PART 28. 230 MT

Confidential filing

PARIS ECONOMIC SUMMIT.

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ECONOMIC POLICY

Part 1: May 1979

Part ~~28~~ 28: July 1989

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PART 29 ends:-

PM TO N. WILLIS 28.7.89

PART 30 begins:-

HMT TO CDP. 1.8.89

CF?

KK

cc FCO
HMT
DTI
D/Emp.

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

28 July 1989

Dear Mr. Willis,

Thank you for your letter of 7 July about the Economic Summit with which you enclosed a copy of the statement prepared by the Trade Union Advisory Committee to the OECD, also sent to the Chancellor of the Exchequer.

The outcome of the Paris meeting was very satisfactory. A great deal was achieved on a wide range of issues, in particular on the problems of the world economy, and environmental and drugs issues, on which the United Kingdom made a major and positive contribution.

Many of the concerns expressed in your letter and the enclosed statement were thoroughly discussed in Paris, as you will have seen from the Declaration. It reaffirms the need to continue with the sound economic policies which have brought greater prosperity. A common commitment was made to bring down inflation, which is most important, and we agreed on the need for continuing cooperation to further reduce current account surpluses and deficits. The Summit also emphasised the vital role of continued structural reform to promote competition and incentives in improving economic efficiency. We agreed to continue to promote other measures to remove inefficiencies in our economies including further policies aimed at giving more flexibility and mobility to the labour market and reducing unemployment. Summit leaders

confirmed their determination to fight trade protectionism in all its forms and committed themselves to a successful conclusion of the Uruguay Round.

The TUC statement encourages OECD Governments to coordinate their policies on growing economic links with the Soviet Union and some Eastern European countries. As the Declaration says each country is developing initiatives to encourage economic reforms and offer the opportunity to develop balanced economic cooperation on a formal commercial basis consistent with the general principles of international trade. The Summit countries welcomed the reform process under way in Poland and Hungary. They highlighted the role Western assistance can play in helping develop more competitive economies in these countries. They agreed to concert their various national initiatives to support the reform and charged the European Commission with organising a meeting of interested countries. This is to take place on 1 August.

I note the particular emphasis the TUC places on the need for progress on the debt issue. This too was at the forefront of our discussions. We reaffirmed our support for the agreement reached at Toronto on the debt of the poorest countries. Thirteen countries have so far benefited from these improved terms. For the middle-income debtors, we expressed our commitment to the strengthened debt strategy which emphasised the importance of voluntary market-based reduction and provides for the use of IMF and World Bank resources in support of debt reduction transactions. We also reaffirmed that the most sensible way to tackle Third World debt problems was on a case by case basis with the cooperation of existing financial institutions rather than by creating any new organisations or structures. We also recognised that development is a shared global challenge and underlined the continuing importance of official development assistance and the quality of the aid. At the same time we urged developing countries to implement sound economic policies.

I was particularly pleased with the attention paid to environmental issues, especially to the ozone layer and climate change. These are matters of growing concern as the Trade Union statement points out. The United Kingdom's call for a framework convention on global climate change was welcomed as was the emphasis we place on the need for policies on environmental protection to be both scientifically and economically sound. I welcome particuarly the call in the Declaration for international bodies dealing with the environment to be strengthened, and the support expressed for the preservation of the world's tropical forests.

You mention that the TUC statement had been prepared before the recent events in China. The repression there was, of course, strongly condemned at the Summit; and it was recognised that the future of Hong Kong depended greatly on the degree of support forthcoming from the international Community. I welcome the way Summit partners acknowledged their role in maintaining confidence in Hong Kong. Although Britain has a particular responsibility, I am sure that Hong Kong people will take comfort from the support of the international community. Partners also recognised, however, that much depends on the Chinese Government: they must take early, sustained and tangible action to begin restoring confidence in their intentions towards Hong Kong.

Yours sincerely

Norman Willis, Esq.

KK

cc FCO
HMT
DoE

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

28 July 1989

Dear Secretary-General,

Thank you for your telex about the Economic Summit.

The outcome of the Paris meeting was very satisfactory. A great deal was achieved on a wide range of issues. All the Summit leaders demonstrated a desire to work together to resolve a range of global problems; we addressed in particular the problems of the world economy and environmental and drugs issues, on all of which the United Kingdom made a major and positive contribution.

As I said in my statement to the House of Commons, the Summit reaffirmed the need to continue the sound economic policies which have brought greater prosperity. The Declaration stressed our common commitment to bring down inflation, which is most important, and we agreed on the need for continuing cooperation to further reduce current account surpluses and deficits. The Summit also agreed that continued structural reform to promote competition and incentives is vital for improving economic efficiency. We confirmed our determination to fight trade protectionism in all its forms and committed ourselves to a successful conclusion of the Uruguay Round.

In your letter you drew attention to two 'critical areas' for the Summit, both of which we considered in Paris. On the problems of external indebtedness, we reaffirmed our support for the agreement reached at Toronto on the debt of

2

the poorest countries. Thirteen countries have so far benefited from these improved terms. For the middle-income debtors, we expressed our commitment to the strengthened debt strategy which emphasised the importance of voluntary market-based reduction and provides for the use of IMF and World Bank resources in support of debt reduction transactions. We also reaffirmed that the most sensible way to tackle Third World debt problems was on a case by case basis with the cooperation of existing financial institutions rather than by creating any new organisations or structures.

I share your concern about the environment and I was particularly pleased with the attention paid by the Summit to environmental issues, especially to the ozone layer and climate change. These are matters of growing concern, as you point out, and rightly featured strongly in our discussions. The United Kingdom's call for a framework convention on global climate change was welcomed, as was the emphasis we place on the need for environmental protection policies to be both scientifically and economically sound in order to achieve sustainable development. I welcome particularly the call in the Declaration for international bodies dealing with the environment to be strengthened, and the support expressed for the preservation of the world's tropical forests. I also welcome the emphasis placed on the interests and needs of developing countries to sustain the growth of their economies to meet environmental challenges.

Next year's special session of the General Assembly will, as you say, address a wide range of important issues and the United Kingdom looks forward to playing its usual constructive role in the proceedings.

Kind regards.

Yours sincerely

Margaret Thatcher

His Excellency Senor Javier Perez de Cuellar

CC

CBD
2/8

Italian Embassy,
14, Three Kings Yard,
London, W.1.

8211 27th July, 1989

Dear Charles,

I take pleasure in enclosing herewith the text of a message addressed to the Prime Minister, from Signor Ciriaco De Mita, together with an unofficial translation of the same.

I avail myself of this opportunity to send you my kindest regards.

Sincerely yours

Livio Muzi-Falconi
Chargé d'Affaires a.i.

Encs

Mr Charles Powell
Private Secretary to the Prime Minister
(Overseas Affairs)
10 Downing St
London S W 1

AMBASCIATA D'ITALIA
LONDRA

TEXT OF THE MESSAGE ADDRESSED TO THE PRIME MINISTER, THE RT HON MARGARET THATCHER, MP, FROM SIGNOR CIRIACO DE MITA.

"Signor Primo Ministro e cara amica,

rientrato da Parigi, desidero esprimerLe la mia viva soddisfazione per il proficuo lavoro svolto insieme in occasione del vertice e per i così positivi risultati raggiunti in uno spirito di grande collaborazione.

Nel lasciare l'incarico di Presidente del Consiglio, vorrei anche manifestarLe il mio compiacimento per lo stretto rapporto personale da noi mantenuto. Serbo vivo il ricordo dei nostri incontri, in particolare di quelli a Pallanza e a Londra che ci hanno dato modo di verificare in un clima di grande amicizia, la profondità dei legami esistenti tra i nostri due Paesi.

E' per me motivo di grande soddisfazione constatare quanto siano significativi i progressi compiuto nel quadro del comune impegno europeo ed atlantico e per il consolidamento della pace.

E' con questo spirito che formulo i miei migliori auguri di sempre maggiore successo per la Sua azione di governo e di benessere per Lei e la Sua famiglia.

Ciriaco De Mita".

Message dated
Rome, 27th July, 1989.

Subject cc Master
Ops.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T139A/89

FROM: Signor Ciriaco De Mita

TO: The Prime Minister, The Rt Hon Margaret Thatcher, MP

Date: 27th July, 1989

UNOFFICIAL TRANSLATION

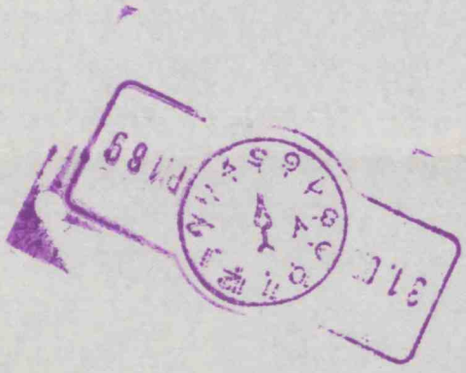
Dear Prime Minister and Dear Friend,

Back from Paris, I wish to convey to you my deep satisfaction at the work accomplished together on the occasion of the Summit and at the very positive results achieved in a spirit of close cooperation. In relinquishing my post of President of the Council of Ministers, it is my wish to express to you my pleasure for the close personal relationship we have enjoyed. I have pleasant memories of our meetings, in particular those at Pallanza and London, which enabled us to verify, in a climate of true friendship, the depth of ~~the~~ the ties which exist between our countries.

It is for me a source of great gratification to reflect upon the very significant progress made in the ambit of our common European and Atlantic commitments and for the strengthening of peace.

It is in this spirit that I send you my warmest best wishes for the ever greater success of your Government, for your personal well-being and that of your family.

Ciriaco De Mita



Foreign and Commonwealth Office

London SW1A 2AH

27 July 1989

27/7

Dear Charles

Paris Economic Summit: Letters to the Prime Minister

Thank you for your letters of 7, 11, and 12 July enclosing letters to the Prime Minister about the Economic Summit from Mr G N F Wyburd, Director of ICC United Kingdom, Mr Norman Willis of the Trades Union Congress and Sr Javier Perez de Cuellar.

I now enclose draft replies as requested; they have been cleared with the Treasury and the Department of Environment.

Yours ever

Bob

(R N Peirce)
Private Secretary

C D Powell Esq
PS/10 Downing Street

DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:

DEPARTMENT: Prime Minister TEL. NO:

BUILDING: ROOM NO:

Reference PO7ACT

~~DD1ALQ~~

Your Reference

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

PRIVACY MARKING

..... In Confidence

CAVEAT .....

Enclosures flag(s) .....

TO:

Copies to: KKIAUC

Senor

His Excellency Mr Javier Perez de Cuellar, Secretary General, United Nations Organisation, New York

Disc in Pattray

SUBJECT:

1. Thank you for your telex about the Economic Summit.

To inc

2. I ~~thought~~ the outcome of the Paris meeting was very satisfactory. A great deal was achieved on a wide range of issues. All the Summit leaders demonstrated a desire to work together to resolve a range of global problems; we addressed in particular the problems of the world economy and environmental and drugs issues, on all of which the UK made a major and positive contribution.

3. As I said in my statement to the House of Commons, the Summit reaffirmed the need to continue the sound economic policies which have brought greater prosperity. The Declaration stressed our common commitment to bring down inflation, which is most important; and we agreed on the need for continuing cooperation to further reduce current account surpluses and deficits. The Summit also agreed that continued structural reform to promote

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competition and incentives is vital for improving economic efficiency. We confirmed our determination to fight trade protectionism in all its forms and committed ourselves to a successful conclusion of the Uruguay Round.

4. In your letter you drew attention to two 'critical areas' for the Summit, both of which we considered in Paris. On the problems of external indebtedness, we reaffirmed our support for the agreement reached at Toronto on the debt of the poorest countries. Thirteen countries have so far benefited from these improved terms. For the middle-income debtors, we expressed our commitment to the strengthened debt strategy which emphasised the importance of voluntary market-based reduction and provides for the use of IMF and World Bank resources in support of debt reduction transactions. We also reaffirmed that the most sensible way to tackle Third World debt problems was on a case by case basis with the cooperation of existing financial institutions rather than by creating any new organisations or structures.

5. I share your concern about the environment and I was particularly pleased with the attention paid by the Summit to environmental issues, especially to the ozone layer and climate change. These are matters of growing concern, as you point out, and rightly featured strongly in our discussions. The

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In Confidence

United Kingdom's call for a framework convention on global climate change was welcomed, as was the emphasis we place on the need for environmental protection policies to be both scientifically and economically sound in order to achieve sustainable development. I welcome particularly the call in the Declaration for international bodies dealing with the environment to be strengthened, and the support expressed for the preservation of the world's tropical forests. I also welcome the emphasis placed on the interests and needs of developing countries to sustain the growth of their economies to meet environmental challenges.

6. Next year's special session of the General Assembly will, as you say, address a wide range of important issues and the United Kingdom looks forward to playing its usual constructive role in the proceedings.

ccPC

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PLEASE FORWARD TO

HER EXCELLENCY
THE RIGHT HONOURABLE
MARGARET THATCHER, M.P.
PRIME MINISTER OF THE UNITED KINGDOM OF
GREAT BRITAIN AND NORTHERN IRELAND
10 DOWNING STREET
LONDON S.W.L
ENGLAND

3012-07
DEAR PRIME MINISTER,

THE SUMMIT MEETING OF INDUSTRIALISED COUNTRIES THIS YEAR COINCIDES WITH THE BICENTENNIAL CELEBRATION OF THE FRENCH REVOLUTION AND OF THE DECLARATION OF THE RIGHTS OF MAN AND CITIZEN. THE HOPES AND ASPIRATIONS REFLECTED IN THESE EVENTS SHOULD CONTINUE TO GUIDE US IN OUR EFFORTS TO REALISE THE FULL DIGNITY OF HUMAN BEINGS THROUGHOUT THE WORLD.

BROAD ADVANCES HAVE BEEN MADE TOWARDS GREATER FREEDOM, THE PEACEFUL RESOLUTION OF DISPUTES, AND GREATER PROSPERITY IN MANY PARTS OF THE WORLD. BUT I REMAIN CONCERNED THAT IN TOO MANY COUNTRIES DEVELOPMENT HAS RELAPSED INTO A STATE OF STAGNATION ACCOMPANIED BY A SEVERE EROSION IN SOCIAL CONDITIONS. IN MANY PARTS OF AFRICA, ASIA AND LATIN AMERICA, PROLONGED AUSTERITY IS NEGATIVELY AFFECTING LONG-TERM DEVELOPMENT PROSPECTS AND, MORE IMMEDIATELY, POSES A RISK TO POLITICAL AND SOCIAL STABILITY. INDEED, THE PROGRESS ACHIEVED IN THE POLITICAL FIELD MAY PROVE TO BE ILLUSORY IF THE ASPIRATIONS FOR THE BETTERMENT OF THE MAJORITY OF THE WORLD'S POPULATION ARE NOT SATISFIED.

WHILE THE RANGE OF PROBLEMS REQUIRING URGENT CO-OPERATIVE ACTION IS EXTENSIVE, I WOULD LIKE TO DRAW TO YOUR ATTENTION TWO CRITICAL AREAS WHICH I HOPE YOU WILL CONSIDER AT YOUR FORTHCOMING MEETING.

THE FIRST CONCERNS THE CONTINUING PROBLEM OF EXTERNAL INDEBTEDNESS OF DEVELOPING COUNTRIES. I AM AWARE AND APPRECIATIVE OF THE EVOLUTION OF THE INTERNATIONAL DEBT STRATEGY, TO INCLUDE MOST RECENTLY RECOGNITION OF THE NEED TO REDUCE DEBT AND DEBT-SERVICING BURDENS. BUT IF DEBT REDUCTION IS TO LEAD TO AN EARLY REVIVAL OF INVESTMENT AND GROWTH, IT HAS TO BE SIZEABLE, EXTENSIVE IN ITS COVERAGE OF DIFFERENT TYPES OF DEBT, AND APPLY TO A BROAD RANGE OF COUNTRIES. THE PROVISION OF ADDITIONAL RESOURCES IS A CRITICAL ELEMENT IN THE OVERALL STRATEGY. AN EFFECTIVE PROGRAMME OF DEBT REDUCTION WILL, IN MY VIEW, REQUIRE SUPPORTIVE CHANGES IN THE TAX AND REGULATORY POLICIES OF CREDITOR COUNTRIES. BUT MOST IMPORTANT IS THE NEED FOR DETERMINED POLITICAL LEADERSHIP AND ACTION ON THE PART OF THE MAIN CREDITOR COUNTRIES IF THE EFFORTS REQUIRED OF THE DEBTORS ARE TO PRODUCE MEANINGFUL RESULTS IN TERMS OF RENEWED GROWTH AND DEVELOPMENT. I AM HOPING THAT THE PARIS SUMMIT WILL MARK A WATERSHED IN THE EVOLUTION OF THE INTERNATIONAL DEBT STRATEGY TOWARDS A JUST AND LASTING SOLUTION.

A SECOND AREA OF CONCERN RELATES TO THE ENVIRONMENT. THE COMMUNITY OF NATIONS HAS COME TO RECOGNISE THAT ENVIRONMENTALLY-SOUND AND SUSTAINABLE DEVELOPMENT IS AN IMPERATIVE FOR BOTH DEVELOPED AND DEVELOPING COUNTRIES. WHILE SIGNIFICANT ACTION HAS BEEN TAKEN AT THE NATIONAL AND INTERNATIONAL LEVEL, MUCH REMAINS TO BE DONE. STRENGTHENED INTERNATIONAL CO-OPERATION IS VITAL FOR FURTHER PROGRESS. I ATTACH PARTICULAR IMPORTANCE IN THIS REGARD TO MEASURES TO STRENGTHEN THE CAPACITY OF DEVELOPING COUNTRIES TO PARTICIPATE FULLY IN THE INTERNATIONAL DIALOGUE AND TO INCORPORATE ENVIRONMENTAL CONCERNS INTO THEIR DEVELOPMENT STRATEGIES, INCLUDING THE PROVISION OF NECESSARY FINANCIAL SUPPORT.

THESE AND OTHER IMPORTANT ISSUES WILL BE CONSIDERED AT A SPECIAL SESSION OF THE GENERAL ASSEMBLY IN APRIL 1990, DEVOTED TO INTERNATIONAL ECONOMIC CO-OPERATION, IN PARTICULAR TO THE REVITALIZATION OF ECONOMIC GROWTH AND DEVELOPMENT OF THE DEVELOPING COUNTRIES. THIS SESSION SHOULD PROVIDE A POLITICAL IMPETUS FOR ACTION ON ISSUES OF PRESSING CONCERN TO THE INTERNATIONAL COMMUNITY. I LOOK FORWARD TO THE CONSTRUCTIVE PARTICIPATION OF ALL COUNTRIES REPRESENTED AT THE PARIS SUMMIT AT THAT SESSION.

WITH THE ASSURANCES OF MY HIGHEST CONSIDERATION AND WARM PERSONAL REGARDS.

JAVIER PEREZ DE CUELLAR

SECRETARY-GENERAL, UNITED NATIONS
COL CKD
JJ 3840 A5925 WAT

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POSS DUPE

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BRITISH EMBASSY
35, rue du Faubourg Saint-Honoré - 75383 Paris Cedex 08
Telephone : 42 66 91 42

CDO 19/2

N L Wicks Esq CB CVO
HM Treasury
Parliament Street
London SW1

Your reference

Our reference

Date 18 July 1989

Mr Powell,
Since this is meant for the P.M., I think it should be kept for our archives, not mine. I see no reason for any response. N L W

Dear Nigel,

SUMMIT OF THE POOREST COUNTRIES

1. As you may have seen in the press, «representatives» of «seven of the world's poorest countries» - Bangladesh, Brazil, Burkina Faso, Haiti, Mozambique, Philippines, Zaire - met in Paris on 15 July in parallel with the Economic Summit. This alternative summit was organised by three Paris-based pressure groups, supported by non-governmental organisations in various developed countries including a British organisation called «European Farmers Coordination». The «representatives» were, as far as I am aware, self-appointed. I have seen nothing to suggest that there was any official support from governments of any of the seven countries. The 'alternative' summit did, however, get a certain amount of press coverage, and its programme included one or two well known names, such as René Dumont.

2. At the end of their summit a delegation called on the Elysée and left an information pack for each of the G7 leaders, which the Elysée promised to pass on. I attach the pack destined for the Prime Minister, which the Elysée have now asked us to forward to you. The Final Declaration included in it is a transcript from a large poster-sized manuscript which, unless you particularly want it, we shall keep here.

Yours sincerely,
Michael Jay

M H Jay

cc: T L Richardson Esq, ERD, FCO

272/7

20 JUIL 1989

[Mr. Neil Kinnock]

democracy are both protected and strengthened? What will be Britain's contribution to the European Community's co-ordinated effort in this respect?

In her statetment, the Prime Minister reported the group of seven's reaffirmation in its economic declaration of what she described as

"the common commitments to . . . reducing external imbalances"

and

"to bring down inflation."

As the result of the Government's policies is that Britain now has the largest proportionate current account deficit and the highest inflation rate of all G7 countries, was not the right hon. Lady's authority on these matters something less than convincing at the meeting in Paris?

When the Prime Minister commented in Paris that in countries where inflation had not risen, it was because sound policies had been rigidly adhered to, which country did she have in mind as having most clearly failed to pursue sound policies?

Does the Prime Minister accept that the Group of Seven's preference for allocating prime responsibility for dealing with Third-world debt problems to the private banking system will simply ensure that the problem remains a persistent drag on the world economy for many years to come—not only perpetuating poverty in the South of the world, but seriously impeding policies to protect the global environment? Before the next summit, will the Prime Minister come forward with proposals for action by Governments that will help to deal more speedily and effectively with the Third-world debt problem?

On the vital question of the global environment, to which the summit rightly paid so much attention, does the right hon. Lady agree that, while exhortation has its place, the highest priority must be given to effective action? With that in mind, why, under her Government, will expenditure on research into global warming this year be only one quarter of 1 per cent. of all research funded by the Government? Why are the resources that the Government subscribe to the intergovernmental panel on climatic change, referred to in the communiqué, simply money being reallocated from research into clean coal techniques?

The Prime Minister endorsed the section of the summit communique that condemned the indiscriminate use of oceans as dumping grounds for polluting waste. How does she explain the inconsistency between that position and the fact that Britain, is now the only country dumping sewage sludge into the North sea, with no plans to make changes?

The summit communiqué urges action on energy conservation. Why have the Government cut, and intend further to cut, spending on energy efficiency? Why do the Government still propose to block the all-party amendment that would impose an obligation on the British electricity industry to give conservation and efficiency the highest priority?

The summit appeared to show full understanding of the need to assist Third-world countries in their efforts to protect the environment. How does the right hon. Lady justify the fact that, during her time in office, development aid as a proportion of gross domestic product has been cut in half? How does she excuse her enthusiastic support for International Monetary Fund regimes that require many countries to put compliance with imposed economic programmes far above environmental security?

I applaud the right hon. Lady for giving credit to what she called

"the skilful chairmanship of President Mitterrand."

That quality of the president was exceeded only by the skill that he showed in making seating arrangements.

The Prime Minister: On the right hon. Gentleman's last point, he would do well to take some lessons in courtesy and skill from President Mitterrand. With regard to the more serious questions that he asked, I can tell him that Mr. Gorbachev's letter was sent to the president of the summit, President Mitterrand, and he will respond to it. We all have copies of the letter, which essentially calls for more interdependence in global economics—a call to which we shall gladly respond. As Mr. Gorbachev says, it will require perestroika to be satisfactory before the Soviet Union can play a full part in that global co-operation.

On the question of food aid for Poland, we first called for that at the Madrid summit, and the actions that Britain agreed to take were announced when General Jaruzelski was here. They consist of agreeing to reschedule the debt for 1989 due this year to the Paris Club without awaiting IMF reform. That is a considerable amount, and we have agreed to a five-year period of grace, after which the debt must start to be repaid. We also agreed to ask the European Community—and have done so—to get rid of some of the quotas on Poland's trade with the Community. If Poland is to pull out of its problems, it must be able to trade more with the Community. We further agreed to provide £5 million per year for five years for management training, and to send my hon. Friend the Minister for Trade to Poland, with a group of industrialists, to investigate joint ventures.

The rest of the improvement will come, as with other countries, after proper agreement is reached with the International Monetary Fund. We do not feel that it would be right to open more credits now. In the past, much credit was wasted and turned to debt that Poland must now repay. We want to be certain that there is a different economic reform programme before more aid is given.

The external imbalances refer mainly to Germany and Japan, which do not always open their markets to our goods as easily as we open our markets to theirs. They operate a number of artificial trade barriers that we do not have. Our membership of the Community helps to bring down Germany's artificial barriers by majority voting on some directives. That means that Germany must get rid of some of the barriers that it would otherwise gladly maintain. Germany also operates greater subsidies than we do, and the Community will bring those down too, to ensure fair competition.

Last year, under the initiative of my right hon. Friend the Chancellor, we agreed to write off the debts of the poorest sub-Saharan countries. We have now done that, and so has France. Before this year's summit, under Mr. Brady's proposal, we agreed to help countries with middle-income debt. As a result of those two measures, £20 billion-worth of dollars have been rescheduled in the Paris Club since we met in Toronto last year. Some of the debt was, of course, written off. Those were two very good initiatives.

Much of the debt is the responsibility of the commercial banks that lent it. Government may become involved to the extent that, if the loans turn into bad debts, or bad debts in part, a provision can be made against the banks' profits for tax purposes. By that combination, the

Economic Summit (Paris)

3.30 pm

The Prime Minister (Mrs. Margaret Thatcher): With Permission, Mr. Speaker, I shall make a statement on the economic summit held in Paris from 14 to 16 July, which I attended with my right hon. and Learned Friend the Foreign Secretary and my right hon. Friend the Chancellor of the Exchequer.

The texts of the various declarations issued at the summit have been placed in the Library of the House. As the main declaration recalls, the seven-year round of summits beginning in 1982 has been one of the longest periods of sustained growth since the second world war. These summits have permitted effective consultations and offered the opportunity to launch initiatives and to strengthen international co-operation.

This summit dealt with four main issues: economic matters, including Third world debt; the environment; drugs: and international relations.

The economic declaration reaffirms the sound economic policies which have brought greater prosperity to all our countries. It stresses our common commitment to bring down inflation. It underlines the need for further progress in reducing external imbalances. It emphasises the importance of structural reforms—that is, improving economic efficiency and getting rid of subsidies and restrictions.

The declaration also confirms our determination to fight protectionism in all its forms and to avoid any policies which would undermine the prospects for the successful completion of the Uruguay round of multilateral trade negotiations by the end of next year.

The declaration reaffirms the case-by-case approach to debt problems, and welcomes the recent decisions taken by the IMF and the World bank to encourage debt and debt service reduction for middle-income countries. It notes that the measures agreed at the last economic summit to help the poorest countries are being successfully implemented. It confirms that the most effective way to deal with the problems of the developing countries is through the existing international financial institutions, rather than by creating new bodies or structures.

The declaration gives particular weight to the problems of the global environment, and especially the ozone layer and the greenhouse effect. These are matters of deep and growing concern, because of the accumulating weight of scientific evidence.

The summit endorsed the United Kingdom's call for a United Nations framework convention on global climate change, similar to that which we already have for the ozone layer. It also underlined the need to make sure that our policies on environmental protection are both scientifically and economically sound. It pointed out that clear assessments of the costs, benefits, and resource implications of environmental protection help Governments to take the necessary decisions. There is no incompatibility between economic growth and environmental protection—indeed, the former is essential to create the wealth to finance measures to protect our environment.

The declaration calls for the strengthening of existing international bodies dealing with the environment, particularly the United Nations Environmental Programme, rather than the creation of new ones.

It also gives strong support to the international effort to preserve the world's tropical forests, while recognising the sensitivities and the sovereignty of the developing countries for whom these forests are an important natural resource.

The declaration signals the very strong determination of all seven Governments to tackle the drugs problem, which has reached such devastating proportions, particularly with the growing threat of crack. We agreed on a number of measures, in particular. The first, was greater help for efforts to counter illegal production of drugs. The second was action to reduce demand for drugs; here, I was able to draw attention to the international conference which Britain will host next year on demand reduction for drugs and cocaine in particular. The third was the establishment of a financial action task force from summit countries and others to investigate, and recommend measures to prevent, money laundering. The fourth was the conclusion of further bilateral agreements for the tracing, freezing and confiscation of the proceeds of drug trafficking and crime. These problems can be solved only by growing international co-operation.

In our discussion of political and regional issues, and in particular of East-West relations, we agreed to provide practical support for political and economic reform in eastern Europe and especially in Poland and Hungary. We also agreed to help meet Poland's urgent need for food. For this purpose, we asked the European Commission to co-ordinate the necessary arrangements.

We issued a strong condemnation of repression in China. Our statement also underlined the common interest of all seven summit countries in a stable and prosperous future for Hong Kong; and confirmed the importance of support from the international community to maintain the confidence of Hong Kong's people, which has been badly shaken by recent events.

We issued a strong denunciation of terrorism, referring in particular to the Lockerbie disaster, and reaffirmed the policy of making no concessions to terrorists. We called on those holding hostages to release them immediately and unconditionally.

This was an exceptionally friendly and worthwhile summit—*[Laughter.]*—an exceptionally friendly and worthwhile summit. Much credit is due to the skilful chairmanship of President Mitterrand. The desire to work together to resolve the problems of the world economy, the environment and drugs was very marked, and the United Kingdom is making a major and positive contribution to this. I am sure that the results of the summit will be warmly welcomed in all the seven summit countries and more widely.

Mr. Neil Kinnock (Islwyn): May I thank the Prime Minister for her statement, and welcome especially the proposals for combined international action against the production, distribution of and trafficking of illegal drugs? Will the Prime Minister tell us what reply she would wish to make to Mr. Gorbachev's letter to the summit, which was rightly welcomed by President Bush as a

"fascinating manifestation of the exciting changes under way in eastern Europe"?

On a matter which is not unrelated, does the Prime Minister agree that, while co-ordinated and urgent food aid to Poland is certainly necessary, both Poland and Hungary also need a considerable programme of technical and economic assistance to ensure that their steps towards

FILE KK.

cc Sir Ewan Fergusson,
British Embassy,
Paris.

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

17 July 1989

Dear Sir Paul.

I was delighted to learn that Glaxo were sponsoring the opening of the new l'Opera de la Bastille. It was very heartening to see Glaxo taking such a prominent role in France. It was a splendid occasion to launch a splendid building. I know that it was greatly enjoyed by all the Heads of State and Government. May I, therefore, thank you warmly.

Yours sincerely

Margaret Thatcher

Sir Paul Girolami
Chairman,
Glaxo Holdings,
61 Curzon Street,
LONDON.

KK

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T131/89

SUBJECT cc MASTER
OPS.

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

17 July 1989

Dear Mr. President,

May I congratulate you most warmly on the very successful outcome of the Economic Summit in Paris. Your skilful and constructive chairmanship enabled us to achieve some excellent results from our meeting on issues which are of great concern to people in all our countries, above all the environment and drugs. I should also like to thank those responsible for the outstandingly good arrangements made for the Summit. From the brilliant originality of the Arch, the Pyramid and the Opera to the magnificence of the Bastille Day Parade and the flair of the great celebration of the Bicentenary, everything reflected the best that France has to offer and it was a great privilege to participate. I am most grateful, too, for all your personal kindness and consideration and for your most thoughtful gifts.

I would like to add a particular word about the successful security operation which took place during the Summit against members of the PIRA and hope that you will pass on to all those concerned my gratitude for this further example of the excellent co-operation between our security services, which has played a vital part in combating terrorism.

Finally, may I say that I look forward very much to seeing you at Chequers, as we agreed. I shall be in touch very shortly to propose dates.

With every good wish.

Yours sincerely

Margaret Thatcher

His Excellency Monsieur le Président Mitterrand GCB

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary 17 July 1989

Dear Richard,

PRIME MINISTER'S VISIT TO PARIS

I enclose the Prime Minister's thank you letter to President Mitterrand, following the recent Economic Summit in Paris. I should be grateful if the text could be telegraphed to our Embassy in Paris for delivery as soon as possible.

Yours ever,

Charles Powell

(C. D. POWELL)

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

C/f

10 DOWNING STREET

From the Principal Private Secretary

16 July 1989

May I, on behalf of the Prime Minister, thank you for your work as liaison officer during her visit to Paris for the Bicentennial celebrations and the Economic Summit. Your vigilance and attentiveness ensured that the arrangements worked as smoothly as possible - no easy task, particularly on the first two days. I hope you found your exposure to the higher echelons of the British Government not only enjoyable but also of value in your work in London.

ANDREW TURNBULL

Monsieur Christian Masset

CONFIDENTIAL

FILE
KK
PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

16 July 1989

Dear Stephen.

ANGLO FRENCH RELATIONS

When the Prime Minister presented President Mitterrand with her bicentennial gift of a first edition of Charles Dickens' "A Tale of Two Cities" this morning, the President drew her aside and said that he would very much like to come over to Britain for a private talk with her fairly soon. He felt that the press were trying to create artificial differences between Britain and France over quite a wide range of issues. Of course there were some genuine differences and those must be respected. But he would like to clear out of the way those which were not real and tackle the few which did exist. If the Prime Minister agreed, he would hop into his plane one day and come across. The Prime Minister said that he would be very welcome at any time and they might meet at Chequers. The President said this would be very agreeable.

We now need to take this forward. I rather doubt that the President will want to come before the summer holidays. But we might look for a date at the end of August or the first few days of September. I will try to let you have a suggestion or two as soon as I am back in the office and Ewen Fergusson might then have a word with M. Attali.

I am copying this letter to Alex Allan (HM Treasury), Neil Thornton (Department of Trade and Industry), Brian Hawtin (Ministry of Defence), Trevor Woolley (Cabinet Office) and to Sir Ewen Fergusson in Paris.

Yours ever,

(C. D. POWELL)

Stephen Wall, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

THE 40 CONCLUSIONS OF THE SUMMIT OF THE ARCH

1) Inflation, where it has increased, will continue to receive a firm policy response so that it will be put on a downward path.

2) In countries with fiscal and current account deficits, including the United States of America, Canada and Italy, further reductions in budget deficits are needed.

3) Under the Plaza and Louvre agreements, our countries agreed to pursue, in a mutually reinforcing way, policies of surveillance and coordination aimed at improving their economic fundamentals and at fostering stability of exchange rates consistent with those economic fundamentals.

4) We welcome the decision to complete the work on the ninth review of the International Monetary Fund quotas with a view to a decision on this matter before the end of the year. We note that the question of a resumption of S.D.R. allocation remains under consideration in the Executive Board of the International Monetary Fund.

5) As regards insider trading, international cooperation should be pursued and enhanced.

6) We will avoid any discriminatory or autonomous actions, which undermine the principles of the GATT and the integrity of the multilateral trading system. We also are pledged to oppose the tendency towards unilateralism, bilateralism, sectoralism and managed trade which threatens to undermine the multilateral system and the Uruguay Round negotiations.

7) Development is a shared global challenge. We shall help developing countries by opening the world trading system, and by supporting their structural adjustment.

8) We call for a substantial replenishment of International Development Association resources.

9) Thirteen of the poorest countries have already benefitted by the Toronto decision to reduce the debt.

10) A new strengthened debt strategy: interest support will be provided, through additional financing by the International Monetary Fund and the World Bank, for

transactions involving significant debt and debt service reduction. For that purpose the use of escrow accounts is agreed.

11) We urge banks to take realistic and constructive approaches in their negotiations with the debtor countries and to move promptly to conclude agreements on financial packages including debt reduction, debt service reduction and new money.

12) Necessity to preserve better the global ecological balance. This includes serious threats to the atmosphere which could lead to future climate change. Such environmental degradation endangers species and undermines the well-being of individuals and societies. Decisive action is urgently needed to understand and protect the earth's ecological balance.

13) We urge all countries to give further impetus to scientific research on environmental issues, to develop necessary technologies and to make clear evaluations of the economic costs and benefits of environmental policies.

14) We ask all countries to combine their efforts in order to improve observation and monitoring on a global scale.

15) We encourage the World Bank and regional development banks to integrate environmental considerations into their activities.

16) We also emphasize the necessity to take into account the interests and needs of developing countries in sustaining the growth of their economies and the financial and technological requirements to meet environmental challenges.

17) We welcome the HELSINKI conclusions related to the complete abandonment of chloro-fluorocarbons as soon as possible and not later than the end of the century.

18) We shall promote the development and use of suitable substitute substances and technologies.

19) We strongly advocate common efforts to limit emissions of carbon dioxide and other greenhouse gases.

20) We strongly support the work undertaken by the Intergovernmental Panel on Climate Change, on this issue.

21) We need to strengthen the worldwide network of observatories for greenhouse gases and support the World Meteorological Organisation initiative to establish a global climatological reference network to detect climate changes.

22) We are committed to maintaining the highest safety standards for nuclear power plants and recognize that nuclear power also plays an important role in limiting output of greenhouse gases.

23) Deforestation damages the atmosphere and must be reversed. The relevant international organizations will be asked to complete reports on the state of the world's forests by 1990.

24) While recognizing the sovereign rights of developing countries, we encourage, through a sustainable use of tropical forests, the protection of all the species therein.

25) We appeal to both consumer and producer countries, which are united in the International Tropical Timber Organization, to join their efforts to ensure better conservation of the forests.

26) Temperate forests must be protected against the effects of acid pollutants such as sulphur dioxides and nitrogen oxides.

27) The conclusion of a framework or umbrella convention on climate change to set out general principles or guidelines is urgently required to mobilize and rationalize the efforts made by the international community.

28) We condemn indiscriminate use of oceans as dumping grounds for polluting waste. There is a particular problem with the deterioration of coastal waters.

29) We urge all countries to make better use of the latest monitoring and clean-up technologies.

30) We ask all countries to adhere to and implement fully the international conventions for the prevention of oil pollution of the oceans.

31) We also ask the International Maritime Organization to put forward proposals for further preventive action.

32) We stress the urgent need for effective, coordinated action by the international community, in support of the Government of Bangladesh, in order to find solutions to the problem of catastrophic floods which are technically, financially, economically and environmentally sound. In that spirit, and taking account of help already given, we take note of the different studies concerning flood alleviation, initiated by France, Japan, the US and the United Nations Development Program, which have been reviewed by experts from

all our countries. We welcome the World Bank's agreement, following those studies, to coordinate the efforts of the international community so that a sound basis for achieving a real improvement in alleviating the effects of flood can be established. We also welcome the agreement of the World Bank to chair, by the end of the year, a meeting to be held in the United Kingdom by invitation of the Bangladesh Government, of the countries willing to take an active part in such a program.

33) We give political support to the project to set up an Observatory of the Saharan areas.

34) We urge all countries, especially those where drug production, trading and consumption are large, to join our efforts to counter drug production, to reduce demand, and to carry forward the fight against drug trafficking itself and the laundering of its proceeds.

35) Greater emphasis on bilateral and United Nations programs for the conversion of illicit cultivation in the producer countries.

36) Strengthen the role of the United Nations in the war against drugs through an increase in its resources and through reinforced effectiveness of its operation.

37) Support the international conference planned for 1990 on cocaine and drug demand reduction.

38) A prompt adhesion to, ratification and implementation of the Vienna Convention on illicit traffic in narcotic drugs and psychotropic substances.

39) Measures to facilitate the identification, tracing, freezing, seizure and forfeiture of drug crime proceeds.

40) Convene a special task force from Summit Participants and other countries interested in these problems. Its mandate is to assess the results of cooperation already undertaken in order to prevent the utilization of the banking system and financial institutions for the purpose of money laundering, and to consider additional preventive efforts in this field. The first meeting of this task force will be called by France and its report will completed by April 1990.

ANNEX: COMMENTARY ON DRAFT ECONOMIC DECLARATION

Paragraph 2: the third tiret, on the environment, has been expanded, through the reference to scientific studies and serious threats to the environment, and given a stronger sense of urgency.

Paragraph 5: the second sentence has been considerably weakened at German and UK insistence. Now a text which we can all support.

Paragraphs 6 and 8: these paragraphs have emerged after long debate, and the economics (particularly the reference to ".... decreasing interest rates" in paragraph 6) is not wholly reliable. Re-opening could make it worse; not worth a fight.

Paragraphs 10 and 11: these remain unchanged, after long debate. The United States originally wanted stronger language, especially on coordination, but was just about persuaded to accept the current version, which we can support.

Paragraph 12: both sub-paragraphs are purely factual.

Paragraph 14: an important paragraph which spells out the areas where structural reforms are needed. An earlier reference to "reducing rigidities" has been

/amplified

amplified, partly at our instigation, by the addition of "..... in all sectors including energy, industry and agriculture", each of which applies to Germany:

energy - heavy coal subsidies;

industry - subsidies to ship-building and aircraft;

agriculture - German agriculture is particularly in need of reform.

Paragraph 17: the Commission, with UK support, tried to strengthen this paragraph to reduce the scope for the United States, especially, to take unilateral trade action, for example under Super 301. Their proposal was to have the fourth sentence read "We agree that the improved GATT dispute settlement mechanism, which should be improved further in the negotiations, is the only appropriate instrument to deal with trade frictions". But the United States objected that some disputes were not covered by the GATT. Canada said that their free trade agreement with the United States had dispute settlement arrangements. In the absence of consensus, the Commission amendment did not succeed.

/Paragraph 18

Paragraph 18: the second sentence of the second sub-paragraph no longer requires countries to make their contribution to the Uruguay Round "consistent with their respective stages of economic development", which would have allowed some developing countries to escape full GATT obligations. The new language is better and has our support.

Paragraph 22: the section on Development begins with a short new sentence to attract attention to the problem. In the following sentences, the drafting has been improved as a result of UK amendments. (There was no attempt by the French to single out aid targets in the middle sub-paragraph of this section.)

