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Prime Minister ②

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

JULY
2 June 1984

A Turnbull Esq
10 Downing Street
LONDON
SW1

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Dear Andrew,

CARTAGENA CONFERENCE

The Prime Minister may like to have the attached brief appraisal of the outcome of the Latin American Conference on debt held in Cartagena, Colombia on 21 and 22 June prepared by Treasury officials in consultation with the FCO.

As the note makes clear many of the proposals put forward look unacceptable. Officials will however be doing more work on the specific issues and we will take the opportunity of the G5 and G10 Deputies meetings in Paris next month to sound out the views of other creditor countries. The proposals from the Conference have not been put to us formally and there is time therefore for more considered analysis before we need to respond in detail.

In the meantime the Chancellor suggests that our public response should be low profile, but that we should as necessary refer to the Conference's positive aspects (no collective repudiation or default) as a means of encouraging the more moderate Latin American countries.

I am copying this letter to Len Appleyard and to John Bartlett.

Yours ever

Andie

MISS J C SIMPSON
Private Secretary

CARTAGENA CONFERENCE

1. The Latin American conference on debt financing and trade was held in Cartagena, Colombia on 21 and 22 June. Foreign and Finance Ministers from 11 countries participated (Argentina, Brazil, Bolivia, Colombia, Chile, Ecuador, Mexico, Peru, Dominican Republic, Uruguay and Venezuela). It was a continuation of the process which began at Quito in January and encompassed the 19 May statement by 4 Latin American Heads of State and the pre-Summit message to the Prime Minister from 7 Latin American Presidents. Its purpose was to draw the attention of the industrialised countries to Latin American concern about the debt problem.
2. The conference directed a largely moderate message to world opinion, outlined in a 'consensus' parameters for debt negotiations and agreed to meet again under Argentine Chairmanship in three months time.
3. The "consensus" called for practical measures to ease the burden on debtor countries. The 17 proposals are intended to provide a consistent framework for bilateral negotiations with Banks and Governments. A number of the proposals such as the need for a reduction in interest rates and the lowering of barriers to trade are consistent with the London Economic Declaration. But the majority of the proposals would shift the burden from debtors to creditors. They would require additional financial contributions from the banks in the form of lending at cost, minimisation of all fees and charges, interest deferral without penalty and debt servicing limits proportional to export earnings. From Governments they would require more generous terms and preferential interest rates in debt negotiation and export credits. Governments would be called upon to make further contributions to the international financial institutions and to relax conditionality.
4. None of the proposals in the consensus is new. In particular cases it may be possible for creditors to meet some of these demands, but most are clearly unacceptable. It remains to be seen how far individual debtor countries will press these in bilateral negotiations. The current Argentine negotiations will be important as will the Brazilian negotiations later in the year.

Comment

5. There was division at Cartagena between "hardline" countries (eg. Argentina, Bolivia and the Dominican Republic) and "moderates" like Brazil and Mexico.

There was however no general support for the idea of a collective repudiation or default. Many of the countries have undertaken major adjustment efforts in response to their debt difficulties. But there was a growing feeling that they had done as much as they could and that the debt problem would only be solved by recognising the "co-responsibility" of both debtors and creditors. The cost of meeting the debt burden in terms of damage to the long term economic development of the area was re-emphasised. The calls for action on the part of developed countries referred particularly to high interest rates.

6. In general, Latin American countries appear to have been reasonably satisfied with the response to their concerns in the Summit Economic Declaration, so far as it went. To some extent this is reflected in the (narrow) victory of the moderates in Cartagena. But the increase in the US prime rate which followed hard on the conference will provide further ammunition for the hard liners. We shall need to continue to monitor developments closely and to encourage moderate countries like Brazil and Mexico to pursue their present policies and use their influence to persuade others to do likewise.

7. While there has been some suggestion of a meeting between debtors and creditors collectively, no official invitation has emerged from the Cartagena meeting, nor indeed have we received any other official communication from it. Formally there is no call for us to respond in terms to the positions taken at the meeting but we should take opportunities to refer publicly and in our private contacts to its positive aspects.

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