which negative forces constantly reinforce each other.

Merely papering over the cracks, agreeing on anodyne communiqués, will not do. I would like to advance a set of important proposals as a contribution to this end, and I do so with the full support of my Government.

I propose that at the coming summit at Versailles, the major Western nations make four interrelated commitments:

- first that there be a standstill on increases in protection and on the introduction of new protectionist measures, particularly in non-tariff forms
- that there be no new or increased export incentives and subsidies, and that there be an international commitment to the abolition of existing export incentives and subsidies over a period of five years;
- that there be a commitment to significant and progressively implemented reductions in all forms of protection, in accordance with a set formula to be determined through the mechanisms of the General Agreement on Tariffs and Trade
- that these foregoing proposals be priority items for consideration at the November 1982 GATT ministerial meeting.

Australia will support a summit initiative

These proposals are not put forward as exclusive steps, but as measures of the dramatic and imaginative kind that the situation demands. In a world which desperately needs leadership is it too much to hope that the seven summit countries would endorse these or similar proposals? Is it too much to hope that they would, in concert, commit themselves to these steps, which are possible, and which would help so much? No nation could implement these proposals unilaterally. But if the summit participants endorse them, that would give a lead. In these circumstances, the support of Australia would be immediately forthcoming.

I commend these proposals to those who will be at the meetings. They would provide grounds for hope in a world where the outlook is otherwise bleak and uncertain. They would improve the prospects for the economic recovery which is so necessary to reduce the massive unemployment in Western states so necessary for the hopes of individual people and their families. They could help in reviving the spirit of the free world.

Mr Chairman, if I have to sum up what I have been saying, I will do it in these terms; dangerous as the military power of the Soviet Union is, the major threat to the liberty and security of the West today is in the minds of Western men and women. In terms of wealth, of population, of knowledge, of technology, the combined resources of the West far exceed those of the Soviet Union and its clients. If, therefore, the West finds itself vulnerable, it is because of a failure of perception and resolve.

We must clear our minds of cant and illusion in our dealings with the Soviet Union, look at it dispassionately, decide what elements of agreement exist among us concerning its nature, and formulate an effective, sustainable way of conducting our relations with it.

I have referred before to Solzhenitsyn's compelling description of the self-deluding interpretation of the contemporary world in the West which 'works as a sort of petrified armour around peoples' minds . . . it will be broken only by the pitiless crowbar of events'.

The time available to prove that prediction wrong—to restore a sense of reality and purpose before events force us to do so—is very short. Let us do all we can to ensure that it is put to good use.



£100 - limit

*This is poor
reason for a
fund who has stood
by us in the
Falklands
crisis*

PLANNED AUSTRALIAN STERLING BORROWING

Australia may announce later in the month its first sterling gilt-edged issue in London for a number of years. There have been about a dozen such "bulldog" issues by various foreign borrowers since the ending of exchange controls; an issue by Australia would be notable for bringing a prime name back to the London capital market.

With the market unsettled by the Falklands crisis, the Australians are understandably nervous about the timing of the issue. We are sympathetic to their predicament and are doing what we can to be helpful: the issue was to have been announced on 24 May, but exceptionally the Bank have allowed it to be postponed for a week. The issue, if it proceeds, will be for £100 million. The Australians have asked to be allowed to increase it to £150 million but for reasons of market management the Treasury and the Bank have been limiting bulldog issues to a maximum of £100 million. An exception could not be made for the Australians without doing the same for others (eg New Zealand, who plan an issue in June and have also asked for £150 million). [Our reasons for caution are that if very large individual bulldog issues are permitted now, the aggregate volume of such bulldog issues could in future be seen to crowd out domestic corporate borrowers from the market; or could have unwanted exchange rate effects at an awkward time.]



AUSTRALIAN FOREIGN MINISTER'S VISIT

THE HON ANTHONY STREET MP

22-25 MAY 1982

OUTLINE PROGRAMME

Saturday 22 May

2000

Mr and Mrs Street arrive London Heathrow Airport on Concorde flight from New York. Accompanied by Principal Private Secretary, Mr Bob Gordon, and Private Secretary Miss Sciberras. Met by Australian High Commissioner, and by Brig. Louthwaite on behalf of Foreign and Commonwealth Office.

