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CARACAS, PANAMA, QUITO, WASHINGTON, UKDEL IMF/IBRD, UKREP BRUSSELS.

PRESIDENT GARCIA'S INAUGURATION SPEECH *ml*

SUMMARY

1. A TOUGH AND UNCOMPROMISING SPEECH. GARCIA SAID PERU WOULD PAY ITS DEBTS BUT WOULD LIMIT PAYMENTS IN THE NEXT TWELVE MONTHS TO 10% OF EXPORTS, AND WOULD SEEK TO NEGOTIATE DIRECTLY WITH CREDITORS WITHOUT THE IMF. AGRICULTURE AND THE REACTIVATION OF INDUSTRY WOULD BE THE MAIN INTERNAL ECONOMIC PRIORITIES, IN PARALLEL WITH MEASURES TO REDUCE INFLATION. AN AUSTERE FUTURE ECONOMIC POLICY PROMISED, BUT NO DETAILS GIVEN. OIL COMPANY TAX EXEMPTIONS TO BE ABOLISHED. AS PART OF A STRATEGY AGAINST TERRORISM A PEACE COMMISSION WOULD BE SET UP. PUBLIC ADMINISTRATION WOULD BE CLEANED UP AS PART OF A MORALISATION PROGRAMME. EXTERNALLY PERU WOULD PURSUE A MORE ACTIVE NON-ALIGNED AND INTEGRATIONIST POLICY. NEED TO BREATHE NEW LIFE INTO ANDEAN PACT. CREATION OF A LATIN AMERICAN FRONT TO SUPPORT THE CONTADORA PROCESS PROPOSED. PERU SUBSTANTIALLY TO REDUCE ARMS SPENDING AND PURCHASE OF MIRAGE AIRCRAFT WOULD BE CUT. COLLABORATION WITH COLOMBIA ON A CRACK-DOWN IN DRUG TRAFFICKING.

DETAIL

2. AS EXPECTED, GARCIA SPOKE IN STRONG TERMS AGAINST THE IMF AND PERU'S "IMPERIALIST" CREDITORS. AS REPORTED IN MY TELNO 232 (NOT TO ALL) HE CONFIRMED THAT PERU WOULD NEGOTIATE WITH CREDITORS WITHOUT THE IMF. HE REITERATED PERU'S WISH TO REPAY BUT SAID THAT AS AN IMMEDIATE MEASURE NO MORE THAN 10% OF VALUE OF EXPORTS WOULD BE PAID TO SERVICE THE DEBT OVER THE NEXT TWELVE MONTHS.

3. HE REFERRED TO THE DEBT AS A PRODUCT OF UNFAIR EXCHANGE OF PERU'S RAW MATERIALS WITH MANUFACTURED PRODUCTS FROM RICH COUNTRIES AND THE OVER-VALUATION OF THE DOLLAR, MADE MORE ACUTE BY THE UNJUST RISE IN INTEREST RATES. HE ALSO BLAMED THE PROTECTIONISM OF COUNTRIES WHICH REFUSE TO BUY PERU'S RAW MATERIALS. HE ACCEPTED HOWEVER, THAT IN MANY INSTANCES PERU HAD USED THE LOANS IRRESPONSIBLY FOR NON-PRODUCTIVE INVESTMENTS AND EXCLUSIVELY FOR THE BENEFIT OF A FEW. BUT HE CRITICISED THE INTERNATIONAL FINANCIAL ORGANISATIONS WHO NOW SEEK TO IMPOSE AUSTERITY ON PERU'S ECONOMY, FOR HAVING PREVIOUSLY CONDONED UNPRODUCTIVE LENDING WHEN IT SUITED INTERNATIONAL BANKING.

14. HE

4. HE REITERATED PERU'S SUPPORT FOR THE CARTAGENA ACCORD. A SOLUTION TO THE LATIN AMERICAN DEBT AS A WHOLE SHOULD BE SOUGHT ON A POLITICAL AND MULTILATERAL BASIS. HE ALSO RETURNED TO HIS DEFINITION OF THE DEBT AS BEING A NORTH/SOUTH AND NOT AN EAST/WEST MATTER.