Paragraph 25: this is a new paragraph, resulting from Italian insistence. Their initial proposal has been heavily amended. The words are satisfactory, but the increasing tendency of the economic declaration to single out particular countries outside the G7 (last year, Philippines; this year, Philippines, Yugoslavia and Bangladesh) is undesirable. The United States have not so far used the reference to Yugoslavia as an excuse for a specific reference to Mexico in the debt section; but if they were to do so, it would be best to drop the paragraph on Yugoslavia.

Paragraph 28: the new addition to this paragraph proposed by the Chancellor was accepted.

/Paragraph 32

Paragraph 32: in the first tiret, the welcome for the "recent decisions ..... which provide adequate resources ....." is very good language, because it will inhibit any further attempts to provide extra public sector resources.

The third tiret balances the second, by urging banks (like debtor countries) to move promptly in their negotiations. The UK has taken the lead here in opposing any government pressure on banks in the context of specific negotiations, eg on Mexico's debt.

Paragraph 38: the UK tried to insert "market-based" before "debt for nature swaps", to remove the suggestion that governments should give financial backing. But Germany and the United States resisted this insertion and there was no consensus.

Paragraph 39: the Americans agreed to drop the passage in brackets about developing substitutes for CFCs. Under German pressure, we agreed that "Specific attention must ...." be given to ozone depleting substances not covered by the Montreal Protocol. If the Germans press further, we could agree to "urgent attention". A detailed note on this problem is attached.

Paragraph 40: this paragraph starts by speaking of "limiting" carbon dioxide emissions, not "reducing" them, as reduction is not yet realistic.

/Paragraph 41

Paragraph 41: the passage on nuclear power has been changed as the Chancellor wanted.

Paragraph 45: much stronger support is now given to the UK proposal for an umbrella convention on climate change.

Paragraph 47: we have agreed to "note with interest" the Italian proposal on international law for the environment. But the Italians wanted us to "welcome" it and may revert.

Paragraph 48: there was no discussion on establishing new institutions for the environment.

Paragraph 50: at UK suggestion the words "and taking account of help already given" have been put into the third sentence, to show that many countries including the UK have helped Bangladesh in the past. (We are no longer the largest donor to Bangladesh.)

Paragraph 52: a strong new sentence opens the section on drugs, to reflect the feelings voiced by the Heads of Government.

Paragraph 53: there is a new second tiret, proposed by Italy and supported by the UK, on help in countering illegal drug production or trafficking.

In the last tiret, there was some debate on whether the mandate of the task force should be confined to the financial field. The consensus, agreed with Finance Ministers, is that so confining it (as in the present text) would make for a more effective action.

/President

President Bush now supports this view. But Chancellor Kohl may speak in favour of a broader mandate.

Paragraph 55: this new paragraph is an elegant way of responding to proposals made, and messages sent, to the Summit, ie by President Gorbachev and by Egypt, Senegal, Uruguay and India on the "North-South Dialogue".

OZONE-DEPLETING SUBSTANCES NOT COVERED BY THE MONTREAL PROTOCOL.

1. All Summit participants can endorse the undertaking made at the Helsinki Conference in May to phase out the use of chloroflurocarbons (CFCs) which deplete the ozone layer, as soon as possible and no later than the year 2000. (The Americans have entered a caveat on the availability of safe substitutes.) The Germans, however, want a stronger commitment in the declaration to phase out other ozone-depleting substances not covered by the Montreal Protocol.

2. They probably have two substances in mind:-

Carbon tetrachloride and methyl chloroform, which are dry cleaning agents. Scientific and technical assessment panels have been set under the Montreal Protocol which will cover these substances among other issues. The panels are due to report in a month or two's time, so that the June 1990 follow-up meeting on the Montreal Protocol - in London - can take firm decisions on them. In advance of the panel reports - which should show what substitutes might be available for these substances - we think it is wrong to take a firm position on how to treat them.

3. They may also seek a strengthening of the Protocol in respect of halons (for which the present commitment is a freeze at 1986 levels from 1992).

Halons, used mainly for fire-fighting. We agree that these should be phased out as son as possible. But we are not sure that reliable substitutes are yet available and are therefore very reluctant to set a date by which use of them must cease. If the Germans are prepared to set a date, this means either they know of some technological breakthrough which we do not know about; or they are prepared to accept less effective fire-fighting; or they are adopting, as they have done elsewhere, the practice of "forcing technology". We have not hitherto adopted this practice, since we prefer to know that we can meet commitments before we make them.

Revised
13 July 1989

PREM 19/2634

SUMMIT OF THE ARCH
14-16 JULY 1989

16 July 1989

ECONOMIC DECLARATION

1) We, the Heads of State or Government of seven major industrial nations and the President of the Commission of the European Communities, have met in Paris for the fifteenth annual Economic Summit. The Summit of the Arch initiates a new round of Summits to succeed those begun at Rambouillet in 1975 and at Versailles in 1982. The round beginning in 1982 has seen one of the longest periods of sustained growth since the Second World War. These Summits have permitted effective consultations and offered the opportunity to launch initiatives and to strengthen international cooperation.

2) This year's world economic situation presents three main challenges:

- The choice and the implementation of measures needed to maintain balanced and sustained growth, counter inflation, create jobs and promote social justice. These measures should also facilitate the adjustment of external imbalances, promote international trade and investment, and improve the economic situation of developing countries.

PREM 19/2634

ORDRE DE RIDES

- The development and the further integration of developing countries into the world economy. Whilst there has been substantial progress in many developing countries, particularly those implementing sound economic policies, the debt burden and the persistence of poverty, often made worse by natural disasters affecting hundreds of millions of people, are problems of deep concern which we must continue to face in a spirit of solidarity.

- The urgent need to safeguard the environment for future generations. Scientific studies have revealed the existence of serious threats to our environment such as the depletion of the stratospheric ozone layer and excessive emissions of carbon dioxide and other greenhouse gases which could lead to future climate changes. Protecting the environment calls for a determined and concerted international response and for the early adoption, worldwide, of policies based on sustainable development.

INTERNATIONAL ECONOMIC SITUATION

3) Growth has been sustained by focusing policies on improving the efficiency and flexibility of our economies and by strengthening our cooperative efforts and the coordination process. In the medium term, the current buoyant investment seen during this period should pave the way for an increased supply of goods and services and help reduce the dangers of inflation. The outlook is not, however, without risks.

4) Until now, the threat of inflation in many countries has been contained, thanks to the concerted efforts of governments and monetary authorities. But continued vigilance is required and inflation, where it has increased,

will continue to receive a firm policy response so that it will be put on a downward path.

EXTERNAL IMBALANCES

5) While some progress has been made in reducing external imbalances, the momentum of adjustment has recently weakened markedly. There needs to be further progress in adjusting external imbalances through cooperation.

DEFICITS

6) In countries with fiscal and current account deficits, including the United States of America, Canada and Italy, further reductions in budget deficits are needed. Action will be taken to bring them down. This may help reduce the saving-investment gap and external imbalances, contribute to countering inflation and encourage greater exchange rate stability in a context of decreasing interest rates.

7) Countries with external surpluses, including Japan and Germany, should continue to pursue appropriate macroeconomic policies and structural reforms that will encourage non-inflationary growth of domestic demand and facilitate external adjustment.

8) All our countries share the responsibility for the sound development of the world economy. Over the medium term, deficit countries have to play a key role in global adjustment through their external adjustment and increased exports; surplus countries have to contribute to sustaining global expansion through policies providing favourable conditions for growth of domestic demand and imports.

9) The emergence of the newly industrializing economies and the initiation of a dialogue with them are welcome. We call on those with substantial surpluses to contribute to the adjustment of external imbalances and the open trade and payments system. To that end, they should

permit exchange rates to reflect their competitive position, implement GATT commitments and reduce trade barriers.

INTERNATIONAL MONETARY DEVELOPMENTS AND COORDINATION

10) Under the Plaza and Louvre agreements, our countries agreed to pursue, in a mutually reinforcing way, policies of surveillance and coordination aimed at improving their economic fundamentals and at fostering stability of exchange rates consistent with those economic fundamentals.

There has been progress in the multilateral surveillance and coordination of economic policies with a view to ensuring internal consistency of domestic policies and their international compatibility. The procedures to be used have been more clearly defined and improved in cooperation with the International Monetary Fund.

11) The coordination process has made a positive contribution to world economic development and it has also contributed greatly to improving the functioning of the International Monetary System. There has also been continued cooperation in exchange markets.

It is important to continue, and where appropriate, to develop this cooperative and flexible approach to improve the functioning and the stability of the International Monetary System in a manner consistent with economic fundamentals. We therefore ask the Finance Ministers to continue to keep under review possible steps that could be taken to improve the coordination process, exchange market cooperation, and the functioning of the International Monetary System.

12) We welcome the decision to complete the work on the ninth review of the International Monetary Fund quotas with a view to a decision on this matter before the end of the year.

We note that the question of a resumption of S.D.R. allocation remains under consideration in the Executive Board of the International Monetary Fund.

13) Within the European Community, the European Monetary System has contributed to a significant degree of economic policy convergence and monetary stability.

IMPROVING ECONOMIC EFFICIENCY

14) We will continue to promote measures in order to remove inefficiencies in our economies. These inefficiencies affect many aspects of economic activity, reduce potential growth rates and the prospects for job creation, diminish the effectiveness of macroeconomic policies and impede the external adjustment process. In this context, tax reforms, modernization of financial markets, strengthening of competition policies and reducing rigidities in all sectors including energy, industry and agriculture are necessary. So are the improvement of education and vocational training, transportation and distribution systems and further policies aimed at giving more flexibility and mobility to the labour market and reducing unemployment. Within the European Community, the steady progress towards the completion by the end of 1992 of the program contained in the Single Act has already given a strong momentum to economic efficiency.

15) The decline of saving in some of our countries in this decade is a cause for concern. This lower level of

saving can contribute to high real interest rates and therefore hamper growth. Inadequate saving and large fiscal deficits are associated with large external deficits. We recommend, within the framework of policy coordination, policies to encourage saving and remove hindrances where they exist.

16) Financial activities are being increasingly carried out with new techniques on a worldwide basis. As regards insider trading, which could hamper the credibility of financial markets, regulations vary greatly among our countries. These regulations have been recently, or are in the process of being, strengthened. International cooperation should be pursued and enhanced.

TRADE ISSUES

17) World trade developed rapidly last year. Yet protectionism remains a real threat. We strongly reaffirm our determination to fight it in all its forms. We shall fulfill the Punta del Este standstill and rollback commitments which, inter alia, require the avoidance of any trade restrictive or distorting measure inconsistent with the provisions of the General Agreement and its instruments. We agree to make effective use of the improved GATT dispute settlement mechanism and to make progress in negotiations for further improvements. We will avoid any discriminatory or autonomous actions, which undermine the principles of the GATT and the integrity of the multilateral trading system. We also are pledged to oppose the tendency towards unilateralism, bilateralism, sectoralism and managed trade which threatens to undermine the multilateral system and the Uruguay Round negotiations.

18) The successful negotiation of the Trade Negotiations Committee of the Uruguay Round in Geneva last April, thereby completing the mid-term review, is a very important achievement. It gives a clear framework for future work in all sectors including the pursuit of agricultural reform in the short term as well as in the long term. It also gives the necessary framework for substantive negotiations in important sectors not yet fully included in GATT disciplines, such as services, trade-related investment measures and intellectual property.

Developing countries participated actively in these negotiations and contributed to this success. All countries should make their most constructive contribution possible.

We express our full commitment to making further substantive progress in the Uruguay Round in order to complete it by the end of 1990.

19) We note with satisfaction the entry into force of the Free Trade Agreement between Canada and the US, as well as more recent initiatives to intensify the close economic relations between the European Community and EFTA countries. It remains our policy that these and other developments in regional cooperation, should be trade-creating and complementary to the multilateral liberalization process.

20) It is the firm intention of the European Community that the trade aspects of the single market program should also be trade-creating and complementary to the multilateral liberalization process.

21) We note with satisfaction the progress that has been made in strengthening the multilateral disciplines on trade and aid distorting export credit subsidies. This effort

must be pursued actively and completed in the competent bodies of the OECD with a view to improving present guidelines at the earliest possible date.

GENERAL PROBLEMS OF DEVELOPMENT

22) Development is a shared global challenge. We shall help developing countries by opening the world trading system and by supporting their structural adjustment. We shall encourage too economic diversification in commodity dependent countries and the creation of a favourable environment for transfers of technology and capital flows.

We underline the continuing importance of official development assistance and welcome the increased efforts of Summit participants in this respect. We note the targets already established by international organizations for the future level of official development assistance and stress the importance of overall financial flows to development.

We underline simultaneously the importance attached to the quality of the aid and to the evaluation of the projects and the programs financed.

23) We urge developing countries to implement sound economic policies. A vital factor will be the adoption of financial and fiscal policies which attract inward investment and encourage growth and the return of flight capital.

24) We note with satisfaction that there has been substantial progress in the multilateral aid initiative for the Philippines that was given special attention in the Toronto economic declaration.

25) Faced with the worrying economic situation of Yugoslavia, we encourage its government to implement a strong economic reform program that can command bilateral and multilateral support.

THE SITUATION IN THE POOREST COUNTRIES

26) The enhancement of the International Monetary Fund Structural Adjustment Facility, the World Bank special program of assistance for the poorest and most indebted countries and the fifth replenishment of the African Development Fund are all important measures benefiting those countries having embarked upon an adjustment process. We stress the importance attached to a substantial replenishment of International Development Association resources.

27) As we urged last year in TORONTO, the Paris Club reached a consensus in September 1988 on the conditions of implementation of significant reduction of debt service payments for the poorest countries. Thirteen countries have already benefitted by this decision.

28) We welcome the increasing grant element in the development assistance as well as the steps taken to convert loans into grants and we urge further steps to this end. Flexibility in development aid as much as in debt rescheduling is required.

29) We attach great importance to the efficient and successful preparation of the next general conference of the United Nations on the least developed countries, which will take place in Paris in 1990.

STRENGTHENED DEBT STRATEGY FOR THE HEAVILY INDEBTED COUNTRIES

30) Our approach to the debt problems has produced significant results, but serious challenges remain: in many countries the ratio of debt service to exports remains high, financing for growth promoting investment is scarce, and capital flight is a key problem. An improvement in the investment climate must be a critical part of efforts to achieve a sustainable level of growth without excessive levels of debt. These improvements of the current situation depend above all on sustained and effective adjustment policies in the debtor countries.

31) To address these challenges, we are strongly committed to the strengthened debt strategy. This will rely, on a case-by-case basis, on the following actions:

- borrowing countries should implement, with the assistance of the Fund and the Bank, sound economic policies, particularly designed to mobilize savings, stimulate investment and reverse capital flight;

- banks should increasingly focus on voluntary, market-based debt and debt service reduction operations, as a complement to new lending;

- the International Monetary Fund and World Bank will support significant debt reduction by setting aside a portion of policy-based loans;

- limited interest support will be provided, through additional financing by the International Monetary Fund and the World Bank, for transactions involving significant debt and debt service reduction. For that purpose the use of escrow accounts is agreed;

- continued Paris Club rescheduling and flexibility of export-credit agencies;

- strengthening of the international financial institutions capability for supporting medium-term macroeconomic and structural adjustment programs and for compensating the negative effects of export shortfalls and external shocks.

32) In the framework of this strategy:

- we welcome the recent decisions taken by the two institutions to encourage debt and debt service reduction which provide adequate resources for these purposes;

- we urge debtor countries to move ahead promptly to develop strong economic reform programs that may lead to debt and debt service reductions in accordance with the guidelines defined by the two Bretton Woods institutions;

- we urge banks to take realistic and constructive approaches in their negotiations with the debtor countries and to move promptly to conclude agreements on financial packages including debt reduction, debt service reduction and new money. We stress that official creditors should not substitute for private lenders. Our governments are prepared to consider as appropriate tax, regulatory and accounting practices with a view to eliminating unnecessary obstacles to debt and debt service reductions.

ENVIRONMENT

33) There is growing awareness throughout the world of the necessity to preserve better the global ecological balance. This includes serious threats to the atmosphere, which could lead to future climate changes. We note with great concern the growing pollution of air, lakes, rivers, oceans and seas; acid rain, dangerous substances; and the rapid desertification and deforestation. Such environmental degradation endangers species and undermines the well-being of individuals and societies.

Decisive action is urgently needed to understand and protect the earth's ecological balance. We will work together to achieve the common goals of preserving a healthy and balanced global environment in order to meet shared economic and social objectives and to carry out obligations to future generations.

RESEARCH

34) We urge all countries to give further impetus to scientific research on environmental issues, to develop necessary technologies and to make clear evaluations of the economic costs and benefits of environmental policies.

The persisting uncertainty on some of these issues should not unduly delay our action.

In this connection, we ask all countries to combine their efforts in order to improve observation and monitoring on a global scale.

35) We believe that international cooperation also needs to be enhanced in the field of technology and technology transfer in order to reduce pollution or provide alternative solutions.

ROLE OF INDUSTRY

36) We believe that industry has a crucial role in preventing pollution at source, in waste minimization, in energy conservation, and in the design and marketing of cost-effective clean technologies. The agricultural sector must also contribute to tackling problems such as water pollution, soil erosion and desertification.

37) Environmental protection is integral to issues such as trade, development, energy, transport, agriculture and economic planning. Therefore, environmental considerations must be taken into account in economic decision-making. In fact good economic policies and good environmental policies are mutually reinforcing.

In order to achieve sustainable development, we shall ensure the compatibility of economic growth and development with the protection of the environment. Environmental protection and related investment should contribute to economic growth. In this respect, intensified efforts for technological breakthrough are important to reconcile economic growth and environmental policies.

ECONOMICS OF ENVIRONMENT

Clear assessments of the costs, benefits and resource implications of environmental protection should help governments to take the necessary decisions on the mix of price signals (e.g., taxes or expenditures) and regulatory actions, reflecting where possible the full value of natural resources.

We encourage the World Bank and regional development banks to integrate environmental considerations into their activities. International organizations such as the OECD and the United Nations and its affiliated organizations, will be asked to develop further techniques of analysis which would help governments assess appropriate economic measures to promote the quality of the environment. We ask the OECD, within the context of its work on integrating environment and economic decision-making, to examine how selected environmental indicators could be developed. We expect the 1992 UN Conference on Environment and Development to give additional momentum to the protection of the global environment.

AID FOR DEVELOPING COUNTRIES

38) To help developing countries deal with past damage and to encourage them to take environmentally desirable action, economic incentives may include the use of aid mechanisms and specific transfer of technology. In special cases, ODA debt forgiveness and debt for nature swaps can play a useful role in environmental protection.

We also emphasize the necessity to take into account the interests and needs of developing countries in sustaining the growth of their economies and the financial and technological requirements to meet environmental challenges.

39) The depletion of the stratospheric ozone layer is alarming and calls for prompt action.

OZONE LAYER

We welcome the HELSINKI conclusions related, among other issues, to the complete abandonment of the production and consumption of chloro-fluorocarbons covered by the MONTREAL protocol as soon as possible and not later than the end of the century. Specific attention must also be given to those ozone-depleting substances not covered by the Montreal protocol. We shall promote the development and use of suitable substitute substances and technologies. More emphasis should be placed on projects that provide alternatives to chloro-fluorocarbons.

CARBON DIOXIDE AND GREENHOUSE GASES

40) We strongly advocate common efforts to limit emissions of carbon dioxide and other greenhouse gases, which threaten to induce climate change, endangering the environment and ultimately the economy. We strongly support the work undertaken by the Intergovernmental Panel on Climate Change, on this issue.

OBSERVATORIES

We need to strengthen the worldwide network of observatories for greenhouse gases and support the World Meteorological Organisation initiative to establish a global climatological reference network to detect climate changes

ENERGY EFFICIENCY

41) We agree that increasing energy efficiency could make a substantial contribution to these goals. We urge international organizations concerned to encourage measures, including economic measures, to improve energy conservation and, more broadly, efficiency in the use of energy of all kinds and to promote relevant techniques and technologies.

NUCLEAR POWER

We are committed to maintaining the highest safety standards for nuclear power plants and to strengthening international cooperation in safe operation of power plants and waste management, and we recognize that nuclear power also plays an important role in limiting output of greenhouse gases.

42) Deforestation also damages the atmosphere and must be reversed. We call for the adoption of sustainable forest management practices, with a view to preserving the scale of world forests. The relevant international organizations will be asked to complete reports on the state of the world's forests by 1990.

43) Preserving the tropical forests is an urgent need for the world as a whole. While recognizing the sovereign rights of developing countries to make use of their natural resources, we encourage, through a sustainable use of tropical forests, the protection of all the species therein and the traditional rights to land and other resources of local communities. We welcome the German initiative in this field as a basis for progress.

TROPICAL FORESTS

To this end, we give strong support to rapid implementation of the Tropical Forest Action Plan which was adopted in 1986 in the framework of the Food and Agricultural Organization. We appeal to both consumer and producer countries, which are united in the International Tropical Timber Organization, to join their efforts to ensure better conservation of the forests. We express our readiness to assist the efforts of nations with tropical forests through financial and technical cooperation, and in international organizations.

44) Temperate forests, lakes and rivers must be protected against the effects of acid pollutants such as sulphur dioxide and nitrogen oxides. It is necessary to pursue actively the bilateral and multilateral efforts to this end.

GLOBAL CLIMATE CONVENTION

45) The increasing complexity of the issues related to the protection of the atmosphere calls for innovative solutions. New instruments may be contemplated. We believe that the conclusion of a framework or umbrella convention on climate change to set out general principles or guidelines is urgently required to mobilize and rationalize the efforts made by the international community. We welcome the work under way by the United Nations Environment Program, in cooperation with the World Meteorological Organization, drawing on the work of the Intergovernmental Panel on Climate Change and the results of other international meetings. Specific protocols containing concrete commitments could be fitted into the framework as scientific evidence requires and permits.

OCEANS

46) We condemn indiscriminate use of oceans as dumping grounds for polluting waste. There is a particular problem with the deterioration of coastal waters. To ensure the sustainable management of the marine environment, we recognize the importance of international cooperation in preserving it and conserving the living resources of the sea. We call for relevant bodies of the United Nations to prepare a report on the state of the world's oceans.

We express our concern that national, regional and global capabilities to contain and alleviate the consequences of maritime oil spills be improved. We urge all countries to make better use of the latest monitoring and clean-up technologies. We ask all countries to adhere to and implement fully the international conventions for the prevention of oil pollution of the oceans. We also ask the International Maritime Organization to put forward proposals for further preventive action.

47) We are committed to ensuring full implementation of existing rules for the environment. In this respect, we note with interest the initiative of the Italian government to host in 1990 a forum on international law for the environment with scholars, scientific experts and officials, to consider the need for a digest of existing rules and to give in-depth consideration to the legal aspects of environment at the international level.

STRENGTHEN U.N.E.P. etc.

48) We advocate that existing environment institutions be strengthened within the United Nations system. In particular, the United Nations Environment Program urgently requires strengthening and increased financial support. Some of us have agreed that the establishment within the United Nations of a new institution may also be worth considering.

49) We have taken note of the report of the sixth conference on bioethics held in Brussels which examined the elaboration of a universal code of environmental ethics based upon the concept of the "human stewardship of nature".

50) It is a matter of international concern that Bangladesh, one of the poorest and most densely populated countries in the world, is periodically devastated by catastrophic floods.

BANGLADESH

We stress the urgent need for effective, coordinated action by the international community, in support of the Government of Bangladesh, in order to find solutions to this major problem which are technically, financially, economically and environmentally sound. In that spirit, and taking account of help already given, we take note of the different studies concerning flood alleviation, initiated by France, Japan, the US and the United Nations Development Program, which have been reviewed by experts from all our countries. We welcome the World Bank's agreement, following those studies, to coordinate the efforts of the international community so that a sound basis for achieving a real improvement in alleviating the effects of flood can be established. We also welcome the agreement of the World Bank to chair, by the end of the year, a meeting to be held in the United Kingdom by invitation of the Bangladesh Government, of the countries willing to take an active part in such a program.

51) We give political support to projects such as the joint project to set up an observatory of the Saharan areas, which answers the need to monitor the development of that rapidly deteriorating, fragile, arid region, in order to protect it more effectively.

DRUG ISSUES

52) The drug problem has reached devastating proportions. We stress the urgent need for decisive action, both on a national and an international basis. We urge all countries, especially those where drug production, trading and consumption are large, to join our efforts to counter drug production, to reduce demand, and to carry forward the fight

against drug trafficking itself and the laundering of its proceeds.

53) Accordingly, we resolve to take the following measures within relevant fora:

- Give greater emphasis on bilateral and United Nations programs for the conversion of illicit cultivation in the producer countries. The United Nations Fund for Drug Abuse Control (UNFDAC), and other United Nations and multilateral organizations should be supported, strengthened and made more effective. These efforts could include particular support for the implementation of effective programs to stop drug cultivation and trading as well as developmental and technical assistance.

- Support the efforts of producing countries who ask for assistance to counter illegal production or trafficking.

- Strengthen the role of the United Nations in the war against drugs through an increase in its resources and through reinforced effectiveness of its operation.

- Intensify the exchange of information on the prevention of addiction, and rehabilitation of drug addicts.

- Support the international conference planned for 1990 on cocaine and drug demand reduction.

- Strengthen the efficiency of the cooperative and mutual assistance on these issues, the first steps being a prompt adhesion to, ratification and implementation of the Vienna Convention on illicit traffic in narcotic drugs and psychotropic substances.

- Conclude further bilateral or multilateral agreements and support initiatives and cooperation, where appropriate, which include measures to facilitate the identification, tracing, freezing, seizure and forfeiture of drug crime proceeds.

- Convene a financial action task force from Summit Participants and other countries interested in these problems. Its mandate is to assess the results of cooperation already undertaken in order to prevent the utilization of the banking system and financial institutions for the purpose of money laundering, and to consider additional preventive efforts in this field, including the adaptation of the legal and regulatory systems so as to enhance multilateral judicial assistance. The first meeting of this task force will be called by France and its report will be completed by April 1990.

54) International cooperation against AIDS

We take note of the creation of an International Ethics committee on AIDS which met in Paris in May 1989, as decided at the Summit of Venice (June 1987). It assembled the Summit Participants and the other members of the EC, together with the active participation of the World Health Organization.

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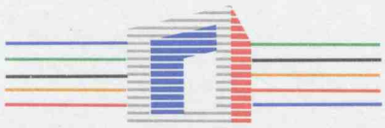
55) We take note of the representations that we received from various Heads of State or Government and organizations and we will study them with interest.

56) Next Economic Summit

We have accepted the invitation of the President of the United States to meet next year in the United States of America.

Park econ Summit pt 28



DECLARATION ON CHINA

We have already condemned the violent repression in China in defiance of human rights. We urge the Chinese authorities to cease action against those who have done no more than claim their legitimate rights to democracy and liberty.

This repression has led each of us to take appropriate measures to express our deep sense of condemnation to suspend bilateral Ministerial and high-level contacts, and also to suspend arms-trade with China, where it exists. Furthermore, each of us has agreed that, in view of current economic uncertainties , the examination of new loans by the World Bank be postponed. We have also decided to extend the stays of those Chinese students who so desire.

We look to the Chinese authorities to create conditions which will avoid their isolation and provide for a return to cooperation based upon the resumption of movement towards political and economic reform, and openness. We understand and share the grave concern felt by the people of Hong Kong following these events. We call on the Government of the People's Republic of China to do what is necessary to restore confidence in Hong Kong. We recognize that the continuing

support of the international community will be an important element in the maintenance of confidence in Hong Kong.

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SUMMIT OF THE ARCH

14-16 JULY 1989

DECLARATION ON EAST-WEST RELATIONS

1. We, the leaders of our seven countries and the representatives of the European Community, reaffirm the universal and supreme importance which we attach to freedom, democracy and the promotion of human rights.

2. We see signs of this same desire for greater freedom and democracy in the East. The people there, including the young people, are reasserting these values and calling for a pluralist democratic society. Some of their leaders are aware of the positive contribution that greater freedom and democracy can make to the modernisation of their countries and are starting to make changes to their laws, practices and institutions. Others are still endeavouring to resist this movement by taking repressive measures which we strongly condemn.

3. We hope that freedom will be broadened and democracy strengthened and that they will form the basis, after decades of military confrontation, ideological antagonism and mistrust,

for increased dialogue and cooperation. We welcome the reforms underway and the prospects of lessening the division of Europe.

4. We call upon the Soviet Government to translate its new policies and pronouncements into further concrete action at home and abroad. Military imbalances favouring the Soviet Union, both in Europe and in Asia, remain an objective threat to each of us. Our Governments must therefore continue to be vigilant and maintain the strength of our countries. For the foreseeable future, there is no alternative for each of us, within existing alliances, to maintaining a strategy of deterence based upon an appropriate mix of adequate and effective nuclear and conventional forces. In order to hasten the advent of a world in which the weight of arms and military strength is reduced, we recommit ourselves to the urgent pursuit of a global ban on chemical weapons, a conventional forces balance in Europe at the lowest possible level consistent with our security requirements, and a substantial reduction in Soviet and American strategic nuclear arms.

5. We offer the countries of the East the opportunity to develop balanced economic cooperation on a sound commercial basis consistent with the security interests of each of our countries and with the general principles of international trade. We have noted developments of relations between the EEC and countries of the East, in particular the conclusion of an agreement with Hungary, the progress already achieved during

the current discussions with Poland and the opening of negotiations with the Soviet Union.

6. We welcome the process of reform underway in Poland and Hungary. We recognize that the political changes taking place in these countries will be difficult to sustain without economic progress. Each of us is prepared to support this process and to consider, as appropriate and in a coordinated fashion, economic assistance aimed at transforming and opening their economies in a durable manner. We believe that each of us should direct our assistance to these countries so as to sustain the momentum of reform through inward investment, joint ventures, transfer of managerial skills, professional training and other ventures which would help develop a more competitive economy.

Each of us is developing concrete initiatives designed to encourage economic reforms, to promote more competitive economies and to provide new opportunities for trade.

We agreed to work along with other interested countries and multilateral institutions to concert support for the process of reform underway in Hungary and Poland, in order to make our measures of support more effective and mutually reinforcing. We will encourage further creative efforts by interested governments and the public and private sectors in support of the reform process.

Concerning concerted support for reform in Poland and Hungary, we call for a meeting with all interested countries

which will take place in the next few weeks. We underline, for Poland, the urgent need for food in present circumstances.

To these ends, we ask the Commission of the European Communities to take the necessary initiatives in agreement with the other Member States of the Community, and to associate, besides the Summit participants, all interested countries.

7. We are in favour of an early conclusion of the negotiations between the IMF and Poland. The strengthened debt strategy is applicable to Poland, provided it meets the conditions. We are ready to support in the Paris Club the rescheduling of Polish debt expeditiously and in a flexible and forthcoming manner.

8. We see good opportunities for the countries of West and East to work together to find just solutions to conflicts around the world, to fight against under-development, to safeguard the resources and the environment and to build a freer and more open world.

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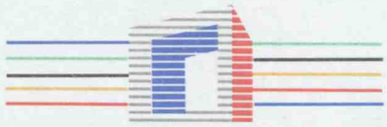

DECLARATION ON HUMAN RIGHTS

In 1789, the rights of man and of the citizen were solemnly proclaimed. Just over forty years ago, the General Assembly of the United Nations adopted the Universal Declaration of Human Rights, which have been further developed and codified and are now embodied in the Covenants on Civil and Political Rights and on Economic, Social and Cultural Rights.

We reaffirm our commitment to freedom, democratic principles and human rights. We reaffirm our belief in the rule of law which respects and protects without fear or favour the rights and liberties of every citizen, and provides the setting in which the human spirit can develop in freedom and diversity.

Human rights are a matter of legitimate international concern. We commit ourselves again to encouraging and promoting universal respect for human rights and fundamental freedoms.

Looking towards the future, we see opportunities as well as threats; this impels us to pledge our firm commitment to uphold international standards of human rights and to confirm our willingness to reaffirm them and to develop them further.

We stress the protection of freedom of thought, conscience and religion, and of freedom of opinion and expression; for without these freedoms, other rights cannot be fully realised.

We stress also respect for the rule of law and the plurality of opinion, for without them there can be neither representative government nor democracy.

We believe equally in freedom of association in a pluralist society.

We hold that the right of each individual to physical integrity and dignity must be guaranteed. We abhorr and condemn torture in all its forms.

We believe that all human beings must act towards each other in a spirit of fraternity.

We believe that everyone has a right to equality of opportunity as well as to own property, alone or in association with others. Extreme poverty and exclusion from society violate the dignity of everyone enduring them. Those who suffer or are in need should be supported.

We stress that the rights of the child, the disabled and the elderly require special protection.

We consider that developments in the human sciences, for instance the progress achieved in genetics and organ

transplantation, must be applied in accordance with all human rights if the dignity of human beings is to be preserved.

We, the present generation, have an obligation to ensure that future generations will inherit a healthy environment.

We reaffirm our belief that these rights and freedoms cannot be properly safeguarded without the rule of law, impartial justice and genuine democratic institutions.

July 15, 1989

Paris Econ Summit pt 28

SUMMIT OF THE ARCH

14-16 JULY 1989

DECLARATION ON TERRORISM

1 - We remain resolutely opposed to terrorism in all its forms. We confirm the commitment each of us has undertaken to the principle of making no concessions to terrorists or their sponsors and to cooperating, bilaterally and in all relevant international fora, in combatting terrorism. We reiterate our commitment to the policies agreed at previous summits; in particular we condemn state-sponsored terrorism. We are determined not to let terrorists remain unpunished, and to have them brought to justice within the framework of international law and in conformity with the rule of law. We call upon those states which have supported or encouraged terrorist acts to demonstrate by their actions that they have renounced such policies. We reaffirm in particular our absolute condemnation of the taking of hostages. We call on those holding hostages to release them immediately and unconditionally and on those with influence over hostage-takers to use it to this end.

2 - Deeply concerned for the safety of all travellers and outraged by the murderous attacks perpetrated against international civil aviation and the frequent threat to air transport safety from terrorist groups, we reaffirm our commitment to the fight against all forms of terrorism

affecting civil aviation. We reiterate our determination to contribute to reinforcing internationally agreed measures for protection against aircraft hijackings and sabotage.

3 - We particularly condemn the recent attack on an aircraft over Scotland, which killed 270 people. We have agreed to give priority to preventing such attacks by further strengthening security measures. We attach importance to the implementation of the work plan recently adopted by the ICAO Council for this purpose.

4 - We have also agreed on the need for improved methods of detecting explosives. We endorse efforts currently underway in ICAO to develop, as a matter of high priority, an appropriate international regime for the marking of plastic and sheet explosives for detection.

July 15, 1989

Paris eco summit pt 28

SUMMIT OF THE ARCH

ECONOMIC DECLARATION

1) We, the Heads of State or Government of seven major industrial nations and the President of the Commission of the European Communities have met in Paris, for the fifteenth annual Economic Summit. The Summit of the Arch initiates a new round of Summits to succeed those begun at Rambouillet in 1975 and at Versailles in 1982. The round beginning in 1982 has seen one of the longest periods of sustained growth since the Second World War. These Summits have permitted effective consultations, offered the opportunity to launch initiatives and to strengthen international cooperation.

2) This year's world economic situation presents three main challenges:

- The choice and the implementation of measures needed to maintain balanced and sustained growth, counter inflation, create jobs and promote social justice. These measures should also facilitate the adjustment of external imbalances, promote international trade and investment, and improve the economic situation of developing countries.

09/07/89
19:00

- The development and the further integration of developing countries into the world economy. Whilst there has been substantial progress in many developing countries, particularly those implementing sound economic policies, the debt burden and the persistence of poverty, often made worse by natural disasters affecting hundreds of millions of people, are problems of deep concern which we must continue to face in a spirit of solidarity.

- The need to safeguard the environment for future generations. This calls for a concerted international response and for the adoption, worldwide, of policies based on sustainable development.

INTERNATIONAL ECONOMIC SITUATION

3) Growth has been sustained by focusing policies on improving the efficiency and flexibility of our economies and by strengthening our cooperative efforts and the coordination process. In the medium term, the current buoyant investment seen during this period should pave the way for an increased supply of goods and services and help reduce the dangers of inflation. The outlook is not, however, without risks.

4) Until now, the threat of inflation in many countries has been contained, thanks to the concerted efforts of governments and monetary authorities. But continued vigilance is required and inflation, where it has increased, will continue to receive a firm policy response so that it will be put on a downward path.

5) While some progress has been made in reducing external imbalances, the momentum of adjustment has recently weakened markedly: further progress in adjusting external imbalances through cooperation is crucial.

6) In countries with fiscal and current account deficits, including the United States of America, Canada and Italy, further reductions in budget deficits are needed. Action will be taken to bring them down. This may help reduce the savings-investment gap and external imbalances, contribute to countering inflation and encourage greater exchange rate stability in a context of decreasing interest rates.

7) Countries with external surpluses, including Japan and Germany, should continue to pursue appropriate macroeconomic policies and structural reforms that will encourage non-inflationary growth of domestic demand and facilitate external adjustment.

8) All our countries share the responsibility in the sound development of the world economy as a whole. Over the medium term, deficit countries have to play a key role in global adjustment through their external adjustment and increased exports; surplus countries have to contribute to sustaining global expansion through policies providing favourable conditions for growth of domestic demand and imports.

9) The emergence of the newly industrializing economies and the initiation of a dialogue with them are welcome. We call on those with substantial surpluses to contribute to the adjustment of external imbalances and the open trade and payments system. To that end, they should permit exchange rates to reflect their competitive position, implement GATT commitments and reduce trade barriers.

INTERNATIONAL MONETARY DEVELOPMENTS AND COORDINATION

10) Under the Plaza and Louvre agreements, our countries agreed to pursue, in a mutually reinforcing way, policies of surveillance and coordination aimed at improving their economic fundamentals and at fostering stability of exchange rates consistent with those economic fundamentals.

There has been progress in the multilateral surveillance and coordination of economic policies with a view to ensuring internal consistency of domestic policies and their international compatibility. The procedures to be used have been more clearly defined and improved in cooperation with the International Monetary Fund.

11) The coordination process has made a positive contribution to world economic development and it has also contributed greatly to improving the functioning of the International Monetary System. There has also been continued cooperation in exchange markets.

It is important to continue, and where appropriate, to develop this cooperative and flexible approach to improve the functioning and the stability of the International Monetary System in a manner consistent with economic fundamentals. We therefore ask the Finance Ministers to continue to keep under review possible steps that could be taken to improve the coordination process, exchange market cooperation, and the functioning of the International Monetary System.

12) We welcome the decision to complete the work on the ninth review of the International Monetary Fund quotas with a view to a decision on this matter before the end of the year.

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We note that the question of a resumption of S.D.R. allocation remains under consideration in the Executive Board of the International Monetary Fund.

13) Within the European Community, the European Monetary System has contributed to a significant degree of economic policy convergence and monetary stability.

IMPROVING ECONOMIC EFFICIENCY

14) We will continue to promote measures in order to remove inefficiencies of our economies. These inefficiencies affect many aspects of economic activity, reduce potential growth rates and the prospects for job creation, diminish the effectiveness of macroeconomic policies, and impede the external adjustment process. In this context, tax reforms, modernisation of financial markets, strengthening of competition policies and reducing existing rigidities are necessary. So are the improvement of education and vocational training, transportation and distribution systems and further policies aimed at giving more flexibility and mobility to the labour market and reducing unemployment. Within the European Community, the steady progress towards the implementation by 1992 of the program contained in the Single

Act has already given a strong momentum to economic efficiency.

15) The decline of saving in some of our countries in this decade is a cause for concern. This lower level of saving can contribute to high real interest rates and therefore hamper growth. Inadequate saving and large fiscal deficits are associated wtih large external deficits. We recommend, within the framework of policy coordination, policies to encourage saving and remove hindrances where they exist.

not necessarily

16) Financial activities are being increasingly carried out with new techniques on a worldwide basis. As regards insider trading, which could hamper the credibility of financial markets, regulations vary greatly among our countries. These regulations have been recently, or are in the process of being, strengthened. International cooperation should be pursued and enhanced.

TRADE ISSUES

17) World trade developed rapidly last year. Yet protectionism remains a real threat. We strongly reaffirm our determination to fight it in all its forms. We shall fulfill the Punta del Este standstill and rollback commitments which, inter alia, require the avoidance of any trade restrictive or

distorting measure inconsistent with the provisions of the General Agreement and its instruments. We agree to make effective use of the improved GATT dispute settlement mechanism and to make progress in negotiations for further improvements. We will avoid any discriminatory or autonomous actions, which undermine the principles of the GATT and the integrity of the multilateral trading system. We also are pledged to oppose the tendency towards unilateralism, bilateralism, sectoralism and managed trade which threatens to undermine the multilateral system and the Uruguay Round negotiations.

18) The successful negotiation of the Trade Negotiations Committee of the Uruguay Round in Geneva last April, thereby completing the mid-term review, is a very important achievement. It gives a clear framework for future work in all sectors including the pursuit of agricultural reform in the short term as well as in the long term. It also gives the necessary framework for substantive negotiations in important sectors not yet fully included in GATT disciplines, such as services, trade related investment measures and intellectual property.

Developing countries participated actively in these negotiations and contributed to this success. All countries should make the most constructive contribution possible

[consistent with their respective stages of economic development].

We express our full commitment to making further substantive progress in the Uruguay Round in order to complete it by the end of 1990.

19) We note with satisfaction the entry into force of the Free Trade Agreement between Canada and the US, as well as more recent initiatives to intensify the close economic relations between the European Community and EFTA countries. It remains our policy that these and other developments in regional cooperation, should be trade-creating and complementary to the global liberalisation process.

20) It is the firm intention of the European Community that the trade aspects of the single market program should also be trade-creating and complementary to the global liberalization process.

21) We note with satisfaction the progress that has been made in strengthening the multilateral disciplines on trade and aid distorting export credit subsidies. This effort must be pursued actively and completed in the competent bodies of the OECD with a view to improving present guidelines at the earliest possible date.

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GENERAL PROBLEMS OF DEVELOPMENT

Japan?