2100

Arrive Berkeley Hotel, London.

Sunday 23 May

Afternoon (5 pm?) meeting with Secretary of State (at Berkeley Hotel?).

Monday 24 May

Private engagements

Tuesday 25 May

1130

Call on Mr Onslow, Minister of State, Foreign and Commonwealth Office

1215

Call on Lord Belstead, Minister of State, Foreign and Commonwealth Office.

1245 for 1300

Lunch at Lancaster House, hosted by Lord Belstead, for Mr and Mrs Street

1430

Call on Chancellor of the Exchequer



1615

Call on Prime Minister (House of Commons)

2130

Depart London Heathrow Airport on flight
QF2 for Singapore and Australia.

CONFIDENTIAL

STREET, THE HON ANTHONY AUSTIN, MP

Minister for Foreign Affairs since November 1980. Member of the Cabinet.

Born Melbourne 1926. Educated at Melbourne Church of England Grammar School. Served in the RAN, 1945-46. Farmer.

Liberal member for Corangamite (Victoria) since 1966. Member, Federal Executive Council, 1971-72; Assistant Minister for Labour and National Service; Member, Opposition Parliamentary Executive 1973-75. Spokesman on science and technology, and the Australian Capital Territory, 1973-74, and on labour affairs, 1974-75. Minister for Labour and Immigration in Mr Fraser's Caretaker Government, November 1975. Was also Minister for Employment from December 1975 to December 1978 when it was hived off to become a new department. Minister for Industrial Relations 1975-80.

Close to Mr Fraser, with moderate views on labour relations. A short man. Sensible and likeable. He managed to keep Government-Trade Union relations remarkably smooth despite adverse circumstances, through his willingness to talk to the ACTU and ability to compromise without damaging government economic policy. Well disposed towards Britain which he visited in 1981.

Married 1951 V E (Ricki) Rickard; 3 sons. Mrs Street is a charming lady with a strong sense of fun.

A keen sportsman, Mr Street has twice represented Victoria Country XIs against international touring cricket teams. He toured Britain as a captain of the Australian Old Collegians Cricket Team.

He also plays golf and tennis and has held a private pilot's licence for many years.

CONFIDENTIAL

VISIT BY AUSTRALIAN FOREIGN MINISTER: MAY 1982

Brief No 1

AUSTRALIAN INITIATIVE AND THE ECONOMIC SUMMIT

POINTS TO MAKE

The Australian Initiative

1. We share Mr Fraser's perception that moves towards greater levels of protection would be most unhelpful from the point of view of re-stimulating growth in the world economy, and that resisting protectionism helps fight inflation.
2. These issues certainly need to be looked at by the Versailles Summit, though that Summit must be careful to avoid appearing to prejudge the agenda or the outcome of the GATT Ministerial Meeting. Best idea might be for Summit to suggest that the ideas be studied in the run up to, and at, the GATT Ministerial Meeting.
3. (If pressed for UK to take initiative in advocating these ideas at the Summit): understand Australians are drawing them to the notice of other Summit partners, and we will certainly draw their attention to them at Versailles.

Other Summit Topics

4. International Economic Situation: Major economies (US, Japan, Germany) have had significant success in reducing inflation. Prospect now is for recovery of output in industrial countries. Must stick to non-inflationary policies and improve efficiency of our economies if output recovery is to be sustained and not thrown away in new surge of inflation. Hope that Summit will give impetus in this direction.
5. Within broad strategy, important for countries to tackle domestic problems vigorously and co-operate internationally. Convincing reduction of US budget deficit essential if interest rates to be eased.
6. Japan: Need to put maximum pressure on Japanese to modify both trading and economic policies.
7. International Monetary Matters: Hope for progress on improved coordination between the five countries with currencies in SDR; they have special responsibility to maintain value of their currencies.