THE ECONOMY

5. HE SINGLED OUT SUPPORT FOR INDUSTRY AT THE EXPENSE OF AGRICULTURE AS THE ROOT CAUSE OF INFLATION. THIS HAD LED TO THE NEED TO IMPORT BASIC FOODSTUFFS, DEMAND FOR WHICH HAD FORMERLY BEEN MET FROM INTERNAL PRODUCTION. HE PROPOSED TO INCLUDE A LAW TO CONTROL MONOPOLIES, INTRODUCTION OF "PRUDENT" PRICE CONTROLS ON SOME BASIC FOOD ITEMS OF CONSUMPTION. HE REAFFIRMED AGRICULTURE WOULD HAVE PRIORITY AND PROPOSED AN AGRARIAN DEVELOPMENT AND FOOD REFORM LAW, TO PROVIDE CREDITS, FERTILIZERS AND MACHINERY. PERUVIAN INDUSTRY WOULD BE HELPED BY RESTRICTING IMPORT OF NON ESSENTIAL ITEMS. FULL ENCOURAGEMENT IS TO BE GIVEN TO STIMULATING MINING AND FISHING.

OIL COMPANIES

6. GARCIA TABLED A DRAFT LAW TO REPEAL THE "KUCZYNSKI LAW" GOVERNING TAX EXEMPTIONS FOR OIL COMPANIES WHICH HE SAID HAD AFFECTED THE ECONOMY. HE MADE IT CLEAR THAT FOREIGN MONEY WAS NEEDED BUT ON APPROPRIATE TERMS. (HE DID NOT SAY WHAT OIL TAXATION REGIME MIGHT FOLLOW THE EXISTING ONE.)

FISHERIES

7. IN AN APPARENT REFERENCE TO SOVIET FISHING ACTIVITIES OFF PERU, GARCIA ANNOUNCED THAT THE QUOTE IRRATIONAL UNQUOTE USE OF PERUVIAN TERRITORIAL WATERS AS A SOURCE OF WEALTH FOR OTHER NATIONS WOULD BE ENDED. HENCEFORTH THE EMPHASIS IS TO BE ON PROVIDING FOR DOMESTIC CONSUMPTION OF FISH RATHER THAN INDUSTRIAL USES.

SUBVERSION

8. BOTH THOSE WHO SAID THAT POVERTY WAS THE SOLE CAUSE OF TERRORISM AND THOSE WHO ATTRIBUTED IT SOLELY TO FOREIGN INFLUENCE WERE WRONG. BUT A DISTINCTION HAD TO BE DRAWN BETWEEN THE JUST DEMANDS OF THE PEASANTS AND THOSE WHO COMMITTED CRIMES IN THE NAME OF A DOGMATIC AND TOTALITARIAN CREED. THE GOVERNMENT WOULD SUPPORT THE FORMER AND REJECT THE LATTER. DEMOCRACY WOULD NOT YIELD AN INCH BEFORE TERRORISM, WHETHER INSPIRED BY THE RIGHT OR THE LEFT. ON THE OTHER HAND, THE LAW WOULD BE APPLIED SEVERELY TO THOSE WHO COMMITTED HUMAN RIGHTS ABUSES AND GARCIA ANNOUNCED THE IMMEDIATE ESTABLISHMENT OF A PEACE COMMISSION COMPRISED OF JURISTS, MEMBERS OF HUMAN RIGHTS ORGANISATIONS AND POLITICAL GROUPS WITH A TWO-FOLD MISSION: TO PROPOSE AN IMMEDIATE SOLUTION TO THE PROBLEM

OF MEMBERS OF DEMOCRATIC PARTIES WHO WERE IN PRISON UNJUSTLY ACCUSED OF TERRORISM,, AND TO EXAMINE THE POSSIBILITIES OF A DIALOGUE

TO PERSUADE TERRORISTS TO RETURN TO THE DEMOCRATIC FOLD. SUBJECT TO THE COMMISSIONS CONCLUSIONS, AND WHEN CONDITIONS WERE APPROPRIATE THE NEW GOVERNMENT WOULD BE READY TO CONSIDER A PARDON AND AMNESTY FOR THOSE WHO HAD COMMITTED TERRORIST CRIMES.