22) We shall help developing countries by opening the world trading system, by the continuation of their support for structural adjustment and diversification in commodity dependent countries and by encouraging them to create a favourable environment for transfers of technology and capital flows.

We underline the continuing importance of official development assistance and welcome the increased efforts of some of our countries in this respect. We note the targets already established by international organizations for the future level of official development assistance and stress the importance of overall financial flows to development.

We underline simultaneously the importance attached to the quality of the aid, the evaluation of the projects and the programs financed.

23) We urge developing countries to implement sound economic policies. A vital factor will be the adoption of financial and fiscal policies which attract inward investment, encourage growth and the return of flight capital.

24) We note with satisfaction that there has been substantial progress in the multilateral aid initiative for the Philippines that was given special attention in the Toronto economic declaration.

THE SITUATION IN THE POOREST COUNTRIES

25) The enhancement of the International Monetary Fund Structural Adjustment Facility, the World Bank special program of assistance for the poorest and most indebted countries and the fifth replenishment of the African Development Fund are all important measures benefiting those countries having embarked upon an adjustment process. We stress the importance attached to a substantial replenishment of International Development Association resources.

26) As we urged last year in TORONTO, the Paris Club reached a consensus in September 1988 on the conditions of implementation of significant reduction of debt service payments for the poorest countries. Thirteen countries have already benefitted by this decision.

27) We welcome the increasing grant element in the development assistance as well as the steps taken to convert loans into grants. Flexibility in development aid as much as in debt rescheduling is required.

28) We attach great importance to the efficient and successful preparation of the next general conference of the United Nations on the least developed countries, which will take place in Paris in 1990.

STRENGTHENED DEBT STRATEGY FOR THE HEAVILY INDEBTED COUNTRIES

29) Although our approach to the debt problems has produced significant results, serious challenges remain: in many countries the ratio of debt service to exports remains high, financing for growth promoting investment is scarce, and capital flight is a key problem. An improvement in the investment climate must be a critical part of efforts to achieve a sustainable level of growth without excessive levels of debt. These improvements of the current situation depend above all on sustained and effective adjustment policies in the debtor countries.

30) To address these challenges, we are strongly committed to the strengthened debt strategy. This will rely, on a case-by-case basis, on the following actions:

- borrowing countries should implement, with the assistance of the Fund and the Bank, sound economic policies, particularly designed to mobilize savings, stimulate investment and reverse capital flight;

- banks should increasingly focus on voluntary, market-based debt and debt service reduction operations, as a complement to new lending;

- the International Monetary Fund and World Bank will support significant debt reduction by setting aside a portion of policy-based loans;

- limited interest support will be provided, through additional financing by the International Monetary Fund and the World Bank, for transactions involving significant debt and debt service reduction. For that purpose the use of escrow accounts is agreed;

- continued Paris Club rescheduling and flexibility of export-credit agencies;

- strengthening of the international financial institutions capability for supporting medium-term macroeconomic and structural adjustment programs and for compensating the negative effects of export shortfalls and external shocks.

31) In the framework of this strategy:

- we welcome the recent decisions taken by the two institutions to encourage debt and debt service reduction and to provide adequate resources for these purposes;

- we urge debtor countries to move ahead promptly to develop strong economic reform programs that may lead to debt and debt service reductions in accordance with the guidelines defined by the two Bretton Wood institutions;

- we encourage banks to take realistic and constructive approaches in their negotiations with the debtor countries. In particular we urge them to negotiate temporary waivers of existing lending provisions that inhibit debt and debt service reduction. We stress that official creditors should not substitute for private lenders. Our governments are prepared to consider as appropriate tax, regulatory and accounting practices with a view to eliminating unnecessary obstacles to debt and debt service reductions.

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ENVIRONMENT

32) There is growing awareness throughout the world, of the necessity to preserve better the global ecological balance. Scientific studies have revealed the existence of serious threats to our environment such as the depletion of the stratospheric ozone layer, excessive emissions of carbon dioxide and other greenhouse gases which could lead to future climate changes. We note with great concern the growing pollution of air, lakes, rivers, oceans and seas; acid rain, dangerous substances; and the rapid desertification and deforestation. Such environmental degradation endangers species and undermines the well-being of individuals and societies.

Decisive action is urgently needed to understand and protect the earth's ecological balance. We will work together to achieve the common goals of preserving a healthy and balanced global environment in order to meet shared economic and social objectives and to carry out obligations to future generations.

33) We urge all countries to give further impetus to scientific research on environmental issues, to develop necessary technologies and to make clear evaluations of the economic costs and benefits of environmental policies.

The persisting uncertainty on some of these issues should not unduly delay our action.

In this connection, we ask all countries to combine their efforts in order to improve observation and monitoring on a global scale.

34) We believe that international cooperation should also be enhanced in the field of technology and technology transfer in order to reduce pollution or provide alternative solutions.

35) We believe that industry has a central role in preventing pollution at source, in waste minimization, in energy conservation, and in the design and marketing of cost-effective clean technologies. The agricultural sector must also contribute to tackling problems such as water pollution, soil erosion and desertification.

36) Environmental protection is integral to issues such as trade, development, energy, agriculture and economic planning. Therefore, environmental considerations must be taken into account in economic decision-making. In fact good economic policies and good environmental policies are mutually reinforcing.

In order to achieve sustainable development, we shall ensure the compatibility of economic growth and development with the protection of the environment. Environmental protection and related investment should contribute to economic growth. In this respect, intensified efforts for technological breakthrough are important to reconcile economic growth and environmental policies.

Clear assessments of the costs, benefits and resource implications of environmental protection should help governments to take the necessary decisions on the mix of price signals (e.g., taxes or expenditures) and regulatory actions, reflecting where possible the full value of natural resources.

We encourage the World Bank and regional development banks to integrate environmental considerations into their activities. International organisations such as the OECD and the United Nations and its affiliated organizations, will be asked to develop further techniques of analysis which would help governments assess appropriate economic measures to promote the quality of the environment. We expect the 1992 UN Conference on Environment and Development to give additional momentum to the protection of the global environment.

37) To help developing countries deal with past damage and to encourage them to take environmentally desirable action, economic incentives may include the use of aid mechanisms and specific transfer of technology. In special cases ODA debt forgiveness and debt for nature swaps may play a useful role for the environmental protection.

We also emphasize the necessity to take into account the interests and needs of developing countries in sustaining the growth of their economies and the financial and technological requirements to meet environmental challenges.

38) The depletion of the stratospheric ozone layer gives particular cause for concern.

We welcome the HELSINKI conclusions related, among other issues, to the complete abandonment of the production and consumption of chloro-fluorocarbons covered by the MONTREAL protocol as soon as possible and not later than the end of the century [assuming the development of safe substitutes]. Attention should also be given to those ozone-depleting substances not covered by the Montreal protocol. We shall promote the development and use of suitable substitute substances and technologies. More emphasis should be placed on projects that provide alternatives to chloro-fluorocarbons.

39) We advocate common efforts for the reduction of emissions of carbon dioxide and other greenhouse gases, which threaten to induce climate change, endangering the environment and ultimately the economy. We strongly support the work undertaken by the Intergovernmental Panel on Climate Change, on this issue.

We need to strengthen the worldwide network of observatories for greenhouse gases and support the World Meteorological Organisation initiative to establish a global climatological reference network to detect climate changes

40) We agree that increasing energy efficiency could make a substantial contribution to these goals. We urge international organizations concerned to encourage measures, including economic measures, to improve energy conservation and, more broadly, efficiency in the use of energy of all kinds and to promote relevant techniques and technologies.

While we are committed to maintaining the highest safety standards for nuclear power plants and to strengthening international cooperation in safe operation of power plants and waste management, we recognize that nuclear power also plays an important role in limiting output of greenhouse gases.

41) Deforestation also affects the atmosphere and must be prevented at a global level. We call for the adoption of sustainable forest management practices, with a view to preserving the scale of world forests. The relevant international organizations will be asked to complete reports on the state of the world's forests by 1990.

42) While recognizing the sovereign rights of developing countries to make use of their natural resources, we encourage, through a sustainable use of tropical forests, the protection of all the species therein and the traditional rights to land and other resources of local communities. We welcome the German initiative in this field as a basis for progress.

To this end, we recommend a greater and quicker implementation of the Tropical Forest Action Plan which was adopted in 1986 in the framework of the Food and Agricultural Organization. We appeal to both consumer and producer countries, which are united in the International Tropical Timber Organization, to join their efforts to ensure better conservation of the forests. We express our readiness to assist the efforts of nations with tropical forests through financial and technical cooperation, and in international organizations.

43) Temperate forests, lakes and rivers must be protected against the effects of acid pollutants such as sulphur dioxides and nitrogen oxides. It is necessary to pursue actively the bilateral and multilateral efforts to this end.

44) The increasing complexity of the issues related to the protection of the atmosphere calls for innovative solutions. New instruments may be contemplated. The conclusion of a framework or umbrella convention on climate change to set out general principles or guidelines would be a useful way both to mobilize and rationalize the efforts made by the international community. We welcome the work under way by the United Nations Environment Program, in cooperation with the World Meteorological Organization, drawing on the work of the Intergovernmental Panel on Climate Change and the results of other international meetings. Specific protocols containing concrete commitments could be fitted into the framework as scientific evidence requires and permits.

Prime Minister

cc: Foreign Secretary
Chancellor of the Exchequer

ECONOMIC DECLARATION: FINAL DRAFT COMMUNIQUE

1. I attach the final draft of the Communique which the Sherpas prepared last night. Also attached is a commentary on the main points which arose in our discussion.

2. The draft contains no square brackets and to that extent has the agreement of all the Sherpas. But it is likely that some Heads will try to re-open passages. So far as we are concerned, I believe the text meets our interests and there is nothing that I would recommend you to raise. You may well need to fight off changes proposed by others.

3. Finally let me say that I am sorry to put forward a draft including a reference to Yugoslavia (in paragraph 25). The original quite unacceptable Italian language was much watered down, after opposition from ourselves and others; and in the end all delegations were able to accept the language in the draft. I decided not to insist on UK square brackets.

N.L.W.

16 July 1989

N L Wicks

FOR THE ATTENTION OF NICHOLAS BAYNE

UNOFFICIAL TRANSLATION OF THE FRENCH TRANSLATION OF THE RUSSIAN TEXT OF A MESSAGE FROM MIKHAIL GORBACHEV TO PRESIDENT MITTERRAND

Mr President,

In writing to you in your position as President of the fifteenth Annual Economic Conference of the G7 leaders which is taking place in Paris on 15/16 July, and, through you, to the other participants at this meeting, I wanted to pass on to you some thoughts on the key problems of the world economy which affect all countries without exception.

Interdependence, while helping to overcome division in the world, also considerably raises the risk of a clash of interest, of the rapid multiplication of contradictions.

Traditionally, to solve the economic contradictions between states, it was enough to strike a balance on the basis of strictly national interests. However, today such a balance would be unstable if one attempted to found it on anything other than universal human interests.

Attaining a true balance, assuring the stable character of interdependence can only be achieved through complimentary activity. The objective process of forming a coherent world economy implies that multi-lateral economic partnership be raised to a qualititively new level.

We note with interest the efforts deployed by the seven most developed states in the Western world in order to fine tune joint macro-economic policy coordination. We believe that it

/is

is possible, through coordination, to make the movements of the world economy more predictable. Moreoever, this is an important first step in order to guarantee international economic security.

On economic security, we have in mind above all, the formation of the grounds for stable, de-ideologised and mutually advantageous co-creation and for joint development.

Like other countries, the Soviet Union is seeking to work out the tasks involved in adapting its national economy to the new structure, which is emerging, for the international division of work. Perestroika is inseparable from a policy leading to full and complete participation in the world economy. This orientation, which is quite in line with our new political thinking, is equally dictated by our own direct economic interest. Evidently, the rest of the world could only gain by opening up a market like the Russian market to the world economy. Obviously, mutual advantage pre-supposes mutual responsibility and the respect for the rights of all those who participate in international economic relations.

In the field of these relations there remain many contradictions. It is nonetheless the case that the area of common and convergent interests between states is sufficiently large and could serve as a basis for interaction. Proof of this is provided in particular by the positive changes which have occurred in the bilateral economic relations between the Soviet Union and many Western countries, by the understanding reached in Vienna on "Basket 2" of cooperation in Europe and by the establishment of EEC/CMEA

However, multilateral East/West cooperation on global economic problems is clearly behind hand in comparison with bilateral and regional links. This state of affairs does not seem justified given the weight of our countries in the world economy, their responsibility for its rational and efficient

/functioning

functioning for the good of all peoples and the world community in general is taken into account.

The Soviet Union is ready for a constructive inter-action, free from preconceptions aiming to resolve these issues by common effort. We see points of convergence and complimentarity in the approach of parties to global problems, and in particular the management of third world debt. It does not matter who gets the credit for the best initiative. The key is that there is a real possibility to contribute together to the effectiveness of practical measures in the sphere of debt management.

We are in favour of collective development assistance, and of the coordination of the activity of creditors and debtors, of donors and recipients, and in favour of the extension of multi-lateral divisions of aid. This could become one of the considerable material guarantees for the legally equal and responsible participation of developing countries in the world economy.

First steps are also underway for consensus of the ways of guaranteeing a stable development of all states, which pre-supposes the creation of the ecological basis for the edifice of the united world economy that we are building today.

Another common problem we have is linked to the trends towards integration which are becoming more and more pronounced in various regions of the world. We want the development to go in the direction of a universal partnership. Life today is destroying - progressively and with great difficulty but all the same destroying - the old obstacles erected in an artificial manner between different economic systems. Although each system keeps its own characteristics, each borrows from another, using similar management tools.

It has become pressing for us to come to an understanding concerning the methodology (? text unclear) for measuring and

/harmonising

harmonising economic processes, a methodology which is acceptable for universal usage. To this end, we may also need to research the means of apportioning, on a global scale, the different mechanisms of macro-economic coordination.

We are ready to engage in constructive dialogue on these questions. To start it off, professional contacts could be established in various areas, for example, by meetings of Governmental experts. It is important here to find from the start a common economic language, to proceed to a reciprocal exchange of information, including on such questions as: the basic indicators of economic development, the regulation of lines of credit and of aid to the Third World so as to ensure the methodological compatibility of the statistical information as the basis for collaboration.

I hope that these reflections will be useful for the participants at the Paris Summit and that the Summit's conclusions will favour the search for a balance of national, regional and universal economic interests.

With my respect,

M Gorbachev.

14 July 1989

Monsieur le Président,

En m'adressant à vous en votre qualité de président de la XVe conférence économique annuelle des dirigeants des sept pay qui se tiendra à Paris les 15 et 16 juillet, et à travers vous aux autres participants à cette réunion, je tiens à vous faire part de quelques idées sur les problèmes-clés de l'économie mondiale qui exercent leur influence sur tous les pays sans excepti

L'interdépendance, tout en aidant à surmonter la division du monde, augmente considérablement le risque du heurt des intérêts, de l'explosion des contradictions.

Traditionnellement, pour résoudre les contradictions économiques entre Etats il était suffisant de trouver un équilibre sur la base des intérêts strictement nationaux. Toutefois, aujourd'hui un tel équilibre serait précaire si on essayait de l'asseoir sur autre chose que les intérêts universels de l'humanité.

Atteindre un véritable équilibre, assurer à l'interdépendance un caractère stable ne peut être que le fruit d'actions complémentaires. Un processus objectif de la formation de l'économie mondiale cohérente implique que le partenariat multilatéral économique soit placé à un niveau qualitativement nouveau.

Nous observons avec intérêt les efforts déployés par les sept Etats les plus développés du monde occidental en vue de mettre au point la coordination de la politique macroéconomiqu Nous estimons qu'il est possible, grâce à la coordination, de rendre les processus de l'économie mondiale plus prévisibles. Or, ceci est une prémisse importante afin de garantir la sécurité économique internationale.

S'agissant de la sécurité économique, nous avons à l'espri avant toute chose la formation de bases pour la cocréation stable, déidéologisée et mutuellement avantageuse et pour le codéveloppement.

Tout comme d'autres pays, l'Union Soviétique cherche à résoudre les tâches consistant à adapter son économie nationale à une nouvelle structure de la division internationa du travail en gestation. Notre perestroïka est inséparable de la politique tendant à la participation pleine et entière à l'économie mondiale. Cette orientation-là, s'inscrivant dans le droit fil de la nouvelle pensée politique, est déterminée également par notre intérêt économique direct. Mais à l'évidenc le reste du monde ne pourra que gagner à l'ouverture en direction de l'économie mondiale du marché tel que celui de l'URSS. Bien entendu, l'avantage mutuel suppose la responsabilité mutuelle et le respect des droits de tous les participants aux relations économiques internationales.

Il subsiste dans le domaine de ces relations pas mal de contradictions. Il n'en reste pas moins que la zone des intérêts communs, convergents des Etats est suffisamment large

et peut servir de base à l'interaction. La preuve en est fournie notamment par les changements positifs intervenus dans les liens économiques bilatéraux de l'Union Soviétique avec beaucoup de pays occidentaux, par les ententes acquises à Vienne en matière de la"deuxième corbeille""de la coopération en Europe, par l'établissement des rapports CAEM-CEE.

Cependant la coopération multilatéral Est-Ouest sur les problèmes économiques globaux se trouve manifestement en retrait par rapport au développement des liens bilatéraux et régionaux. Cet état de choses ne paraît pas justifié compte tenu du poids de nos Etats dans l'économie mondiale, de la responsabilité qui est la leur dans son fonctionnement rationne et efficace pour le bien de chaque peuple et de la communauté mondiale en général.

L'Union Soviétique se prononce pour une interaction constructive et libre de préjugés visant à résoudre ces tâches par les efforts communs. Nous voyons les points de convergence et la complémentarité dans les approches qu'ont les parties de problemes globaux, en particulier du réglement de l'endettemen de tiers monde. Peu importe de savoir à qui reviendra le mérit de la meilleure initiative. L'essentiel consiste à ce qu'il existe une possibilité réele de contribuer ensemble à l'efficacité des mesures pratiques dans la sphère du réglement de la dette.

Nous sommes en faveur d'une assistance collective au développement, en faveur de la coordination des actions de créanciers et de debiteurs, de donneurs et de ceux qui reçouve en faveur de l'extension des formes d'aide multilatérales. Ceci

peut devenir une des garanties matérielles considérables pour la participation égale en droits et responsable des pays en voie de développement à 'économie mondiale.

Des prémisses sont en train d'être réunies également pour le concensus sur les voies d'assurer un développement stable de tous les Etats ce qui suppose la formation des stabilisateurs écologiques sûrs de d'édifice d'économie mondiale unie que l'on construit aujourd'hui.

Un autre problème qui nous est commun est lié aux tendances à l'intégration, qui prennent de plus en plus de vigueur dans diverses régions du monde. Nous voulons que leur développement aille dans le sens d'un partenariat universel. Aujourd'hui la vi elle-même détruit - progressivement et à grand peine mais quand même détruit - les vieux obstacles dressés de façon artificielle entre différents systèmes économiques. Bien que chaque système conserve ses traits caractéristiques, ils ont emprunté beaucoup l'un à l'autre, utilisent les outils de gestion similaires.

Il devient urgent à nous entendre sur la méthodologie de me re et d'harmonisation des processus économiques, méthodologie acceptable pour tous les pays et à usage universel. En perspecti il pourra s'agir aussi des recherches de procédes pour faire arrimer, à l'échelle globale, les différents méchanismes de coordination macroéconomique.

Nous sommes prêts à engager un dialogue constructif sur ces questions. Pour le démarrer on pourrait établir les contacts professionnels dans divers domaines, par exemple sous forme de rencontres des experts gouvernementaux. Il importe ici de trouver

dès le début un langage économique commun, procéder à un échange réciproque d'information, y compris sur les questions d'indicateurs de base du développement économique, de la régulation des liens de crédit et d'aide au tiers monde afin d'assurer la compatibilité méthodologique des données statistiques en tant que point de départ de la collaboration.

J'espère que ces réflexions seront utiles pour les participants de la rencontre au sommet de Paris et que les résultats de celle-ci iront dans le sens de recherches de l'équilibre des intérêts économiques nationaux, régionaux et universels.

Avec mes respects,

M.GORBATCHEV

Le 14 juillet 1989

SUBJECT cc MASTER

FILE KK

bc P.C

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

14 July 1989

Dear Stephen,

PRIME MINISTER'S MEETING WITH THE PRIME MINISTER OF INDIA

The Prime Minister had breakfast with the Indian Prime Minister at our Embassy in Paris this morning. Mr. Gandhi was accompanied by his Private Secretary, Mr. Sen. The Prime Minister and Mr. Gandhi had already had several long talks at social occasions during the French Bicentenary celebrations. The meeting was, therefore, an occasion to deal with residual subjects.

Hong Kong

The Prime Minister gave Mr. Gandhi an account of the present difficulties with Hong Kong, in which he expressed polite interest.

Commonwealth Secretary-General

Mr. Gandhi said he had talked to the Canadian Prime Minister, Mr. Mulroney, about the Commonwealth Secretary-General post. They were both now inclined to support Malcolm Fraser, but did not want an Africa versus the rest confrontation. They felt Malcolm Fraser was the better candidate given the sort of problems which the Commonwealth was likely to face over the next few years. These would be mostly economic. The main regional problems were being sorted out, even South Africa. He did not particularly like what was happening there. But at least they were trying.

The Prime Minister said that some method was needed to bring the choice of a successor to Ramphal to a head. Perhaps we should contact Mahathir and ask how he intended to handle the matter. If a solution was to be reached before CHOGM, someone would need to take some soundings. Whoever was chosen must have broad support across the Commonwealth. We had not declared a preference and she was not yet inclined to do so. There were problems with both candidates. If there was a deadlock, perhaps Ramphal would simply have to

soldier on, although no-one was actively supporting this. Mr. Gandhi agreed that some procedure had to be found to resolve the matter.

CHOGM

Mr. Gandhi volunteered that CHOGM should concentrate on trade, economic and environmental issues.

Antarctica

The Prime Minister explained the background to the differences between Australia and some other governments over Antarctica. The purpose of the recent Convention was to protect Antarctica: without it, there would be no regime at all and a free-for-all. Mr. Gandhi commented that it was important not to fall between two stools and, by seeking too much in the way of environmental protection, end up with nothing.

Bilateral Relations

Mr. Gandhi said that bilateral relations between Britain and India were going very well. He was very grateful for all that the Prime Minister had done, and particularly for her role in the Nehru Centenary Celebrations. The various channels on security issues were functioning well and the Sikh problem seemed largely under control. In the Punjab, he had managed to break the religious linkages of the Sikh terrorist groups and the Gundawaras were now largely peaceful. He himself had favoured holding local elections in the Punjab but others had been more cautious. His only thought about Sikh terrorists in the United Kingdom was that we might use the Charity Commissioners to investigate the use being made of funds collected in Sikh temples. The Indian Government would be prepared to co-operate. The Prime Minister said that we would look at this, although she was not sure it was practicable.

Commercial Relations

Mr. Gandhi said that the Indian Government had received a very good proposal on the Hawk Trainer aircraft. There were some offset aspects to be worked out, to minimise the foreign exchange costs, but he was optimistic. He also had great hopes of the proposed collaboration with Rolls Royce on a new Indian/Soviet airliner. He would be discussing this with Mr. Gorbachev.

I am copying this letter to Brian Hawtin (Ministry of Defence), Colin Walters (Home Office), Neil Thornton (Department of Trade and Industry, and Trevor Woolley (Cabinet Office).

Yours Sincerely,

(C. D. POWELL)

J. S. Wall, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

SUBJECT cc MASTER

FILE DA PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

14 July 1989

Dear Stephen,

PRIME MINISTER'S MEETING WITH PRESIDENT MUBARAK

The Prime Minister had a brief meeting with President Mubarak in Paris this afternoon. The President was as usual rather boastful, recounting how he had single-handedly convinced Arafat to accept Resolution 242, fearlessly instructed Assad to withdraw his troops from Lebanon and given Qadhafi a dressing-down in front of the Arab Summit in Casablanca. Of substance, there was little. But allowing for all that, it was as usual a very friendly meeting.

Arab/Israel

The Prime Minister gave President Mubarak an account of her meeting with Mr. Shamir. She did not think that he would ever be able to make the concessions necessary for peace. She was horrified by Likud's recent decision to shackle Shamir's plan for elections on the West Bank with unacceptable conditions. But she rather doubted that the Labour Party in Israel had anything much better to offer at present. We were concerned by the possible effects of the Likud decision on the PLO: that was why the Foreign Secretary had seen Bassam Abu Sherif, to urge a moderate and cautious response. The one reasonably bright spot was the determination of the US Administration to keep on trying. The next step would be Eagleburger's visit to the area.

Mubarak said that Shamir was not a strong man: he lacked will. At least Begin had the courage to take difficult decisions. He did not know what to make of the Likud decision: Arens had telephoned the Egyptian Foreign Minister to say that it was not a government matter. But it was hard to believe that. He agreed that the break-up of the Israeli coalition was unlikely to serve any useful purpose. He had seen Arafat on 12 July and urged him to remain flexible. It was very important to support and encourage Arafat: without him, the PLO would break apart. The Prime Minister said that we would continue to support a solution based on territory for peace.

CONFIDENTIAL

Lebanon

The Prime Minister said that we were giving full support to the Arab League's efforts to achieve peace. President Mubarak obviously did not give much for the Tripartite Committee's chances of reaching a settlement, certainly not within three months. They would have done better to give themselves six months. Their only sanction was that failure would have to be reported to the Arab Summit, and might lead to further measures (unspecified). He had told President Assad repeatedly that he should withdraw all Syrian troops from Lebanon. The Prime Minister agreed that this was necessary, but it would be very hard to achieve.

Sudan

President Mubarak spoke warmly of the new Sudanese leader - he was 'wonderful' - and hoped the United Kingdom would give him full support. He wanted to settle the problems with the South and was prepared to meet Garang in Addis Ababa. Sadiq el Mahdi had, in Mubarak's view, been corrupt and slothful.

Libya

We were treated to a long and probably fanciful account of President Mubarak's exchanges with Qadhafi at Casablanca, all of which had ended with Qadhafi's total discomfiture. Mubarak said that he was being very cautious in his dealings with Qadhafi and trying to bring him to see sense.

I am copying this letter to Brian Hawtin (Ministry of Defence) and to Trevor Woolley (Cabinet Office).

Yours sincerely,

(C.D. POWELL)

J.S. Wall, Esq.,
Foreign and Commonwealth Office.

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SUBJECT cc MASTER

FILE

D.A

bc P.C.

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

14 July 1989

Dear Stephen,

MEETING WITH MR. UNO

The Prime Minister had a bilateral with Mr. Uno at the British Embassy today. Mr. Uno was accompanied by the Vice Minister for Foreign Affairs and the Japanese Ambassador in London.

The Prime Minister said she hoped it would soon be possible to secure two additional places on the Tokyo Stock Exchange. She had taken them up with Mr. Takeshita but he had not managed to advance it before leaving office (though he had secured welcome changes in custom duties on whisky). The Prime Minister said she attached great importance to this and hoped Mr. Uno would push hard for it. She acknowledged that a great deal of progress had been made to open up Japanese markets, but much remained to be done.

The Prime Minister welcomed the recent announcement by Honda that it would take a 20 per cent stake in Rover and would open its own manufacturing plant. The recent attempt by France to obstruct imports of cars made in Britain by Japanese companies had been successfully challenged. It was now established that such cars would be treated on all fours with other British cars.

Turning to the Summit, the Prime Minister said there might be a call for a North-South Summit. She did not think this would be appropriate. It would be vague and get in the way of tackling the debt problem through the IMF, World Bank and Paris Club.

On the political side, the United Kingdom was looking for a statement condemning recent events in China. It was important that people should not be allowed to forget. Nevertheless she recognised that a balance had to be struck. Trading relations would continue (though were not being developed for the time being) and negotiations had to be conducted over Hong Kong.

Mr. Uno responded that he had urged the President of the Tokyo Stock Exchange to look at the British applications

sympathetically. He could not instruct him and he in turn could not instruct the Exchange. A Committee had been set up earlier in July to consider the applications but he did not expect a decision before the Prime Minister visited Japan in September. The Prime Minister thanked him for his efforts but commented that it all seemed to be taking a long time.

Mr. Uno did not respond directly to the question of a North-South Summit. He noted that Japan will have discharged $30 billion in loans over three years including the current year and would be announcing at the Summit that it planned to bring the total to $65 billion in two further years. $600 million was being made available in untied grants to the poorest countries in Africa. It was intended to continue using Crown Agents in disbursing this money.

Mr. Uno said he had recently spent 1½ hours with Mr. Gorbachev and had told him that Japan had 400 plants in Europe employing 70,000. (Mr. Gorbachev commented that he could not understand why.) Japan had also built car plants in the United States and had imported 16,000 cars back to Japan.

On China Mr. Uno said he shared the Prime Minister's approach. He had condemned China, both for the killings of students and for the summary executions. On trade, Japan had recently signed a $6 billion credit to be drawn over six years. He had decided not to proceed with this until the Japanese people were satisfied that "an open door policy" had been established. The ASEAN countries and Korea had urged Japan not to isolate China and he gave weight to their views.

Concluding the discussion, which had lasted about twenty minutes, the Prime Minister welcomed this approach which was very close to her own.

Yours sincerely

Andrew Turnbull

(ANDREW TURNBULL)

Stephen Wall, Esq.,
Foreign and Commonwealth Office.

Sir J Fretwell

Secretary of State's discussion with Mr Baker: Summit texts

Following were the main points of the discussions between the Secretary of State and Mr Baker on the Summit texts.

Draft declaration on China

- Baker emphasised that the President's instinct was to soften, rather than harden, the text;

- in para 1, line, the Americans want to say "We have already condemned the violent repression in China." [Instead of "We condemn ..."]. The Secretary of State saw no difficulty.

- the Americans are happy with the last sentence of para 3: "Our intention is not to isolate China". The Secretary of State said that we thought the total effect of the paragraph, including that sentence, looked a bit feeble. He would propose alternative language.
[My own suggestion would be something like: "We hope that the Chinese Government will resume the movement towards reform and openness and create the conditions in which we can return to normal cooperation. Our intention is not to isolate China."]

[a'ive urge the Chinese Government..."

- the Secretary of State sought Baker's support for our proposed last sentence on Hong Kong. Baker said he could not agree to anything which implied a commitment to deal with a refugee exodus. He could support language calling on the Chinese Government to do what is necessary to restore confidence in Hong Kong. The Secretary of State said we needed more than that if we were to reassure the people of Hong Kong. He would revert.

East/West Relations

- the Secretary of State proposed language for the end of paragraph 2: " We are particularly concerned by

the policies of the Romanian Government and by recent developments, involving massive population movement, in Bulgaria." Baker agreed that something on those lines was desirable. He might look for some explicit reference to human rights.

- it was agreed that we should seek a reference to deterrence in paragraph 4. This might be an identical wording to that used at Toronto: "We also reaffirm that, for the foreseeable future, nuclear deterrence and adequate conventional strength are the guarantees of peace in freedom."

Poland/Hungary

- the Secretary of State said we could live with the first of the square bracketed US texts although it might be better to talk about initiatives "designed to encourage economic adjustment" rather than talking about "to ease the strains of economic adjustment". Baker seemed unfussed.

- on the second paragraph, the Secretary of State expressed some unease about the proposal to conduct regular reviews on the basis that this might imply some continued machinery. Baker stressed several times that the Americans were not looking for a pledging conference. [Comment: one possibility might be to delete the sentence and add a new sentence at the end of the paragraph simply saying "We will review progress".]

Draft Economic Declaration

- Baker raised the passages on pages 8 and 9 of the draft on the GATT Round, objecting to the bit in square brackets which says that all countries should make the most constructive contribution possible to GATT "consistent with their respective stages of economic development". This had far-reaching political implications. We did not want countries like Brazil and India picking and choosing. The Secretary of State said that he could see the logic of the proposed language but he agreed that we should not allow it to be used as a bolthole.

General

Baker thought that the pressure was on for a commitment to a North/South Summit. The Canadians would support, provided that jurisdiction of the conference was

circumscribed. Armed with the lesson I had half learned from Mr Bayne, the Secretary of State said that the idea was a bad one when North/South issues were in constant discussion and when the Special Session on Development was due in 1990. Both the Secretary of State and Mr Baker agreed that they should arm themselves with more information about the Special Session.

(J S Wall)

14 July 1989

cc: Mr Wicks
Mr Bayne
Mr Richardson
Mr J Powell
Mr Burns

FINAL VERSION

SUMMIT OF THE ARCH

FINAL DRAFT DECLARATION ON CHINA

We have already condemned the violent repression in China in defiance of human rights. We urge the Chinese authorities to cease action against those who have done no more than claim their legitimate rights to democracy and liberty.

This repression has led each of us to take appropriate measures to express our deep sense of condemnation, to suspend bilateral Ministerial and high-level contacts, and also to suspend arms-trade with China, where it exists. Furthermore, each of us has agreed that, in view of current economic uncertainties , the examination of new loans by the World Bank be postponed. We have also decided to extend the stays of those Chinese students who so desire.

We look to the Chinese authorities to create conditions which will avoid their isolation and provide for a return to cooperation based upon the resumption of movement towards political and economic reform, and openness.

14/07/89
22:20

We understand and share the grave concern felt by the people of Hong Kong following these events. We call on the Government of the People's Republic of China to do what is necessary to restore confidence in Hong Kong. We recognize that the continuing support of the international community will be an important element in the maintenance of confidence in Hong Kong.

14.07.89
21:01

FINAL DRAFT DECLARATION ON TERRORISM

1 - We remain resolutely opposed to terrorism in all its forms. We confirm the commitment each of us has undertaken to the principle of making no concessions to terrorists or their sponsors and to cooperating, bilaterally and in all relevant international fora, in combatting terrorism. We reiterate our commitment to the policies agreed at previous summits; in particular we condemn state-sponsored terrorism. We are determined not to let terrorists remain unpunished, and to have them brought to justice within the framework of international law and in conformity with the rule of law. We call upon those states which have supported or encouraged terrorist acts to demonstrate by their actions that they have renounced such policies. We reaffirm in particular our absolute condemnation of the taking of hostages. We call on those holding hostages to release them immediately and unconditionally and on those with influence over hostage takers to use it to this end.

2 - Deeply concerned for the safety of all travellers and outraged by the murderous attacks perpetrated against international civil aviation and the frequent threat to air transport safety from terrorist groups, we reaffirm our commitment to the fight against all forms of terrorism affecting civil aviation. We reiterate our determination to contribute to reinforcing internationally agreed measures for protection against aircraft hijackings and sabotage.

3 - We particularly condemn the recent attack on an aircraft over Scotland, which killed 270 people. We have agreed to give priority to preventing such attacks by further strengthening security measures. We attach importance to the implementation of the work plan recently adopted by the ICAO Council for this purpose.

4 - We have also agreed on the need for improved methods of detecting explosives. We endorse efforts currently underway in ICAO to develop, as a matter of high priority, an appropriate international regime for the marking of plastic and sheet explosives for detection.

FINAL DRAFT DECLARATION ON HUMAN RIGHTS

In 1789, the rights of man and of the citizen were solemnly proclaimed. Just over forty years ago, the General Assembly of the United Nations adopted the Universal Declaration of Human Rights, which have been further developed and codified and are now embodied in the Covenants on Civil and Political Rights and on Economic, Social and Cultural Rights.

We reaffirm our commitment to freedom, democratic principles and human rights. We reaffirm our belief in the rule of law which respects and protects without fear or favour the rights and liberties of every citizen, and provides the setting in which the human spirit can develop in freedom and diversity.

Human rights are a matter of legitimate international concern. We commit ourselves again to encouraging and promoting the universal respect for human rights and fundamental freedoms.

Looking towards the future, we see opportunities as well as threats; this impels us to pledge our firm commitment to uphold international standards of human rights and to confirm our willingness to reaffirm them and to develop them further.

We stress the protection of freedom of thought, conscience and religion, and of freedom of opinion and expression; for without these freedoms, other rights cannot be fully realised.

We stress also respect for the rule of law and the plurality of opinion, for without these there can be neither representative government nor democracy.

We believe equally in freedom of association in a pluralist society.

We hold that the right of each individual to physical integrity and dignity must be guaranteed. We abhore and condemn torture in all its forms.

We believe that all human beings must act towards each other in a spirit of fraternity.

We believe that everyone has a right to equality of opportunity as well as to own property, alone or in association with others. Extreme poverty and exclusion from society violate the dignity of everyone enduring them. Those who suffer or are in need should be supported.

We stress that the rights of the child, the disabled and the elderly require special protection.

We consider that developments in the human sciences, for instance the progress achieved in genetics and organ transplantation, must be applied in accordance with all human rights if the welfare of humanity is to be preserved and enlarged.

We, the present generation, have an obligation to ensure that future generations will inherit a healthy environment.

We reaffirm our belief that these rights and freedoms cannot be properly safeguarded without the rule of law, impartial justice and genuine democratic institutions.

14/07/89

FINAL DRAFT DECLARATION ON EAST-WEST RELATIONS

1. We, the leaders of our seven countries and the representatives of the European Community, reaffirm the universal and supreme importance which we attach to freedom, democracy and the promotion of human rights.

2. We see signs of this same desire for greater freedom and democracy in the East. The people there, including the young people, are reasserting these values and calling for a pluralist democratic society. Some of their leaders are aware of the positive contribution that greater freedom and democracy can make to the modernisation of their countries and are starting to make changes to their laws, practices and institutions. Others are still endeavouring to resist this movement by taking repressive measures which we strongly condemn.

3. We hope that freedom will be broadened and democracy strengthened and that they will form the basis, after decades of military confrontation, ideological antagonism and mistrust, for increased dialogue and cooperation. We welcome the reforms underway and the prospects of lessening the division of Europe.

4. We call upon the Soviet Government to translate its new policies and pronouncements into further concrete action at home and abroad. Military imbalances favouring the Soviet Union, both in Europe and in Asia, remain a threat to each of us. Our Governments must therefore continue to be vigilant and maintain the strength of our countries. For the foreseeable future, there is no alternative for each of us, within existing alliances, to maintaining a strategy of deterence based upon an appropriate mix of adequate and effective nuclear and conventional forces. In order to hasten the advent of a world in which the weight of arms and military strength is reduced, we recommit ourselves to the urgent pursuit of a global ban on chemical weapons, a conventional forces balance in Europe at the lowest possible level consistent with our security requirements, and a substantial reduction in Soviet and American strategic nuclear arms.

5. We offer the countries of the East the opportunity to develop balanced economic cooperation on a sound commercial basis consistent with the security interests of each of our countries and with the general principles of international trade. We have noted developments of relations between the EEC and countries of the East, in particular the conclusion of an agreement with Hungary, the progress already achieved during the current discussions with Poland and the opening of negotiations with the Soviet Union and other countries of the East.

6. We welcome the process of reform underway in Poland and Hungary. We recognize that the political changes taking place in these countries will be difficult to sustain without economic progress. Each of us is prepared to support this process and to consider, as appropriate and in a coordinated fashion, economic assistance aimed at transforming and opening their economies in a durable manner. We believe that each of us should direct our assistance to these countries so as to sustain the momentum of reform through inward investment, joint ventures, transfer of managerial skills, professional training and other ventures which would help develop a more competitive economy.

Each of us is developing concrete initiatives designed to encourage economic reforms, to promote more competetive economies and to provide new opportunities for trade.

We agreed to work along with other interested countries and multilateral institutions to concert support for the process of reform underway in Hungary and Poland, in order to make our measures of support more effective and mutually reinforcing. We will encourage further creative efforts by interested governments, the public and the private sectors in support of the reform process.

7. We are in favour of an early conclusion of the negotiations between the IMF and Poland. The strengthened debt strategy is applicable to Poland, provided it meets the

conditions. We are ready to support in the Paris Club the rescheduling of Polish debt expeditiously and in a flexible and forthcoming manner.

8. We see good opportunities for the countries of West and East to work together to find just solutions to conflicts around the world, to fight against under-development, to safeguard the resources and the environment and to build a freer and more open world.

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14/07/89
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From: N L Wicks
Date: 14 July 1989

Mr Powell

PARIS SUMMIT: DRAFT POLITICAL DECLARATIONS

1. I attach drafts of the political statements on East/West, Human Rights, and China showing, in manuscript, the latest proposed amendments by the United Kingdom and others. The terrorism text has already been agreed.

2. There are two points of importance:

(a) the need to include a final sentence to the China text reflecting the commitment of all Seven to confidence in Hong Kong; and

(b) inserting a reference to nuclear deterrence into paragraph 4 of the East/West text.

3. It would also be useful to insert a reference to Romania and Bulgaria in paragraph 2 of the East/West text.

4. If the Prime Minister could re-register these points at the Heads' dinner it would strengthen our hand in arguing for these amendments at the Sherpas meeting.

N.L.W.

N L Wicks

14 July 1989

MR. POWELL

cc Mr. J. S. Wall
Mr. A. Allan
Sir John Fretwell
Mr. H.P. Evans
Mr. N.P. Bayne
Mr. R.A. Burns
Mr. B.I. Ingham

POLITICAL TEXTS

The Sherpa's went through the political texts again last night.

Terrorism

No changes were made to the text on Terrorism. Changes were suggested to the Declarations on Human Rights, China and East/West Relations. The new texts are attached. Some comments:

China

Paragraph 1: "violent" has been substituted for "brutal" in the first line.

Paragraph 2: The words "wherever applicable" after "suspend" have been replaced, to avoid an ambiguity, by "where it exists" at the end of the sentence.

Paragraph 3: The sentence in square brackets at the end of the paragraph is a Japanese suggestion. It looks a little odd, and perhaps suggests too much of an olive branch. But the Prime Minister may think we can go along with it.

Paragraph 4: The sentence in square brackets is our text. Sherpas said they would want to discuss it with their Ministers. There is some suspicion

that it might commit them, in some way, to accepting refugees. Both the Prime Minister and the Foreign Secretary will, I think, need to talk strongly to their colleagues in order to get the sentence, or something like it, accepted.