8. Impact of Technology: A new subject for Summits and a useful one. Development of technologies should be primarily a response to the operation of markets. Prime need to encourage adaptability and get people to welcome change. Advanced countries have to move up-market and shed fears that new developments in technology will mean increased unemployment.
9. Energy: Need not be first priority at Versailles. But despite falling oil prices, we must continue efforts to conserve energy, develop new resources and reduce dependence on imported oil.
10. North/South: Summit will need to recognise continuing seriousness of problems of developing countries. Hope that progress can be made on Global Negotiations: latest (Bedjaoui) text is useful basis for negotiation, but as it stands does not adequately protect competence of specialised fora.

South Pacific Department
Foreign and Commonwealth Office
20 May 1982

VISIT BY AUSTRALIAN FOREIGN MINISTER: MAY 1982

Brief No 1

AUSTRALIAN INITIATIVE AND THE ECONOMIC SUMMIT

ESSENTIAL FACTS

1. The Australians have a particular interest in Economic Summits, where they would like to have been represented (though the Summit remains confined to the seven largest Western economies and we would not want to alter this). They want to be kept informed and consulted, and in view of their stalwart support over the Falkland Islands we should be as forthcoming as possible on this. We might therefore bring Mr Street into the picture on the Summit subjects, as well as discussing their initiative on protectionism.

The Australian Initiative

2. The Australian initiative was launched in a speech delivered by Mr Fraser in New York on 18 May. A summary of the main points in the economic section is given in the Annex.

3. Mr Fraser attributes lack of economic growth to lack of non-growth in trade, and blames protection. He argues that protection and subsidisation, broadly defined, inhibit growth, and that maintaining protection creates a negative cycle. The reasoning seems over-simplistic and to over-emphasise the contribution growth in trade can make to getting economic growth going again and the extent to which existing levels of protection inhibit growth in trade.

4. He asks the Versailles Summit to recognise that policies of protection and competitive subsidisation are "beggar thy neighbour" policies, which debilitate the world economy. He therefore proposes:

- (a) a standstill on increases in protection, particularly through new non-tariff barriers;
- (b) a commitment to significant and progressive reductions in all forms of protection, through formulae to be established in GATT;
- (c) no new increases in export incentives and subsidies, and existing ones to be abolished over five years.

/5. The

CONFIDENTIAL

5. The Australians will naturally have agricultural protectionism in the forefront of their minds, and (4b) links to proposals they recently failed to get accepted by OECD Ministers, which would have involved a commitment to GATT negotiations on agriculture. Taken at face value, (4c) might amount to a phasing out of EC export restitutions on agricultural products.

6. For these reasons, other Summit partners, notably the French and Japanese, will have greater difficulty with these ideas than we do. However, we could not accept them as they stand: they amount to the immediate launching of another major round of GATT negotiations. But there is no need to say so now: the Australians will surely put something similar forward for the GATT Ministerial Meeting, and that is where the ideas should be examined to see if they can form the basis of a generally acceptable approach.

International Economic Situation

7. The United States, Japan and Germany now all have inflation rates in single figures. The UK is following close behind, but progress in other major countries has been disappointing. Australia has been following anti-inflationary policies, but has higher than OECD average growth, mainly through mineral resource development. Australian industry is highly protected. The OECD, in common with most forecasters, expects output in industrial countries to recover later this year and approach 3% p.a. during next year. The UK, along with the US and Germany attaches particular importance to the maintenance of the broad thrust of counter-inflationary policies and efforts to improve the structure of our economies followed in recent years. We shall be seeking a renewed firm commitment to this strategy at Versailles. Ministers at OECD and IMF Interim Committee meetings have just done this.

8. Within the broad strategy, however, some important policy imbalances have arisen with both domestic and international implications. Reduction of the US budget deficit for next year and beyond is essential if pressure on both domestic and world interest rates is to be eased. Recent efforts at a compromise between the Administration and Congress are welcome, but we remain sceptical about whether the end-result will be adequate, so pressure on the

/Americans

CONFIDENTIAL

Americans should be maintained. At the same time, other countries with high deficits need to curb them. This includes France, Italy and many of the smaller OECD countries. The case of Japan is special. Lax monetary policy and unduly stringent fiscal policy, together with the closed nature of the economy, have led to a low yen rate and depressed domestic demand which threatens to lead to large current surpluses (\$20 billion in 1983), and worsening trade tensions.