MORALISATION

9. GARCIA EMPHASISED FORCEFULLY THROUGHOUT HIS SPEECH THAT PUBLIC ADMINISTRATION WOULD BE CLEANED UP. ALTHOUGH ECONOMIC CHANGE WOULD TAKE TIME TO ACCOMPLISH, HIS GOVERNMENT WOULD BEGIN A CAMPAIGN OF MORALISATION IMMEDIATELY. HE PROPOSED LEGISLATION TO DOUBLE THE PENALTIES FOR MISUSE OF PUBLIC FUNDS OR ABUSE OF AUTHORITY, AND FOR A REDUCTION IN HIS PRESIDENTIAL SALARY. ABUSES BY MEMBERS OF THE PREVIOUS ADMINISTRATION SHOULD NOT BE PASSED OVER IN SILENCE BUT JUDGED BY CONGRESS, AND GARCIA PROPOSED LEGISLATION TO EMPOWER THE EXECUTIVE TO REORGANISE THE THREE POLICE FORCES TO RESTORE FAITH IN THEM.

DECENTRALISATION AND DEMOCRATISATION OF THE STATE.

10. GARCIA PRESENTED A DRAFT LAW OF DECENTRALISATION AND MICRO-REGIONALISATION WHICH WOULD BRING THE STATE AND ITS SERVICES TO ALL CORNERS OF PERU. REPRESENTATIVES OF INDUSTRY, THE TRADE UNIONS AND AGRICULTURAL ORGANISATIONS WOULD SIT ON BOARDS OF THE STATE BANKS. HEALTH AND HOUSING RESOURCES WOULD HENCEFORTH NOT TO BE CONCENTRATED IN GRANDIOSE PROJECTS IN THE CAPITAL BUT WOULD BE BROUGHT DIRECTLY TO THOSE WHO NEEDED THEM MOST. THE STATE MUST GENERATE EMPLOYMENT ON A MASSIVE SCALE BY HELPING SMALL INDUSTRY WITH CREDIT NOT BY CREATING UNPRODUCTIVE BUREAUCRACIES.

EXTERNAL

11. GARCIA SAID THE NEW GOVERNMENT WOULD FOSTER LATIN AMERICAN INTEGRATION AS THE ONLY RESPONSE TO THE PRESENT CRISIS. HIS GOVERNMENT WOULD SEEK TO STRENGTHEN THE ANDEAN PACT. IN AN APPEAL TO THE SIX LATIN AMERICAN PRESIDENTS PRESENT, HE SAID INTEGRATION WAS NOT JUST A MATTER OF TECHNICAL EXCHANGES BUT THE DIRECT RESPONSIBILITY OF THE LEADERS OF THE BOLIVARIAN REPUBLICS. PERU WOULD ALSO PURSUE ITS POLICY OF NON-ALIGNMENT MORE ENERGETICALLY THAN IN THE PAST.

12. GARCIA ALSO INVITED THE INDUSTRIALISED NATIONS OF EUROPE TO CONSIDER WHAT INTERESTS THEY HAD IN COMMON WITH LATIN AMERICA SINCE THE FORMER ALSO RISKED BECOMING THE SCENE OF CONFLICT BETWEEN, AND BEING DOMINATED ECONOMICALLY BY, THE SUPER POWERS.

13. PERU WOULD ESTABLISH CLOSER LINKS WITH ARAB COUNTRIES AND THOSE OF AFRICA, ASIA AND THE PACIFIC BASIN. PERU WOULD GIVE UNCONDITIONAL SUPPORT TO THOSE COUNTRIES THREATENED BY ONE OR OTHER FORM OF IMPERIALISM.