Human Rights

Paragraph 1, 2 and 3: Editorial changes.

Paragraph 4: No change

Paras 5 & 6 This is a former combined paragraph, split into two with the drafting improved.

Paragraph 7: Unchanged

Paragraph 8: A stronger reference to torture, which looks acceptable.

Paragraph 9: A new paragraph which reflects Canadian, French and other drafting. I think that the reference to fraternity, particularly in this capital and at this time, is acceptable. (The Canadians baulk at brotherhood - because of their equal opportunity laws!).

Paragraph 10: The last sentence is new. It virtually reflects a sentence in the 1984 London Declaration (and I think has echoes of an Anglican Prayer (in the Communion Service?)). I think it just about acceptable.

Paragraph 11: "disabled" is replaced by "handicapped". "all" has replaced "fundamental" before human rights.

Paragraph 12: The reference to future generations' right to inhabit a healthy environment has been dropped, as we wanted, and replaced with an obligation placed on the present generation.

Last paragraph: unchanged.

EAST/WEST RELATIONS

Paragraphs. 1, 2 and 3: Unchanged.

Paragraph 4: You will recall from Stephen Wall's letter of 11 July that the FRG Sherpa agreed to consult Chancellor Kohl about the inclusion of a passage in this paragraph on nuclear deterrence. The Sherpa has done so and reported that Chancellor Kohl was ready, if other Heads thought it important, to include in this paragraph text based on the exact words in paragraph 11 of the NATO communique. (In fact, the text would have to be changed for editorial reasons, and possible words are attached.) The FRG Sherpa indicated that Herr Genscher would prefer there to be no reference at all.

My own view, and I think of Sir John Fretwell, is that we should seek to include such a passage. But to have a chance of success we need strong American support for it. Others, notably the Italians, and perhaps the Japanese, are wobbly.

Paragraph 5: The reference to the EC's agreements with Czechoslovakia has been omitted since it was thought that a reference to that still repressive country chimed in ill with references to Hungary and Poland.

Paragraph 6: Many changes. The first sub-paragraph looks acceptable. The first set of square brackets are US language to which there is French objection. I think we should seek to amend the first part of the sentence so it reads:

"Several of us have already developed concrete initiatives designed to encourage economic adjustment, ..."

The purpose of the change here is that the reference to the "strains [not the strength] of economic adjustment" gives a little the impression that the Polish economy has already undergone much economic adjustment. Most of the adjustment has still to come.

The second set of square brackets is again US language. There are strong French objections. They want the entire last sentence omitted and the first two sentences amended to read:

"We agreed to work to support the process of reform under way in Hungary and Poland. To this end each of us will ensure that each of our measures of support are effective and mutually reinforcing."

The purpose of the French changes, which at least at Sherpa level are strongly sought, are to avoid any institutionalisation, under what they would fear would be American domination, of financial support for Poland. The more general question prompted by this paragraph is - What precisely does it mean in practice? How will support be concerted? Who will do it? What does "monitoring the relationship" between the multilateral programmes" etc. mean? The Heads and Foreign Ministers need to discuss the policy here underlying this passage before Sherpas can draft.

Personally I can see some scope for regular consultations between G7 (and perhaps other interested governments - in the case of Poland, Sweden, and Hungary, Austria) about their reform programme, for example:

- to prevent duplication of and support to provide a proper division of labour for support programmes.

- to cajole, stroke, stiffen etc. the Polish government's resolve once the IMF reform programme is agreed so that it is effectively implemented, (i.e. the sort of process that we are engaged upon with the Nigerians).

Paragraph 7: No changes, though the Japanese are unhappy about the reference to the strengthening the debt strategy applying to Poland.

Finally, you should know that the Italians are arguing, without any support, that somewhere in this declaration, or in any other declaration, there should be a phrasing reference to the Yugoslav reform programme (even though inflation there is running at over 1000 per cent!).

It would be helpful to have any comments which the Prime Minister might have on these points.

N.L.W.

(N.L. WICKS)

14 July 1989

CONFIDENTIAL

SUBJECT cc MASTER

FILE
DA.
PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

13 July 1989

Dear Stephen.

PRIME MINISTER'S MEETING WITH THE PRESIDENT OF MEXICO

The Prime Minister had a talk with President Salinas at the Elysee Palace in Paris this afternoon. The President was joined cumulatively by the Mexican Foreign Minister, the Deputy Foreign Minister and A.N. Other in the course of the talk. The Prime Minister was most impressed with President Salinas and his approach to Mexico's economic problems.

The Prime Minister began by congratulating the President on his election and commiserating on the scale of the task which he faced. She recalled her earlier contacts with Mexico and expressed admiration for President de la Madrid. He had tackled Mexico's problems with immense courage, having to contend with national disasters on top of everything else. She understood that Mexico's negotiations with the commercial banks on debt were making progress, indeed were nearly complete.

President Salinas said he was pleasantly surprised to discover how closely the Prime Minister followed Mexico's affairs. He was determined to take whatever tough measures were necessary to put Mexico's economy to rights. He intended to carry out a major programme of privatisation and had substantially relaxed the rules governing foreign investment. Subsidies were being reduced. But to give his people hope he had to solve Mexico's debt problem. On this, he had done everything by the book. Mexico had been to the IMF and the World Bank and then to the Paris Club. He had also tackled inflation, bringing it down from 160% per annum to 17%. But to keep inflation down he not only had to pursue the right fiscal policy, he needed a reasonably stable exchange rate. This was why the negotiations with the commercial banks on debt were so important. There was now agreement on the discount rate of 35%; on the interest rate of 6¼%; and on the amount of new money which Mexico needed. Everything turned on the banks' late request for a step-up provision. (The Prime Minister's recollection is that he blamed the British banks for this, but this was not my understanding.) They were insisting that if Mexico's economy improved over

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a number of years, then they should revert to current interest rates for debt repayment. While he was prepared to make adjustments if oil prices rose significantly, he simply could not accept a general step-up provision, for political reasons. He hoped very much that the British banks would attend the crucial meeting in New York on 14 July in a constructive spirit. He was worried by reports that they did not want to be part of an agreement, but to be free-riders. He hoped that he could look to the Prime Minister for help.

The Prime Minister said that she was very impressed with the measures which President Salinas was taking. We could not instruct the British commercial banks what to do: they had to form their own commercial judgement. She would take steps to enquire about the latest position. Personally, she would be surprised if they were to stand out against an agreement. President Salinas said he wanted to underline once more the enormous benefits that would flow from a settlement. Flight capital would return to Mexico and people would begin to believe that sacrifices were worthwhile and would lead to improvements. The meeting on 14 July was really crucial. He had seen Secretary Brady earlier in the day. He had confirmed United States interest in reaching a settlement. The Prime Minister repeated that she thought that what President Salinas was doing was marvellous. She would enquire about the position of the British banks and let him know how matters stood. If he could solve Mexico's economic problems, it would be an example for the rest of Latin America.

President Salinas referred to the problem of drugs. The Prime Minister said that we were anxious to conclude an agreement on confiscation of drug traffickers' assets.

President Salinas said that he hoped the Prime Minister would find time to return to Mexico.

I have reported the exchange on debt to Nigel Wicks, who has been in touch with the Treasury.

I am copying this letter to Alex Allan (HM Treasury), Neil Thornton (Department of Trade and Industry) and Trevor Woolley (Cabinet Office).

Yours ever,

Charles Powell

(C.D. POWELL)

Stephen Wall, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

SUBJECT & MASTER

FILE
KK
cPc

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

13 July 1989

Dear Stephen.

PRIME MINISTER'S MEETING WITH PRESIDENT OF URUGUAY

The Prime Minister had a brief meeting with the President of Uruguay at the Elysee Palace in Paris this afternoon. President Sanguinetti was accompanied by his Foreign Minister.

The Prime Minister began by saying that she had recently met Sr. Iglesias, now President of the Inter-American Bank, and had been greatly impressed. He had told her a great deal about Uruguay and she knew that the President had been courageous in pursuing the right economic policies. She had just completed a meeting with President Salinas who was also facing difficult decisions.

President Sanguinetti said that Uruguay certainly faced a number of difficulties, many of them stemming from the economic problems of neighbouring countries. Even so, his Government was pursuing orthodox economic policies and had brought down the deficit and increased exports. They were also going through the worst drought since 1917. Although Uruguay did not make much fuss about it, she had a debt problem. He believed they were entitled to ask for some help. The Prime Minister said she had not been fully aware of the scale of the difficulties. We always regarded Uruguay as such a rock of stability in that part of Latin America. She paid tribute to everything the President was doing. We would pay special attention to Uruguay's needs.

President Sanguinetti said that he would also like to raise the situation in the South Atlantic. He had two particular concerns. The first was the need for a fisheries regime. Uruguay was a fishing country and suffered from the depredations from outside fishing fleets. It was important to start working seriously on a proper regime. Secondly, there was a new Government in Argentina. He had talked to President Menem and been pleasantly surprised. Traditionally, Uruguay's relations with the Peronists was not good. But he had found a conciliatory and constructive attitude from Menem. The Prime Minister would have read his latest statements about

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relations with the United Kingdom which only confirmed what he had said in private. Menem was doing unexpectedly sensible things internally, by appointing a thoroughly right wing rather than a populist cabinet. There was now an opportunity to find solutions to the problems between Britain and Argentina and Uruguay was always available to help in a discreet manner if needed. Indeed, it was in Uruguay's interest to do so: they did not like to find two old friends in dispute.

The Prime Minister said she was very grateful to President Sanguinetti for briefing her so fully. She was aware of President Menem's public comments and the suggestion that he was keen to restore commercial and diplomatic relations with Britain, while putting the problem of sovereignty to one side. If this was really so, it was very good news. But we had heard nothing direct from the Argentinians yet. We were no less anxious than Uruguay to settle the fisheries problems of the South Atlantic. The Prime Minister continued that we were very grateful for all the help we had received from Uruguay over Falklands. We hoped very much that he would visit Britain - "we will do it" interjected the President - and she hoped one day to visit Uruguay.

I am copying this letter to Brian Hawtin (Ministry of Defence) and to Trevor Woolley (Cabinet Office).

Yours sincerely,

(C. D. POWELL)

J. S. Wall, Esq.,
Foreign and Commonwealth Office.

FROM: PS/HMA
DATE: 13 July 1989

C D Powell Esq

BICENTENARY CELEBRATIONS : PRESENTS

1. The Elysée sent around yesterday these presents from Mitterrand for the Prime Minister. The two framed prints are, as you can see, representations of Paris and of the Declaration of Human Rights. According to our security desk, the two wrapped packages are books : two on the French Revolution (in the white paper) and another entitled 'La Marseillaise' by Frederic Robert (in gold paper). The brown box contains a model by the French sculptor Haïm Kern based on the theme of liberty.

J B King

VERSION – EVE OF SUMMIT

DRAFT
~~FINAL~~ VERSION

DRAFT DECLARATION ON HUMAN RIGHTS

In 1789, the rights of man and of the citizen were solemnly proclaimed. Just over forty years ago, the General Assembly of the United Nations adopted the Universal Declaration of Human Rights, which have been further developed and codified and are now embodied in the Covenants on Civil and Political Rights and on Economic, Social and Cultural Rights.

We reaffirm our commitment to freedom, democratic principles and human rights. We reaffirm our belief in the rule of law which respects and protects without fear or favour the rights and liberties of every citizen, and provides the setting in which the human spirit can develop in freedom and diversity.

Human rights are a matter of legitimate international concern. We advocate their universal observance and renew our commitment to promote and protect human rights and fundamental freedoms in the world today.

13/07/89
0:05

Looking towards the future, we see opportunities as well as threats; this impels us to pledge our firm commitment to uphold international standards of human rights and to confirm our willingness to reaffirm them and to develop them further.

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We stress also [that] the respect for the rule of law and the plurality of opinion, for without these there can~~not~~ be neither representative government nor democracy.

We believe equally in freedom of association in a pluralist society.

The right of each individual to physical integrity and dignity must be guaranteed. We abhore and condemn torture in all its forms.

We believe that all human beings must act towards each other in a spirit of fraternity.

We believe that everyone has a right to equality of opportunity as well as to own property, alone or in association with others. Extreme poverty and exclusion from society violate the dignity of everyone enduring them. Those who suffer or are in need should be supported.

We stress that the rights of the child, the disabled and the elderly require a special protection.

Developments in the human sciences, for instance the progress achieved in genetics and organ transplantation, must be applied in accordance with ~~fundamental~~ all human rights if the welfare of humanity is to be preserved and enlarged.

We, the present generation, have an obligation to ensure that future generations will inherit a healthy environment.

We reaffirm our belief that these rights and freedoms cannot be properly safeguarded without the rule of law and genuine democratic institutions.

VERSION - EVE OF SUMMIT

DRAFT
~~FINAL~~ VERSION

SUMMIT OF THE ARCH

DRAFT DECLARATION ON CHINA

We condemn the violent repression in China in defiance of human rights. We urge the Chinese authorities to cease action against those who have done no more than claim their legitimate rights to democracy and liberty.

This repression has led each of us to take appropriate measures to express our deep sense of condemnation to suspend bilateral Ministerial and high-level contacts, and also to suspend arms-trade with China, where it exists. Furthermore, each of us has agreed that, in view of current economic uncertainties , the examination of new loans by the World Bank be postponed. We have also decided to extend the stays of those Chinese students who so desire.

We express the hope that conditions will be created as rapidly as possible for a return to normal cooperation with China based upon the resumption of movement towards reform and openness. [Our intention is not to isolate China.]

13/07/89
0:25

We understand and share the grave concern felt by the people of Hong Kong following these events. We call on the Government of the People's Republic of China to do what is necessary to restore confidence in Hong Kong. [We recognize that the continuing support of the international community will be an important element in the maintenance of confidence in Hong Kong.]

VERSION - EVE OF SUMMIT

13/07/89

DRAFT DECLARATION ON EAST-WEST RELATIONS

1. We, the leaders of our seven countries and the representatives of the European Community, reaffirm the universal and supreme importance which we attach to freedom, democracy and the promotion of human rights.

2. We see signs of this same desire for greater freedom and democracy in the East. The people there, including the young people, are reasserting these values and calling for a pluralist democratic society. Some of their leaders are aware of the positive contribution that greater freedom and democracy can make to the modernisation of their countries and are starting to make changes to their laws, practices and institutions. Others are still endeavouring to resist this movement by taking repressive measures which we strongly condemn.

3. We hope that freedom will be broadened and democracy strengthened and that they will form the basis, after decades of military confrontation, ideological antagonism and mistrust, for increased dialogue and cooperation. We welcome the reforms underway and the prospects of lessening the division of Europe.

4. We call upon the Soviet Government to translate its new policies and pronouncements into further concrete action at home and abroad. Military imbalances favouring the Soviet Union, both in Europe and in Asia, remain a threat to each of us. Our Governments must therefore continue to be vigilant and maintain the strength of our countries. In order to hasten the advent of a world in which the weight of arms and military strength is reduced, we recommit ourselves to the urgent pursuit of a global ban on chemical weapons, a conventional forces balance in Europe at the lowest possible level consistent with our security requirements, and a substantial reduction in Soviet and American strategic nuclear arms.

5. We offer the countries of the East the opportunity to develop balanced economic cooperation on a sound commercial basis consistent with the security interests of each of our countries and with the general principles of international trade. We have noted the conclusion by the European Community of agreements with Hungary, the progress already achieved during the current discussions with Poland and the opening of negotiations with the Soviet Union and other countries of the East.

6. We welcome the process of reform underway in Poland and Hungary. We recognize that the political changes taking place in these countries will be difficult to sustain without economic progress. Each of us is prepared to support this process and to consider, as appropriate and in a coordinated fashion, economic assistance aimed at transforming and opening

their economies in a durable manner. We believe that each of us should direct our assistance to these countries so as to sustain the momentum of reform through inward investment, joint ventures, transfer of managerial skills, professional training and other ventures which would help develop a more competitive economy.

[Several of us have already developed concrete initiatives designed to ease the strain of economic adjustment, to promote the tools for market oriented forms of entrepreneurship and to provide new opportunities for trade.]

[We agreed to work together to concert our support for the process of reform underway in Hungary and Poland. To this end we will conduct regular reviews to ensure that each of our measures of support are effective and mutually reinforcing. We will monitor the relationship between the various multilateral and bilateral assistance programs and we will encourage further creative efforts of our own part and other goverments, as well as the private sector, in support of the reform process.]

7. We are in favour of an early conclusion of the negotiations between the IMF and Poland. The strengthened debt strategy is applicable to Poland, provided it meets the conditions. We are ready to support in Paris Club the rescheduling of Polish debt expeditiously and in a flexible and forthcoming manner.

8. We see good opportunities for the countries of West and East to work together to find just solutions to conflicts around the world, to fight against under-development, to safeguard the resources and the environment and to build a freer and more open world.

MR. POWELL

cc Mr. J. S. Wall
Mr. A. Allan
Sir John Fretwell
Mr. H.P. Evans
Mr. N.P. Bayne
Mr. R.A. Burns
Mr. B.I. Ingham

POLITICAL TEXTS

The Sherpa's went through the political texts again last night.

Terrorism

No changes were made to the text on Terrorism. Changes were suggested to the Declarations on Human Rights, China and East/West Relations. The new texts are attached. Some comments:

China

Paragraph 1: "violent" has been substituted for "brutal" in the first line.

Paragraph 2: The words "wherever applicable" after "suspend" have been replaced, to avoid an ambiguity, by "where it exists" at the end of the sentence.

Paragraph 3: The sentence in square brackets at the end of the paragraph is a Japanese suggestion. It looks a little odd, and perhaps suggests too much of an olive branch. But the Prime Minister may think we can go along with it.

Paragraph 4: The sentence in square brackets is our text. Sherpas said they would want to discuss it with their Ministers. There is some suspicion

that it might commit them, in some way, to accepting refugees. Both the Prime Minister and the Foreign Secretary will, I think, need to talk strongly to their colleagues in order to get the sentence, or something like it, accepted.

Human Rights

Paragraph 1, 2 and 3: Editorial changes.

Paragraph 4: No change

Paras 5 & 6 This is a former combined paragraph, split into two with the drafting improved.

Paragraph 7: Unchanged

Paragraph 8: A stronger reference to torture, which looks acceptable.

Paragraph 9: A new paragraph which reflects Canadian, French and other drafting. I think that the reference to fraternity, particularly in this capital and at this time, is acceptable. (The Canadians baulk at brotherhood - because of their equal opportunity laws!).

Paragraph 10: The last sentence is new. It virtually reflects a sentence in the 1984 London Declaration (and I think has echoes of an Anglican Prayer (in the Communion Service?)). I think it just about acceptable.

Paragraph 11: "disabled" is replaced by "handicapped". "all" has replaced "fundamental" before human rights.

Paragraph 12: The reference to future generations' right to inhabit a healthy environment has been dropped, as we wanted, and replaced with an obligation placed on the present generation.

Last paragraph: unchanged.

EAST/WEST RELATIONS

Paragraphs. 1, 2 and 3: Unchanged.

Paragraph 4: You will recall from Stephen Wall's letter of 11 July that the FRG Sherpa agreed to consult Chancellor Kohl about the inclusion of a passage in this paragraph on nuclear deterrence. The Sherpa has done so and reported that Chancellor Kohl was ready, if other Heads thought it important, to include in this paragraph text based on the exact words in paragraph 11 of the NATO communique. (In fact, the text would have to be changed for editorial reasons, and possible words are attached.) The FRG Sherpa indicated that Herr Genscher would prefer there to be no reference at all.

My own view, and I think of Sir John Fretwell, is that we should seek to include such a passage. But to have a chance of success we need strong American support for it. Others, notably the Italians, and perhaps the Japanese, are wobbly.

Paragraph 5: The reference to the EC's agreements with Czechoslovakia has been omitted since it was thought that a reference to that still repressive country chimed in ill with references to Hungary and Poland.

Paragraph 6: Many changes. The first sub-paragraph looks acceptable. The first set of square brackets are US language to which there is French objection. I think we should seek to amend the first part of the sentence so it reads:

"Several of us have already developed concrete initiatives designed to encourage economic adjustment, ..."

The purpose of the change here is that the reference to the "strains [not the strength] of economic adjustment" gives a little the impression that the Polish economy has already undergone much economic adjustment. Most of the adjustment has still to come.

The second set of square brackets is again US language. There are strong French objections. They want the entire last sentence omitted and the first two sentences amended to read:

"We agreed to work to support the process of reform under way in Hungary and Poland. To this end each of us will ensure that each of our measures of support are effective and mutually reinforcing."

The purpose of the French changes, which at least at Sherpa level are strongly sought, are to avoid any institutionalisation, under what they would fear would be American domination, of financial support for Poland. The more general question prompted by this paragraph is - What precisely does it mean in practice? How will support be concerted? Who will do it? What does "monitoring the relationship" between the multilateral programmes" etc. mean? The Heads and Foreign Ministers need to discuss the policy here underlying this passage before Sherpas can draft.

Personally I can see some scope for regular consultations between G7 (and perhaps other interested governments - in the case of Poland, Sweden, and Hungary, Austria) about their reform programme, for example:

- to prevent duplication of and support to provide a proper division of labour for support programmes.

- to cajole, stroke, stiffen etc. the Polish government's resolve once the IMF reform programme is agreed so that it is effectively implemented, (i.e. the sort of process that we are engaged upon with the Nigerians).

Paragraph 7: No changes, though the Japanese are unhappy about the reference to the strengthening the debt strategy applying to Poland.

Finally, you should know that the Italians are arguing, without any support, that somewhere in this declaration, or in any other declaration, there should be a phrasing reference to the Yugoslav reform programme (even though inflation there is running at over 1000 per cent!).

It would be helpful to have any comments which the Prime Minister might have on these points.

N.L.W.

(N.L. WICKS)

14 July 1989

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131747Z JUL
GRS 273

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TELNO 573
OF 131747Z JULY 89
INFO IMMEDIATE NEW DELHI

PLEASE PASS THE FOLLOWING TO PS/PRIME MINISTER

PRIME MINISTER'S BREAKFAST MEETING WITH RAJIV GANDHI: 14 JULY 0800-0900

ADVANCED TURBO PROP (ATP) FOR VAYUDOOT : DUTCH AND FRENCH COMPETITION.

1. BAE HAVE HEARD UNOFFICIALLY THAT THE DUTCH HAVE BEEN ELIMINATED. THE FRENCH CONTINUE TO BE AHEAD ON PRICE, BUT BAE BELIEVE THAT THEIR OWN BID IS FAVOURED. THEY HOPE TO PUT FURTHER PROPOSALS TO THE INDIANS AT THE WEEKEND. BAE HAVE ASKED THAT THE PRIME MINISTER SHOULD KNOW OF THESE LATEST DEVELOPMENTS BEFORE HER MEETING WITH MR GANDHI.

RIHAND II THERMAL POWER STATION
2. THE PRIME MINISTER MAY ALSO WISH TO BE AWARE THAT GEC TOLD DTI OFFICIALS ON 13 JULY THAT THEY HAD DECIDED TO WORK WITH STEIN, A SUBSIDIARY OF ALSTHOM (FRANCE) AS THEIR NEW BOILER SUPPLIER, AND WOULD SO INFORM THE INDIAN CUSTOMER ON 13 JULY. BUT THE INDIANS WILL STILL BE CONCERNED AT THE DELAYS A CHANGE OF PARTNER WILL INEVITABLY CAUSE. IF MR GANDHI RAISES THE TOPIC, THE PRIME MINISTER MAY WISH TO REASSURE HIM THAT WE REMAIN FULLY SUPPORTIVE OF THE PROJECT AND ARE KEEPING IN CLOSE TOUCH WITH DEVELOPMENTS.

3. INDIAN MINISTERS HAVE THIS WEEK REVERTED, WITH DTI AND DEPARTMENT OF ENERGY MINISTERS, TO THE POSSIBILITY OF A SWITCH FROM GEC TO NEI (PRINCIPAL CONTRACTOR FOR RIHAND I). IF MR GANDHI RAISES IT, THE PRIME MINISTER MAY WISH TO SAY THAT WE CONTINUE TO STAND FIRMLY BEHIND GEC, AND THAT, AS WE HAVE ALWAYS MADE CLEAR TO THE INDIAN GOVERNMENT, IF THEY WANTED TO SWITCH TO NEI AFTER REJECTING GEC, WE WOULD LOOK URGENTLY AT THE POSSIBILITY OF SUPPORTING NEI WITH AN EQUIVALENT AID PACKAGE.

HOWE

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HOWE

OVMICN 3353

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary 12 July 1989

I enclose a copy of a telex the Prime Minister has received from Sr. Javier Perez de Cuellar.

I should be grateful for a suitable draft reply to reach this office by Wednesday 26 July.

(C. D. POWELL)

R. N. Peirce, Esq.,
Foreign and Commonwealth Office.

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MDADAN 6252

ADVANCE COPY

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TELNO 923
OF 121402Z JULY 89
INFO IMMEDIATE WASHINGTON, UKREP BRUSSELS, HARARE, OTTAWA

BICENTENARY ECONOMIC SUMMIT

THE ELYSEE HAVE TOLD US THAT AT LUNCH TOMORROW (13 JULY) AT THE ELYSEE THE PM WILL BE SEATED BETWEEN MR MUGABE AND MR DELORS. AT THE DINNER AT THE ELYSEE AT 16 JULY, THE PM WILL BE BETWEEN PRESIDENT BUSH AND MR MULRONEY. THE FRENCH HAVE CLAMMED UP ON OTHER SEATING PLANS.

FERGUSSON

YYYY

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INFO IMMEDIATE HONG KONG, UKMIS GENEVA

YOUR TELNO 1288: VIETNAMESE BOAT PEOPLE IN HONG KONG

SUMMARY

1. RECOMMENDATIONS ON HANDLING THIS ISSUE AT THE BILATERALS WITH BUSH AND BAKER IN PARIS.

DETAIL

2. WE KNOW FROM THE EUROPEAN BUREAU IN STATE THAT CATTO REPORTED HIS DISCUSSION WITH THE PUS (TUR) VERY PROMPTLY, AND THAT HE WAS STRUCK BY THE ROBUSTNESS OF OUR POSITION. STATE COMMENTED THAT WE NOW SEEMED TO BE AT THE STAGE OF WAVING FISTS RATHER THAN WAGGING FINGERS, AND ADDED (UNHELPFULLY THOUGH PROBABLY TRUTHFULLY) THAT OPINION THROUGHOUT THE STATE DEPARTMENT REMAINS SOLIDLY AGAINST US. WE RESTATED OUR POSITION. THERE HAS BEEN NO SIGN SO FAR OF STATE TAKING UP MORE FORMALLY WITH US THE POINTS MADE BY THE PUS.

3. THE NEXT MAJOR OPPORTUNITY TO GET OUR POSITION ACROSS WILL BE THE BILATERALS THAT YOU AND THE PRIME MINISTER WILL BE HAVING WITH BAKER AND THE PRESIDENT IN PARIS. I VERY MUCH HOPE THAT THIS SUBJECT CAN BE RAISED AT BOTH MEETINGS: NOT TO DO SO WOULD RISK LEAVING THE AMERICANS WITH THE IMPRESSION THAT WE FEEL LESS STRONGLY ON THE LSSUE THAN IS IN FACT THE CASE.

4. IN THE LIGHT OF THE MANY EXCHANGES WE HAVE HAD WITH THE AMERICANS OVER RECENT WEEKS, I SUGGEST THAT THE POINTS TO STRESS IN PARIS ARE:

(I) THAT WE HAVE A GENUINE DIFFERENCE OF VIEW ARISING FROM OUR DIFFERENT POLITICAL PROBLEMS. BUT THE AMERICANS' PROBLEM (MANAGING CONGRESSIONAL AND PUBLIC OPINION) IS OF A VERY DIFFERENT ORDER FROM THE ACUTE CRISIS WE FACE IN HONG KONG

(II) IN THE CIRCUMSTANCES, AND RECOGNISING THAT OUR DIFFERENCES ARE UNLIKELY TO BE BRIDGED IN THE SHORT TERM, OUR AIM AT THE VERY LEAST SHOULD BE TO AVOID MAKING LIFE MORE DIFFICULT FOR EACH OTHER

(III) WE WILL BE TAKING EVERY CARE TO PRESENT REPATRIATION IN A WAY THAT TAKES ACCOUNT OF AMERICAN SENSITIVITIES (FULL APPEALS PROCEDURE, NO QUESTION OF FORCIBLE REPATRIATION, CAREFUL MONITORING OF THOSE RETURNED, ETC).

(IV) IN RETURN WE HAVE A RIGHT TO EXPECT THAT THE AMERICANS WILL NOT MAKE LIFE MORE DIFFICULT FOR US. IN THAT CONTEXT, WE FIND IT PARTICULARLY HARD TO UNDERSTAND:

- WHY THE US SHOULD BE PROPOSING TO TAKE A SMALLER PROPORTION OF REFUGEES FROM HONG KONG THAN FROM THE REGION AS A WHOLE. THE AMERICANS COULD MAKE A MAJOR CONTRIBUTION BY AGREEING TO TAKE EARLY ON A SIGNIFICANT PERCENTAGE OF REFUGEES FROM HONG KONG. THAT WOULD BOTH HELP RELIEVE THE PRESSURE IN THE CAMPS, AND GIVE A BOOST TO MORALE IN HONG KONG WITHOUT AFFECTING THE US POSITION ON REPATRIATION, OR THEIR CRITERIA FOR RESETTLEMENT, SINCE THE US WOULD ONLY BE TAKING IN THOSE WITH REFUGEE STATUS. BUT TO CUT BACK ON RESETTLEMENT FROM HONG KONG ONLY COMPOUNDS HONG KONG'S PROBLEMS WITHOUT MAKING ANY CONTRIBUTION TO A SOLUTION.
- WHY THE US SHOULD APPARENTLY BE LEADING THE PACK AGAINST US BY ENCOURAGING UNHCR TO BE DIFFICULT OVER THE MONITORING OF THOSE SENT BACK TO VIETNAM. SURELY THE PRINCIPLE OF EFFECTIVE MONITORING IS COMMON GROUND BETWEEN US, AND IS NOT THE UNHCR THE BEST TOOL FOR THE JOB? AGAIN, PUTTING A SPANNER INTO THESE WORKS ACHIEVES NOTHING USEFUL, BUT MAKES OUR OWN PROBLEMS MORE DIFFICULT.

5. IF IT IS STILL THE INTENTION (HONG KONG TELNO 2298) TO SEND BACK THE FIRST BATCH OF THOSE WHO HAVE COMPLETED THE APPEALS PROCESS ON OR SHORTLY AFTER 17 JULY, I BELIEVE THAT IT WILL BE IMPORTANT TO GIVE THE PRESIDENT OR BAKER ADVANCE NOTICE OF THIS DURING THE BILATERALS IN PARIS. THEY MAY WELL TAKE THAT AS A CUE FOR PRESSURE ON US TO DELAY. ON THE OTHER HAND, NOT TELLING THEM, AND THEN PROCEEDING WITH THE REPATRIATION A FEW DAYS LATER WOULD ADD ANOTHER BONE OF CONTENTION TO AN ALREADY DIFFICULT DEBATE.

6. FOR NAD: GRATEFUL IF YOU COULD ARRANGE FOR A COPY OF THIS TELEGRAM TO BE SHOWN TO SIR A ACLAND IF POSSIBLE.

FALL

SRWCBJ

PRIME MINISTER

ECONOMIC SUMMIT: BILATERALS

You will be having a large number of bilaterals during the bicentenary celebrations and the Paris Economic Summit. Those arranged so far are:

Thursday 13 July

1530 President Sailnas of Mexico
1610 President Sanguinetti of Uruguay
2100 President Aquino of the Philippines (a the same table at dinner)

Friday 14 July

0800 Mr. Gandhi (over breakfast at the Embassy)
1230 Mr. Uno
1540 President Mubarak

Saturday 15 July

0800 President Bush (over breakfast) - to be confirmed.

C D P

(C. D. POWELL)
12 July 1989

PRIME MINISTER

MEETING WITH PRESIDENT BUSH

You are to have a bilateral with President Bush in Paris. We have not finally fixed the time. It is likely to be either on Thursday from 1650-1740 at the US Embassy or over breakfast on Saturday.

You will want to compliment him on his visits to Poland and Hungary and discuss how assistance to Poland should be handled at the Summit. You will want to repeat your view that longer-term rescheduling must be based on prior agreement with the IMF, and that premature help will only reduce the incentive for reform. We are ready to urge the EC to agree to provide emergency food supplies.

Other Economic Summit issues you will want to cover are the need to block any French attempt to resurrect a North/South dialogue or to have a new allocation of SDRs to guarantee payments on reduced debt. Talk of further public money will only discourage the commercial banks from reaching agreements.

You promised President Vassiliou that you would raise Cyprus and ask the President to join you in a joint or co-ordinated approach to the Turkish Government. The point to make is that Vassiliou can accept the UN Secretary-General's draft outline agreement and his opening statement: its up to the Turks to get Denktash aboard.

You will want to have a word about China and Hong Kong. We want a robust Summit statement on China, but we would oppose trade sanctions (the President is coming under increased pressure from Congress to have them). We shall also be looking for a statement of Summit countries willingness to help Hong Kong in extremis. This would give a great boost to confidence.

On the Middle East, you need to discuss the implications of the latest Likud statement. It is hard to see how Shamir's plan can recover from this incubus. How are the Americans going to handle this? Do we go on as though the plan were unchanged? Or do we make clear to the Israelis - publicly or privately - that the new limitations effectively sabotage it?

You will want to mention arms control and in particular the Conventional Force Reduction initiative. We are glad the new negotiating position has been agreed. If we sometimes seem tiresome on the details, its because we want to be as sure as possible that NATO's defence remains secure. But we are thoroughly committed to the US initiative.

You should mention South Africa and thank him for his reply to your message. You too have met Mrs Sisulu. You hope he will see de Klerk. You are reasonably optimistic that South Africa will not be a major issue at CHOGM. The most important thing is to keep pushing de Klerk privately towards early release of Mandela - if Botha doesn't do it first - and a commitment to negotiations.

You need to decide whether to mention the possibility of your paying a visit to the US early next year.

A fuller note is in the folder.

CDP

Charles Powell

12 July 1989

MJ1AAL

Foreign and Commonwealth Office

CONFIDENTIAL London SW1A 2AH

12 July 1989

Dear Charles,

French Bicentenary: Meeting with Rajiv Gandhi

In my letter of 10 July, I provided briefing for the Prime Minister's breakfast meeting with Mr Gandhi on 14 July. The Prime Minister may wish to see the attached telegram from Sir David Goodall (New Delhi telno 845) about the issues which are likely to be on Mr Gandhi's mind.

Sir David Goodall has also suggested that the Prime Minister may wish to raise two particular projects. The first is the allocation, announced by Mr Patten in April, of £40 million of local costs aid over the next five years towards forestry projects and development of CFC substitutes in India. An ODA mission is currently examining a project to conserve the rain forests of the Western Ghats, an area of outstanding ecological importance in the southern state of Karnataka. The Indians have welcomed the initiative, but this has not so far been translated into concrete terms. The Prime Minister might draw attention to this as a real example of our willingness to help meet the environmental challenge in developing countries.

The second project is one in which the UK Airports Group (UKAG) led by International Aeradio Ltd (IAL) have been working with the National Airports Authority for four years on proposals to modernise, and improve safety at, Bombay and Delhi International airports. A final Cabinet decision is awaited. The UKAG proposals are good and are supported by concessional finance from the Aid and Trade Provision (ATP). The French are our rivals, and are expected to lobby Mr Gandhi in Paris.

If Mr Gandhi refers to difficulties over British Rail Engineering (BREL)'s bid to provide coaches and technology for a coach factory in the Punjab, the Prime Minister should raise no hopes of a solution. BREL seem very unlikely to accept the terms and price on offer.

I am sending copies of this letter to Colin Walters (Home Office), Brian Hawtin (MOD), Neil Thornton (DTI), Alex Allan (HMT) and Trevor Woolley (Cabinet Office).

Yours,

Stephen

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

Norman WILLIS

25/7

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

AJK/ 11 July 1989

I attach a copy of a letter the Prime Minister has received from Mr. Norman Willis of the Trades Union Congress.

I should be grateful if you could provide an appropriate draft reply to this letter, to reach this office by 25 July please.

I am sending copies of this letter and enclosure to Bob Peirce (Foreign and Commonwealth Office), Neil Thornton (Department of Trade and Industry) and Clive Norris (Department of Employment).

(CHARLES POWELL)

A.C.S. Allan, Esq.,
H.M. Treasury.

PRIME MINISTER

MEETING WITH PRESIDENT OF MEXICO

You are to have a meeting with President Salinas on Thursday afternoon at the Elysée.

Salinas is young, technocratic, English-speaking and has got off to a flying start (although he was only narrowly elected). He has tackled corruption and drugs and followed sensible economic policies (inflation down from 180% to 20%). He is busy privatizing and diversifying, and has liberlized the rules on foreign investment. He was a close associate and adviser to de la Madrid.

Our bilateral relations don't amount to much, although we are a substantial investor (much of it James Goldsmith!). Our main current interest is the negotiation of a bilateral drugs agreement. His main concern is debt and the current negotiations on debt reduction. The latest signs are that these will be completed, and it is US banks rather than British banks who are now the main obstacle. You can welcome the progress made. If he mentions a bridging loan, you will want to say that is a matter for Central Banks.

I think the best we can hope for is a generally sunny meeting, with you praising the steps he is taking to liberalize the Mexican economy and deal with the drugs problem. You could agree on the objectives of increasing British investment and concluding a drugs agreement. On the investment side, Alan Clark is due to visit Mexico in the autumn (as is the Foreign Secretary). You could discuss the outlook for oil prices and the prospects for the Economic Summit. If there is time, you might ask his assessment of Menem in Argentina.

A fuller note is in the folder.

C.D.?

(C.D. POWELL)
11 July 1989
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PRIME MINISTER

MEETING WITH PRESIDENT OF URUGUAY

You are to have a brief meeting with President Sanguinetti - at his request - at the Elysée Palace on Thursday.

There are two main purposes:

- to thank him for the discreet help which Uruguay gives us in relation to Falklands. They accept emergency flight diversions;

- to hear any message he has from the new Argentine President. He will come fresh from a meeting with Menem (who will not be in Paris). Menem's recent statements have been quite realistic and some feelers have been put out e.g. to Alan Walters about readiness to put aside the sovereignty issue. One is bound to be sceptical in the light of experience. We are ready to test the water. But you will not want to give Sanguinetti the impression that we want him to be an intermediary.

Points you might make are:

- congratulate Sanguinetti on leading Uruguay back to democracy;

- thank him for the help Uruguay has given us over flight diversions;

- renew the invitation to him to visit the United Kingdom;

- depending on what he reports about his conversations with Menem, confirm that we are ready to work for more normal relations with Argentina, provided the sovereignty issue is excluded. The Argentines could show their sincerity by lifting restrictions on British trade. We are ready

to hold talks on fisheries conservation as a first step. But the Argentines should be under no illusions about our determination to defend our interests and those of the Falklands.

There is a fuller note by the FCO in the folder.

(C.D. POWELL)

11 July 1989

DA2ACN

Foreign and Commonwealth Office

London SW1A 2AH

CONFIDENTIAL

12 July 1989

Dear Charles,

Poland/Hungary at the Paris Summit

Policy towards Hungary and Poland is likely to be a prominent item at the Paris Summit. A decision is needed on President Bush's initiative (his message of 6 July) calling for the establishment of a G7 consortium to discuss coordination of policy towards Poland and Hungary. There will also need to be a reaction to General Jaruzelski's letter of 30 June to the Prime Minister and the heads of G7 governments. The Poles appear to expect an answer from President Mitterrand on behalf of the seven governments.

Our reactions to the Jaruzelski letter are as follows:

(a) On assistance with food supplies, there are practical obstacles to be overcome, because of the Community's success in reducing intervention stocks. At the European Summit the Prime Minister said she hoped that the Community could be sympathetic. Even modest help in this area could have a significant psychological impact in Poland. It would show that the West was not indifferent to the people's current difficulties.

(b) IMF programme. As the Prime Minister told Jaruzelski on 10 June, we believe that this should be exacting but not intolerable. We doubt whether a programme can be in place much before the end of the year. We are sceptical that drawings under an IMF programme would be as high as $700 million a year.

(c) Paris Club. We (and the Americans) are willing to reschedule 1989 maturities in advance of an IMF agreement. Any other rescheduling would follow an IMF agreement. Full debt forgiveness requires further study.

(d) World Bank loans. We can support them in principle but believe that an IMF agreement should preferably come first.

/(e)

(e) New UK credit. We do not wish to consider this until after an IMF agreement.

(f) Management training and support for the private sector. This is covered by the £25 m know-how fund for Poland.

(g) EIB/World Bank investment in the food industry. Would support World Bank but not EIB programme.

The Bush intitiative.

The Prime Minister welcomed this in her message of 10 July but suggested that a high profile operation would give rise to exaggerated Polish and Hungarian expectations. The use of the word "consortium" might imply some kind of rescue operation. The Prime Minister therefore suggested that the President should not mention this part of his proposal to the East Europeans in advance of a discussion in Paris. As far as we know the President referred not to a consortium but to "concerted international action"; and announced a relatively modest programme of help for Poland, including two separate offers of, respectively, $100 m and $15 m of new money (both subject to Congressional approval). We have reservations about some of his programme, eg over the release of World Bank funds in advance of an IMF agreement, but in general the UK and US position are still close. We also need to know what Bush said to the Poles in private, but we are unlikely to get a debrief before the Summit.

The initial reactions of most other G7 governments to the Bush scheme for a consortium are favourable, although the French are strongly opposed to the creation of any new institutions and may take the lead in watering down the Bush proposal. The Japanese have so far taken no position. There has been some criticism in Poland of the modest scale of US support.

