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From the Private Secretary

6 February 1986

PRIME MINISTER'S MEETING WITH DR. LEUTWILER

The Prime Minister saw Dr. Leutwiler yesterday for a talk about South Africa.

Dr. Leutwiler was confident that a solution would be found to South Africa's financial problems. A great deal of South Africa's debt had been very short term. South Africa could not be blamed for this since many capital markets had been closed to her. His first task had been to establish the amount and structure of that debt, and to educate South African authorities in the realities of their difficulties. They had entertained hopes of a Multi Year Rescheduling Arrangement, whereas the reality was that the American banks in particular were unwilling to consider anything other than a short-term solution.

Dr. Leutwiler continued that his task had been to find a solution which would win the tacit acceptance of the banks and would be tolerated by South Africa. This would involve:

- a token repayment of the short-term debt (he mentioned 5 - 10%): some banks particularly the Swiss and German ones would be ready to place this promptly with South Africa again.
- a roll-over of 12 months on the remainder, which would give time for political references to be introduced.
- He hoped that HMG would discreetly encourage the British banks to accept a solution on these lines.

Dr. Leutwiler said that he was encouraged by President Botha's recent speech and thought that the banks would be too. In his judgement, the message which Western governments should be trying to get over to South Africa was that they were encouraged by the speech but not satisfied with it. There was a difficult line to be followed between exerting discreet pressure for change and pushing the South African government too far. His own impression from his recent meeting with President Botha was that the risk of a backlash against excessive pressure, leading the South

African government to steps such as repudiation of its debts and a ban on the export of strategic minerals, was real. It was therefore important to welcome any positive signs of movement by the South African government.

Dr. Leutwiler said that he had found evidence of widespread disenchantment with the ANC among the black community. He also said that Mr. Oppenheimer now regretted having encouraged contacts between South African businessmen and the ANC.

Finally, Dr. Leutwiler said that Pik Botha had very recently telephoned him about the possibility of his meeting Foreign Ministers of the major Western governments in Switzerland to discuss reactions to President Botha's speech. He had reported this to the Swiss government.

Since this was a private meeting, I should be grateful if this letter could be given only a very limited distribution.

I am copying this letter to Rachel Lomax (HM Treasury).

(C.D. Powell)

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Foreign and Commonwealth Office