CONTADORA

14. FOLLOWING THIS ALLUSION TO CENTRAL AMERICA, GARCIA SAID THAT PERU'S AIM WOULD BE THAT NO COUNTRY IN THE REGION SHOULD BE THE SCENE OF IDEOLOGICAL OR MILITARY CONFLICT BETWEEN THE GREAT POWERS. IN HIS ONLY REFERENCE TO THE FALKLANDS, GARCIA SAID THAT JUST AS PERU STOOD BY ARGENTINA IN THE CONFLICT, ALL AMERICA SHOULD SUPPORT THE CONTADORA GROUP AND HE PROPOSED THE FOUNDATION OF A FRONT OF LATIN AMERICAN COUNTRIES WHO WOULD SUPPORT HIS EFFORTS IN THE CAUSE OF 'CONTINENTAL SOVEREIGNTY'.

LATIN AMERICAN UNITY

15. GARCIA SAID THAT HITHERTO THE NATIONS OF LATIN AMERICA HAD ONLY UNITED AT THE BEHEST OF QUOTE THE RICHEST AND MOST IMPERIALIST COUNTRY ON EARTH UNQUOTE. HE CALLED ON THE PRESIDENT OF PANAMA TO CONVENE A NEW CONFERENCE TO FOLLOW UP THAT HELD BY THE LIBERATOR BOLIVAR 150 YEARS AGO.

ARMAMENTS

16. GARCIA CALLED FOR A REGIONAL AGREEMENT ON DISARMAMENT AND ANNOUNCED THAT PERUVIAN PURCHASES OF ARMS WOULD BE CUT 'SUBSTANTIALLY' AND PURCHASES OF MIRAGE AIRCRAFT WOULD BE REDUCED.

DRUG TRAFFIC

17. GARCIA PROPOSED A CAMPAIGN AGAINST DRUG TRAFFICKING AND APPEALED TO PRESIDENT BETANCUR TO STRENGTHEN THE COORDINATION OF POLICE ACTION IN PERU AND COLOMBIA, WITH THE AIM OF ERADICATING DRUG TRAFFIC PERMANENTLY.

18 SEE MY MIFT FOR COMMENTS.
SHAKESPEARE

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MIPT : ALAN GARCIA'S INAUGURATION SPEECH

1. THIS WAS INTENDED TO SET THE FRAMEWORK FOR THE APRA ADMINISTRATION, TO ANNOUNCE A NUMBER OF PROPOSALS FOR IMMEDIATE LEGISLATION BEFORE THE CONGRESS, AND TO DEMONSTRATE UNMISTAKEABLY THAT A BREAK HAD BEEN MADE WITH THE PAST. FOR HIS PERUVIAN AUDIENCE, GARCIA'S MAIN PURPOSE WAS TO APPEAL FOR SUPPORT FOR HIS PROGRAMME IN THE DIFFICULT TIMES AHEAD. BUT HIS CALLS FOR GREATER LATIN AMERICAN UNITY AND FOR ACTION BY OTHER COUNTRIES STRONGLY SUGGEST THAT HE WAS MAKING A BID TO BE CONSIDERED AS THE PRINCIPAL LEADER OF LATIN AMERICA.

2. ON EXTERNAL DEBT, HIS UNILATERAL RESTRICTION OF PAYMENTS IN THE NEXT 12 MONTHS TO 10 PER CENT OF EXPORTS WILL BE CONTROVERSIAL, AS GARCIA RECOGNISED, AND WILL HAVE DISMAYED BOTH THE IMF AND THE CREDITORS. A 10 PER CENT LIMIT IS HALF THAT WHICH APRA HAD PREVIOUSLY MENTIONED AND BELOW THE ONE-THIRD THAT THE FUND NORMALLY REGARD AS ACCEPTABLE. MR RENTON'S MEETING WITH THE BRAZILIAN FOREIGN MINISTER (MY TELNO 232 (NOT TO ALL)) SUGGESTS THAT A 10 PER CENT LIMIT WILL NOT BE WELCOME TO OTHER LATIN AMERICAN COUNTRIES. (INDEED, CHEYSSON CONFIRMED TO US TODAY THAT MAJOR COUNTRIES LIKE BRAZIL AND MEXICO WERE DEEPLY CONCERNED ABOUT THE EFFECT THIS WOULD HAVE ON THEIR OWN PUBLIC OPINION WHICH MIGHT FORCE THEM TO TRY AND GO DOWN THE SAME PATH.) IN SPITE OF THE RHETORIC AND STRONG CRITICISM OF THE INTERNATIONAL ECONOMIC SYSTEM, HOWEVER, GARCIA HAS NOT BROKEN WITH THE SYSTEM AND HAS PROPOSED A DIALOGUE WITH THE CREDITORS AS A MEANS OF RESOLVING THE DEBT PROBLEM. HE ALSO ACKNOWLEDGED THAT PERU BORE CONSIDERABLE RESPONSIBILITY AS A RESULT OF UNPRODUCTIVE INVESTMENT OF THE PROCEEDS OF BORROWING. HE ALSO REITERATED THE VIEW THAT THE PROBLEM IS ONE OF RELATIONS BETWEEN RICH AND POOR COUNTRIES, BUT NOT INVOLVING RELATIONS BETWEEN EAST AND WEST.