The language suggested by the Americans for the East-West Declaration (sent to you separately) implies that the Brady Plan for commercial debt reduction will apply to Poland "provided it meets the conditions". This causes us three difficulties: firstly the Brady proposal relates to commercial debt and its application should be matters for commercial rather than governmental judgement; secondly an IMF programme for Poland would have to be in place; thirdly there should be no implied connection between debt reduction and the commitment to a Paris Club rescheduling of 1989 maturities.

/Subject

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Subject to the Prime Minister's views the Foreign Secretary thinks that our line at the Summit might be as follows:

- we welcome the President's initiative for coordinating Western positions.

- we agree on the need to avoid overlap and are attracted by the idea that individual Western countries might specialise in particular areas of assistance to Poland (eg the environment).

- we believe that a high profile consortium will give rise to exaggerated expectations.

- particularly at the present time, when the Poles are under strong economic pressure, we must not give the impression that we are willing to underwrite their economy. Western help should be conditional, in order to maintain the impetus for reform. The key element must be an IMF agreement, followed by post-1989 rescheduling within the Paris Club. The question of new credit can be considered thereafter.

The Foreign Secretary believes that the Summit should take a decision on practical follow-up to the President's proposals. President Bush suggested an ad hoc arrangement headed by Deputy Foreign Ministers. In our view, however, the best solution would be to agree on detailed discussions on practical forms of assistance in an ad hoc group of senior officials. This should aim to meet as soon as possible after the Summit. Secondly a positive response to Jaruzelski's bid for help over food would have a major psychological impact in Poland.

I am copying this letter to Alex Allen and Nigel Wicks (HM Treasury) and Neil Thornton (DTI).

Yours ever

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

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Foreign and Commonwealth Office

London SW1A 2AH

12 July 1989

Dear Charles,

Prime Minister's Meeting with President Bush in Paris: Briefing on Cyprus

In your letter of 10 July, recording the Prime Minister's talks with President Vassiliou, you asked for briefing on Cyprus for her meeting with President Bush during the Bicentenary celebrations in Paris later this week. I am sending you separately a draft message from the Prime Minister to Mr Ozal.

The US and UK have common objectives in Cyprus. Like us, the Bush administration accept that Mr Vassiliou has honoured his commitment to meet Turkish Cypriot concerns on bizonality, political equality and security. Secretary of State Baker wrote to Mr Yilmaz in late June to urge the Turkish Government to press Mr Denktash to accept the proposals in the draft outline settlement at the Secretary-General's meeting with the two sides in New York on 28 June. The Turks deflected this pressure by claiming disingenuously that no draft outline existed.

The Prime Minister may wish to draw on the following points to President Bush:

- Clear from recent talks with Vassiliou that he has done all he can to make agreement on outline settlement possible. Says he could accept UN draft outline as basis for detailed negotiations.

- Onus now squarely on Denktash. He must also be brought to accept UN draft as basis for negotiation. We plan to send further message to Ozal in that sense. Lynda Chalker will also urge Turks to bring Denktash up to the mark when she visits Ankara later this month.

- Vassiliou keen that we should also address Evren as final arbiter of Turkey's Cyprus policy.

/- Open

CONFIDENTIAL

- Open to you to send message to Evren, if you think it would tip scales. But we see no current differences over Cyprus policy between Ozal and Evren.

- Vassiliou also proposed that the President, Prime Minister and he should meet briefly in Paris. Mere fact of meeting would send signal to Turks, he says.

- We see no particular advantage in such a meeting. But would not object if the President thought it useful.

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

CYPRUS: Battle of Kundet Varnlian pt 34.

SRWCBK

PRIME MINISTER

PARIS ECONOMIC SUMMIT: POLITICAL TEXTS

We now have the draft political texts for the Economic Summit which emerged from the Sherpas' meeting at the weekend. They are attached together with commentaries. It is proposed that Foreign Ministers should discuss them on Friday afternoon, and they will then be taken by Heads of Government over dinner that evening.

The main issues are:

- Human rights. The French have pressed very hard for this. It is most innocuous except on one point, the alleged "right to inherit a healthy environment". This is a dangerous step towards the concept of collective rights, as well as nonsense. We have some alternative wording to propose, for which I hope Foreign Ministers will settle. Incidentally you will not like the first sentence of the text which suggests that human rights were invented in 1789: but it's France's party and you may as well let them have it (you have already comprehensively knocked this absurd concept on the head in your television interview.

- East/West. A pretty good text apart from an absurd refusal by Germany and Italy to have any reference to nuclear deterrence unless it's a lengthy verbatim quote from the NATO Summit Declaration. You might need to pursue this point at dinner. President Bush may want to beef up the references to help for Poland and Hungary;

- China/Hong Kong. The Japanese are being very feeble about listing measures against China: you may want to pursue with Mr. Uno. The sentences on Hong Kong are a bare minimum. We will want to add a sentence which gives an indication of readiness to help Hong Kong in an "armageddon" situation. The Foreign Secretary will try this at his meeting;

- Arab/Israel. There isn't a text, because the Americans are reluctant, given the current manoeuverings in Israel. This is something which will have to be discussed between the French and Americans. It would be better to have a text.

CDP

(C. D. POWELL)
12 July 1989

SRWCBJ

(1)

PRIME MINISTER

ECONOMIC SUMMIT: BILATERALS

You will be having a large number of bilaterals during the bicentenary celebrations and the Paris Economic Summit. Those arranged so far are:

Thursday 13 July

1530 President Sailnas of Mexico
1610 President Sanguinetti of Uruguay
2100 President Aquino of the Philippines (a the same table at dinner)

Friday 14 July

0800 Mr. Gandhi (over breakfast at the Embassy)
1230 Mr. Uno
1540 President Mubarak

Saturday 15 July

0800 President Bush (over breakfast) - to be confirmed.

CDP

(C. D. POWELL)
12 July 1989

FILE ilPc SK

PRIME MINISTER

MEETING WITH PRESIDENT OF URUGUAY

You are to have a brief meeting with President Sanguinetti - at his request - at the Elysée Palace on Thursday.

There are two main purposes:

- to thank him for the discreet help which Uruguay gives us in relation to Falklands. They accept emergency flight diversions;

- to hear any message he has from the new Argentine President. He will come fresh from a meeting with Menem (who will not be in Paris). Menem's recent statements have been quite realistic and some feelers have been put out e.g. to Alan Walters about readiness to put aside the sovereignty issue. One is bound to be sceptical in the light of experience. We are ready to test the water. But you will not want to give Sanguinetti the impression that we want him to be an intermediary.

Points you might make are:

- congratulate Sanguinetti on leading Uruguay back to democracy;

- thank him for the help Uruguay has given us over flight diversions;

- renew the invitation to him to visit the United Kingdom;

- depending on what he reports about his conversations with Menem, confirm that we are ready to work for more normal relations with Argentina, provided the sovereignty issue is excluded. The Argentines could show their sincerity by lifting restrictions on British trade. We are ready

to hold talks on fisheries conservation as a first step. But the Argentines should be under no illusions about our determination to defend our interests and those of the Falklands.

There is a fuller note by the FCO in the folder.

(C.D. POWELL)

11 July 1989

DA2ACN

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CDP

Pse send to P Gray

FROM: T TARKOWSKI (IF1)
DATE: 11 JULY 1989
EXT: 4888

PS/CHANCELLOR

cc Mr Wicks
Mr Evans
Mr Walsh

IDA9: MESSAGE TO THE PRIME MINISTER FROM BARBER CONABLE

I would be grateful if you could arrange for the attached to be forwarded to No 10.

2. ODA (to whom I am sending a copy) will provide advice.

Tarcisius Tarkowski

T TARKOWSKI

cc Mr Power (ODA)
Mr Sharpe (FCO)

UNCLASSIFIED

EMS Reshuffle Is Ruled Out

AP-Dow Jones News Service

BRUSSELS – Economic and finance ministers of the European Community ruled out a realignment of parities within the European Monetary System's exchange-rate mechanism as a way to address trade imbalances in the community.

Pierre Beregovoy, France's finance minister, said the question was raised "academically" during a wide-ranging discussion of the economic situation within the EC. Officials said the ministers agreed that an EMS reshuffling isn't needed and wouldn't be appropriate at this time.

Mr. Beregovoy, who presided over the meeting, also said he reiterated during the discussion that the French franc would follow the Deutsche mark higher if such a realignment takes place.

Prime Minister 2

In case you missed this.

PRC6 11/7

THE WALL STREET JOURNAL
EUROPE

'Iron Lady' Won in Madrid

Please allow me to take issue with your editorial "The Madrid Trap" (editorial page, June 29) in which you argue that the Madrid conference was a defeat for Mrs. Thatcher. You state that "Mrs. Thatcher has been maneuvered to precisely where the Euro-Socialists want her." However, when one considers the strength of the forces lined up against her, one may be more inclined to think that the "Iron Lady" did rather well in Madrid

For a start, she went to Madrid fresh from a defeat (or at least a setback) at the polls. Further, conventional wisdom was almost uniformally against her. Indeed, with the exception of your newspaper, I cannot think of a publication in Britain or the United States or on the continent which was not in favor of the pound joining the E.M.S. Even the normally free market Economist was (and is) in favor of a joint European monetary policy. Also, Mrs. Thatcher's own finance minister, not to mention a great many of her fellow Tories and many British businessmen, clearly differed with her about the E.M.S. These tensions all helped create jitters in the city.

Faced with all these pressures the question rapidly ceases to be, "Is it right for the pound to join the E.M.S.?" (It isn't.) Rather, the question becomes, "How can this be done with a minimum of damage?"

If one sees a successful politician as someone who reacts to the stampeding herd by jumping in front of it and screming, "Follow me," or, as in this case, running fast enough so as not get crushed, then Mrs. Thatcher was successful in Madrid. She managed to get the other European leaders to accept that the Delors plan was not the only framework for monetary unity in Europe. She had the Spanish leader, Felipe Gonzalez, gushing about her, and she is now starting to build an alliance with the smaller countries in Europe. Also, from a position of weakness, she was able to outmaneuver Francois Mitterrand, leaving France the isolated country for a change.

More important, however, is that she will have Britain, or at least a significant proportion of Britain, back on her side. She has joined ranks once again with her finance minister, and, no doubt in the process, soothed the city. Once more she is praised in the British press. Also, having compromised, she is now more immune to accusations of being a spoiler when she fights issues like the social charter.

As you point out, there is the threat of the British parliament having its power diluted. However, when faced with this threat the average Briton may be alot less intimidated by talking about being "left behind." Currently, many Britons think of European integration as a "motherhood and apple pie" (perhaps "bangers and mash")-type issue that they should automatically support. If the Madrid conference now causes them to think of European integration as a serious possiblity with serious consequences, then so much the better. One can only hope that when they become aware of the issues, the people who voted in Mrs. Thatcher three times in succession will not passively let their country slide into corporatism/socialism.

Finally, it is important not to consider the European debate solely from an Anglo-American perspective. Had Mrs. Thatcher not strategically compromised in Madrid, Britain might have been further isolated from the European community. While this could conceivably be in Britain's interests, it would spell disaster for the continent. European Liberals (Classical Liberals) certainly need Mrs. Thatcher fighting for free markets here. The thought of Europe's destiny left in the hands of Messrs. Mitterand, Kohl, Delors, Papandreau et al is too frightening to contemplate.

MICHAEL SCHEWITZ
Paris

Brady Spurns New Proposal To Ease Third World Debt

WASHINGTON (AP) – U.S. Treasury Secretary Nicholas Brady spurned a proposal from a top bank regulator to create an international insurance fund to partially protect banks against defaults by Third World debtors.

Mr. Brady did not completely rule out the idea, offered by Federal Deposit Insurance Corp. Chairman L. William Seidman, saying "we do want to have a look at its details."

But, he said the Group of Seven, a panel of the world's seven largest industrial powers which includes the U.S., had previously rejected the idea of an organization to deal with the debt problem.

The Treasury Secretary in March proposed a new approach to easing the $1.3 trillion debt burden carried by developing countries. In a break with his predecessor, James A. Baker, Mr. Brady called for negotiations between banks and borrowing nations to reduce debt. Mr. Baker, now Secretary of State, had emphasized new lending over debt reduction.

Mr. Seidman said his proposal would complement the Brady approach by providing banks with an incentive to participate.

Mr. Seidman said the proposed agency would encourage banks to reduce debt burdens to "reasonable levels" by providing a partial guarantee of the remaining debt.

The proposed agency would draw its money from premiums paid by banks and through a contribution from the International Monetary Fund and the World Bank, and possibly the governments of creditor banks.

PRIME MINISTER

MEETING WITH PRESIDENT OF EGYPT

You are to have a very brief meeting with President Mubarak at the Elysée on Friday afternoon.

The subjects suggest themselves:

- Arab/Israel. You will want to discuss the implications of Likud's recent moves and the possibility that Labour will leave the coalition. It's all the more important for the PLO to hold firm to their moderate policies. If they abandon them now, we only lose leverage on the Israelis;

- Lebanon. You have given your full support to the Arab League Committee of Three. We want to keep the issue away from the UN Security Council. We have misgivings about Iraq's involvement and hope Egypt will restrain the Iraqis;

- Libya. Egypt has recently started to normalise relations. We remain very concerned about Libya's continued activities in support of terrorism and destablisation;

- Sudan. The Egyptians are well placed to assess the new regime;

- Egyptian Economy. Discussions with the IMF continue, but according to IMF staff are still some months away from agreement, with differences between the Egyptians and the IMF on budget deficits, money supply and exchange rates. The most you could say is that we sympathise with President Mubarak's predicament, but it is in no-one's interest to have another weak programme.

There is a fuller note in the folder.

CDP

(C. D. POWELL)
11 July 1989

PRIME MINISTER

MEETING WITH JAPANESE PRIME MINISTER

You are to have a brief meeting with the Japanese Prime Minister at our Embassy on Friday morning. He is in deep political trouble and may well not survive. But he is Prime Minister and has actually been rather helpful to us. He will probably be in an agony of embarrassment over this meeting: the Japanese press are apparently speculating that you may not shake his hand. I am sure you will bring a little ray of sunshine into his life: he will no doubt be disproportionately grateful.

You might leave him to raise the subject of your visit to Japan. If he does so I think you have no alternative but to say that you are looking forward to it, both the bilateral part and the IDU meeting.

There will not be time to get into much substance. Subjects on which you could touch are:

- we hope very much that the long-running issue of membership of the Tokyo Stock Exchange can be settled. (The TSE board has in fact recently set up a Committee to consider how to achieve this.) You hope there will be progress to report by the time of your visit in September;

- We very much welcome Japanese investment in the UK which has an excellent record of success. You will want to give the lie to reports that the UK might leave the EC. Any such idea is pure fantasy. Our concern is to make the EC favourable to business and investment, by sponsoring a deregulatory approach and opposing policies which put new burdens on industry. We are fighting Japan's battles for her in Europe: and we hope that more

and more Japanese firms will recognise that Britain is the best place to do business in the Community;

- we recognise the steps which Japan has taken to open up its economy and encourage imports. The Japanese Ambassador recently gave you a very interesting paper on this. These measures are welcome, but there is still a long way to go e.g. on agriculture and air transport;

- we shall want to see the Summit issue a firm statement on China, and provide the maximum of reassurance to Hong Kong;

- we are grateful for Japanese help over Vietnamese Boat People. The most urgent requirement is to get on with the establishment of a refugee processing centre in the Philippines. We hope the Japanese will contribute financially to this and encourage the Philippines Government to set it up as soon as possible.

A fuller note by the FCO is in the folder.

C.D.P.

(C.D. POWELL)

11 July 1989

DA2ACM

Foreign and Commonwealth Office

London SW1A 2AH

CONFIDENTIAL

11 July 1989

Dear Charles,

French Bicentenary: The Prime Minister's Meeting with President Mubarak of Egypt

Further to my letter of 10 July, you will wish to be aware of recent activity in Egypt's negotiations with the IMF.

Recent press reports that Egypt is close to an agreement with the IMF have been denied by IMF staff. A draft document has been transmitted to the IMF for consideration. The Egyptian Foreign Minister has asked G7 Ambassadors for their Governments' support for the proposals it contains and hopes that these might be discussed positively in the margins at Paris. President Mubarak may also raise the matter with the Prime Minister. The IMF's initial reaction, which we share, is that the Egyptian paper contains some positive proposals but that an agreement is still some months off.

The Prime Minister could welcome the increased collaboration between the IMF and Egypt, and the recent implementation of some economic measures to control expenditure and the introduction of some new taxes. She could add that she understands that there are still key areas of difference especially on budget deficits, money supply and exchange rates. She might say that while she sympathises with Mubarak's current political predicament, it would be in nobody's interests to agree to another weak programme that would then have to be withdrawn.

I am copying this letter to Alex Allan (HM Treasury) and Trevor Woolley (Cabinet Secretary).

Yours, Stephen

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

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ECON POL: Summit Pt 2E

11 JUL 1989

SRWCBF

PRIME MINISTER

MEETING WITH PRESIDENT AQUINO

We have not been able to find a time for a formal meeting with Mrs. Aquino. But you may well sit next to each other at one of the social occasions or have an opportunity to talk in the margins of the Economic Summit later this week. If so you might cover the following points:

- congratulate her on her achievements since becoming President;

- renew the invitation to her to visit the UK;

- welcome the Philippines' agreement to host a Regional Processing Centre for Vietnamese Boat People. We hope it can be established as soon as possible. There is no need to create a link with the establishment of a holding camp for non-refugees in Vietnam itself: that will not be needed quite so quickly. But we shall certainly keep up the pressure on Vietnam;

- we hope that an agreement can be reached to enable the American bases to remain. They make a very important contribution to security and stability in the region. We have US bases and welcome them (and don't charge any rent, recognising that the Americans are contributing to our security).

A fuller note is in the folder.

(C. D. POWELL)
11 July 1989

PRIME MINISTER

MEETING WITH RAJIV GANDHI

You are to have a breakfast meeting with Rajiv Gandhi in Paris on Friday at our Embassy. You have not seen him since your meeting at CHOGM in 1987. But generally speaking things are much better now, and he seems to accept that we are co-operating whole-heartedly over Sikh extremism. You will want this meeting to be as friendly and uncontentious as possible, in the hope that it will send a message down the line in India that there are no more reservations about relations with Britain.

You might start by saying a few words about the Nehru Centenary celebrations and the unveiling of the statue to his mother. You might also comment that the political situation in India seems to be moving very much his way and that you look forward to his re-election. That would be excellent news for India, for Britain and for the wider world.

You might then make a few remarks about your meeting with Miss Bhutto. You found her anxious to consolidate her relations with India and to build on the successful first meeting with Mr. Gandhi. Your impression is that she is getting a control over the Pakistan Government machine and military although in some areas she still has to move cautiously. You hope that every advantage will be taken of her willingness to work with India to get relations on to a permanently sounder footing.

You may want then to move on to a number of other international issues. He may like to say something about India's current difficulties with Nepal and Sri Lanka. We are rather dubious about their intentions towards Nepal, but our line is that we hope an early negotiated solution can be found. We recognise the heavy burden that India bears in Sri Lanka and hope that Mr. Gandhi can reach an accommodation with

President Premadasa about the Indian presence. You ought also to have a word about CHOGM and your hope that South African issues will not feature too prominently there (you might mention your meeting with Mrs. Sisulue and representatives of the United Democratic Front). You will also want to take his mind on the Commonwealth Secretary General post. If there is to be any chance of launching Ramphal for a further term, this is it. But there are some signs that Gandhi may now be leaning towards Malcolm Fraser. More generally you might touch on East/West relations - he is going from Paris to Moscow - China, and European Community matters. The Indians are anxious about the implications of 1992.

On the bilateral front, you might ask whether there is any progress on the possible Rolls Royce participation in a Soviet-Indian project to produce civil aircraft (you had some contacts with him about this through SIS channels some months ago). If there is an opportunity, you might also mention BAe's bid to supply the Advanced Turbo-Prop aircraft for India's second airline and the Hawk jet trainer for the Indian airforce. There are some signs that Gandhi is looking for a largish contract to give us as a mark of approval.

There is a fuller note in the meeting folder.

CDP

(C.D. POWELL)

11 July 1989

DA2ACP

Foreign and Commonwealth Office

London SW1A 2AH

CONFIDENTIAL

11 July 1989

Dear Charles,

French Bicentenary: The Prime Minister's Meeting with the President of Mexico: 1530-1600, 13 July

Further to my letter of 10 July, you will wish to be aware of recent progress in Mexico's negotiations with the banks.

The positions of the Mexicans and their creditor banks have narrowed over the weekend. The Banks put a final offer to the Mexicans late last week of either a 35% discount on the existing debt, or a 6¼ of interest rate on the debt's present face value, or new loans at an average of 25% of the banks' exposure base. These have been accepted in principle by the Mexicans, despite their making a last minute counter offer, which was firmly rejected by the banks. There are still areas of disagreement, both between the banks themselves and the Mexicans and the banks, on the rate of disbursement, and the banks' wish to revert to normal interest rates at some future date. It is not clear when the banks would decide to revert to a normal interest rate. It is now the US banks (rather than the UK institutions) that are proving difficult, and there is still a possibility that negotiations might break down. The Prime Minister could welcome the progress made in the negotiations as an important step in IMF and World Bank supported debt reduction operations, and could urge the early resolution of the remaining differences.

Quite separately, and in strict confidence, the US side at Rambouillet put forward suggestions for a Mexican bridging loan in which the Bank of England would be expected to take part. It is not clear whether this is strictly necessary; whether the security is adequate; or whether the Mexicans even know the details of the US

/proposal

CONFIDENTIAL

proposal. If Salinas raises this, the Prime Minister might say that although she is aware of the proposal, it is primarily a matter for Central Banks, who are still discussing it.

I am copying this letter to Alex Allan (HM Treasury) and Trevor Woolley (Cabinet Office).

Yours,
Stephen

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

71 JUL 1989

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MDHIAN 1943

CONFIDENTIAL
FM MEXICO CITY
TO IMMEDIATE FCO
TELNO 287
OF 041750Z JULY 89
INFO ROUTINE WASHINGTON, CABINET OFFICE, ACTOR

CABINET OFFICE FOR ASSESSMENTS STAFF

MEXICO : CURRENT SITUATION

SUMMARY

1. SALINAS DOMINATES THE POLITICAL SCENE. STILL PURSUING AN ECONOMIC POLICY OF AUSTERITY. FOREIGN DEBT TALKS ARE DRAGGING ON, BUT AN AGREEMENT IS ULTIMATELY EXPECTED. THE POOR SHOWING OF CARDENAS IS MAKING THINGS EASIER FOR THE GOVERNMENT, ALTHOUGH THE RIGHT WING MAY DO WELL IN ONE OF THE STATE ELECTIONS. SALINAS IS WINNING THE WAR OF ATTRITION AGAINST THE TRADE UNIONS, AND HAS BEGUN A CAMPAIGN AGAINST DRUG TRAFFICKING. GOOD RELATIONS WITH THE UNITED STATES ARE BEING MAINTAINED, AND GREAT INTEREST SHOWN IN THE EC.

DETAIL

2. IN MY TELELETTER 014/1 OF 3 APRIL TO COLTMAN (MCAD) (COPIED TO CABINET OFFICE AND WASHINGTON) I SAID THAT SALINAS WAS PROVING TO BE A DECISIVE LEADER AND TO BE FIRMLY IN CHARGE. THIS IS EVEN MORE TRUE TODAY.

THE PRESIDENT

3. THE PRESIDENT IS NOW THE DOMINANT FIGURE. HE IS MORE INVOLVED IN BOTH POLICY AND ITS EXECUTION THAN HIS PREDECESSOR. HE IS FIRM AND DECISIVE, BUT PERHAPS A LITTLE IMPETUOUS. EVERY FEW WEEKS HE PRODUCES SOME NEW SURPRISE. THE ARREST A COUPLE OF MONTHS AGO OF FELIX, A NOTORIOUS DRUGS BARON, WAS GENERALLY POPULAR. WHEN THE TEACHERS TRADE UNION DEMANDED THE RETIREMENT OF JONGITUD, THEIR LEADER FOR MANY YEARS, HE TOLD HIM TO GO. MOST RECENTLY HE PUBLICLY DEMANDED, AND OBTAINED IN A MATTER OF DAYS, THE ARREST OF THOSE BELIEVED RESPONSIBLE FOR THE MURDER IN 1984 OF A WELL KNOWN POLITICAL JOURNALIST, BUENDIA. HIS PROBLEM NOW IS THAT HE IS ON A TREADMILL WHICH HE CANNOT APPARENTLY STOP : THE REGULARITY OF HIS COUPS LEADS THE PUBLIC TO EXPECT A NEW ONE EVERY MONTH.

ECONOMY

4. AT PRESENT SALINAS IS GOING THROUGH A DIFFICULT PERIOD. CONTRARY TO HIS EARLIER HOPES, HE FACED A RENEGOTIATION OF THE ECONOMIC PACT

WITHOUT HAVING MUCH TO SHOW FROM THE EXTERNAL DEBT NEGOTIATIONS. IT IS A SIGN OF HIS PERSONAL AUTHORITY THAT HIS GOVERNMENT WERE NEVERTHELESS ABLE TO FORCE THROUGH A FURTHER EIGHT MONTHS EXTENSION. THE SUCCESS OF THE PACT IN REDUCING INFLATION TO 18 % NO DOUBT HELPED. BUT HE STILL FACES THE DEBT PROBLEM.

5. WITH CONSIDERABLE AMERICAN HELP THE MEXICANS HAVE GOT THROUGH THE IFI'S AND THE PARIS CLUB. DESPITE CONTINUING AMERICAN HELP THEY ARE HAVING GREAT DIFFICULTY IN REACHING AGREEMENT WITH THE COMMERCIAL BANKS. THE BRITISH, EUROPEAN, AND JAPANESE BANKS ARE ALLEGEDLY PROVING THE MOST INTRANSIGENT. SALINAS MAY RAISE THE MATTER WITH THE PRIME MINISTER NEXT WEEK IN PARIS, IF NO ADVANCE HAS BEEN MADE IN THE MEAN TIME.

CURRENT POLITICAL SITUATION

6. ON 2 JULY ELECTIONS WERE HELD IN FOUR STATES, THE MOST IMPORTANT BEING MICHOACAN, (FOR THE STATE ASSEMBLY) AND BAJA CALIFORNIA NORTE (FOR GOVERNOR). MICHOACAN IS THE HOME STATE OF CARDENAS WHERE HE POLLED THREE TIMES AS MANY VOTES AS SALINAS A YEAR AGO. IT IS AN INDICATION OF HIS LOSS OF MOMENTUM, AND THE PROBLEMS HIS NEW PARTY STILL FACES, THAT THE PRI SAY THEY WILL WIN. OUR SECOND SECRETARY, WHO WAS IN THE AREA ON VOTING DAY, SAYS THAT NOT JUST ONE BUT THREE LEFT WING CANDIDATES ARE STANDING FOR ALL SEATS. I EXPECT THE PRI TO RETAIN CONTROL OF THE STATE CONGRESS ALTHOUGH THERE WILL UNDOUBTEDLY BE ACCUSATIONS OF FRAUD FROM THE OPPOSITION. IN BAJA CALIFORNIA NORTE THE PAN (RIGHT WING) ARE FIELDING A STRONG CANDIDATE WHO COULD WIN. IF SO, HE WOULD BE THE FIRST OPPOSITION STATE GOVERNOR. THE RESULTS WILL BE ANNOUNCED ON 9 JULY. IF THE PAN BELIEVE THAT THE VOTES HAVE BEEN RIGGED TO GIVE THE PRI CANDIDATE AN UNFAIR VICTORY, THEY SAY THEY WILL BLOCK THE BORDER CROSSING POINTS INTO THE UNITED STATES. THIS WOULD BE WHILE SALINAS WAS IN PARIS, AND COULD THUS BE A SOURCE OF EMBARRASSMENT FOR HIM.

MODERNISATION

7. SALINAS' POLICY OF MODERNISATION IS MAKING LITTLE HEADWAY ON POLITICAL REFORM. THE CONSULTATIONS ABOUT ELECTORAL REFORM WITH THE OPPOSITION HAVE GOT NOWHERE, AND THE OPPOSITION CLAIM THAT THE PRI ARE NOT PREPARED TO MAKE EVEN THE MINIMUM NECESSARY CONCESSIONS. DISCUSSIONS ARE TO BE RESUMED IN CONGRESS AT THE END OF NEXT MONTH. AS FAR AS THE ECONOMY IS CONCERNED MODERNISATION IS TAKING THE FORM OF A DRIVE FOR EFFICIENCY. AT PRESENT THE EFFECT IS FELT MOST IN THE LABOUR SECTOR AND IN THE CAMPAIGN AGAINST CORRUPTION, ALTHOUGH THE LATTER HAS MORE THAN PURELY ECONOMIC CONSEQUENCES.

THE TRADE UNIONS

8. IN THOSE INDUSTRIES WHERE PRI TRADE UNIONS ARE PREDOMINANT, PARTICULARLY IN THE PARASTATALS, WORKERS HAVE TRADITIONALLY BEEN PAID FOR THEIR POLITICAL SUPPORT. NOW SALINAS WANTS ALL WORKERS TO BE PAID ACCORDING TO THEIR PRODUCTIVITY. THIS IS UPSETTING THE LONG ESTABLISHED SYSTEM OF CAIQUES (STRONG MEN) AND PATRONAGE WHICH CHARACTERISES THE PRI IN ALL ITS ASPECTS INCLUDING LABOUR RELATIONS. IT IS ALSO UNDERMINING THE CTM, THE TRADE UNION SECTOR OF THE PRI. IT IS THUS ULTIMATELY HELPING TO UNDERMINE THE SYSTEM OF A ONE PARTY CORPORATE STATE. IN THE SHORT TERM IT MUST ALSO LEAD TO INCREASED UNEMPLOYMENT.

9. SALINAS HAS AVOIDED DIRECT CONFRONTATION WITH THE UNION MOVEMENT SO FAR, ALTHOUGH HE WENT THROUGH A DIFFICULT PERIOD WITH THE TEACHERS AND MEXICO CITY BUS DRIVERS IN APRIL/MAY, AND THE LEADER OF THE CTM, VELASQUEZ, REFUSED TO SIGN THE RECENT MINIMUM WAGE AGREEMENT BECAUSE HE BELIEVED THE INCREASE SHOULD BE 10 PERCENT NOT 6 PERCENT. THE PETROL WORKERS, DEPRIVED OF THEIR FORMER LEADER AND COWED BY THE KNOWLEDGE OF THE FORCE WHICH SALINAS HAS SHOWN HIMSELF PREPARED TO USE, ARE SLOWLY BEING FORCED TO MAKE THEIR OPERATIONS MORE EFFICIENT. THE TELEPHONE UNION, WITH THE THREAT OF PRIVATISATION HANGING OVER THEIR HEADS, AND HAVING SEEN WHAT HAS HAPPENED TO OTHERS, HAVE NEGOTIATED A SHORT TERM EFFICIENCY AGREEMENT WITH MANAGEMENT AND SEEM LIKELY TO NEGOTIATE A FURTHER ONE. WORKERS IN AT LEAST ONE STEEL PLANT ARE BEING FORCED TO FACE UP TO THE FACT THAT THERE IS NOT WORK FOR ALL AND THAT A SIZEABLE MINORITY WILL HAVE TO BE LAID OFF. IN THE PRIVATE SECTOR WORKERS ARE DOING WELL IN THOSE INDUSTRIES WITH PLENTY OF ORDERS, AND MANY SKILLED WORKERS ARE EARNING GOOD MONEY. THE INDEPENDENT TRADE UNION AT THE VOLKSWAGEN PLANT WENT ON STRIKE ON 1 JULY AND IN A FEW HOURS WERE GRANTED AN IMMEDIATE RISE OF 19 PERCENT, WHICH IS 3 PERCENT MORE THAN OTHER CAR COMPANIES HAVE GIVEN THEIR WORKERS. BUT MOST MEXICANS ARE FEELING THE PINCH AFTER OVER 18 MONTHS OF THE PACT.

CORRUPTION

10. I BELIEVE THAT SALINAS' CAMPAIGN AGAINST CORRUPTION IS AIMED AS MUCH AS ANYTHING AGAINST INEFFICIENCY. THE ACTION HE TOOK AGAINST THE OIL WORKERS LEADER LAST JANUARY, FOR EXAMPLE, HAD AS ITS ULTIMATE AIM THE END OF CORRUPT INEFFICIENCY IN THE OIL FIELDS. A MAJOR SOURCE OF CORRUPTION, IF ONLY BECAUSE OF THE VAST SUMS OF MONEY INVOLVED, IS DRUG TRAFFICKING.

DRUG TRAFFICKING

11. THE CAMPAIGN AGAINST DRUG TRAFFICKING GOES FURTHER THAN A MERE EFFICIENCY DRIVE. THERE IS ALWAYS THE POSSIBILITY OF THE DRUG TRAFFICKERS CREATING A STATE WITHIN A STATE. THE ARREST OF FELIX WAS A BOLD STEP IN THE RIGHT DIRECTION, BUT THE RAMIFICATIONS SEEM INCALCULABLE. IT IS NOT YET CLEAR WHETHER THIS ARREST IS CONNECTED TO THE BUENDIA CASE, WHICH DATES BACK TO 1984, BUT IT SEEMS THAT BUENDIA HAD INFORMATION ABOUT DRUG TRAFFICKING WHICH IMPLICATED PEOPLE IN HIGH PLACES. WHATEVER THE TRUTH OF THE MATTER, IT IS CLEAR THAT THERE WAS A MAJOR COVER UP DURING THE LAST FEW YEARS OF THE PREVIOUS PRESIDENCY. THE FINGER POINTS TO BARTLETT, MINISTER OF THE INTERIOR UNDER DE LA MADRID AND NOW MINISTER OF PUBLIC EDUCATION. IT ALSO POINTS TO THE FORMER MINISTER OF DEFENCE, GENERAL AREVALO, BECAUSE THE ARMY ALSO APPEAR TO HAVE BEEN HEAVILY INVOLVED IN DRUG TRAFFICKING. INEVITABLY IT ALSO POINTS TO FORMER PRESIDENT DE LA MADRID WHO MUST EVENTUALLY HAVE DISCOVERED WHAT HAD HAPPENED. THERE ARE TWO QUESTIONS TO WHICH WE DO NOT YET KNOW THE ANSWERS. TO WHAT EXTENT AMONG THE PRI LEADERSHIP DOES INVOLVEMENT GO? AND WHAT WILL SALINAS DO IF EVERYTHING IS DISCLOSED? THE CONSEQUENCES COULD BE SERIOUS BOTH FOR THE PARTY AND FOR THE GOVERNMENT.

FOREIGN POLICY

12. TO ACHIEVE HIS AIMS FOR THE ECONOMY SALINAS NEEDS THE HELP AND CO-OPERATION OF THE UNITED STATES GOVERNMENT. GOOD BILATERAL RELATIONS ARE THEREFORE ESSENTIAL. THE DRIVE AGAINST DRUG TRAFFICKING HAS HELPED GREATLY. FOR THEIR PART THE AMERICANS, :CONCERNED AT THE RESULT OF THE MEXICAN PRESIDENTIAL ELECTIONS LAST YEAR, ARE ALSO CLEARLY TAKING THE RELATIONSHIP SERIOUSLY. THEY ARE BEING HELPFUL WHEREVER THEY CAN, EG. OVER THE FOREIGN DEBT NEGOTIATIONS. THE SALINAS/BUSH RELATIONSHIP CONTINUES TO BE CLOSE: THEY SPEAK ON THE PHONE (EG. AT THE TIME OF THE PANAMA ELECTIONS): SALINAS IS DUE TO VISIT WASHINGTON IN OCTOBER. AT A LOWER LEVEL SOLANA HAS BEEN TO WASHINGTON AND BAKER IS DUE HERE NEXT MONTH. THE LEFTWING ARE STILL HOSTILE TO THE UNITED STATES AND THE MEXICAN GOVERNMENT'S RECENT STATEMENT ON PANAMA, BELIEVED TO HAVE BEEN DESIGNED TO PLEASE THE US, LED TO A SIT-IN IN THE FOREIGN MINISTER'S OFFICE. SO ALTHOUGH RELATIONS ARE GOOD AT GOVERNMENT LEVEL THERE IS STILL CONSIDERABLE SUSPICION AND HOSTILITY TOWARDS THE UNITED STATES IN THIS COUNTRY.

13. MEXICO IS SHOWING INCREASING INTEREST IN THE EUROPEAN COMMUNITY AND A DEGREE OF CONCERN ABOUT THE EFFECTS OF 1992 ON TRADE: THE PRIME MINISTER MAY EXPECT TO BE QUESTIONED ABOUT THIS. THE MEXICANS CONTINUE TO PAY LIP SERVICE TO LATIN AMERICAN SOLIDARITY, BUT THEY ARE PREPARED TO GO IT ALONE WHEN THEIR OWN INTERESTS ARE SO

SERVED, EG. OVER THE EXTERNAL DEBT. CENTRAL AMERICA IS LOW IN THEIR LIST OF PRIORITIES. THE POSSIBILITIES OF TRADE WITH AND INVESTMENT FROM OTHER PACIFIC RIM COUNTRIES IS INCREASING AND THE JAPANESE ARE SHOWING GREAT INTEREST IN BOTH.

ANGLO-MEXICAN RELATIONS

14. UNDER THE NEW ADMINISTRATION RELATIONS CONTINUE TO BE GOOD IF LACKING IN SUBSTANCE. THANKS TO MR EGGAR'S INTEREST AND INVOLVEMENT WE ARE PURSUING ACTIVELY THE DRAFTING OF A TREATY ON CO-OPERATION AGAINST DRUG TRAFFICKING: WE BELIEVE SALINAS MAY WISH TO DISCUSS THIS WITH THE PRIME MINISTER. BRITISH EXPORTS ARE STEADY, BUT OUR COMPETITORS ARE DOING BETTER: IT IS DIFFICULT TO SAY WHY, BUT SOME OF OUR EXPORTS MAY BE COMING VIA THE UNITED STATES, OR BE PRODUCED BY BRITISH OWNED SUBSIDIARIES IN THE UNITED STATES, AND DO NOT THEREFORE APPEAR IN THE STATISTICS.

INTERIM ASSESSMENT

15. S?LINAS APPEARS TO BE ON TOP OF HIS JOB AT TME MOMENT. HE IS CONTINUING TO MAINTAIN AN AUSTERITY PROGRAMME BUT HE MUST LET UP SOON: THE PEOPLE CAN ONLY PUT UP WITH SO MUCH. A SUCCESSFUL CONCLUSION TO THE DEBT NEGOTIATIONS WOULD ENABLE HIM TO CONSIDER SOME RELAXATION. MEANWHILE, IN THE ATTEMPT TO OPEN UP THE ECONOMY AND MAKE IT MORE EFFICIENT, THE ROLE OF THE STATE IS GRADUALLY BEING WHITTLED AWAY. THE CAMPAIGN AGAINST DRUG TRAFFICKING COULD UNEARTH SOME SKELETONS WHICH MIGHT SERIOUSLY DAMAGE THE PRI'S REPUTATION, BUT THE POOR SHOWING OF THE OPPOSITION, IN PARTICULAR OF CARDENAS, MAKES IT EASIER FOR SALINAS TO TAKE RISKS.

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Foreign and Commonwealth Office

CONFIDENTIAL London SW1A 2AH

Prime Minister

11 July 1989

CDP 12/7.

Dear Charles,

French Bicentenary: 13-14 July, Paris

The Foreign Secretary is unable to leave London until the morning of 14 July because of the Foreign Affairs debate. The Chancellor now plans to travel with him to Paris.

I enclose at Annex 1 a full programme taking account of these changes, of your letter of 6 July and of administrative changes proposed by the French. At Annex 2 is a table showing when and where the Prime Minister last met participating Heads of State/Government, with points to draw on where appropriate. A note on the French Revolution is at Annex 3.

Bilateral Meetings

We are still seeking a slot for the Prime Minister's meeting with President Bush but are confident that one can be found. Meetings have already been arranged for the Prime Minister with Salinas, Sanguinetti, Mubarak, Gandhi and Uno. Mrs Aquino's programme made a formal meeting with the Prime Minister impossible but we have asked the French to adjust placement at a bicentenary meal to enable conversation at table. President Ershad is likely to seek out the Prime Minister in the margins (perhaps at the 14 July Garden Party). There should be opportunities for brief discussion with President Mitterrand. I have sent separate letters with briefing for all these.

The Trocadero Ceremony

On arrival, guests will be greeted by President and Madame Mitterrad and then be escorted to the Musee des Monuments Francais where they will be greeted by M and Mme Rocard. Guests will rejoin President Mitterrand at the Trocadero tribune at 1145 hrs. There will then be a group photographs. The ceremony (1200 hrs) will involve a reading of the Declarationi of the Rights of Man, quotations from French authors evoking the Revolution, and a musical programme finishing with Berlioz's Marseillaise.

Bastille Opera

The programme for the opening of the Opera will include three to four minute extracts from 19th century French operas. Placido Domingo, Luciano Pavarotti and Barbara Hendrix will be among the performers. The new Opera's first week of

performances is being sponsored solely by the French subsidiary of Glaxo. Glaxo's President, Sir Paul Girolami, will be present.

"La Marseillaise" show at the Place de la Concorde/Champs Elysee

This promises to be an unusual spectacle. There is a significant British contingent of military bands. The Prime Minister will be able to watch from the balcony of the Hotel de la Marine. The Foreign and Finance Ministers' dinners are likely to prevent their seeing the show.

Paris Economic Summit

All leaders attending the Bicentenary celebrations are likely to be interested in UK views on Summit prospects. Annex 4 contains a separate set of Summit points for Ministers for any non G-7 contacts. These cover UK objectives on all main subjects likely to be discussed by Summit leaders, including a defensive line on North/South matters. Gandhi, Mubarak, Salinas, Diouf (Senegal) and Andres Perez (Venezuela) in particular may raise the question of the North/South dialogue. We understand that Attali (the French Sherpa) approached India, Venezuela, Senegal and Mexico some time ago about the possibility of launching a North/South initiative (probably focussing heavily on debt) at the Bicentenary and Summit; the Egyptians also seem to have got wind of some French move. But the Indians and the Mexicans (for different reasons) had reservations about Attali's approach. It now appears that the French may have lowered their sights and will at least not try to force a decision (in whatever form) at the Summit itself.