International Monetary Matters

9. We hope that the Summit will result in a renewed commitment to work for greater stability in the international monetary system. This will have to rest primarily on convergence of policies designed to achieve lower inflation and thus to maintain the value of currencies. It may involve a recognition that the five countries whose currencies go to make up the SDR basket have a special and continuing responsibility in this respect, within the IMF framework.

Impact of Technology

10. This subject has been introduced in response to French desire to have a subject for medium term reflection at the Summit. President Mitterrand will be writing a paper himself, to be introduced on the Saturday morning. He appears to have in mind to:-

- (a) stress that the world is facing a new industrial revolution;
- (b) say that as a result there are choices to be made by society eg more centralisation or more decentralisation, increasing or decreasing the North/South gap;
- (c) identify action points, eg international cooperation in technology developments, training the young.

11. The French stress Government action in this field and under-play the role of the private sector. Their ideas foreshadow additional funds and new institutions. There is already a good deal of technical cooperation through international bodies,

/technical

CONFIDENTIAL

CONFIDENTIAL

technical associations and the like. New thinking rather than new institutions is needed.

North/South

12. Eight Community partners are prepared to accept, as it stands, the text for launching Global Negotiations produced on 31 March by the G-77 spokesman, Ambassador Bedjaoui. We see the text as the best so far on offer, but need some improvement in the protection it gives to the specialised fora. The Germans have given us hesitant backing, but Herr Genscher is now known to support the text. The Americans are hostile to the Bedjaoui text and are working on an alternative (which is likely to be rejected by the G-77).

13. Strong Community pressure to endorse Bedjaoui text is led by the French. Some members of the Community suspect the Americans of deliberately playing for time, and feel that despite protestations to the contrary, they may have decided to write off Global Negotiations. Community partners are anxious not to be associated with American temporising or wrecking tactics.

South Pacific Department
Foreign and Commonwealth Office

20 May 1982

CONFIDENTIAL

VISIT OF AUSTRALIAN FOREIGN MINISTER: MAY 1982

AUSTRALIAN INITIATIVE AND ECONOMIC SUMMIT: Summary of main points in economic section of Mr Fraser's speech at New York on 18 May.

1. Australian Prime Minister is concerned at state of world economy. Inflation/non growth plaguing most Western countries in varying degrees. More and more obvious that return to non-inflationary growth is keyed into trade. And International Trade is stagnant - experienced negative growth last year for the first time since 1950s. Protectionism is the cause.
2. Mr Fraser believes Versailles Summit must produce the leadership to draw us all out of the present malaise. At every summit so far participants have undertaken to continue to resist protectionist pressures. But the facts are (according to GATT) that protection over the period since 1974 has steadily increased.
3. Appropriate domestic macro-economic policies to deal with domestically generated inflation must be continued but these cannot deal with globally generated inflation which is significantly contributed to by protection (broadly defined). Thus protection must be dealt with at source by globally concerted action.
4. Protection broadly defined includes tariff and non-tariff measures, and all forms of financial assistance for production, export finance or distribution of goods in various industry sectors. Such actions increase government spending, feed global inflation both directly and indirectly and contract trade possibilities. In so doing they inhibit significantly non-inflationary growth.
5. All governments condemn protectionism yet maintain they need to "protect" industries in a climate of unemployment and no growth, thereby perpetuating the evils they seek to avoid. We must break out of the present negative cycle whereby

/individual

individual countries seek to protect their incomes by stifling trade since it does not and cannot work.

MR FRASER'S PROPOSAL

6. That the Versailles Summit recognise that there can be no prospect for durable economic recovery while these "beggar-thy-neighbour" policies continue, recognise the debilitating effect they are having on the world economy and call for international agreement among nations
- (i) On a standstill on increases in protectionism and on the introduction of new protectionist measures, particularly in non-tariff forms:
 - (ii) On a commitment to significant and progressively implemented reductions in all forms of protectionism, in accordance with a set formula to be determined through the mechanisms of the GATT:
 - (iii) That there be no new or increased export incentives and subsidies, and that there be an international commitment to the abolition of existing export incentives and subsidies over a period of five years.
7. That if the Summit can so agree Australia will support such an approach and believes it should be a priority approach at the GATT Ministerial Meeting later this year.
8. Finally, all major countries, including developing countries, must participate to make it work and the cutbacks in protection must be significant to be effective. Not to adopt this approach means a continuation and possibly proliferation of protective and restrictive policies and postpones the possibility of a return to non-inflationary growth which we all need and want.