3. GARCIA'S SPEECH CONTAINED SOME UNEXPECTEDLY STRONG CRITICISMS OF THE UNITED STATES WITH ITS FREQUENT REFERENCES TO IMPERIALISM AND ECONOMIC DEPENDENCE. THIS SUGGESTS THAT US/PERUVIAN RELATIONS ARE LIKELY TO BE TURBULENT IN THE COMING MONTHS. INDEED, IN A BRIEFING OF COMMUNITY AMBASSADORS THIS MORNING, CHEYSSON EXPRESSED HIS DEEP CONCERN AT THE ANTI-AMERICAN TONE OF THE SPEECH AND THE LIKELY US REACTION WHICH HE FEARED COULD BE QUOTE BRUTAL UNQUOTE. SEVERAL OF THE MORE SENSIBLE LATIN AMERICAN DELEGATIONS (EG MEXICO AND BRAZIL) HAD TOLD HIM OF THEIR CONCERN THAT THIS COULD QUOTE UNLEASH SOMETHING DANGEROUS UNQUOTE AND THAT THE UNITED STATES MIGHT RESPOND BY PUNISHING PERU AS A WARNING TO OTHER LATIN AMERICAN COUNTRIES NOT TO FOLLOW THE SAME COURSE. HE ALSO EXPRESSED HIS CONCERN AND THAT OF THE MAIN LATIN AMERICAN DELEGATIONS AT ANOTHER ASPECT OF THE SPEECH, NAMELY THAT PERU SEEMED TO BE TURNING IN ON ITSELF AND TO BE PREPARING TO GO IT ALONE. PERU DID NOT HAVE THE RESOURCES TO DO THIS AND IT WAS PROBABLY TOO LATE ANYWAY.

4. JUST BEFORE THE INAUGURATION CEREMONIES, I WAS ABLE TO HOLD A WHISPERED BILATERAL WITH MR ELLIOT ABRAMS IN CHURCH WHEN WE FOUND OURSELVES SITTING NEXT TO ONE ANOTHER DURING THE TE DEUM MASS. ABRAMS SAID THAT THE US DELEGATION, HEADED BY THE TREASURY SECRETARY MR BAKER, WOULD BE DELIVERING A SHORT, TOUGH MESSAGE TO GARCIA LATER IN THE DAY: QUOTE THE SYSTEM IS MORE FLEXIBLE THAN YOU THINK SEMI-COLON, IF YOU STAY INSIDE IT WE WILL BE HAPPY TO HELP YOU SEMI-COLON, IF YOU LEAVE IT, YOU ARE ON YOUR OWN - AND GOOD LUCK TO YOU UNQUOTE. WE BELIEVE THIS MESSAGE WAS DELIVERED TO GARCIA JUST BEFORE HIS SPEECH. THERE ARE ALSO WELL FOUNDED REPORTS OF A ROW BETWEEN THE US EMBASSY AND GARCIA OVER SECURITY THAT LED TO THE CURTAILMENT OF BAKER'S VISIT AND SEEMS TO HAVE CAUSED A GENERAL DETERIORATION IN US-PERUVIAN RELATIONS (IN THE END BAKER FLEW IN DIRECT FROM THE STATES AT BREAKFAST-TIME YESTERDAY AND FLEW BACK THE SAME AFTERNOON). MR RENTON AND I ARE HOPING TO HAVE A MEETING WITH THE US AMBASSADOR ON THURSDAY TO GO OVER THE WHOLE COURSE WITH HIM. HE WAS UNUSUALLY GRIM AND UNCOMMUNICATIVE WHEN WE MET HIM TODAY.