I am copying this letter to Alex Allan and Nigel Wicks (HMT) and to Trevor Woolley (Cabinet Office).

Yours, Stephen

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

Foreign and Commonwealth Office

London SW1A 2AH

CONFIDENTIAL

11 July 1989

Dear Charles.

Paris Economic Summit: Foreign Policy Issues

This is to bring you up to date on the discussion of foreign policy issues at the final meeting of Personal Representatives and Political Directors in Rambouillet on 7/8 July.

On organisation, it has been agreed that Foreign Ministers will discuss the main foreign policy issues to be covered in the Political Declarations (human rights, East/West, China/Hong Kong and terrorism) at their meeting on the afternoon on 14 July (1700-1830). They will then brief their respective Heads of Government, prior to the Heads' discussion of the same issues over dinner (2030). At their separate dinner Foreign Ministers will discuss regional issues. Sherpas and Political Directors will meet during the night of 14 July to finalise the political texts in the light of discussion by Foreign Ministers and the Heads. The declarations will be read to the press by Mr Dumas at 10.30 on 15 July.

The French are insisting that the declarations issued by the Heads of Government should be the only agreed texts of the Summit. All other foreign policy issues, instead of being dealt with in an agreed Chairman's Summary as at Toronto, will be the subject of an oral report by M Dumas to the press. The French intend to inform us of the contents of this report on the morning of Saturday 15 July and to give us a chance to comment on it, but are not prepared to enter into a drafting exercise.

The only subject not already covered by the existing texts on which we would have liked to see an agreed statement is the Arab/Israel peace process. Following the set back of the Likud Central Committee meeting we believe that it would be worth trying to tie the

/Americans

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Americans down to a statement expressing disappointment at this latest move and urging the Israeli Government to flesh out their original election proposal on the lines advocated in the EC declaration in Madrid. But it is not likely to be easy to persuade the Americans to accept such a text. We doubt whether it is worth having a row in Paris about this, not least since we have the Madrid text. It will be primarily for the French and the Americans to work out what is possible on both procedure and substance at the Summit. If we are unable to reach agreement we will have to rely on Dumas covering the issues adequately in his press briefing (of course supplemented by our own national press briefing).

/ I enclose copies of texts of the draft declarations on

a) Human rights,

b) East/West

c) China/Hong Kong

d) Terrorism

as they came out of the Rambouillet meeting together with UK commentaries on them.

On China, Japan is alone in its desire for a weaker text. Prime Minister Uno is apparently unwilling to agree to list measures taken against China and the relevant section of the text therefore remains in square brackets. The Americans, who continue to face Congressional pressure on China, are particularly insistent that national measures should be listed. We fear that the disagreement will have to be aired and settled at the level of Heads of Government. We managed to secure a useful reference to Hong Kong at the end of the declaration, but our partners were unwilling in Rambouillet to accept an additional sentence commiting all seven to playing a role in maintaining confidence in Hong Kong. They saw such a sentence as a blank cheque relating to immigration. There is now a public expectation that we will raise Hong Kong at the Summit and seek partners' support for action in case of the "Armageddon scenario". We will prepare draft language to take with us to Paris. The Foreign Secretary will put this forward during the Foreign Ministers' meeting on the afternoon of 14 July.

/The

The French regard the declaration on human rights, celebrating the 200th anniversary of the Declaration the Rights of Man, as the political centrepiece of the Summit. They are determined to show new and creative thinking on human rights, and therefore insist on trying to move into areas beyond the traditional human rights' texts. We have succeeded in taking much of the substance out of the original very unsatisfactory French draft, in order to reduce the risk that it could be used against us to justify extending human rights commitments, particularly in the UN. Despite the previous positions of our other partners on these new rights at the UN, none of them pressed to have the relevant sections of the French text dropped. We and the US entered a reservation on the final text saying that we might want to revert to it. The Foreign Secretary believes that the text is now fairly innocuous and acceptance of it could give us useful leverage over the French elsewhere. If we can find some support, however, we should try at the Sherpa/Political Directors meeting on the evening of 14 July to amend the declaration's penultimate paragraph which refers to the right of future generations to inherit a healthy environment. Conceding the existence of such a "right" could be a hostage to fortune.

We have secured a robust text on East/West relations. The original French draft contained a sentence on nuclear deterrence. The Germans and Italians, however, refused to accept any reference to nuclear deterrence unless couched in the exact (and very lengthy) language of the NATO Summit Declaration. We, the US, Japan and France pressed for the maintenance of the short sentence in the original French draft. In the face of continued German resistance the French Chairman agreed to omit the sentence and the FRG Sherpa undertook to consult Chancellor Kohl (although we doubt he will volunteer a sentence on this subject). We shall need to consult with the US on this. Precedent is on our side in seeking a reference to deterrence. If the US or another partner presses for the reinstatement of the sentence on deterrence we would certainly want to support.

The US intend that the centrepiece of the East/West text should be President Bush's initiative on Hungary and Poland on which he wrote to the Prime Minister on 6 July. The French may well oppose this both on grounds of substance (the proposed consortium would involve the

/institutionalisation

institutionalisation of the Summit Seven) and of pique (because President Bush would be stealing the headlines from President Mitterrand). Everyone else appears willing to go along with President Bush's idea. The most cogent argument employed by the French, and no doubt one that President Mitterrand will use at the Summit himself in reporting his meetings with Gorbachev, is the fear that too overt an attempt to win over Poland and Hungary to the camp of capitalism at this sensitive stage in the process of reform may play into the hands of the hardliners in Moscow. The Prime Minister has already replied to President Bush. There will presumably also be some discussion of Jaruzelski's letter of 13 June to the Seven Heads of Government.

Subject to any specific comments the Prime Minister might wish to make at this stage, briefing for the Summit will be submitted on the lines of this letter.

I am copying this letter to Nigel Wicks in the Treasury for his return and to Trevor Woolley (Cabinet Office).

Yours,
Stephen

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

FILE KK

PRIME MINISTER

cc. Mr Walters
Mr. Turnbull

ECONOMIC SUMMIT: SPEAKING NOTE

I have had a go at a revised speaking note for the Economic Summit, which also takes in some points by Alan Walters. We have some time in the diary tomorrow afternoon to work on it.

C. D. POWELL
11 JUly 1989

OVERSEAS DEVELOPMENT ADMINISTRATION
ELAND HOUSE
STAG PLACE LONDON SW1E 5DH
Telephone ~~01-213 3465~~ 01-273 0409

From the Minister

11 July 1989

Charles Powell Esq
Private Secretary
10 Downing Street
LONDON SW1

Dear Charles,

We learned last night that the Canadians are considering raising at the Summit special treatment for the lower-middle income countries, although they may decide to take it in slower time. Many of these countries have large official debts but do not stand to benefit from either Toronto Terms for the poorest countries or the Brady proposals. The Canadians have in mind in particular Jamaica. We understand that they may be thinking in terms of bilateral aid debt forgiveness. Mr Mulroney may raise this with the Prime Minister at their meeting later today.

This would not be a major problem for the UK, as we have little aid debt outstanding to these countries, but it would cause difficulties for others. However, it blurs the distinction we have been seeking to maintain between the very poorest and indebted countries (mainly in sub-Saharan Africa) which we have recognised cannot meet their obligations in full and others which, with generous Paris Club rescheduling, we do expect to pay up. There would be very substantial cost implications should there develop pressure to concede concessional terms in Paris Club rescheduling for these countries.

I am copying this to Alex Allan in HMT.

Yours sincerely,
Myles A. Wickstead

(M A Wickstead)
Private Secretary

11 JUL 1989

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

July 10, 1989

Mr. Frank Cassell

Frank -

Attached is a copy of a message to each of the heads of Government attending the Summit meeting. I think it is important that the IDA replenishment be addressed, since a successful conclusion of the negotiations is in the hands of the G-7 governments.

I would appreciate it if you could transmit this message to your authorities.

Barber Conable

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

July 10, 1989

The Right Honorable Margaret Thatcher MP
Prime Minister
10 Downing Street
London SW1, England

Dear Prime Minister:

The negotiations to replenish the resources of the International Development Association (IDA) are now at a critical stage. At a meeting of the 34 Donor Countries in Copenhagen on July 6-7, strong support was expressed for the effectiveness of IDA as the largest single source of concessional finance for the poorest countries of the world.

All 34 donors have agreed on the broad operational priorities for IDA over the three-year replenishment period that begins in June 1990, including a further strengthening of IDA's support for environmentally sound projects and development strategies. IDA's traditional emphasis on performance, embracing both economic management and poverty alleviation efforts, will also be strengthened. Against this background, donor countries other than the G-7 have confirmed their readiness to do their share in a replenishment that will at least maintain IDA's resources in real terms. Indeed several countries are prepared to support a substantial increase in real terms.

Some, but not all, of the G-7 countries have confirmed their support for maintaining or increasing IDA in real terms. If the G-7 countries as a group could agree to at least maintain their collective current contribution in real terms, this would send an important positive signal to the poorest countries of the world, and particularly to those who have recently launched courageous reform programs. I would hope that this objective for collective G-7 action could be endorsed at your meeting this week.

The whole replenishment agreement will depend upon satisfactory resolution of the policy questions concerning IDA's operations which are part of the negotiations. I am confident that these can be resolved expeditiously in the context of a successful overall replenishment. Assuming this is so, it would then be up to your negotiators to find a way for the G-7 as a group to provide at least the same volume of resources in real terms as at present. How this burden would be shared among the individual G-7 countries will have to be negotiated, taking into account budgetary and other factors bearing on international cooperation.

The case for increased financial support for the poorest countries has been accepted by all. Equally all have agreed that IDA is a most effective channel for providing such support. Donors other than the G-7 have agreed to back these conclusions by doing their share in a real replenishment of IDA's resources. I strongly urge the G-7 to commit themselves politically and as a group to do the same.

Sincerely,

Barber B. Conable
President

12 JUL 1989

PARIS ECONOMIC SUMMIT: DRAFT DECLARATION ON EAST/WEST RELATIONS

1. We, the leaders of our seven countries and the representatives of the European Community, reaffirm the universal and supreme importance which we attach to freedom, democracy and the promotion of human rights.

2. We see signs of this same desire for greater freedom and democracy in the East. The people there, including the young people, are reasserting these values and calling for a pluralist democratic society. Some of their leaders are aware of the positive contribution that greater freedom and democracy can make to the modernisation of their countries and are starting to make changes to their laws, practices and institutions. Others are still endeavouring to resist this movement by taking repressive measures which we strongly condemn.

3. We hope that freedom will be broadened and democracy strengthened and that they will form the basis, after decades of military confrontation, ideological antagonism and mistrust, for increased dialogue and cooperation. We welcome the reforms underway and the prospects of lessening the division of Europe.

4. We call upon the Soviet Government to translate its new policies and pronouncements into further concrete action at home and abroad. Military imbalances favouring the Soviet Union, both in Europe and in Asia, remain a threat to each of us. Our Governments must therefore continue to be vigilant and maintain the strength of our countries. In order to hasten the advent of a world in which the weight of arms and military strength is reduced, we recommit ourselves to the urgent pursuit of a global ban on chemical weapons, a balance of conventional forces in Europe at the lowest possible level consistent with our security requirements, and a substantial

reduction in Soviet and American strategic nuclear arms.

5. We offer the countries of the East the opportunity to develop balanced economic cooperation on a sound commercial basis consistent with the security interests of each of our countries and with the general principles of international trade. We have noted the conclusion by the European Community of agreements with Hungary and Czechoslovakia, the progress already achieved during the current discussions with Poland and the opening of negotiations with the Soviet Union and other countries of the East.

6. We welcome the process of political and economic reform underway in Poland and Hungary. Each of us is prepared to support this process and to consider, as appropriate, economic assistance aimed at transforming and opening their economies in a durable manner. We believe that each of us should direct our assistance to these countries so as to sustain the momentum of reform through inward investment, joint ventures, transfer of managerial skills, professional training and other ventures.

7. We are in favour of an early conclusion of the negotiations between the IMF and Poland. The strengthened debt strategy is applicable to Poland, provided it meets the conditions. We are ready to support in the Paris Club the rescheduling of Polish debt expeditiously and in a flexible and forthcoming manner.

8. We see good opportunities for the countries of West and East to work together to find just solutions to conflicts around the world, to fight against under-development, to safeguard the environment and to build a freer and more open world.

PARIS ECONOMIC SUMMIT: DRAFT DECLARATION ON EAST/WEST RELATIONS: UK COMMENTARY

General

1. The Declaration contains surprisingly firm language. The FRG and Italy rejected a sentence on nuclear deterrence unless it was couched in exactly the language of the NATO Summit Declaration. The US intend that the centerpiece of this Declaration should be President Bush's proposal for Western consortia to assist Poland and Hungary. Overall the Declaration gives a useful message of Western unity in welcoming the changes taking place in the Soviet Union and Eastern Europe but expressing caution. It focusses in particular on Hungary and Poland and on economic assistance to those countries.

Detail

Paragraph 1

2. A link to the human rights statement.

Paragraph 2

3. Welcoming the move towards greater freedom and democracy in certain Eastern countries but noting that in other countries Communist leaderships are still attempting to resist reform.

Paragraph 3

4. Welcoming the reforms underway and noting that the division of Europe can only be reduced as freedom is broadened and democracy strengthened.

JP5AAF

Paragraph 4

5. A very brief reference to arms control issues. Noting that the military imbalance in favour of the Soviet Union remains a threat to us and that our Governments must therefore continue to be vigilant. Commits us to the pursuit of a global CW agreement, a balance of conventional forces and progress in the START talks (no mention of SNF). The original French text included a sentence reading "Nuclear deterrence and the existence of adequate conventional forces remain the most reliable guarantee of our security." (very similar to the language in the Toronto Declaration). The Germans and Italians were not prepared to accept the sentence and insisted that if any reference was made to nuclear deterrence it would have to repeat the lengthy formulation in the NATO Summit Declaration. The UK, US, France and Japan were reluctant to accept this. The FRG Sherpa agreed to consult Chancellor Kohl but we doubt they will volunteer the inclusion of such a sentence. We should support the inclusion of such a sentence if eg the US seek it.

Paragraph 5

6. A general paragraph on East/West economic relations noting EC agreements with certain Eastern countries. The US objected to the inclusion of Czechoslovakia, which they felt distracted from the focus on Poland and Hungary.

Paragraph 6

7. Paragraph narrowing the focus down to Poland and Hungary, and a suitable lead in to President Bush's initiative, if this is agreed. Offers a fairly modest list of measures of assistance that we can take.

PO3AAN

Paragraph 7

8. The US would like the Seven to agree to press for rescheduling for Poland even without an IMF agreement and would like the text to reflect this idea. We, and the other five cannot agree. President Bush will no doubt press this during the Summit.

Paragraph 8

8. A suitably up-beat conclusion to the Declaration.

JP5AAF

PARIS ECONOMIC SUMMIT: DRAFT DECLARATION ON HUMAN RIGHTS

1. Two hundred years ago, the rights of man and of the citizen were solemnly proclaimed. Just over 40 years ago, the General Assembly of the United Nations adopted the Universal Declaration of Human Rights which affirms the inalienable rights and fundamental freedoms of all members of the human family, whoever they may be and from wherever they may come. These rights derive from the inherent dignity of the individual. They have been further developed and codified and are now embodied in the Covenants on Civil and Political Rights and on Economic, Social and Cultural Rights.

2. We have on previous occasions stressed our commitment to freedom, democratic principles and human rights. We believe in the rule of law which respects and protects without fear or favour the rights and liberties of every citizen, and provides the setting in which the human spirit can develop in freedom and diversity.

3. Human rights are a matter of legitimate international concern. We seek their universal observance and renew our commitment to promote and protect human rights and fundamental freedoms in the world today.

4. Looking towards the future, we see opportunities as well as threats; this impels us to pledge our firm commitment to uphold international standards of human rights and to confirm our willingness to reaffirm them and to develop them further.

5. We attach particular importance to the protection of freedom of thought, conscience and religion, and of freedom of opinion and expression; for without these freedoms, other rights cannot be fully realised. Without respect for the rule of law and the plurality of opinion, there can be neither representative government, nor

democracy.

6. We believe equally in freedom of association in a pluralist society.

7. The right of each individual to physical integrity and dignity must be guaranteed; torture is condemned.

8. Every one has a right to own property, alone as well as in association with others, and to equality of opportunity. Extreme poverty and exclusion from society violate the dignity of everyone enduring them.

9. The rights of the child, the handicapped and the elderly require a special protection.

10. Developments in the human sciences, for instance the progress achieved in genetics and organ transplantation, must be applied in accordance with fundamental human rights if the welfare of humanity is to be preserved and enlarged.

11. Future generations have the right to inherit a healthy environment. The present generation has an obligation to ensure that they do.

12. We reaffirm our belief that these rights and freedoms cannot be properly safeguarded without the rule of law and genuine democratic institutions.

PARIS ECONOMIC SUMMIT: DRAFT DECLARATION ON HUMAN RIGHTS:
UK COMMENTARY

General

1. We, and most of our partners, could live happily without a text on human rights. The French however regard this as the centrepiece to the Paris Economic Summit, celebrating the proclamation of the Declaration of the Rights of Man two hundred years ago. In particular they want the text to show new thinking on human rights and to make a gesture to Third World pressure for new "collective" human rights. We have removed most of the substance from the original very difficult French text and heavily qualified what remains. Our fear was that paragraphs 8-11 of this text might be used against us in for example the United Nations by those pressing for "third generation" human rights. Our postion on this is shared by all our partners except France, but none of them were prepared at Rambouillet to cut out the offending sections of the French text. The US in particular appeared to regard this as a bargaining counter which they would be prepared to use with the French if there was resistance to their initiative on Poland and Hungary. Both we and the US however entered a general reservation on the draft at Rambouillet. The text is now however sufficiently innocuous and we do not believe it worth investing political capital in removing the remaining problems, although some tidying up of the section on the right to a healthy environment (paragraph 11) can be done by Sherpas on the evening of 14 July.

Detail

Paragraph 1

2. A reference to the Bicentenary to the Declaration of the Rights of Man (the US wanted a reference to their Bill of Rights but we objected on the grounds that we would then also need a reference to the 1689 Bill of Rights). Reference back to the Universal

Declaration and the UN Covenants on human rights.

Paragraph 2

3. A reference to democracy and the rule of law.

Paragraph 3

4. Human rights as a legitimate matter of international concern.

Paragraph 4

5. Chapeau to the sections dealing with new areas where human rights should also apply. Commits us to developing the "international standards" of human rights. We understand this to mean the implementation and development of existing human rights as much as creating new rights.

Paragraph 5

6. Useful reference to freedom of thought and expression.

Paragraph 6

7. Reference to freedom of association.

Paragraph 7

8. Rather odd wording, but a reference to the right to the inviolability of the person and freedom from torture.

Paragraph 8

9. The French originally sought a paragraph on the right to social security but this was rejected by us and the Americans. The

paragraph now refers to the right to own property and to equality of opportunity. Also includes an innocuous reference to extreme poverty.

Paragraph 9

10. Simply notes that the rights of children, the handicapped and the elderly require special protection. The French had originally been seeking a paragraph on the right to childhood.

Paragraph 10

11. The French had been seeking a paragraph on the right of the human person to be guaranteed and genetic inheritance to be preserved. We have now altered it so that the paragraph simply says that developments in the human sciences must take place in accordance with fundamental human rights. It does not therefore develop a new right but simply emphasises the need for existing rights to be preserved.

Paragraph 11

12. Creates the right to a healthy environment. We should seek to amend this paragraph to remove the word "right", so that it reads:

> "The present generation has an obligation to ensure that future generations inherit a healthy environment."

There are moves at the United Nations to draft a new instrument on "solidarity" (ie collective) human rights. This would include the rights to development, peace, the environment, etc. We have opposed this idea on the grounds that human rights are the rights of individuals and that advocating collective rights undermines the UN's ability to help the victims of abuse. To concede a right to

inherit a healthy environment is to concede the existence of collective rights and thus undermine our entire position. This is also a matter of substance. If we establish a collective obligation to preserve the environment we could find ourselves having to fend off claims from Third World countries arising from environmental damage caused by materials imported from the developed world.

If the French are determined to retain the word "right", we might suggest a rewording of the first sentence of the paragraph as follows:

> "Future generations have the right to expect that they will inherit a healthy environment".

If unavoidable, we can live with the present wording since it is nonsensical. Only existing legal entities can have rights. Future generations cannot have a right since they do not exist. It is clearly not desirable, however, for us to accept wording on the grounds that it makes no sense.

Paragraph 12

13. A useful reference back to the rule of law and democracy to round off the Declaration.

Foreign and Commonwealth Office

10 July 1989

JP5AAF

Foreign and Commonwealth Office

London SW1A 2AH

CONFIDENTIAL

10 July 1989

Dear Charles,

French Bicentenary: President Mitterrand

There may be opportunities for brief discussions with President Mitterrand and Prime Minister Rocard in the margins of the Bicentenary (though no formal meetings are planned). I / enclose personality notes.

Bilateral Relations

The Prime Minister's last bilateral meeting with Mitterrand was at the Anglo-French Summit in Paris on 27 February; she saw Rocard in London on 8 February when he delivered the Chatham House Jean Monnet lecture.

North/South

Mitterrand could still spring a 'North/South' surprise at the 'Summit of the Arch'. The following points could be made, as necessary:

- Doubt need to relaunch North/South dialogue. Things have changed since 1981 Cancun Summit. North already talking to South in many fora: IMF, World Bank, GATT, UNEP. Better on an issue-by-issue and country-by-country basis.

- Should not raise expectations we cannot fulfil. Ground not prepared between Sherpas. Could not commit myself at such short notice.

Debt

Mitterrand may:

- press for a new middle income debt initiative to assist francophone countries like Congo and Cote d'Ivoire who have heavy debts to governments and therefore stand to benefit less from commercial bank debt reduction;

/- resurrect

- resurrect the proposal he launched at the UNGA last autumn for a new allocation of SDRs to guarantee payments on reduced debt.

The Prime Minister may wish to say that:

- Generous assistance is available from existing sources (IMF, World Bank, Paris club) for francophone countries, if they agree structural adjustment programmes.

- We oppose greater public sector involvement in debt reduction, which must remain primarily a matter for banks and debtors to negotiate. Talk of further public money will only discourage the banks from reaching a deal.

- We oppose a new SDR allocation. There is no shortage of global liquidity. SDR allocations, if spent, are inflationary.

If Mitterrand refers to his recent decision to cancel the old aid debts of 35 African countries, the Prime Minister could say:

- We welcome cancellation of old aid debts. UK has cancelled about £1 billion of old aid debts and gives all new aid to the poorest countries on grant terms.

East/West Relations

Mitterrand may give an account of Gorbachev's visit to Paris and Strasbourg (4-6 July) (our letter of 10 July). The Prime Minister may like to:

- welcome the generally positive tone of Gorbachev's Strasbourg speech and its emphasis on cooperation;

- point to the inclusion of some unwelcome references, notably on SNF;

- seek Mitterrand's assessment of Gorbachev's position;

- touch on the state of UK/USSR relations: business very much as usual in other areas, while discussion of ceilings continues.

/EC/Austria

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EC/Austria

The Austrians will apply for EC membership by mid-July, making maintenance of their "perpetual neutrality" a precondition for accession. If Mitterrand raises it, the Prime Minister might say:

- the question of Austria's neutrality will need careful joint study: there can be no à la carte membership or block on the development of EPC;

- the Foreign Secretary hopes to discuss in detail with Dumas.

Security Issues

The most important current topic is conventional arms control. The current round of the Vienna CFE negotiations ends on 13 July. We are working on a "framework" proposal which we hope will be ready for tabling by 13 July. As envisaged in the Summit Declaration a fully fleshed-out proposal would be tabled at the start of the next round on 7 September.

There are difficulties over aircraft definitions. We and the French are ensuring that our shared interests, particularly over Dual Capable Aircraft, are protected.

On Chemical Weapons, we want leading Allies to work together to overcome obstacles to a CW Convention; and proposals for extension of export controls on CW precursors must be soundly based, with priority given to effective implementation of existing controls.

On bilateral defence cooperation, the Prime Minister might:

- welcome progress towards greater cooperation between conventional forces (notably over maritime operations and operations in NORTHAG);

- say we value our exchanges with the French on aspects of nuclear defence cooperation: we hope these links can be strengthened;

- say that we look forward to details by early September of any French missile which can meet our requirements for a tactical air-to-surface missile: our final decision will be made on the merits of the candidate systems - any French missile will be given full and fair appraisal.

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France: Internal

Important municipal elections took place in France on 12 and 19 March. The Socialists made a net gain of 12 Towns. Rocard was elected with ease. The Right Wing was braced for considerable losses but fared better than expected. Their performance reflected the policy of the RPR Secretary-General, Juppe (whom the Prime Minister saw on 23 March) to rejuvenate the party and portray a younger, more modern image. In the European elections, the Socialists did unexpectedly poorly. Giscard did well at the head of the RPR/UDF list thereby thwarting Centrist ambitions. The Ecologists polled over 10%. Mitterrand's room for manoeuvre has probably been a little reduced and Rocard's position has strengthened, as the poor Socialist result amounted to a set-back for his main rival, Fabius.

The Economy

The French economy has strengthened recently. Estimated growth is now 3.8%. Unemployment is still 10%. Inflation is currently about 3.5%. The impetus of the Chirac government's deregulatory policies has been lost. France is the UK's third largest export market; the UK has risen to be France's third largest overseas market. The balance of trade is slightly in France's favour: Britain exported £8.3 billion to France in 1988 and France exported £9.4 billion to us.

I am copying this letter to Alex Allan and Nigel Wicks (HM Treasury) and to Trevor Woolley (Cabinet Office), and Brian Hawtin (MOD).

Yours ever,

Richard Gozney

(R H T Gozney)
Private Secretary

C D Powell Esq
10 Downing Street

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ANNEX

MITTERRAND, FRANCOIS GCB

President. (First term: 1981-88; Second term: Since May 1988)

Born 1916. Son of a railway official. Trained as a lawyer in Paris. Distinguished war service including escape from a prisoner of war camp and resistance work (mission to London in 1943). Represented Nievre in North Central France from the end of the war until election as President. Was one of the few French politicians to oppose de Gaulle's return to power in 1958 which he considered imposed by the armed forces. From 1958-81 he was de facto leader of the opposition. Ran unsuccessfully for President in 1965 and 1974. From 1971-81 was First Secretary of the renovated Socialist Party (PS) which, under his leadership has become the dominant force on the left of French politics. A skilful party tactician, Mitterrand did much to hold the warring factions of the PS together during the long period of opposition and of difficult relations with the Communist Party (PCF). He made a State Visit to the UK in 1984: the Prince of Wales greeted him at Victoria Station and attended both banquets.

Mitterrand is not a doctrinaire socialist but rather a humanist with egalitarian instincts and a sense of public responsibility. By nature aloof with few personal friends. Keeps his own counsel. He is keen on books, painting and writing. His air of self-possession and unflappability is part cultivated and part natural. As President, adopted an outward air of confidence and serenity during difficult periods and low popularity ratings.

His wife had a good resistance record and a strong interest in Human Rights causes (this influence can sometimes be detected in her husband's actions). Of his two sons, one was elected a PS Deputy in 1981.

ANNEX

ROCARD, MICHEL

Prime Minister since May 1988.

Born 1930. Son of Professor Yves Rocard CBE, a distinguished nuclear physicist. Studied literature and entered ENA. Resigned from government service in 1967 to stand (unsuccessfully) in Legislative elections. Secretary General of the Partie Socialiste Unifié (PSU) 1967-73. Joined Socialist Party 1974. Member of the National Secretariat 1975-79. Deputy for the Yvelines 1969-73 since 1978. Minister for the Plan 1981-83. Minister for Agriculture from 1983 until his resignation in 1985.

Rocard made his name as a national figure during the May events of 1968. His party was the only one to be identified with the student movement, and its leaders occupied key positions in the main student and teacher organisations. He broke with the PSU in 1974 after its failure to amalgamate with the Socialist Party. He then rose swiftly in the Socialist Party. During the past decade, Rocard had moderated his leftish image. He remains one of France's most popular politicians. He has a strong intellect, and keen political instincts. A good speaker when audible (very rapid delivery), his distinctive brand of intellectual garrulousness sometimes speaks more of a hyper-clever university don than a statesman of Presidential stamp.

He visited the UK as a COI Category I sponsored visitor in 1980 and 1988. During the latter visit he met the Prime Minister, Foreign and Defence Secretaries, Chancellor of the Exchequer and Governor of the Bank of England.

Rocard speaks good English. He is divorced and remarried (to a sociologist). He has two children by each marriage.

10 JUL 1989

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Foreign and Commonwealth Office

London SW1A 2AH

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10 July 1989

Dear Charles,

French Bicentenary: Meeting with President Bush

The Americans have still to confirm the time and place of the Paris bilateral. We and they are working on 1650-1740 on 13 July, probably at the US Embassy.

The main objective of this meeting is to concert tactics prior to the Economic Summit, particularly over any last-minute North-South initiative by the French. The Prime Minister will also wish to touch base with the President on current issues such as debt, China and Hong Kong (including Vietnamese boat people), East-West relations and Eastern Europe, arms control, Arab-Israel and Southern Africa.

Approach to Economic Summit

Our particular concern is the prospect of a French-inspired North-South initiative. [redacted]

There is also a chance that Bush, influenced by the Latin Americans, could have some sympathy for this. He may need reminding that a North-South dialogue would bring in its train other, less welcome, consequences. The Prime Minister could say:

- Share your dislike of rumoured North-South initiative by the French.

- A relaunched North-South dialogue would spread well beyond debt, eg into more aid and commodity agreements. Russians would be keen to get in on the act. Real action lies elsewhere (eg IFIs, GATT round, UNEP).

- We've worked closely so far. Looks as though Mitterrand has been diverted for the time being

- But French could still seek support from Third World leaders present for the bicentennial

- You can count on my support if it surfaces at the Summit.

/- Glad

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- Glad our positions are so close on other key summit issues, eg structural reform in Japan, and environmental concerns.

- Must reinforce support for an open multilateral trading system. US traditionally the champion of free trade.

- Trust you will resist domestic protectionist pressure and implement Trade Act in ways which do not threaten the GATT system

Debt

The French are expected to resurrect the Mitterrand plan for using a new allocation of SDRs to guarantee payments on reduced debt. Because of the slow progress in Mexico's negotiations with its creditors, the Americans may press us to intervene directly with our banks. They may even be tempted to reverse their present opposition to a new SDR allocation, which would provide more public money via the IFIs for debt reduction. The Prime Minister might say that:

- We oppose greater public sector involvement in debt reduction, which must remain primarily a matter for banks and debtors to negotiate.

- Talk of further public money will only discourage the banks from reaching a deal. The IMF and World Bank Boards have taken decisions - to which the UK gave full support - on the extent of their support for debt reduction. Banks and debtors must work within those limits. We are not prepared to put pressure on our banks.

- Believe we both oppose a new SDR allocation. There is no shortage of global liquidity. SDR allocations, if spent, are inflationary.

China and Hong Kong

The Prime Minister has already exchanged views with Bush by telephone on the situation in China and its effects on Hong Kong. He is coming under pressure from Congess to adopt further trade sanctions. The Prime Minister might say:

- Appreciate your difficult position. But West must to keep in step. Measures we have already taken show our outrage quite clearly.

- No question of business as usual under present circumstances, but we should not isolate China completely.

/- Firm

- Firm declaration would give Chinese the message but avoid pushing them too far into a corner.

- Concerned at language adopted by Congress on 29 June questioning credibility of Joint Declaration. Need to promote, not undermine, confidence in Hong Kong. Encourage China to live up to her international obligations under the Joint Declaration, not appear to have reservations about them.

- Hong Kong business community views the prospect of trade sanctions on China with great concern.

- If the worst comes to the very worst we would do everything in our capacity to help. But if numbers leaving were too large, we would need to look to our friends for support. Any statement you could make to give (general) assurance of help in extremis would be a great boost to confidence in Hong Kong.

Vietnamese Boat People

The Prime Minister will recall that Bush gave no ground on the repatriation of Vietnamese boat people when she raised this with him in London on 1 June. In bilateral negotiations, the Vietnamese have now agreed that the first batch of non-refugees should be repatriated from Hong Kong as soon as possible. Given the strength of US feelings, it would be unwise to volunteer any details. If asked, the Prime Minister might say:

- Encouraged by the outcome of the International Conference on Indo-Chinese Refugees.

- Welcome US decision to settle 22,000 refugees from the region. Hope that good proportion of those will be taken from Hong Kong.

- Pressures in Hong Kong require comprehensive solutions, as envisaged in the Comprehensive Plan of Action endorsed at the International Conference.

Eastern Europe

Following his visits to Poland and Hungary just before the Economic Summit, President Bush will probably wish to set out his ideas (outlined in his message of 6 July) on what we should do to help. The Prime Minister might make some of the following points:

- UK will support reforms.

/- IMF

- IMF agreement with Poland essential for longer-scale credits or longer-term debt rescheduling. But agree some rescheduling (1989 maturities) could precede IMF agreement.

- Premature large-scale help would only reduce incentive to reform.

- Should concentrate on encouraging investment, private enterprise and development of appropriate structures for a working democracy and market-based economy.

- Agree vital to coordinate assistance; important not to arouse false expectations about scale of help.

- Jaruzelski letter to G7 Governments seeks emergency food supplies. Hope US will respond sympathetically, as we are urging the Commmunity to do.

East/West Relations

The Prime Minister might reaffirm that we and the US share a common approach. (While Bush's approach was initially slow to emerge, his recent speeches have set out a line similar to our own. The key phrase is "beyond containment" - the idea that the West should encourage the Soviet Union to join the "community of nations" through policies which meet western standards.)

The Prime Minister could cover some of the following:

- Welcome generally positive tone of Gorbachev's Strasbourg speech, and emphasis on cooperation.

- Encouraged by support for self-determination (although still balanced by references to "historical fact" of socialist system in Eastern Europe); and for international human rights and legal standards.

- Some unwelcome points eg exaggerated language on SNF, COCOM.

- Main obstacle to Gorbachev's "Common European Home" is that Soviet Union and Eastern Europeans still fall a long way short of Western standards over human rights and freedoms.

- Gorbachev's handling of the Congress of People's Deputies strengthened his political authority and led to some erosion of the party's position.

- Confused, half-hearted, reforms are not stimulating economic progress. We expect no significant improvements in the shops until the mid-1990s.

Arms Control

There are no specific problem issues which we think could usefully be raised with the President by 13 July. The Prime Minister might cover:

- SNF (modernisation and negotiating aspects), where we believe a period of calm is needed.
- Conventional arms control, where the Americans are keen to flesh out the Bush Summit initiative, and where there is a reasonable chance that detailed proposals on aircraft, helicopters and US and Soviet stationed manpower can be presented before the end of the current round on 13 July; proposals on verification/stabilising measures would follow in September.

- CW, where we would welcome close consultations between officials, as the US policy review nears completion. We share a concern to curb CW proliferation, but extraterritorial provisions in draft sanctions legislation now with Congress are unacceptable to UK for broader reasons.

Arab/Israel

Tension in the Occupied Territories is high and the situation is deteriorating. Renewed deportations and growing settler militancy is likely to provoke more violence. The Prime Minister could draw on the following:

- Not in Israel's interest to let the situation drift. US role, responsibility crucial.

- Shamir's elections proposal offered glimmer of hope. But stalled: Likud reservations likely to kill it. Only chance is for you to press Israelis to elaborate it, ground it firmly on "land for peace".

- Your dialogue with PLO vital tool. PLO naturally even more suspicious of Israeli good faith following Likud decision. Key role in reassuring them that moderation pays dividends. No Israeli response so far to major changes in PLO policy. We should all encourage Israeli/PLO dialogue.

- We have been encouraging PLO in constructive approach to elections. Sensible idea to supplement negotiators from within Occupied Territories by Palestinian Americans - vital to involve Palestinians from both inside and outside the Occupied Territories. Hope you will encourage this.

/South Africa

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South Africa

The Prime Minister might go over the de Klerk visit along the lines of her message to Bush (attached).

I am copying this letter to Alex Allan (HM Treasury).

Yours,
Stephen

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

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The National Archives

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Foreign and Commonwealth Office

London SW1A 2AH

10 July 1989

Dear Charles,

French Bicentenary: Bilateral with Japanese Prime Minister

The Prime Minister has agreed to meet the Japanese Prime Minister, Mr Uno, on 14 July at 1215-1245 at the British Embassy. She last saw him in January when he visited London as Foreign Minister. I enclose a personality note.

The Prime Minister might concentrate on:

- bilateral relations;

- China;

- Japan's economic role.

Mr Uno is likely to wish to add East/West relations and the Soviet Union to this list. If there is time the Prime Minister might also refer to Vietnamese boat people.

Mr Uno comes to the Paris Summit with his domestic political powerbase severely shaken. His Liberal Democratic Party (LDP) has suffered recent defeats in two local elections and is widely expected to make a poor showing in the Upper House elections later in July. Recent press allegations about his womanising have damaged his standing and undermined his confidence. Indeed Mr Uno appears acutely conscious that in domestic and world opinion he may not be the right man to represent Japan at the Paris Summit. (There has even been speculation in Japan as to whether the Prime Minister will be willing to shake his hand.) But none of this has affected Japan's economic performance (GNP rose by 2.3% in the first quarter of 1989).

Political Relations

We have maintained a close political dialogue with the Japanese in an effort to ensure that Japan looks to the UK as a key interlocutor in dealing with Europe. The Prime Minister may wish to welcome this closer political dialogue. Her own visit to Japan in September (19-21) this year should give further impetus to a dynamic bilateral relationship.

Trade Relations

Trade relations with Japan have improved. So far this year, UK exports to Japan are up by 36% (year on year). Over a hundred Japanese firms have now established manufacturing operations in the UK. One outstanding problem has been membership of the Tokyo Stock Exchange. The TSE board has now set up a committee to consider how to expand the membership. Mr Uno may repeat this (but give no date for membership). On past form, the process may take six months. The British companies concerned would be content with this. However, the Japanese will not want us to appear publicly to take for granted the decision of the membership committee. The Prime Minister might:

- welcome Mr Uno's likely message as an encouraging start;

- say that we will keep a close watch on progress and will naturally be concerned if there are any signs of slippage;

- add that she hopes to learn more about the timescale when she visits Japan.

Japanese investment in UK

There have been some recent indications of hesitations by Japanese companies over further investment in the UK because of their fear that we might leave the European Community. The Prime Minister might wish to tell Mr Uno that:

- the recent agenda of the EC (budgetary and CAP reform; the single market) has largely been set by the UK;

- at the recent European Council we fended off the proposed Social Charter which, as envisaged, could have been damaging to the interests of companies wishing to invest in the Community;

- we got agreement that a range of practical options will be looked at for progress towards economic and monetary union;

- all this illustrates our very firm commitment to the Community. It is because it is vital to our interests that we fight hard within it to ensure it remains efficient, competitive, deregulatory and outward looking.

Wider Economic Issues

We wish to see Japanese reform in the areas of land and agriculture policy, the distribution system and air transport. The US agree and are about to embark on their own "structural impediments" talks with Japan. But Mr Uno is in a weak position at home. The Prime Minister might say:

- Economic Summits are a valuable opportunity for plain speaking among G7 leaders;

- microeconomic reforms should be high on the agenda; there is scope for more structural adjustment and deregulation in all our economies;

- in Japan's case it would help external adjustment too;

- land and agiculture: the distribution system and air transport are areas where reform could bring benefits both to Japanese consumers and to Japan's trading partners.

China

The Japanese have been criticised at home and abroad for their reaction to recent events. Japan provides around 68% of China's total aid. But they have now halted plans for new aid projects, and postponed discussions on the (Yen 810 billion) package of loans for 1990-95. Nevertheless they do not want to be pushed into the sort of measures taken against China at / Madrid (copy of conclusions attached). We are not seeking extension of these measures. But we do want a firm Summit statement on China and trust the Japanese can go along with this. The Prime Minister might:

- stress the strength of reaction in the UK and Hong Kong to events in China and the need for the G7 to take a firm concerted line;

- request Japanese support in ensuring Hong Kong's continuing stability and prosperity (where they have major interests).

East/West Relations

Mr Uno will be interested in the Prime Minister's views. Japan's relations with the Soviet Union are still held back by the Northern Territories issue. Mr Uno's visit to Moscow in May did not produce the breakthrough required for Japan to be willing to consider a significant increase in trade relations. More generally, the Japanese take a cautious line towards developments in the Soviet Union.

Vietnamese Boat People

There are now some 46,000 boat people in Hong Kong, of whom 14,000 have refugee status. The Japanese have been helpful over the repatriation of non-refugees. They have also undertaken to resettle 1,000 refugees from the region and they have contributed US$11 million towards UNHCR's programme, with emphasis on Hong Kong. The Prime Minister might:

- express our thanks;

- ask Mr Uno to help persuade the Philippines to proceed with a refugee processing centre. Money would help. We have offered £5 million.

I am copying this letter to Alex Allan (HM Treasury) and Trevor Woolley (Cabinet Office).

Yours,

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

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MR SOSUKE UNO, JAPANESE PRIME MINISTER

After an early career in local government politics, Mr Uno entered the Diet in 1960 and has represented his Shiga constituency since. He has held five previous Cabinet posts, including Defence (1974), International Trade and Industry (1983-87) and Foreign Affairs (1987-89). He was elected Prime Minister and President of the Liberal Democratic Party (LDP) to succeed Mr Takeshita on 2 June 1989.