AUSTRALIAN FOREIGN MINISTER'S VISIT: MAY 1982

Brief No 2

MR FRASER'S SPEECH ON THE WESTERN ALLIANCE

POINTS TO MAKE

1. Have studied Mr Fraser's speech with interest and appreciation.
2. Agree on need to make every effort to improve Alliance cohesion and to explain our policies fully to Western opinion.
3. As consequence of US initiative last year, Alliance Governments have placed greater emphasis on contrasting Western values with moral bankruptcy of Warsaw Pact. Expect Bonn Summit declaration to do the same.
4. Also agree with what Mr Fraser said on need to explain what deterrence means. UK Government has been active in this, (Ministerial speeches, Government pamphlets etc). In fact solid support in UK for NATO and need for sound defences. 'Peace movement' wrongly named; for most part anti-nuclear rather than pacifist or neutralist.
5. Mr Fraser right to emphasise need to improve conventional defences and to pursue arms control seriously. UK regards these as major objectives at Bonn Summit. With INF and START under way, West well placed to demonstrate commitment to arms control.

AUSTRALIAN FOREIGN MINISTER'S VISIT: MAY 1982

Brief No 2

MR FRASER'S SPEECH ON THE WESTERN ALLIANCE

ESSENTIAL FACTS

1. In speech to the Foreign Policy Association in New York on 18 May, Australian Prime Minister drew attention to dangers of transatlantic disunity and scale of Soviet threat to the Alliance. Emphasis was on Nato and Bonn Summit, but Mr Fraser spoke in context of "wider Western Alliance", including Australia.
2. Mr Fraser stressed importance of portraying Alliance as group of countries concerned to preserve a certain way of life, not simply as defence grouping. He believed that growth in peace movement partly due to failure to explain purposes of Alliance, and that there was urgent need for this.
3. Mr Fraser also called for greater efforts by the Alliance to improve its conventional defences, for serious arms control negotiations and for an agreed policy on economic relations with the Soviet Union.

VISIT OF AUSTRALIAN FOREIGN MINISTER: MAY 1982

Brief No 3

AUSTRALIAN REACTION TO FALKLAND CRISIS

POINTS TO MAKE

1. Very grateful for your prompt, full and consistent support. Encouragement and Understanding extended by Australia to UK is most heartwarming and deeply appreciated.

VISIT BY AUSTRALIAN FOREIGN MINISTER: MAY 1982

Brief No 3

ESSENTIAL FACTS

AUSTRALIAN REACTIONS TO FALKLAND CRISIS

1. Very full Australian support for UK. Details are:
 - (a) Statement to UN Security Council, 2 April, condemned Argentine invasion, and supported action proposed by UK.
 - (b) Similar public statement by Mr Fraser, and strong message of support to Prime Minister, 3 April.
 - (c) Recall, 6 April, of Australian Ambassador to Argentina. Returned to Buenos Aires, 28 April, with message from Mr Street to Argentine Government (delivered to Mr Costa Mendez) conveying Australians' serious concern at Argentina's failure to comply with SCR 502 and urging peaceful settlement of the dispute.
 - (d) Imports embargo and withholding of export credits (despite Australian aluminium exports to Argentina worth some £260 million over last 10 years), 8 April.
 - (e) Message to President Reagan on 17 April from Mr Fraser encouraging unequivocal US support for the UK.
 - (f) Press statement by Mr Fraser on 26 April in support of South Georgia landing.
 - (g) Mr Fraser's telephone call on 5 May to Prime Minister expressing sympathy over loss of HMS Sheffield, and reiterating Australian support.
 - (h) Mr Fraser's discussion in Washington on 17 May with President Reagan, stressing importance of support for UK's resistance to Argentine invasion; and reiteration of same points at meeting of Foreign Policy Association in New York, 18 May.