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5. THE SPEECH WILL UNDOUBTEDLY HAVE RAISED EXPECTATIONS AMONG PERUVIANS WHICH IT WILL BE DIFFICULT TO FULFILL. HOWEVER GARCIA EMPHASISED THE NEED FOR FAITH IN THE POSSIBILITY OF CHANGE AND AGAIN EVOKED THE BIBLICAL STORY OF CHRIST URGING HIS DISCIPLES TO WALK ON THE WATER. IT WAS LACKING IN SPECIFIC MEASURES FOR PULLING THE COUNTRY OUT OF THE PRESENT CRISIS OF INFLATION AND HIGH UNEMPLOYMENT. HOWEVER, SOME PERUVIANS SEE IT AS A DECISIVE BREAK WITH THE PAST AND AN INDICATION THAT A NEW GENERATION IS ASSUMING POWER, TO ACHIEVE, IN GARCIA'S WORDS A QUOTE DEMOCRATIC REVOLUTION UNQUOTE.

6. THROUGHOUT HIS SPEECH GARCIA LAID CONSIDERABLE EMPHASIS ON A CAMPAIGN FOR IMPROVING PUBLIC MORALITY. HOWEVER WELL INTENDED THIS MAY BE, CORRUPTION HAS BEEN ENDEMIC IN PERU AND REFLECTS UNDERLYING CAUSES SUCH AS LOW PUBLIC SALARIES. GARCIA MAY FIND THAT HE CANNOT DELIVER ALL HE HAS PROMISED AND ATTRACT CRITICISM. HIS PROPOSAL THAT ALLEGED MISUSE OF PUBLIC FUNDS BY MEMBERS OF THE PREVIOUS ADMINISTRATION SHOULD BE BROUGHT TO BOOK WILL INEVITABLY STIR POLITICAL CONTROVERSY.

7. ON THE SECURITY PROBLEM GARCIA'S APPROACH WAS TWOFOLD: A FIRM LINE AGAINST TERRORISM COUPLED WITH THE CREATION OF A PEACE COMMISSION TO EXAMINE THE POSSIBILITY OF AN AMNESTY AND A DIALOGUE WITH THE TERRORISTS. THIS SECTION OF HIS SPEECH WAS CAREFULLY QUALIFIED AND DOES NOT COMMIT THE GOVERNMENT TO SPECIFIC MEASURES IN A PARTICULAR TIMESCALE.

8. GARCIA'S PROPOSAL TO CUT ARMS PURCHASES SUBSTANTIALLY AND TO REDUCE THOSE OF MIRAGE AIRCRAFT HAS PRESUMABLY BEEN MADE WITH THE AGREEMENT OF THE MILITARY. IT REMAINS TO BE SEEN WHETHER THIS DECISION WILL BRING ABOUT AN AGREEMENT ON ARMS SPENDING IN THE REGION AS GARCIA HOPES.

9. THE FULL IMPACT OF GARCIA'S SPEECH IS ONLY LIKELY TO BECOME APPARENT IN THE NEXT FEW WEEKS. AS WE HAVE REPORTED (MY TELNO 232) THE BRAZILIAN FOREIGN MINISTER CONSIDERED IT THE MOST IMPORTANT SPEECH HE HAD HEARD IN 10 YEARS. MEANWHILE, WE MUST CONSTANTLY BEAR IN MIND THAT WE ARE DEALING WITH A PRESIDENT AND ADMINISTRATION THAT HAVE HAD NO EXPERIENCE OF GOVERNMENT AND WITH A PARTY THAT HAS WAITED 60 YEARS TO ASSUME POWER. THIS WILL CALL FOR GREAT PATIENCE ON THE PART OF CREDITOR NATIONS, AND PARTICULARLY THE UNITED STATES WHO MAY NOW BE IN NO MOOD TO EXERCISE IT.

SHAKESPEARE

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