Mr Uno is a principal figure in the Nakasone faction, and close to Mr Takeshita. His lack of his own power base limits his influence with his party colleagues. He was not implicated in the Recruit Cosmos scandal but his reputation has been sullied since his election by a scandal involving his former geisha mistresses. He is already regarded by the LDP as more of an electoral liability than an asset. Mr Uno has considerable international experience and is well disposed towards the UK, which he has visited privately and officially several times.

He speaks no English but understands a little.

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ANNEX II

Declaration on China

The European Council, recalling the Declaration of the Twelve of June 6, strongly condemns the brutal repression taking place in China. It expresses its dismay at the pursuit of executions in spite of all the appeals of the international community. It solemnly requests the Chinese authorities to stop the executions and to put an end to the repressive actions against those who legitimately claim their democratic rights.

The European Council requests the Chinese authorities to respect human rights and to take into account the hopes for freedom and democracy deeply felt by the population. It underlines that this is an essential element for the pursuit of the policy of reforms and openness that has been supported by the European Community and its Member States.

The Twelve are aware that the recent events have caused great anxiety in Hong Kong.

In the present circumstances, the European Council thinks it necessary to adopt the following measures:

- raising of the issue of human rights in China in the appropriate international fora; asking for the admittance of independent observers to attend the trials and to visit the prisons,

- interruption by the Member States of the Community of military cooperation and an embargo on trade in arms with China,

- suspension of bilateral ministerial and high level

:ts,

postponement by the Community and its Member States of new cooperation projects,

- reduction of programmes of cultural, scientific and technical cooperation to only those activities that might maintain a meaning in the present circumstances,

- prolongation by the Member States of visas to the Chinese students who wish it,

Taking into account the climate of uncertainty created in the economic field by the present policy of the Chinese authorities, the European Council advocates the postponement of the examination of new requests for credit insurance and the postponement of the examination of new credits of the World Bank.

CONFIDENTIAL

ccdc
cc Bodtaf

Foreign and Commonwealth Office

London SW1A 2AH

10 July 1989

Dear Charles,

French Bicentenary: Bilateral with President Mubarak

The Prime Minister will meet President Mubarak at 1540-1610 hrs at the Hotel Crillon on 14 July (we have warned that the Prime Minister may have to leave the Crillon slightly before 1610). I enclose a personality note.

Arab/Israel

The Egyptians attach great importance to the European role in the peace process and have welcomed the European Council Declaration on the Middle East (copy enclosed). The Prime Minister could:

- encourage Mubarak to use his influence to persuade the PLO to stick to their commitment to eschew terrorism. If the position now adopted by Likud is carried into Israeli government policy, it will be all the more important for the PLO to hold firm to their moderate position. If they abandon it, we shall have no leverage on the Israelis;

- explore Mubarak's ideas on what more can be done to bring Israelis and Palestinians together.

Lebanon

The Prime Minister could make the following points:

- we have assured Prince Saud and the Algerian Foreign Minister in London (29/30 June) that we fully support the work of the Arab League Committee of Three;

- speculation about a Security Council initiative damages Arab League's efforts. Should be avoided.

- we are prepared to use what influence we have with the parties (limited with Asad) to help achieve withdrawal of foreign forces, except UNIFIL, and hope Egypt will do likewise. Egyptian influence could help to discourage further Iraqi meddling.

CONFIDENTIAL

Regional Issues

Libya: The Prime Minister could ask Mubarak about the development of closer relations between Egypt and Libya, repeating our concern about continued involvement with terrorism and regional destabilisation.

Sudan: Mubarak will be relieved that Sadiq has been ousted. It is still early days for the new regime under Lt General Omer Hassan el-Bashir, which Egypt was the first to recognise, although we welcome reports that he will give priority to ending the civil war (which Mubarak and we believed Sadiq incapable of doing). The Prime Minister might invite Mubarak's assessment of the prospects.

Egptian Economy

An IMF delegation has been in Cairo for further discussions and the Egyptians hope that an agreement will be signed next month. The Prime Minister might wish to say that we intend to lend strong support if a firm Egyptian programme is put to the IMF board. (But we are unlikely to be able to offer more programme aid, as we did in 1987).

I am copying this letter to Alex Allan (HMT) and Trevor Woolley (Cabinet Office).

Yours,

Stephe

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

MUBARAK, MUHAMMAD HUSNI SAYYID

President of the Republic since 14 October 1981.

Born 4 May 1928 at Kafr el-Moseilha, Minufia Governorate, where his father was a minor official. Attended secondary school at Shibin al Kum. 1947 entered Military Academy. 1949 entered Air Academy. Trained as a fighter pilot. 1952-59 Instructor at the Air Academy. 1959 appointed to command an L-28 squadron, and then (1961) a Tupolev TU-16 brigade. 1962 commanded TU-16s in North Yemen. 1964 visited the Soviet Union twice, first for a staff course and then to study the maritime version of the TU-16. 1967 Director General of the Air Academy. June 1969 Chief of Staff of the Air Force. November 1969 promoted Air Vice Marshal; April 1972 appointed Commander-in-Chief. On 6 October 1973, a few hours after the first air strikes of the War, he was promoted Air Marshal and later received the Star of Sinai medal.

In April 1975, Sadat appointed Mubarak Vice-President, a post in which he undertook many diplomatic missions to the USA, Europe, Asia, Africa and the Arab World. He played a prominent part in the creation of the National Democratic Party in 1978 and was elected Secretary General in September 1981. Following Sadat's assassination, the People's Assembly nominated Mubarak as Presidential candidate on 7 October 1981, a choice which was approved by 98.6% of the voters in a referendum on 13 October. He was inaugurated as President the next day. In January 1982 he was elected President of the NDP at a special party congress.

Mubarak was regarded by his Air Force colleagues as a brave and capable pilot and a model officer who owed his promotion to merit rather than connections. All remark on his efficiency and moral integrity. As an instructor at the Air Academy, and subsequently as its Director, he is said to have refused both Nasser's and Sadat's brothers special treatment. Following the expulsion of the Soviet advisers in July 1972, he was thought to be one of the few top Egyptian officers still acceptable to the Russians. He was employed by Sadat in a military fence-mending exercise at the end of that year, visiting Moscow with Prime Minister Sidqi and leading a military delegation. He was also closely involved in the planning of the war of October 1973, in which the Air Force performed satisfactorily in the secondary role allocated to it. He proved an efficient and impressive Air Force Commander.

His sudden elevation to the Vice-Presidency in April 1973 came as a surprise, although with his disciplined approach and administrative efficiency he quickly made the job his own. In addition to his work with the NDP, Mubarak undertook much of the supervision of the daily business of Government. He maintained his interest in military and intelligence matters (seeming to have been personally involved in several major procurement decisions) and, for much of the time, oversaw the running of the Presidency. Mubarak remained until Sadat's death, his loyal but unobtrusive assistant, whom the President frequently entrusted with important missions abroad.

Sadat regarded Mubarak as his natural successor and on occasions hinted that he was in any case contemplating an early transfer of power to his Vice-President. Mubarak expressed reluctance to assume the Presidency but, when it was thrust upon him, he displayed the same quiet competence seen in his earlier career. He shows growing confidence in filling the Presidential role, particularly in his dealings with foreign leaders. However he keeps a lower profile than Sadat and gives formal addresses to the nation on television; he seems to prefer impromptu press conferences and is impatient of diplomatic niceties. One of his favourite ways of meeting people is to pay a "surprise" visit to a factory or an agricultural project, during which individuals air their grievances and the President repeats his call for harder work and greater efficiency.

In foreign affairs, Mubarak has had some success. He handled the central problem of relations with Israel before the withdrawal from Sinai and after the invasion of Lebanon with caution and skill. His policy of restoring greater balance to Egypt's foreign relations has helped to overcome the difficulty of balancing Egypt's commitment to the Peace Treaty and the US with her desire to return to her place in a generally reluctant Arab world. His courageous support for the King Hussein/Arafat initiative forms part of this. Since becoming President Mubarak has continued to travel extensively abroad. He visited Britain in February 1985, when he was awarded the GCMG, and again briefly in January 1988 on his way to Washington.

Mubarak can also claim some success in moving Egypt towards the fuller democracy for which he has often called. The May 1984 People's Assembly elections were conducted with a much greater degree of fairness than had been expected. He has also given the Egyptian press greater freedom than at any time since the Revolution. As regards the threat to Egyptian democracy posed by the rise of an Islamic fundamentalist opposition outside Parliament, Mubarak has shown himself to be aware of the internal political challenges, and also that the publicity given to the phenomenon by the foreign media may undermine confidence in continued investment in Egypt.

Mubarak has also shown commendable persistence and determination in seeking remedies for Egypt's economic problems, the solution of which he has come to identify as his main priority. In the middle of 1986 he finally recognised that there was no alternative open to Egypt other than to seek agreement with the IMF and reschedule her foreign debts. Although he personally delayed introduction of the reforms required by the IMF, particularly the raising of energy prices, until after the elections for the People's Assembly in April 1987, since then Egypt has launched the programme to restructure her economy and is currently renegotiating her commercial debt through the Paris Club. Mubarak will need all his drive and determination to see this programme through.

Mubarak speaks Russian and English, his command of the latter growing with his confidence. He has no illusions about the Russians and attaches great importance to Egypt's relations with the United States and Western Europe. He likes to be in bed by 10.30 and rises early. He puts in long hours at the office and plays squash regularly.

Suzanne Mubarak, whom he married when she was 17, is the daughter of an Egyptian doctor (who died in 1981) and the former Lilian Palmer, a nurse from Pontypridd who lived in Cardiff until her death in about 1979. Mrs Mubarak, an attractive, lively and intelligent woman, studied sociology at the American University in Cairo in 1972-76 and supports a project for deprived children in the poor suburb of Bulaq. Since her husband became President, she has continued her charitable work and other public activities but without the publicity which surrounded Mrs Sadat. The Mubaraks have two sons (born 1960 and 1962): both read economics at the American University in Cairo, and one worked for a while with two British banks in London but has now returned to Cairo. The second is working for an American bank in Cairo, and seems likely to follow his brother's footsteps by taking a secondment in Lodon.

EUROPEAN COUNCIL MADRID, 26-27 JUNE 1989

Declaration on the Middle East

The European Council has examined the situation in the Middle East conflict in the light of recent events and of contacts undertaken over several months by the Presidency and the Troika with the parties concerned, and it has drawn the following conclusions:

1. The Policy of the Twelve on the Middle East conflict is defined in the Venice Declaration of 13 June 1980 and other subsequent declarations. It consists in upholding the right to security of all States in the region, including Israel, that is to say, to live within secure, recognised and guaranteed frontiers and in upholding justice for all the peoples of the region, which includes recognition of the legitimate rights of the Palestinian people, including their right to self-determination with all that this implies.

The Twelve consider that these objectives should be achieved by peaceful means in the framework of an international peace conference under the auspices of the United Nations, as the appropriate forum for the direct negotiations between the parties concerned, with a view to a comprehensive just and lasting settlement.

The European Council is also of the view that the PLO should participate in this process.

It expresses its support for every effort by the permanent members of the Security Council of the United Nations to bring the parties closer together, create a climate of confidence between them, and facilitate in this way the convening of the international peace conference.

2. The Community and its Member States have demonstrated their readiness to participate actively in the search for a negotiated solution to the conflict, and to co-operate fully in the economic and social development of the peoples of the region.
The European Council expressed its satisfaction regarding the policy of contacts with all the parties undertaken by the Presidency and the Troika, and has decided to pursue it.

3. The European Council welcomes the support given by the Extraordinary Summit Meeting of the Arab League, held in Casablanca, to the decisions of the Palestinian National Council in Algiers, involving acceptance of Security Council Resolutions 242 and 338, which resulted in the recognition of Israel's right to exist, as well as the renunciation of terrorism.

It also welcomes the efforts undertaken by the United States in their contacts with the parties directly concerned and particularly the dialogue entered into with the PLO.

Advantage should be taken of these favourable circumstances to engender a spirit of tolerance and peace with a view to entering resolutely on the path of negotiations.

4. The European Council deplores the continuing deterioration of the situation in the Occupied Territories and the constant increase in the number of dead and wounded and the suffering of the population.

It appeals urgently to the Israeli authorities to put an end to repressive measures, to implement resolutions 605, 607 and 608 of the Security Council and to respect the provisions of the Geneva Convention on the Protection of Civilian Populations in Times of War. They appeal in particular for the reopening of educational facilities in the West Bank.

5. On the basis of the positions of principle of the Twelve, the European Council welcomes the proposal for elections in the Occupied Territories as a contribution to the peace process, provided that:

- the elections are set in the context of a process towards a comprehensive, just, and lasting settlement of the conflict.

- the elections take place in the Occupied Territories including East Jerusalem, under adequate guarantee of freedom.

- no solution is excluded and the final negotiations takes place on the basis of Resolutions 242 and 338 of the Security Council of the United Nations, based on the principle of "land for peace".

6. The European Council launches a solemn appeal to the parties concerned to seize the opportunity to achieve peace. Respect by each of the parties for the legitimate rights of the other should facilitate the normalising of relations between all the countries of the region. The European Council calls upon the Arab countries to establish normal relations of peace and co-operation with Israel and asks that country in turn to recognise the right of the Palestinian people to exercise self-determination.

10 JUL 1989

Foreign and Commonwealth Office

London SW1A 2AH

10 July 1989

Dear Charles,

French Bicentenary: Discussion with President Aquino

A slot for a meeting with Mrs Aquino could not be agreed. We have therefore asked the French to place the Prime Minister close enough to Mrs Aquino at one of the Bicentenary meals to permit conversation . We do not yet know if this will be possible. If not, there should be an opportunity for a brief talk elsewhere in the Bicentenary margins. I enclose a personality note.

Mrs Aquino will be looking for help with trade, aid and debt. Our main objectives are to urge the establishment of a refugee processing centre for Vietnamese Boat people, to express support for the continued presence of US bases and to underline our support for (and investment in) the new democratic Philippines.

Vietnamese Boat people

Over 20,000 Vietnamese Boat people have arrived in Hong Kong this year alone. The Philippines already hosts two holding centres for Vietnamese boat people. In response to our active lobbying, at the refugee conference in Geneva, the Philippine Foreign Minister, Manglapus, offered to host a Regional Processing Centre (RPC) for refugees awaiting resettlement, subject to the establishment of a counterpart centre in Vietnam for those screened out. Several countries, including ourselves (£5 million), have offred to contribute to the RPC. UNHCR are now conducting urgent feasibility and cost studies. If Mrs Aquino raises the link between the Philippines centre and the one in Vietnam, the Prime Minister might say that the RPC in the Philippines is urgently needed to relieve pressure on Hong Kong, while the counterpart centre in Vietnam, is likely to be a transit, rather than a holding, camp. It will not be required for some months until there is a signigicant number of screened out to be processed. Timescales should thus not be linked but pressure on Vietnam maintained. Foreign Minister Manglapus was receptive to this line when Sir Geoffrey Howe put it to him in London recently.

Political Relations

There are no current bilateral problems. The UK was among the first to support Mrs Aquino when she came to power

in 1986 but she has not been able to take up a standing invitation to visit the UK as a guest of HMG. The Prime Minister might renew it.

Mrs Aquino may express gratitude for special training we have given to her Presidential Security Guard. Few of her Ministers and retinue are aware of it, so any reference to it will probably only be made in private.

Internal Political

Mrs Aquino has re-established democracy and contained both Communist and right-wing threats. She has lowered inflation and boosted economic growth. Her position seems secure until the elections in 1992. She insists that she will not stand for re-election but there is no obvious successor. The Prime Minister might:

- congratulate Mrs Aquino;

- say we hope domestic an~d foreign investment will increase, leading to sustained economic growth;

- point out that UK/Hong Kong is the largest investor in the Philippines.

Aid

Our contribution to the Philippines Assistance Plan (PAP: a multilateral aid initiative) is modest (a total of £15.2m for 1989, including Commonwealth Development Corporation commitments and £10.4m of trade support and technical cooperation). But the EC contribution as a whole is significant. In an effort to use foreign aid more efficiently, Mrs Aquino has made private enterprise an important element of the PAP. The Prime Minister could underline our support for the Plan in general, and the private enterprise aspect in particular.

Debt

The Philippines was one of the first countries to agree an IMF programme providing for resources to be used for debt reduction. Mrs Aquino might mention UK abstention on the IMF programme (together with FRG, Italy and Netherlands). Our reservations stemmed not from the Philippines' adjustment effort, but from concern that the banks should do their share in meeting a debtor's financing needs.

Mrs Aquino has in the past shown irritation at the attitude of commercial banks (including Barclays) in debt rescheduling negotiations. Mrs Aquino may ask the Prime Minister to encourage British banks to be flexible. The Prime Minister might:

- say that the Government has no control over commercial banks, but we hope an agreement can be reached quickly.

- commend Mrs Aquino's decision to agree (in May) an IMF adjustment programme.

US Bases

Under the new Constitution, the agreement covering the presence of US Bases in the Philippines must be renegotiated by 1991. Growing nationalist and anti-nuclear feeling in the Philippine Senate means that negotiations are likely to be acrimonious and the US presence may be phased out over the next twenty years, with the bases handed over to Philippine control. The Prime Minister could:

- express our support for the continued presence of the bases as a factor for regional stability;

- note that the Soviet "charm offensive" in South East Asia has so far produced no commitment to reduce its own military presence in the region; - note that (unlike the Philippines) we seek no rent for US bases in the UK.

I am copying this letter to Alex Allan (HM Treasury) and Trevor Woolley (Cabinet Office).

Yours,

Stephen

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

10 JUL 1989

PHILIPPINE PRESIDENT CORAZON COJUANGCO AQUINO

Born 1933 into the wealthy Cojuangco family, others of whom were influential Marcos supporters. High school and college education in New York. Began a law course in Manila in 1954 but withdrew after one semester to marry aspiring politician Benigno Aquino.

Following her husband's assassination in 1983 Mrs Aquino became an important symbol of opposition to the Marcos regime. Despite an initial reluctance to do so, she was persuaded to run for President in the "snap" elections in February 1986 and assumed power following Marcos' flight to the United States.

As President, her popularity has been consistently high but, as the initial euphoria of the "People's Power" revolution has begun to wear off, she has come under increasing criticism for lack of leadership and for her style of Government. She consults widely before making decisions, and the process of consultation gives the impression (partly justified) of indecision. Yet, she has acted decisively when required, for example with the sacking of her then Defence Minister Enrile following coup rumours in October/November 1986. She has reshuffled her Cabinet several times and survived various coup attempts. But her Administration continues to be criticised for failure to control corruption, protect human rights and to implement announced policies (eg on agrarian reform, import liberalisation etc). She has denied publicly that she will run again in the 1992 Presidential elections, but many suspect that she will be persuaded to do so.

Deeply religious, she is essentially a nice person with a superficial air of naiveté beneath which there is a good deal of steel. Initially careless of her safety she is now heavily protected by the Presidential Security Group wherever she goes.

RW5ABC

28 JUL 1989

CONFIDENTIAL
FM MANILA
TO DESKBY 060830Z FCO
TELNO 227
OF 060100Z JULY 89

FOR SEAD
PARIS TELNO 874: FRENCH BICENTENERY BILATERALS

1. IT LOOKS AS THOUGH THE PRIME MINISTER WILL ONLY HAVE A CHANCE FOR A FEW WORDS WITH PRESIDENT AQUINO IN PARIS. BUT IF YOU ARE PREPARING A FULL BRIEF, THE FOLLOWING POINTS MAY BE USEFUL.

2. ON THE REFUGEE PROCESSING CENTRE, THE UNHCR ARE FINDING IT HARD TO INTEREST THE DFA IN THEIR FEASIBILITY STUDY. APART FROM MOSTLY BEING ABROAD AT MEETINGS, SENIOR DFA OFFICIALS SEEM UNINTERESTED IN PRESSING AHEAD WHILST THE CONDITION OF A PARELLEL VIETNAM CENTRE IS NOT MET. MRS AQUINO MAY BE RECEPTIVE TO ARGUMENTS ABOUT HELPING HONG KONG AND GENERATING EMPLOYMENT IN BATAAN.

3. IT MIGHT BE BEST NOT TO MENTION OUR TRAINING OF THE PRESIDENTIAL SECURITY GROUP EXCEPT IN A ONE TO ONE TALK OR IF MRS AQUINO RAISES IT. SHE WILL BE ACCOMPANIED BY SEVERAL MINISTERS AND OTHER HANGERS - ON WHO ARE NOT AWARE OF THIS SENSITIVE PROJECT AND WHO COULD LEAK THINGS TO THE PRESS. IF EAVESDROPPERS ARE AROUND, THE PRIME MINISTER MIGHT PERHAPS REPLY ''WE ARE GLAD TO HELP WITH SECURITY TRAINING''. SUBSEQUENT ENQUIRERS COULD BE TOLD THIS INCLUDES THE ODA-FINANCED TRAINING OF AIRPORT SECURITY GUARDS HERE AND VISILS OF PHILIPPINE POLICEMEN TO THE UK.

4. THE MAIN PURPOSE OF MRS AQUINO'S JOURNEY TO BONN, PARIS AND BRUSSELS IS TO DRUM-UP TRADE AND INVESTMENT AND PROMOTE THE PHILIPPINE ASSISTANCE PROGRAMME. SHE IS ALSO HOPEFUL THAT THE FRENCH AND OTHERS WILL WORK FOR ANOTHER MENTION OF THE PHILIPPINES IN THE G7 COMMUNIQUE, PARTICULARLY IN THE AREA OF DEBT RELIEF. IF ANY RESPONSE IS NEEDED THE GENERALLY UPWARD TREND OF OUR AID COULD BE MENTIONED ON THE LINES OF DINHAM'S STATEMENT AT THE TOKYO PAP MEETING THIS WEEK.

5. A DEFENSIVE LINE MAY BE REQUIRED IN CASE MRS AQUINO MENTIONS OUR 1986 INVITATION TO VISIT THE UK.

6. FOR BACKGROUND BRIEFING, YOU HAVE OUR LPR ENTRY. ONE POINT WHICH STRIKES PEOPLE ON FIRST MEETING MRS AQUINO IS HER PREFERENCE FOR SMALL TALK (FAMILY, DOMESTIC MATTERS) RATHER THAN POLITICAL DISCUSSION. THE HIGHLIGHT OF HER VISIT TO HONG KONG IN APRIL 1988 WAS THE SHOPPING. HER DAUGHTERS OFTEN GO THERE AND HER BROTHER CONGRESSMAN PEPING COJUANGCO VISITS THE UK AND IRELAND TO BUY HORSES. SHE MAY BE AWARS THAT SENATOR SHAHANI VISITED THE UK LAST MONTH AND THAT SENATOR MACEDA (A FORMER COLLEAGUE WHO HAS BECOME A CRITIC) WILL BE IN THE UK 11-16 JULY.

MACINNES

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ADDITIONAL 14

PS/NO
MR WICKS, TREASURY
PS/CHANCELLOR, HM TREASURY
MR P J WESTON,
CABINET OFFICE

NNNN

Foreign and Commonwealth Office

London SW1A 2AH

CONFIDENTIAL

10 July 1989

Dear Charles,

French Bicentenary: Breakfast Meeting with Rajiv Gandhi: 0800-0900, 14 July

This meeting has been set up at Mr Gandhi's request as a London meeting in July proved impossible. General elections are due by December which precludes a visit later in the year. He will fly direct from Paris to Moscow for a meeting with Mr Gorbachev, and on to Islamabad for talks with Miss Bhutto.

This will be the first meeting between the two Prime Ministers since CHOGM in 1987; it will take place in a very different atmosphere. Over the last year, Gandhi finally appears to have decided that we are sincere in our wish to cooperate with him over Sikh extremism, and that he should regard Britain and the Prime Minister personally as friends. The Foreign Secretary's meeting with him in March went extremely well. For the first time in four years the two Prime Ministers should be able to meet without devoting most of their attention to contentious bilateral issues.

Our main objective will be to consolidate these welcome trends. We recommend devoting most of the meeting to a general discussion of international issues. We shall also want to explore discreetly whether there is scope for setting the seal on the improvement in our relations by clinching a major deal, possibly for military or civil aircraft.

Indian objectives are broadly similar. There is no indication that Mr Gandhi wishes to discuss any specific bilateral problems. He is probably keen to be seen to have a wide ranging dialogue with the Prime Minister on the major international issues of the day, to reinforce the image he will be projecting at home of a successful world statesman. He may ask for our sympathy and support in his current problems with Nepal and Sri Lanka.

Indo-British relations

The Prime Minister could:

- note the healthy state of relations, and refer to the Nehru Centenary celebrations. She opened the Nehru Gallery at the Victoria and Albert Museum on 7 June and has invited Vice-President Sharma to Britain for a Centenary Banquet in November.

/- refer

- refer to the special effort she and other Ministers have made in the past year to emphasise publicly our solidarity and cooperation with India in fighting Sikh terrorism; and enquire about progress in the Punjab.

- recall Lord Young's successful visit in February (when he met Gandhi); ask about the possible Rolls Royce participation in a Soviet-Indian project to produce civil aircraft (about which she wrote to him in March); and commend BAe's bid to supply the Advanced Turbo Prop (ATP) to Vayudoot, India's second internal airline, on attractive financial/industrial terms (rupee payment, substantial local participation in manufacture).

- refer briefly to the Hawk Jet Trainer, about which she wrote to Gandhi in January 1989. BAe have offered a very attractive package, involving zero foreign exchange cost to India: the only other serious contender is France. A decision seems unlikely before the Indian elections.

Other major projects are not ripe for decision. The British bid to build the Rihand II power station (Rihand I is nearing completion) is stalled, following good progress in negotiations, by the withdrawal of GEC's Italian boiler supplier. GEC are urgently seeking a new partner, and still hope for a contract by the autumn. There have been hints that Gandhi might be thinking of giving Britain a major contract to seal the improvement in our relations. ATP (cf300m) is probably our best bet, followed by Hawk (cf600m).

Indian Domestic Political Prospects

With six months to go before elections are due (no date announced) the opposition are divided and floundering, and Congress I's lacklustre performance seems to be offset by an increase in Gandhi's own standing. Barring a major upset, Gandhi seems set to be re-elected as Prime Minister, though probably with a much reduced majority. The Prime Minister could ask what scope he sees for further economic liberalisation after the elections.

South Asian Issues

Gandhi may raise India's current difficulties with Nepal and Sri Lanka. The Nepalese hope we will raise Nepal too and will see it as a sign of support (which they expect given the Gurkha connection).

India/Nepal

The Prime Minister might say there is great affection in this country for Nepal (Gurkhas, royal links) and concern over

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the suffering caused by the present dispute, (Nepal is starved of diesel fuel, and kerosene for cooking). We hope a very early negotiated solution can be found. Both sides have agreed to negotiate: time and place remain to be fixed. Nepal seems genuinely worried about India's intentions as to her future independence; the example of Sikkim is often quoted.

We believe Nepal's long term economic interests would be best served by close cooperation with India (enabling, for example, development of Nepal's hydro-electric potential), and we think Nepal's enthusiasm for a non-preferential (MFN) trade relationship with India misguided. We have made this plain to Nepal. Can we help in any way? But we would need to be able to offer Nepal some reassurance.

The Prime Minister should be aware that we are privately uneasy about Indian intentions, particularly in relation to the monarchy.

India/Sri Lanka (if raised)

Gandhi may complain of Premadasa's attempts to strike a deal with the LTTE (Tamil Tigers), whom the Indian Peace-Keeping Force (IPKF) have been unable to suppress, and of his unilateral call for the withdrawal of the IPKF by 29 July: this would imply virtual abandonment of the 1987 Indo-Sri Lankan Accord. Premadasa's moves seem intended to free his hands to deal with the more immediate menace of Sinhalese JVP terrorists, whose support derives in large part from popular resentment of the IPKF. But if the IPKF goes, Premadasa may well prove unable to hold the ring against both LTTE and JVP.

We have supported the Accord, and sympathise with the Indian predicament, but will not want to endorse a continuing Indian presence in Sri Lanka against Sri Lanka's wishes.

Afghanistan (only if raised)

Gandhi may ask whether Britain is now prepared to take an initiative to resolve the Afghan conflict. The Prime Minister reaffirm our belief that the Afghans must be left to determine their own future, and explain that, while we should like to see early progress towards a political settlement and the restoration of peace, it is for the resistance to decide whether, and in what terms, to negotiate.

Indo/Pakistan relations

Gandhi will no doubt want to hear the Prime Minister's impressions of her talks with Miss Bhutto and of her political prospects, in advance of his own meeting with her the following week. The Prime Minister might:

/- ask

- ask about Gandhi's aims for the meeting;

- welcome the recent improvement in relations between India and Pakistan, and the recently announced understanding on military disengagement on the Siachen glacier;

- ask about the prospects for further nuclear and non-nuclear confidence building measures.

International Issues

China

The Indian reaction to recent events in China has so far been very cautious. Gandhi's visit to China this year was the first by an Indian Prime Minister for 30 years, and he will be keen not to prejudice what has been achieved. The Prime Minister will no doubt want to explain our own position.

East/West Relations

The Indians privately feel disturbed by the rapid improvement in East-West relations, which they fear may devalue them in the eyes of the Soviet Union, their long-standing friend and main source of arms. The Soviet withdrawal from Afghanistan, and the resulting prospect of a Soviet-Pakistan rapprochement, sharpen this anxiety. Gandhi will want to hear the Prime Minister's impressions of Gorbachev and the prospects for East-West relations: she might ask what he expects from his own meeting with Gorbachev the following week.

European Community

India fears Spanish-led attempts to alter the balance of EC aid in favour of Latin America, to Asia's (and in particular India's) disadvantage. If this comes up, the Prime Minister could say that:

- Britain will continue to work to preserve Asia's share of the Community's Asia and Latin America programme.

- We strongly oppose 'Fortress Europe'.

- 1992 is an opportunity not a threat for India.

Commonwealth

The Prime Minister could note that Pakistan's re-entry seems on course. If the CHOGM agenda is raised, she could emphasise the need for important non-political items to get

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the full discussion they deserve and to avoid divisive debate on South African sanctions. (The Indians are concerned about environmental issues, likely to be an important agenda item, as well as Drugs and Terrorism.)

Mr Gandhi might raise the Secretary-Generalship. He is believed to be sympathetic to Fraser's candidature.

The High Commission in Delhi maintains a dialogue with the MEA over Fiji. The Constitutional Review Committee, set up by the Fiji Government, has finished gathering evidence and its report to the Fijian Cabinet (expected shortly) is likely to be critical of the draft constitution. Unless a constitution is imposed by Ratu Mara to meet his two year deadline (December) before he steps down, considerable debate seems likely. There seems no likelihood of Fiji re-applying for Commonwealth membership in the foreseeable future. If Fiji did apply, India would certainly oppose her readmission in present circumstances. Our offer of constitutional advice (Sir William Dale) in response to Fiji's request has now been declined by Ratu Mara.

South Africa

This is not a subject on which Mr Gandhi is ever particularly reasonable, but there are signs on this occasion that the Indians might like to prevent it looming too large in discussion. The Prime Minister may wish to give some impressions of her recent meeting with Mr de Klerk, stressing in particular:

- The encouraging signs that he accepts the need for change and negotiation.

- Our message on the early release of Mandela and other political prisoners.

- The elections in September.

- The need to encourage "new thinking" within South Africa. Strident calls for sanctions (eg at CHOGM) could jeopardise not only the positive climate for change within South Africa, but also Namibian independence (the Indians have contributed some military observers to UNTAG).

I am sending copies of this letter to Colin Walters in the Home Office, Brian Hawtin (MOD), Neil Thornton (DTI) and Alex Allan (HM Treasury).

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

GANDHI, RAJIV

Prime Minister since 31 October 1984.

Educated at Doon School, a tutorial college in London and Trinity College, Cambridge. Drafted into politics on the death of his brother Sanjay in June 1980. He was selected as Prime Minister by the inner group of Congress (I) on his mother's assassination on 31 October 1984. In the December 1984 elections he won a massive victory over a divided and lack-lustre opposition, taking an unprecedented four-fifths majority of the seats in the Lok Sabha. His first year in power was a success story. However since 1986 the going has become much tougher for Congress (I) and for Rajiv personally. The 'Mr Clean' of 1985 is now seen to have abandoned the effort to cleanse and reform Mrs Gandhi's corrupt party machine and resigned himself to trying to make it work; the recall in February of his confidant and fixer R K Dhawan, sacked when he took office, is widely seen as a sign of the times. In private he is calm, lucid, sensible, hard working and full of good intentions. But this is not how he comes across to the public. In Parliament he rarely speaks and, when he does, tends to make throwaway point-scoring remarks which offend by their lack of thought and sensitivity. But he retains important assets - Nehru-Gandhi legitimacy, broadly sensible and successful economic policies, his attractive personality and the absence of really credible alternatives.

His attitude towards Britain is one of some personal warmth based on his own experience at Cambridge and visits thereafter. He has however criticised a number of our policies for example over our treatment of Sikh extremists, nuclear arms control, South Africa, and immigration where he has described the 1986 imposition of visas on Indian visitors to the UK as "racist", and is particularly sensitive to real or imagined slights from Britain. He visited Britain in 1982 (for the Festival of India), 1985 (as Prime Minister) and 1986 (to attend the Commonwealth Review Meeting on South Africa).

Rajiv married Sonia, an Italian (daughter of a Turin businessman) whom he met at Cambridge in 1968.

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Foreign and Commonwealth Office

London SW1A 2AH

10 July 1989]

Dear Charles,

French Bicentenary: Bilateral with President of Uruguay

President Sanguinetti (whom the Prime Minister has not previously met) asked for this meeting following his recent meeting with President-elect Menem of Argentina. He has said that he wants to discuss the South Atlantic and also bilateral issues. The meeting will take place at 1610-1640 hrs at the Elysée. I enclose a personality note.

Since 1982, the Uruguayans have provided us with important Falklands-related assistance (principally on emergency flight diversions). Their vulnerability to Argentine pressure obliges them however to maintain a balance and to keep their help discreet. Earlier this year, in seeking to help the Alfonsin government keep the Peronists out of power, they tilted further towards Argentina. This caused us problems over an emergency diversion of an RAF aircraft and over access to Montevideo for a commercial shipping link (the 'Indiana') between the Falklands and the mainland. In addition Sanguinetti has been too nervous of the possible Argentine reaction to take up our 1987 invitation to pay an official visit to the UK during his term.

The Uruguayans are looking both for a reasonable relationship with Menem and an opportunity to improve their relations with us. Thus, they have an interest in promoting a more normal UK/Argentine relationship. When Menem visited Uruguay on 25 June, he told Sanguinetti that he wanted to take UK/Argentine relations forward and that he would set out his thinking in more detail when he met Sanguinetti again at his inauguration on 8 July. We expect therefore that Sanguinetti will wish to give the Prime Minister a first-hand account of Menem's views and possibly to convey a message from him.

In contrast to his belligerent comments early in his election campaign, Menem's recent statements on the Falklands have been more measured, with careful emphasis on the peaceful, diplomatic track. We have had other

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indications that he and his Foreign Minister-designate, Cavallo, may be considering a more pragmatic approach to the sovereignty issue. We have ourselves asked the Americans to convey a message to Menem reiterating our readiness to make progress on practical issues (leaving sovereignty on one side), while making clear our determination to defend our and Falklands interests. The Americans delivered the message at Menem's inauguration last week-end.

Sanguinetti's account of Menem's position will therefore be worth hearing (although the Prime Minister will want to discourage any Uruguayan wish for a mediatory role). The Prime Minister may wish to reaffirm our commitment to work for more normal relations with Argentina, provided the sovereignty issue is excluded. She could point out that if Menem is serious he could show it quickly and without difficulty by ending discriminatory restrictions on UK trade. For our part, we remain ready to pursue exchanges on fisheries conservation with Argentina, subject to satisfactory assurances on sovereignty and on the FICZ.

Our willingness to listen and to recognise Sanguinetti's concerns will make it easier for the Uruguayans to maintain their assistance to us on RAF diversions (for which the Prime Minister might express our appreciation). Sanguinetti may also say that he has persuaded Menem to raise no objection to future access to Montevideo by the 'Indiana'. We can welcome this, while making clear that the 'Indiana' is a commercial operation in which HMG is not involved.

The Prime Minister could tell Sanguinetti:

- we admire the way he has led Uruguay back to democracy;

- we sympathise with Uruguay's current economic difficulties (low growth rate, public sector too large; drought causing cattle losses and power shortages);

- we hope Sanguinetti will visit the UK;

- we want to bolster our relationship with Uruguay, hence our helpful position on beef exports to the EC, our decision to start a small aid programme, and our increased scholarship allocation.

Sanguinetti leaves office after the November 1989 election, while hoping to return as President in 1995

(the Uruguayan Constitution prohibits successive terms). His own choice for the next President was recently defeated in the ruling Colorado party internal elections. Nevertheless he remains influential as the statesman who re-established Uruguayan democracy and negotiated the military's retirement from politics after the period of military rule up to 1985.

I am copying this letter to Alex Allan (HMT) and Trevor Woolley (Cabinet Office).

Yours,
Stephen

(J S Wall)
Private Secretary

C D Powell Esq
10 Downing Street

DR JULIO SANGUINETTI
President of the Oriental Republic of Uruguay

Born 1936 in Montevideo of Genovese descent. A lawyer and journalist, first elected to Parliament in 1962.

Held Ministerial portfolios for Industry and Commerce, and Education and Culture. Became Colorado Party leader in 1983, and President in March 1985.

He is by nature friendly and cheerful and inspires loyalty and devotion among his collaborators.

Well disposed towards Britian, but within the limits imposed by the state of Anglo-Argentine relations. He is dedicated to the prospect of restoring Uruguay's fortunes and once high international prestige.

His interests include football, painting, literature and philosophy.

Married to a teacher of architectural history. Two children. Fluent in French, hesitant English.

He visited the UK in 1984. Never speaks from notes even on formal occasions.

10 JUL 1968

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PRESIDENT SANGUINETTI'S MEETING WITH THE PRIME MINISTER : 13 JULY

SUMMARY

1. PRESIDENT SANGUINETTI'S FORTHCOMING MEETING WITH THE PRIME MINISTER HAS NOT YET BEEN GIVEN PUBLICITY IN URUGUAY. PRESIDENT'S DOMESTIC POLITICAL STANDING NOT HIGH AT PRESENT. URUGUAYAN ECONOMY WEATHERING DIFFICULTIES QUITE WELL. PRESIDENT HAS GOOD REASONS TO WANT TO SEE AN IMPROVEMENT IN ANGLO-ARGENTINE RELATIONS.

DETAIL

2. PRESIDENT SANGUINETTI LEFT URUGUAY ON 7 JULY FOR ARGENTINA, PORTUGAL AND FRANCE STILL ABSORBING THE SHOCK OF THE OUTCOME OF HIS GOVERNING COLORADO PARTY INTERNAL ELECTIONS OF 28 MAY. HIS CHOSEN SUCCESSOR AND CURRENT VICE-PRESIDENT, TARIGO WAS HEAVILY DEFEATED BY SANGUINETTI'S ARCH-OPPONENT BATLLE, IN A VICTORY WHICH HAS BEEN INTERPRETED WIDELY AS A PERSONAL DEFEAT FOR THE PRESIDENT. IT IS BELIEVED THAT SANGUINETTI WILL RETURN TO PRIVATE LIFE IN MARCH 1990 WHEN THE NEW GOVERNMENT ASSUMES OFFICE, AND WILL RETURN TO ACTIVE POLITICS IN TIME TO RUN FOR PRESIDENT AGAIN IN 1994.

3. URUGUAY'S EXTERNAL ECONOMY IS HOLDING UP WELL DESPITE THE PROBLEMS OF ITS LARGER NEIGHBOURS, ARGENTINA AND BRAZIL. EXPORTS ARE INCREASING AND DEBT AND UNEMPLOYMENT LEVELS ARE MANAGEABLE. INFLATION, HOWEVER, IS WORSENING (NOW RUNNING AT 80% PER ANNUM COMPARED WITH 69% IN 1988), AND THE LONG TERM EFFECTS OF THE DROUGHT (NOW IN ITS FIFTEENTH MONTH) COULD BE SERIOUS FOR AGRICULTURAL EXPORTS (ON WHICH THE ECONOMY DEPENDS) IN THE LONGER

TERM. THE ELECTRICITY SUPPLY POSITION HAS IMPROVED AND ZONAL POWER CUTS HAVE BEEN SUSPENDED UNTIL 16 JULY WHEN THE SITUATION WILL BE REVIEWED. THERE IS HOWEVER A DISCONTENT WITH THE WAY IN WHICH PRESIDENT SANGUINETTI'S GOVERNMENT HAVE HANDLED THE ECONOMY AND TARIGO'S DEFEAT IN THE COLORADO INTERNALS IS IN PART A MANIFESTATION OF THIS.

4. THERE HAS BEEN NO ANNOUNCEMENT AS YET ABOUT PRESIDENT SANGUINETTI'S MEETING WITH THE PRIME MINISTER IN THE URUGUAYAN MEDIA (CF BUENOS AIRES TELNO 244 TO THE FCO (NOT TO ALL)). PRESIDENT SANGUINETTI WILL ALMOST CERTAINLY WISH TO PRESENT HIMSELF AS AN ACCEPTABLE GO-BETWEEN IN THE HOPE OF PLAYING A PART IN THE IMPROVEMENT OF ANGLO-ARGENTINE RELATIONS. URUGUAY HAS NOT ENJOYED BEING PIGGY-IN-THE-MIDDLE OVER RAF DIVERSIONS, INDIANA, SERVICING FISHING VESSELS WHICH USE THE FICZ ETC AND WILL BE ANXIOUS TO ESCAPE THESE TENSIONS IF BILATERAL ANGLO-ARGENTINE RELATIONS IMPROVE. URUGUAY WOULD ALSO LIKE TO RESTORE THE TRADING RELATIONSHIP WHICH EXISTED WITH THE FALKLAND ISLANDS PRIOR TO 1982, PARTICULARLY GIVEN THE NEW AFFLUENCE IN THE ISLANDS, AND WILL HOPE THAT THEIR FISHING INDUSTRY CAN BENEFIT FROM ANY RELAXATION IN OUR RELATIONS WITH ARGENTINA (EG BY FISHING IN THE FICZ).