Sale of HMS Invincible

2. Sale agreement would have been signed about now, had Falklands crisis not intervened. Mr Nott has asked RAN Project Team for deferment until outcome of events is known. Mr Blaker told Parliament on 27 April that sale could not be cancelled; it had already been agreed. It has been confirmed in Parliament (19 May)

/that

that the terms of sale have been agreed but the formal documents have yet to be signed.

Use of RAN seconded personnel

3. Despite press speculation in both London and Canberra to the contrary, there are no plans to ask the Australian Government for the use of RAN personnel in connection with the Task Force in the South Atlantic. There are no RAN personnel currently in the Task Force.

AUSTRALIAN FOREIGN MINISTER'S VISIT: MAY 1982

Brief No 4

POINTS TO MAKE

Commonwealth Games (if raised)

1. Glad that question of attendance at the Brisbane Games resolved. But revision of Constitution could cause future problems.

EC Common Agricultural Policy (CAP) (if raised)

2. UK working in EC for CAP reform. In our interest as much as Australia's to limit production of high cost surpluses which can only be disposed of with aid of subsidies. Indeed, on basis of mandate given it by the Council, Commission has been exploring ways to rationalise European agricultural production with our full support. But reform process will take time. Other member states face genuine difficulties.

General

3. (If necessary) should be possible to solve problems amicably. Counter-productive for Australians to threaten trade retaliation: this merely puts EC backs up, and can hurt most those who support Australia's case like UK.

EAST/WEST RELATIONS (INCLUDING POLAND AND AFGHANISTAN)

US/Soviet Relations

4. Welcome President Reagan's 9 May speech. Should give West initiative and help with public opinion. Also welcome possibility of Haig/Gromyko and Reagan/Brezhnev meetings. Important to keep channels open to Russians to reduce their insularity and put across Western views.

Next few months important

5. Prospect of high-level US/Soviet bilateral meetings and possible START talks will determine East/West climate. Must give maximum support to enable US to build on 9 May speech and retain political and public initiative. No prospect Russians will accept need for restraint and compromise unless West is seen to

/be

be united and determined.

Poland

Internal Situation

6. Prospects very uncertain. If Government relax their grip, popular opposition will spread but martial law can provide no lasting solution to Poland's political and economic problems.

Western Policy

7. Important to maintain firm and united Western line. Welcome recent relaxation of martial law but not far reaching enough to warrant any change of policy. (If raised). No question of providing new credits; rescheduling of 1982 official debt remains under review.

Refugees (If raised)

8. Believe Western statements have helped deter Polish Government's attempts to force detainees to choose between imprisonment and exile. Will keep up pressure.

Afghanistan

9. Must not allow issue to drop from sight. Must continually remind Russians that Afghanistan remains a central issue in East/West relations.

Middle East

10. Glad that we are both participating in MFO. Important for such peace-keeping efforts to have broad international support.

11. Sinai withdrawal was important step forward, but Palestinian problem remains central. Autonomy talks likely to continue for the moment, but prospects for success are poor; some fresh thinking may be needed soon.

12. Ten committed to Venice principles as framework for comprehensive settlement. Equally, important that Arabs should unite around positive proposals. These must include acceptance of Israel's rights. Then easier for United States to move towards acceptance of Palestinian rights.

CONFIDENTIAL

AUSTRALIAN FOREIGN MINISTER'S VISIT: MAY 1982

BRIEF NO 4

ANGLO-AUSTRALIAN RELATIONS AND OTHER ISSUES

ESSENTIAL FACTS

Internal Political

1. Federal (Commonwealth) Government has been a Liberal/National Country Party coalition led by Mr Malcolm Fraser since 1975. The Government has a majority of 21 in the House of Representatives over the Australian Labor Party opposition led by Mr Bill Hayden. But since July 1981 the Government have not had an overall majority in the Senate and thus face some obstruction there, especially on the most contentious issues (eg unions).
2. Recent setbacks for the Liberals - defeat in a Federal by-election in March and in the Victoria State elections in April - may largely be attributable to mid-term anti-Government swing, but Mr Fraser and his Government have seemed a little beleaguered. Resignation of two junior Ministers over undeclared importation of a television set by one of them, and a direct challenge to Mr Fraser's leadership from Mr Peacock, former Foreign Minister, in April, have not helped the Liberal Party image. However, Peacock challenge resulted in a firm endorsement of Mr Fraser as leader. In the Ministerial reshuffle in May Defence was the only major Cabinet portfolio to change hands, though there were some other Cabinet changes and several changes in junior ministers.

Economy

3. Australia's economic growth continues to be well above OECD average, but effects of the world recession are showing. Levels of inward investment (especially in mineral development) seem to be slowing, and lower world commodity prices and volumes are leading to lower mining company profits. Following abandonment of the wage indexation system inflation (11.3%) is rising, as is unemployment (7%).

/Anglo-Australian Relations

CONFIDENTIAL

CONFIDENTIAL

Anglo-Australian Relations

4. Links remain strong although they have naturally changed and developed over the years. UK and Australia remain like-minded politically although Mr Fraser is personally sensitive to any signs that UK is attempting to 'nanny' Australia along. More recently, the Australian Government have demonstrated total support of the UK position, and actions, over the Falkland Islands issue (Brief No 3). Our visits to Australia are welcomed (the most recent being Mr Buchanan-Smith in February and Mr Atkins in March). Britain continues to be Australia's largest single source of immigrants providing 30,000 out of a total of 110,000 in 1980/81 and an anticipated 40,000 out of 120,000 in 1981/82. There are also frequent Australian visitors to UK. Mr Fraser last came for the Royal Wedding; Mr Street last visited UK in June 1981.

Constitutional Issues

5. Australia's constitutional arrangements have changed little since 1900/1901 when the States ceded certain powers (external affairs, defence, finance) to the Federal Government. The States, which are self-governing dependencies of the British Crown, retained full powers in certain other matters. The residual links between the Australian States and the British Government are recognised to be anachronistic, and proposals to change Australian constitutional arrangements, cutting these links, are expected to be discussed by the State Premiers and the Federal Prime Minister in June at one of the regular Premiers' Conferences. Generally the matter is progressing on lines acceptable to ourselves and the Palace, though some Australians concerned, particularly New South Wales but also possibly Mr Fraser, want to cut the links by exercise of Australian legislation alone, as a demonstration of Australia's existing independence. There is no real parallel between the Australian issues and the Canadian ones: not only are the problems themselves quite different, but the Australian proposals are expected to be uncontroversial in Australia.

Foreign Policy

6. Generally reflects Australia's position as part of the "wider Western Alliance" (a term used by Mr Fraser in his 18 May speech)

/especially

especially as an ally of the US, with deep distrust of the Soviet Union, and calling for Western solidarity against the Soviet threat worldwide. Reverted over recent years to "forward defence" philosophy, after more isolationist "continental defence" interlude. However, general foreign policies increasingly influenced by geographical considerations and reflecting to some extent Australia's enigmatic position as a developed country whose exports are mainly of primary products. In particular, Mr Fraser has shown a wish to play a role in advancing North/South discussions, for example, at CHGM last year. Some earlier domestic criticism that Mr Fraser was overly concerned to make an international name for himself became much more muted when CHGM was perceived in Australia as a success for him and a boost for Australia.

Commonwealth

7. CHGM Melbourne (Sept-Oct 1981), helped recovery of Commonwealth morale after controversy over Springbok's tour of New Zealand. Current morale high; good Commonwealth response (especially from Old Commonwealth) to Falklands crisis.

Commonwealth Games: Brisbane 30 September to 9 October 1982

8. Commonwealth Games Federation met in London, 5 May, African boycott was headed off, and New Zealand attendance, assured unless African attitudes change before the Games start. But a drafting group to meet at Brisbane will consider Constitutional revision to allow for exclusion of member countries which maintain sporting contacts with South Africa. If implemented, this could cause problems for the next Games in Edinburgh, 1986.

AUSTRALIA - EC

General

9. Recent EC/Australia relations have been difficult because of problems in trade field, especially over trade aspects of Common Agricultural Policy, but also a recent row in GATT over Australian safeguard action (now settled). Visits to Australia in recent months by Mr Alec Buchanan-Smith, M Gaston Thorn and Mr Humphrey Atkins (then Lord Privy Seal) did something to clear the air.

/EC

EC Common Agricultural Policy (CAP)

10. Main Australian complaint is about EC agricultural surpluses being exported at subsidised rates in competition with Australian produce. Australia also complains about protectionist aspects of CAP which have caused reduction in Australian export to Community countries (especially UK whose agricultural imports from Australia fell from £151 million in 1972 to £53 million in 1980).

EC Manufacturing Beef Balance Sheet

11. This permits some imports from third countries (not only Australia) to enter the Community at nil or reduced levy rates to make up any deficiency (balance) of Community production. Precise quantity is set by EC every year, and EC beef producers (France and Ireland) always argue for minimum. Australians maintain they secured an EC commitment in 1979 as part of GATT Tokyo Round that quantity would be at least 60,000 tonnes of beef per year. We accept there is moral but not legal commitment, and normally support Australian case in annual EC discussions. This year 60,000 tonnes was agreed, but half is subject to 45 per cent levy.

Australian Trade Retaliation

12. Australia has in past threatened trade retaliation against EC if she did not receive satisfaction (eg over beef balance sheet). We should impress on Australians that such retaliation is counter-productive. Unselective action against EC member states tends to hit UK hardest, given our greater trade with Australia, despite fact we are Australia's main friend in EC.

EAST/WEST RELATIONS

US/Soviet Relations

13. Eureka College speech (9 May), President Reagan called for the beginning of START negotiations and put forward a 5-point programme for East/West relations. This consisted of: military balance, economic security, regional stability, arms reductions and dialogue. Although the Russians have been dismissive of this programme, they will be conscious that it was a well-judged

/initiative

initiative coming on the eve of the President's European visit and his attendance at the NATO Summit and they will work hard to discredit it. Their attitude to START talks is likely to be more positive.

Summitry

14. President Reagan has made it clear that he is prepared to hold a Summit meeting with President Brezhnev later this year, as long as it is carefully prepared, has the prospect of a successful outcome and fits into the overall context of US/Soviet relations. The likely venue for such a meeting is a European neutral country (Austria, Finland, Ireland and Switzerland have all been mooted), possibly in October. Haig and Gromyko have already met, most recently in January this year, and there is a possibility that they will meet again in June, in New York, in the margins of the UN Special Session on Disarmament.

Poland

15. Mass unofficial demonstrations took place in Warsaw and other Polish cities on 1,3 and 4 May in support of Solidarity and in protest against martial law. These were followed by protest action on 13 May in response to a Solidarity strike call. The Government reacted by arresting some 3,000 people. Western Policy towards Poland was re-affirmed most recently in the NATO Foreign Ministers Luxembourg Declaration.

16. Although the Poles recently signed a rescheduling agreement with the Banks for 1981. Western Creditor Governments have agreed that there should be no change in present policy to suspend credits and 1982 rescheduling negotiations for the time being.

Middle East with MFO

17. After the successful completion of the Israeli withdrawal from Sinai on 25 April the MFO took up its patrol duties along the Israel-Egypt border. Australia and New Zealand have made a joint contribution to the MFO of 12 helicopters and 200 support personnel; the UK is providing a 37-man headquarters unit.

18. The key to further progress on the Palestinian question lies with the Americans. They are clearly determined to continue

/the

the autonomy talks during 1982, but are also seriously considering ways of broadening the Camp David process thereafter. We are encouraging them in this. The Israelis seem determined to offer the Palestinians no more than limited autonomy even in the longer term: this is incompatible with self-determination, which is a vital element in Egyptian and, of course, European positions.

19. We have entered a new period with the return of Sinai and a statement on the Middle East may be required at the June European Council. We believe that the Venice principles are still a valid basis for European diplomacy and that the Europeans cannot remain inactive. The Fahd principles remain on the table for Arab consideration, but there is no immediate prospect of a reconvened Arab Summit. Australians generally keen to support US on Middle East issues; they also have significant Jewish lobby, and many Arab and Lebanese immigrants.