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MR FEARN
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MISS SPENCER
MR CAINES, ODA

Foreign and Commonwealth Office

London SW1A 2AH

10 July 1989

Dear Charles,

French Bicentenary: Bilateral with the President of Mexico

The Prime Minister will meet President Salinas at 1530-1600 on 13 July at the Elysée. I enclose a personality // note and the Ambassador's scene-setting telegram. He will be accompanied by Dr Serra Puche, the Minister of Trade and Industry.

Internal Political

Salinas took office last December in difficult political and economic circumstances. The popularity of the ruling Institutional Revolutionary Party (PRI) was at a low ebb, after six years of austerity and declining living standards. In the Presidential election Salinas won only just over 50% of the vote on a low turnout (the first time in 60 years that a PRI candidate had obtained less than 70%). The opposition claimed that the PRI's slender victory was achieved by fraud. However, Salinas moved quickly to restore his domestic and international standing. He has shown himself a tough and decisive leader. He has broken the power of the wealthy and corrupt oil workers' union and moved against other centres of curruption. In April the country's biggest drugs baron was arrested, together with numerous provincial officials and police officers in this pay. Cocaine seizures are sharply up. The Americans are understandably pleased.

Salinas has also pursued sensible and responsible economic policies. Inflation is down from 180% two years ago to 20%. A programme of extensive privatisation and restructuring of an overblown public sector has been undertaken. The number of parastatals has been halved and the major surviving parastatals such as the oil company PEMEX are being restructured. As a result of diversification, non-oil exports now account for 68% of total exports. Foreign investment rules have been greatly liberalised.

Debt

Salinas has invested much political capital in achieving a big reduction in the burden of servicing the US 103 billion external debt. Encouraged by the Brady initiative, Mexico has reached agreement with the IMF on a programme worth $4.1 billion and with the World Bank on loans worth $1.5 billion,

both including a set aside for debt reduction. In May, the Paris Club rescheduled $2.6 billion of official debt. Negotiations with the commercial banks are proving difficult. Mexico has offered the banks a reduction in either the face value of the debt or the interest on it, in return for collateral or interest support from the Fund and Bank; or provision of new money. The Banks have now offered a 30% discount on face value or an interest rate reduced to 7 1/4% compared with a reduced Mexican request for a 45% discount or a 5% interest rate. Mexico is looking in addition for some $3.5 billion of new money per year, but the banks are offering only about $1 billion. Higher world interest rates are aggravating Mexico's problems but higher oil prices have partly compensated for this.

Bilateral Relations

Anglo-Mexican bilateral relations are good but thin on substance. Mexico is the UK's second largest Latin American market but our market share is a disappointing 1.5%. UK investment in Mexico, including funds orginated from the Cayman Islands, totals about $1 billion, putting the UK in second position behind the USA. There are some 200 UK/Mexican joint ventures. Last November a new UK/Mexico air services agreement was signed, but BA have suspended plans to serve Mexico because of difficulties with staffing, equipment and route management. A bilateral anti-narcotics agreement, is under discussion.

The Mexicans have proposed that Salinas' meeting with the Prime Minister should cover:

- bilateral relations, scope for increasing trade and tourism.

- UK role in the renegotiations of Mexico's debt.

- Cooperation on drugs. - Mexico's new foreign investment regulations

- Privatization.

- Possible visit by the Prime Minister to Mexico. - Prospects for the G7 Summit.

- British views on the prospects for the international oil market and recent events in the Gulf.

The Prime Minister may wish to make the following points:

- We share Mexico's desire to strengthen relations, including trade and tourist exchanges. The Foreign Secretary will visit Mexico in September; Mr Alan Clark later in the year. A discussion on introduction of BA's planned service to

Mexico must be for BA's commerical judgment.

- We applaud Salinas' continued efforts to restructure and liberalise the Mexican economy. The limited use of IFI resources to encourage commercial bank debt reduction was agreed with good adjusters like Mexico in mind. It is now for debtors and banks to negotiate the best deal possible. Proposals for further public sector contributions would simply give the banks an excuse to delay.

- (if necessary). It is not HMG's policy to interfere in the banking system.

- Congratulate Salinas on recent successes against narcotics trafficking and cultivation in Mexico.

- Express the hope that a bilateral agreement with effective provisions to trace, freeze and confiscate traffickers' assets can be concluded (the Mexicans are pushing for a more general approach).

- Welcome the recent liberalisaiton of Mexico's foreign investment regulations.

- Seek confirmation of reports from Mexico that once the present debt negotiation with the commercial banks is concluded, Salinas will allow debt/equity swaps.

The Prime Minister will not need special briefing on the remaining topics proposed by the Mexicans.

I am copying this letter to Alex Allan (HMT) and Trevor Woolley (Cabinet Office).

Yours,

Stephen

(J S Wall)
Private Secretary)

C D Powell Esq
10 Downing Street

SALINAS DE GORTARI, LIC. CARLOS

President of the Republic since 1 December 1988.

Born 3 April 1948 in Mexico City.

Joined the PRI at the age of 18. Graduated in Economics from UNAM (1966-69). In 1972 Salinas went to Harvard University for his post-graduate studies: Masters in Public Administration (1973), Masters in Political Economy (1976) and Doctorate in Political Economy (1978).

He worked as an analyst in the Finance Ministry in 1970 and 1974. In 1976 he was Deputy Director of Economic Studies. In 1979 de la Madrid, then Minister of Budget and Planning, appointed Salinas Director General of Economic and Social Policy to prepare the Ministry's Global Development Plan. When de la Madrid was chosen as presidential candidate of the PRI in 1981, he appointed Salinas head of the Institute of Political, Economic and Social Studies (IEPES) - the body responsible for drafting the policies and programmes of the incoming administration.

On de la Madrid's accession in 1982, Salinas was appointed Minister of Budget and Planning at the age of 34. For the next six years he was de la Madrid's closest economic adviser. He was generally perceived to be the architect of the Administration's economic austerity measures. He was also a strong advocate of Mexican membership of the GATT and other elements of de la Madrid's attempts to open up the Mexican economy.

Salinas' nomination as the PRI's presidential candidate on 4 October 1987 reflected de la Madrid's preference for continuity and consolidation in Mexico's economic policies. Salinas was seen as the quintessencial modern technocrat, never having held elective office, nor worked in the party machine.

Salinas is sharp intellectually but his lack of political experience makes him somewhat dependent on a group of close political advisers. He performs competently if rather stiffly in public but is relaxed and personable in private. He is a keen sportsman: jogging, tennis and horseriding (for which he received a silver medal in the Pan-American Games in 1971).

He married Cecilia Occelli Gonzalez in 1972. They have three children who study at the Japanese school in Mexico City. The family often appear in public, reflecting the importance Salinas attaches to family life.

He speaks good English.

PERSONAL & CONFIDENTIAL

cc Duty Clerk.

HM Treasury

Parliament Street
London SW1P 3AG
Telephone 01 270 4369

N L Wicks CVO CBE
Second Permanent Secretary

C D Powell Esq
10 Downing Street
LONDON
SW1

10 July 1989

Dear Charles

PARIS ECONOMIC SUMMIT: DRAFT OF THE ECONOMIC DECLARATION

At the weekend the Sherpas discussed the first draft of a possible communique for the Economic Summit. The outcome of their discussion is attached. Of course, this draft is very much of a cockshy. The final version will depend on the Heads' discussion and could be very different from the text attached. But Attali, sensibly, believes it helpful to have language to hand on what are sometimes controversial or technical issues, in case it is needed.

The draft bears all the hallmarks of a text drafted by a Committee under French chairmanship. It is too long and in places convoluted and obscure. But it contains passages which we can strongly support and nothing, I think, inimical to our interests. The Sherpas will discuss the text again on Thursday evening and during the Summit itself as the Heads' discussion proceeds. It would be helpful to have any particular points the Prime Minister would like me to make in these further discussions.

Some explanation of the draft is as follows.

(i) Introduction (paragraphs 1-2): this sets the scene; wordy but unobjectionable.

(ii) International Economic Situation (paragraphs 3-9): this passage reflects the two camps - those, the UK, Canadians and Germans, who regard inflation as the most pressing international economic problem; and those, particularly the US and the French, and supported by the Italians and the Japanese, who put the priority on the reduction of the external imbalances. Paragraph 4 is a strong, and early, statement of our view about the importance of controlling inflation. The US and French take comfort from the qualification to inflation "where it has increased", seeming to believe that this weakens the paragraph's message

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as it affects them. But in fact inflation has increased for all G7 members since the last Summit. Paragraph 7 includes a reference to structural reform in Japan and Germany on which there is more useful material in paragraph 14.

(iii) International Monetary Developments and Co-ordination (paragraphs 10-13): paragraph 11 caused much debate. The French hanker after a return to a worldwide system of fixed exchange rates. The US, with Italian and French support, suggested at one stage that the Heads should ask Finance Ministers to make recommendations to the next Summit on steps to improve the co-ordination process. This met opposition from Germany, Japan, Canada (I think) and ourselves. Paragraph 11 is the outcome, effectively conceding to the view of Germany, Japan and ourselves. I doubt whether this will be reopened at the Summit.

Most Sherpas opposed insertion of a favourable reference to President Mitterrand's plan for a fund financed by SDRs to help third world debtors. But the French insist on some reference in the text to SDRs. Hence the reference in paragraph 12; this is simply factual and has nothing to do with the French SDR fund.

(iv) Improving Economic Efficiency (paragraphs 14-16): there are useful references in paragraph 14 to reform of financial markets strengthening competition policies and to distribution and transportation policies. These are areas where we think the Germans and Japanese, as the case may be, should reform their economies. The Canadians were unsuccessful in including a reference to agricultural reform. Only the US and UK supported them. We will try again later.

Paragraphs 15 and 16 contain references to two French hobby horses, the need to increase savings and to combat insider trading.

(v) Trade Issues (paragraphs 17-21): discussions on trade are in a lull between last April's Mid-Term Review and the completion of the GATT round itself. The purpose of the paragraphs is to give political impetus to the continuing negotiations and to send a strong message against restrictive trade practices, unilateral action, bilateralism etc, like the US Super 301 procedure. We will try to toughen up the passage in further discussions. The US wish to omit the passage in square brackets in paragraph 18; they believe it gives developing countries a let out from the disciplines of the GATT round. We alone have some sympathy for their position. Paragraph 21 represents an uneasy compromise, but one acceptable to us, on export credit subsidies, though the US, Canada and ourselves would have preferred a stronger version, eg asking the OECD to complete their work by the next Ministerial.

(vi) General Problems of Development (paragraphs 22-24) and the Situation in the Poorest Countries (paragraphs 25-28): no problems here. There is a reference in paragraph 22 to the UN aid target, but it helpfully does not mention the 0.7 per cent of GNP figure.

(vii) Strengthened Debt Strategy for the Heavily Indebted Countries (paragraphs 29-31): these paragraphs restate the current debt strategy as it has emerged from recent discussions in the IMF and World Bank. Only the French want to go further now. The US rightly argue that any

point about the availability of extra public sector money would simply distract the developing countries and the bankers.

(viii) Environment (paragraphs 32-50): this is by far the longest section reflecting the French wish to give prominence to the environment. The text meets all our interests, despite one or two objectionable features. Paragraph 36 contains useful words on the economics of environmental protection, which reflect the Prime Minister's interest in this aspect and the paper I circulated earlier in the year to the Sherpa group. The square brackets in paragraph 38 on the ozone layer and CFCs contain US words reflecting their hesitations on the Montreal protocol. The Germans may try again at the Summit to strengthen the next sentence about ozone depleting substances not covered by the Montreal protocol. This causes us problems. We are seeing whether those problems are so insuperable as to prevent us supporting stronger language. The plug for nuclear power in paragraph 40 is the best so far achievable in the face of Italian and German reluctance. Paragraph 44 gives a useful boost to our initiative for a framework convention on climate change. The last part of paragraph 45 reflects US concern on oil spills. Paragraph 46 about international law on the environment is an Italian hobby horse, which according to my Italian colleague is dear to the hearts of De Mita and Andreotti. The Italians wanted some form of Summit commitment to establish an International Law for the Environment analogous to the International Law for the Sea. After great difficulty and some Italian chagrin, it was watered down to paragraph 46. We can expect them to return to the issue at the Summit. The last sentence of paragraph 47 "Some of us have agreed ..." refers to the French ideas for a new environmental institution. It has the support of all delegations, except the US and ourselves. Paragraph 48 on bioethics reflects Delors' interest in this issue. Paragraph 49 on flooding in Bangladesh fully meets the Prime Minister's undertaking to President Ershad to have this matter discussed at the Summit.

(ix) Drug Issues (paragraphs 51 and 52): this contains some good language which meets our interests, including support for the conference on drug demand reduction which we are hosting in 1990. The one point of disagreement, in the last inset, concerns the terms of reference for the study by experts. The US favours the language in square brackets which provides a comprehensive remit to consider virtually all aspects of the drug problems. Others prefer the study to concentrate on the narrower issue of money laundering. We are in the latter camp, but could probably go along with the US text.

The Prime Minister will be provided with briefing on all these points. But if she has particular points at this stage, it would be very helpful to have them.

There was no discussion of the Thematic Paper which I sent you on 6 July. So that version can be taken as the final edition.

I am sending copies of this letter to Stephen Wall (FCO), Alex Allan (HMT) and to Sir Robin Butler.

Yours sincerely

Nigel Wicks

N L WICKS

SUMMIT OF THE ARCH

ECONOMIC DECLARATION

1) We, the Heads of State or Government of seven major industrial nations and the President of the Commission of the European Communities have met in Paris, for the fifteenth annual Economic Summit. The Summit of the Arch initiates a new round of Summits to succeed those begun at Rambouillet in 1975 and at Versailles in 1982. The round beginning in 1982 has seen one of the longest periods of sustained growth since the Second World War. These Summits have permitted effective consultations, offered the opportunity to launch initiatives and to strengthen international cooperation.

2) This year's world economic situation presents three main challenges:

- The choice and the implementation of measures needed to maintain balanced and sustained growth, counter inflation, create jobs and promote social justice. These measures should also facilitate the adjustment of external imbalances, promote international trade and investment, and improve the economic situation of developing countries.

09/07/89
19:00

- The development and the further integration of developing countries into the world economy. Whilst there has been substantial progress in many developing countries, particularly those implementing sound economic policies, the debt burden and the persistence of poverty, often made worse by natural disasters affecting hundreds of millions of people, are problems of deep concern which we must continue to face in a spirit of solidarity.

- The need to safeguard the environment for future generations. This calls for a concerted international response and for the adoption, worldwide, of policies based on sustainable development.

INTERNATIONAL ECONOMIC SITUATION

3) Growth has been sustained by focusing policies on improving the efficiency and flexibility of our economies and by strengthening our cooperative efforts and the coordination process. In the medium term, the current buoyant investment seen during this period should pave the way for an increased supply of goods and services and help reduce the dangers of inflation. The outlook is not, however, without risks.

4) Until now, the threat of inflation in many countries has been contained, thanks to the concerted efforts of governments and monetary authorities. But continued vigilance is required and inflation, where it has increased, will continue to receive a firm policy response so that it will be put on a downward path.

5) While some progress has been made in reducing external imbalances, the momentum of adjustment has recently weakened markedly: further progress in adjusting external imbalances through cooperation is crucial.

6) In countries with fiscal and current account deficits, including the United States of America, Canada and Italy, further reductions in budget deficits are needed. Action will be taken to bring them down. This may help reduce the savings-investment gap and external imbalances, contribute to countering inflation and encourage greater exchange rate stability in a context of decreasing interest rates.

7) Countries with external surpluses, including Japan and Germany, should continue to pursue appropriate macroeconomic policies and structural reforms that will encourage non-inflationary growth of domestic demand and facilitate external adjustment.

8) All our countries share the responsibility in the sound development of the world economy as a whole. Over the medium term, deficit countries have to play a key role in global adjustment through their external adjustment and increased exports; surplus countries have to contribute to sustaining global expansion through policies providing favourable conditions for growth of domestic demand and imports.

9) The emergence of the newly industrializing economies and the initiation of a dialogue with them are welcome. We call on those with substantial surpluses to contribute to the adjustment of external imbalances and the open trade and payments system. To that end, they should permit exchange rates to reflect their competitive position, implement GATT commitments and reduce trade barriers.

INTERNATIONAL MONETARY DEVELOPMENTS AND COORDINATION

10) Under the Plaza and Louvre agreements, our countries agreed to pursue, in a mutually reinforcing way, policies of surveillance and coordination aimed at improving their economic fundamentals and at fostering stability of exchange rates consistent with those economic fundamentals.

There has been progress in the multilateral surveillance and coordination of economic policies with a view to ensuring internal consistency of domestic policies and their international compatibility. The procedures to be used have been more clearly defined and improved in cooperation with the International Monetary Fund.

11) The coordination process has made a positive contribution to world economic development and it has also contributed greatly to improving the functioning of the International Monetary System. There has also been continued cooperation in exchange markets.

It is important to continue, and where appropriate, to develop this cooperative and flexible approach to improve the functioning and the stability of the International Monetary System in a manner consistent with economic fundamentals. We therefore ask the Finance Ministers to continue to keep under review possible steps that could be taken to improve the coordination process, exchange market cooperation, and the functioning of the International Monetary System.

12) We welcome the decision to complete the work on the ninth review of the International Monetary Fund quotas with a view to a decision on this matter before the end of the year.

09/07/89
19:00

We note that the question of a resumption of S.D.R. allocation remains under consideration in the Executive Board of the International Monetary Fund.

13) Within the European Community, the European Monetary System has contributed to a significant degree of economic policy convergence and monetary stability.

IMPROVING ECONOMIC EFFICIENCY

14) We will continue to promote measures in order to remove inefficiencies of our economies. These inefficiencies affect many aspects of economic activity, reduce potential growth rates and the prospects for job creation, diminish the effectiveness of macroeconomic policies, and impede the external adjustment process. In this context, tax reforms, modernisation of financial markets, strengthening of competition policies and reducing existing rigidities are necessary. So are the improvement of education and vocational training, transportation and distribution systems and further policies aimed at giving more flexibility and mobility to the labour market and reducing unemployment. Within the European Community, the steady progress towards the implementation by 1992 of the program contained in the Single

Act has already given a strong momentum to economic efficiency.

15) The decline of saving in some of our countries in this decade is a cause for concern. This lower level of saving can contribute to high real interest rates and therefore hamper growth. Inadequate saving and large fiscal deficits are associated wtih large external deficits. We recommend, within the framework of policy coordination, policies to encourage saving and remove hindrances where they exist.

16) Financial activities are being increasingly carried out with new techniques on a worldwide basis. As regards insider trading, which could hamper the credibility of financial markets, regulations vary greatly among our countries. These regulations have been recently, or are in the process of being, strengthened. International cooperation should be pursued and enhanced.

TRADE ISSUES

17) World trade developed rapidly last year. Yet protectionism remains a real threat. We strongly reaffirm our determination to fight it in all its forms. We shall fulfill the Punta del Este standstill and rollback commitments which, inter alia, require the avoidance of any trade restrictive or

distorting measure inconsistent with the provisions of the General Agreement and its instruments. We agree to make effective use of the improved GATT dispute settlement mechanism and to make progress in negotiations for further improvements. We will avoid any discriminatory or autonomous actions, which undermine the principles of the GATT and the integrity of the multilateral trading system. We also are pledged to oppose the tendency towards unilateralism, bilateralism, sectoralism and managed trade which threatens to undermine the multilateral system and the Uruguay Round negotiations.

18) The successful negotiation of the Trade Negotiations Committee of the Uruguay Round in Geneva last April, thereby completing the mid-term review, is a very important achievement. It gives a clear framework for future work in all sectors including the pursuit of agricultural reform in the short term as well as in the long term. It also gives the necessary framework for substantive negotiations in important sectors not yet fully included in GATT disciplines, such as services, trade related investment measures and intellectual property.

Developing countries participated actively in these negotiations and contributed to this success. All countries should make the most constructive contribution possible

[consistent with their respective stages of economic development].

We express our full commitment to making further substantive progress in the Uruguay Round in order to complete it by the end of 1990.

19) We note with satisfaction the entry into force of the Free Trade Agreement between Canada and the US, as well as more recent initiatives to intensify the close economic relations between the European Community and EFTA countries. It remains our policy that these and other developments in regional cooperation, should be trade-creating and complementary to the global liberalisation process.

20) It is the firm intention of the European Community that the trade aspects of the single market program should also be trade-creating and complementary to the global liberalization process.

21) We note with satisfaction the progress that has been made in strengthening the multilateral disciplines on trade and aid distorting export credit subsidies. This effort must be pursued actively and completed in the competent bodies of the OECD with a view to improving present guidelines at the earliest possible date.

GENERAL PROBLEMS OF DEVELOPMENT

22) We shall help developing countries by opening the world trading system, by the continuation of their support for structural adjustment and diversification in commodity dependent countries and by encouraging them to create a favourable environment for transfers of technology and capital flows.

We underline the continuing importance of official development assistance and welcome the increased efforts of some of our countries in this respect. We note the targets already established by international organizations for the future level of official development assistance and stress the importance of overall financial flows to development.

We underline simultaneously the importance attached to the quality of the aid, the evaluation of the projects and the programs financed.

23) We urge developing countries to implement sound economic policies. A vital factor will be the adoption of financial and fiscal policies which attract inward investment, encourage growth and the return of flight capital.

24) We note with satisfaction that there has been substantial progress in the multilateral aid initiative for the Philippines that was given special attention in the Toronto economic declaration.

THE SITUATION IN THE POOREST COUNTRIES

25) The enhancement of the International Monetary Fund Structural Adjustment Facility, the World Bank special program of assistance for the poorest and most indebted countries and the fifth replenishment of the African Development Fund are all important measures benefiting those countries having embarked upon an adjustment process. We stress the importance attached to a substantial replenishment of International Development Association resources.

26) As we urged last year in TORONTO, the Paris Club reached a consensus in September 1988 on the conditions of implementation of significant reduction of debt service payments for the poorest countries. Thirteen countries have already benefitted by this decision.

27) We welcome the increasing grant element in the development assistance as well as the steps taken to convert loans into grants. Flexibility in development aid as much as in debt rescheduling is required.

28) We attach great importance to the efficient and successful preparation of the next general conference of the United Nations on the least developed countries, which will take place in Paris in 1990.

STRENGTHENED DEBT STRATEGY FOR THE HEAVILY INDEBTED COUNTRIES

29) Although our approach to the debt problems has produced significant results, serious challenges remain: in many countries the ratio of debt service to exports remains high, financing for growth promoting investment is scarce, and capital flight is a key problem. An improvement in the investment climate must be a critical part of efforts to achieve a sustainable level of growth without excessive levels of debt. These improvements of the current situation depend above all on sustained and effective adjustment policies in the debtor countries.

30) To address these challenges, we are strongly committed to the strengthened debt strategy. This will rely, on a case-by-case basis, on the following actions:

- borrowing countries should implement, with the assistance of the Fund and the Bank, sound economic policies, particularly designed to mobilize savings, stimulate investment and reverse capital flight;

- banks should increasingly focus on voluntary, market-based debt and debt service reduction operations, as a complement to new lending;

- the International Monetary Fund and World Bank will support significant debt reduction by setting aside a portion of policy-based loans;

- limited interest support will be provided, through additional financing by the International Monetary Fund and the World Bank, for transactions involving significant debt and debt service reduction. For that purpose the use of escrow accounts is agreed;

- continued Paris Club rescheduling and flexibility of export-credit agencies;

- strengthening of the international financial institutions capability for supporting medium-term macroeconomic and structural adjustment programs and for compensating the negative effects of export shortfalls and external shocks.

31) In the framework of this strategy:

- we welcome the recent decisions taken by the two institutions to encourage debt and debt service reduction and to provide adequate resources for these purposes;

- we urge debtor countries to move ahead promptly to develop strong economic reform programs that may lead to debt and debt service reductions in accordance with the guidelines defined by the two Bretton Wood institutions;

- we encourage banks to take realistic and constructive approaches in their negotiations with the debtor countries. In particular we urge them to negotiate temporary waivers of existing lending provisions that inhibit debt and debt service reduction. We stress that official creditors should not substitute for private lenders. Our governments are prepared to consider as appropriate tax, regulatory and accounting practices with a view to eliminating unnecessary obstacles to debt and debt service reductions.

ENVIRONMENT

32) There is growing awareness throughout the world, of the necessity to preserve better the global ecological balance. Scientific studies have revealed the existence of serious threats to our environment such as the depletion of the stratospheric ozone layer, excessive emissions of carbon dioxide and other greenhouse gases which could lead to future climate changes. We note with great concern the growing pollution of air, lakes, rivers, oceans and seas; acid rain, dangerous substances; and the rapid desertification and deforestation. Such environmental degradation endangers species and undermines the well-being of individuals and societies.

Decisive action is urgently needed to understand and protect the earth's ecological balance. We will work together to achieve the common goals of preserving a healthy and balanced global environment in order to meet shared economic and social objectives and to carry out obligations to future generations.

33) We urge all countries to give further impetus to scientific research on environmental issues, to develop necessary technologies and to make clear evaluations of the economic costs and benefits of environmental policies.

The persisting uncertainty on some of these issues should not unduly delay our action.

In this connection, we ask all countries to combine their efforts in order to improve observation and monitoring on a global scale.

34) We believe that international cooperation should also be enhanced in the field of technology and technology transfer in order to reduce pollution or provide alternative solutions.

35) We believe that industry has a central role in preventing pollution at source, in waste minimization, in energy conservation, and in the design and marketing of cost-effective clean technologies. The agricultural sector must also contribute to tackling problems such as water pollution, soil erosion and desertification.

36) Environmental protection is integral to issues such as trade, development, energy, agriculture and economic planning. Therefore, environmental considerations must be taken into account in economic decision-making. In fact good economic policies and good environmental policies are mutually reinforcing.

In order to achieve sustainable development, we shall ensure the compatibility of economic growth and development with the protection of the environment. Environmental protection and related investment should contribute to economic growth. In this respect, intensified efforts for technological breakthrough are important to reconcile economic growth and environmental policies.

Clear assessments of the costs, benefits and resource implications of environmental protection should help governments to take the necessary decisions on the mix of price signals (e.g., taxes or expenditures) and regulatory actions, reflecting where possible the full value of natural resources.

We encourage the World Bank and regional development banks to integrate environmental considerations into their activities. International organisations such as the OECD and the United Nations and its affiliated organizations, will be asked to develop further techniques of analysis which would help governments assess appropriate economic measures to promote the quality of the environment. We expect the 1992 UN Conference on Environment and Development to give additional momentum to the protection of the global environment.

37) To help developing countries deal with past damage and to encourage them to take environmentally desirable action, economic incentives may include the use of aid mechanisms and specific transfer of technology. In special cases ODA debt forgiveness and debt for nature swaps may play a useful role for the environmental protection.

We also emphasize the necessity to take into account the interests and needs of developing countries in sustaining the growth of their economies and the financial and technological requirements to meet environmental challenges.

38) The depletion of the stratospheric ozone layer gives particular cause for concern.

We welcome the HELSINKI conclusions related, among other issues, to the complete abandonment of the production and consumption of chloro-fluorocarbons covered by the MONTREAL protocol as soon as possible and not later than the end of the century [assuming the development of safe substitutes]. Attention should also be given to those ozone-depleting substances not covered by the Montreal protocol. We shall promote the development and use of suitable substitute substances and technologies. More emphasis should be placed on projects that provide alternatives to chloro-fluorocarbons.

39) We advocate common efforts for the reduction of emissions of carbon dioxide and other greenhouse gases, which threaten to induce climate change, endangering the environment and ultimately the economy. We strongly support the work undertaken by the Intergovernmental Panel on Climate Change, on this issue.

We need to strengthen the worldwide network of observatories for greenhouse gases and support the World Meteorological Organisation initiative to establish a global climatological reference network to detect climate changes

40) We agree that increasing energy efficiency could make a substantial contribution to these goals. We urge international organizations concerned to encourage measures, including economic measures, to improve energy conservation and, more broadly, efficiency in the use of energy of all kinds and to promote relevant techniques and technologies.

While we are committed to maintaining the highest safety standards for nuclear power plants and to strengthening international cooperation in safe operation of power plants and waste management, we recognize that nuclear power also plays an important role in limiting output of greenhouse gases.

41) Deforestation also affects the atmosphere and must be prevented at a global level. We call for the adoption of sustainable forest management practices, with a view to preserving the scale of world forests. The relevant international organizations will be asked to complete reports on the state of the world's forests by 1990.

42) While recognizing the sovereign rights of developing countries to make use of their natural resources, we encourage, through a sustainable use of tropical forests, the protection of all the species therein and the traditional rights to land and other resources of local communities. We welcome the German initiative in this field as a basis for progress.

To this end, we recommend a greater and quicker implementation of the Tropical Forest Action Plan which was adopted in 1986 in the framework of the Food and Agricultural Organization. We appeal to both consumer and producer countries, which are united in the International Tropical Timber Organization, to join their efforts to ensure better conservation of the forests. We express our readiness to assist the efforts of nations with tropical forests through financial and technical cooperation, and in international organizations.

43) Temperate forests, lakes and rivers must be protected against the effects of acid pollutants such as sulphur dioxides and nitrogen oxides. It is necessary to pursue actively the bilateral and multilateral efforts to this end.

44) The increasing complexity of the issues related to the protection of the atmosphere calls for innovative solutions. New instruments may be contemplated. The conclusion of a framework or umbrella convention on climate change to set out general principles or guidelines would be a useful way both to mobilize and rationalize the efforts made by the international community. We welcome the work under way by the United Nations Environment Program, in cooperation with the World Meteorological Organization, drawing on the work of the Intergovernmental Panel on Climate Change and the results of other international meetings. Specific protocols containing concrete commitments could be fitted into the framework as scientific evidence requires and permits.

45) We condemn indiscriminate use of oceans as dumping grounds for polluting waste. There is a particular problem with the deterioration of coastal waters. To ensure the sustainable management of the marine environment, we recognize the importance of international cooperation in preserving it and conserving the living resources of the sea. We call for relevant bodies of the United Nations to prepare a report on the state of the world's oceans.

We express our concern that national, regional and global capabilities to contain and alleviate the consequences of maritime oil spills be improved. We urge all countries to make better use of the latest monitoring and clean-up technologies. We ask all countries to adhere to and implement fully the international conventions for the prevention of oil pollution of the oceans. We also ask the International Maritime Organization to put forward proposals for further preventive action.

46) We are committed to ensuring full implementation of existing rules for the environment. In this respect, we note the initiative of the Italian government to host in 1990 a forum on international law for the environment with scholars, scientific experts and officials, to consider the need for a digest of existing rules and to give in-depth consideration to the legal aspects of environment at the international level.

47) We advocate that existing environment institutions be strengthened within the United Nations system. In particular, the United Nations Environment Program urgently requires strengthening and increased financial support. Some of us have agreed that the establishment within the United Nations of a new institution may also be worth considering.

48) We have taken note of the report of the sixth conference on bioethics held in Brussels which examined the elaboration of a universal code of environmental ethics based upon the concept of the "human stewardship of nature".

49) It is a matter of international concern that Bangladesh, one of the poorest and most densely populated countries in the world, is periodically devastated by catastrophic floods.

We stress the urgent need for effective, coordinated action by the international community, in support of the Government of Bangladesh, in order to find solutions to this major problem which are technically, financially, economically and environmentally sound. In that spirit, we take note of the different studies concerning flood alleviation, initiated by France, Japan, the US and the United Nations Development Program, which have been reviewed by experts from all our countries. We welcome the World Bank's agreement, following those studies, to coordinate the efforts of the international community so that a sound basis for achieving a real improvement in alleviating the effects of flood can be established. We also welcome the agreement of the World Bank to chair, by the end of the year, a meeting to be held in the United Kingdom by invitation of the Bangladesh Government, of the countries willing to take an active part in such a program.

50) We give political support to projects such as the joint project to set up an observatory of the Saharan areas, which answers the need to monitor the development of that rapidly deteriorating, fragile, arid region, in order to protect it more effectively.

DRUG ISSUES

51) Faced with the growing dimensions of drug problems, we stress the urgent need for decisive action, both on a national and an international basis. We urge all countries, especially those where drug production, trading and consumption are large, to join our efforts to counter drug production, to reduce demand, and to carry forward the fight against drug trafficking itself and the laundering of its proceeds.

52) Accordingly, we resolve to take the following measures within relevant fora:

- Greater emphasis on bilateral and United Nations programs for the conversion of illicit cultivation in the producer countries. The United Nations Fund for Drug Abuse Control (UNFDAC), and other United Nations and multilateral organizations should be supported, strengthened and made more effective. These efforts could include particular support for the implementation of effective programs to stop drug cultivation and trading as well as developmental and technical assistance.

- Strengthen the role of the United Nations in the war against drugs through an increase in its resources and through reinforced effectiveness of its operation.

- Intensify the exchange of information on the prevention of addiction, and rehabilitation of drug addicts.

- Support the international conference planned for 1990 on cocaine and drug demand reduction.

- Strengthen the efficiency of the cooperative and mutual assistance on these issues, the first steps being a prompt adhesion to, ratification and implementation of the Vienna Convention on illicit traffic in narcotic drugs and psychotropic substances.

- Conclude further bilateral or multilateral agreements and support initiatives and cooperation, where appropriate, which include measures to facilitate the identification, tracing, freezing, seizure and forfeiture of drug crime proceeds.

- Convene a special group of experts from Summit Participants and other countries interested in these problems to assess the results of cooperation already undertaken in order [to stem the flow of illegal drugs. It is of particular importance that the group consider means] to prevent the utilization of the banking system and financial institutions for the purpose of money laundering, to consider additional preventive efforts,

including revisions of laws and regulations so as to enhance multinational judicial assistance. The first meeting of that group will be called by France.

53) International cooperation against AIDS

We take note of the creation of an International Ethics committee on AIDS which met in Paris in May 1989, has decided at the Summit of Venice (June 1987). It assembled the Summit Participants and the other members of the EC, together with the active participation of the World Health Organization.

54) Next Economic Summit

We have accepted the invitation of the President of the United States to meet next year in the United States of America.

09/07/89
19:00

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PARIS SUMMIT: UNITED STATES ECONOMIC PERSPECTIVE

SUMMARY

1. US SUMMIT REPRESENTATIVES LIKELY TO BE BULLISH ABOUT G7 ECONOMIC SITUATION AND, IN PARTICULAR, DEVELOPMENTS IN US ECONOMY. US OFFICIALS MAY PROVE MORE PRICKLY ON QUESTION OF RECENT RISE IN EUROPEAN INTEREST RATES. US MAY ALSO PRESSURE G7 PARTNERS TO INTERVENE WITH MEMBER BANKS IF MEXICAN DEBT DEAL NO FURTHER FORWARD AT TIME OF SUMMIT.

DETAIL

2. US OFFICIALS ARE LIKELY TO PROVE UPBEAT ABOUT WORLD ECONOMIC PROSPECTS AT THE PARIS SUMMIT. SPEAKING AT A 6 JULY PRESS CONFERENCE, TREASURY SECRETARY BRADY REFERRED TO CURRENT ECONOMIC CONDITIONS AROUND THE WORLD AS QUOTE VERY, VERY GOOD UNQUOTE. HE EXPECTED THE ECONOMIC UPSWING TO CONTINUE QUOTE AT A SUSTAINABLE PACE AT LEAST THROUGH 1990 UNQUOTE. FURTHERMORE, INFLATION FOR MOST G7 COUNTRIES WAS EXPECTED TO QUOTE REMAIN MODEST AND CONTAINED UNQUOTE.

3. US OFFICIALS ARE LIKELY TO BE SANGUINE, IN PARTICULAR, ABOUT US DEVELOPMENTS. MARKETS HAD BEEN CONCERNED AS TO WHETHER THE FED COULD PUT A SUFFICIENT BRAKE ON US INFLATIONARY PRESSURES WITHOUT THROWING THE ECONOMY INTO RECESSION. LATEST INDICATORS (SEE MY TELNO 1832) SUGGEST THAT THIS BALANCING ACT HAS WORKED SO FAR: GROWTH HAS SLOWED TO A (STILL RESPECTABLE) 2 PER CENT RATE AND THE FED HAS FELT SUFFICIENTLY CONFIDENT ABOUT INFLATION AS TO BEGIN UNWINDING SOME OF ITS PREVIOUS MONETARY TIGHTENING.

4. DESPITE THIS OPTIMISM, HOWEVER, THE US ARE LIKELY TO CONTINUE TO WANT TO PRESS FOR MORE ACTION ON TRADE IMBALANCES. MANY ANALYSTS IN THE US HAVE POINTED OUT THAT THE UNDERLYING IMPROVEMENT IN THE TRADE DEFICIT HAS STALLED SINCE THE EARLY PART OF 1988, WITH MORE RECENT FIGURES RESULTING MORE FROM THE REDUCED COST OF US IMPORTS AS THE DOLLAR HAS RISEN. THERE IS LITTLE CONVINCING EVIDENCE THAT A REAL DOWNWARD TREND IS EMERGING. THE US WILL THEREFORE BE KEEN TO SEE COMMITMENTS TO STRUCTURAL REFORM THAT THEY CAN POINT TO AS AN ALTERNATIVE INDICATION OF PROGRESS GIVEN THE LACK OF GENUINE

IMPROVEMENTS IN THE TRADE DEFICIT NUMBERS.

5. THE US ARE ALSO LIKELY TO FEND OFF CRITICISM OF THEIR OWN STRUCTURAL WEAKNESSES BY POINTING TO THE REDUCTION IN THE BUDGET DEFICIT SINCE 1986 (WHEN IT REACHES DOLLARS 220 BILLION) AND THE RECENT BUDGET AGREEMENT. HOWEVER, THE DEFICIT HAS STUCK AT AROUND DOLLARS 150 BILLION SINCE 1987 AND IS, IF ANYTHING, DRIFTING UPWARDS. THE BUDGET AGREEMENT REMAIN LITTLE MORE THAN GOOD INTENTIONS WHICH, EVEN IF IMPLEMENTED WOULD PROBABLY LEAVE THE FY1990 OUTTURN UNCHANGED AT AROUND DOLLARS 150 BILLION (AFTER ALLOWANCE FOR EXPENDITURE ON THE THRIFT INDUSTRY CRISIS). FOR THE MEDIUM TERM THERE REMAINS LITTLE EVIDENCE OF EITHER THE ADMINISTRATION OR CONGRESS MAKING SERIOUS ATTEMPTS TO TACKLE THE DEFICIT, EVEN THOUGH, AS IS OFTEN THE CASE, THE PLAYERS ARE TALKING TOUGH ABOUT WHAT THEY WILL DO NEXT YEAR.

6. IN REGARD TO EXTERNAL ECONOMIC DEVELOPMENTS, THE US ADMINISTRATION ARE UNLIKELY TO HAVE WELCOMED THE 29 JUNE ROUND OF INTEREST RATE INCREASES IN EUROPE, FEARING ADVERSE CONSEQUENCES FOR EUROPEAN GROWTH, US EXPORTS AND THE US TRADE DEFICIT. NEVERTHELESS, GIVEN THE APPARENT STRENGTH OF ACTIVITY IN EUROPE, US CRITICISM OF THE RATE RISES MAY BE MUTED. INDEED, BRADY APPEARS TO HOPE FOR AN UNCONTENTIOUS SUMMIT WITH REGARD TO MACRO ECONOMIC COOPERATION AND COORDINATION. QUERIED AT HIS PRESS CONFERENCE ABOUT AREAS OF CONTENTION, BRADY NOTED THE FAVOURABLE WORLD ECONOMIC CONDITIONS AND SUGGESTED IT WAS NOT THE TIME QUOTE TO FIDDLE WITH THE CONTROLS TOO MUCH WHEN YOU'VE GOT THAT KIND OF A BACKDROP UNQUOTE.

7. THE ADMINISTRATION'S COMMITMENT TO PROGRESS ON THE BRADY DEBT PLAN IS MORE LIKELY TO BE A SOURCE OF DISAGREEMENT, PARTICULARLY IF NO FURTHER PROGRESS HAS BEEN MADE ON THE NEGOTIATIONS BETWEEN MEXICO AND THE BANKS OVER DEBT REDUCTION. THE US AUTHORITIES (INCLUDING THE FED AND THE TREASURY) HAVE LEANED HARD ON US BANKS IN AN ATTEMPT TO GET AN AGREED PACKAGE. THE FED SUSPECT THAT MORE COULD BE DONE TO THIS END IN EUROPE (SEE MY TELNO 1819). THIS COULD FLARE UP IF NO DEAL HAS BEEN REACHED BY THE TIME OF THE SUMMIT (OR AT LEAST THE CLEAR PROSPECT OF A DEAL ON PREDICTABLE TERMS) AND IF EUROPEAN BANKS ARE PERCEIVED TO BE DRAGGING THEIR FEET.

8. FCO COPY TO PS/CHANCELLOR, SIR TERENCE BURNS, EVANS, SEDGWICK AND MELLISS (TREASURY), RICHARDSON AND BROADBENT (FCO) AND GREEN (BANK).

FALL

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THE BICENTENARY OF THE FRENCH REVOLUTION

SUMMARY

1. SOME OF THE CELEBRATIONS MAY BE TEDIOUS, SOME WILL BE FUN. THE FRENCH WILL GRUMBLE AT THE DISRUPTION, BUT THE WORLD'S EYES WILL BE ON FRANCE. THE REVOLUTION IS NOT IN ITSELF AN INSPIRATION FOR THE MODERN GENERATION, BUT IT IS RECOGNISED AS A SOURCE OF FRENCH REPUBLICAN IDEALS AND OF THE STRENGTH OF FRANCE'S UNIVERSAL APPEAL.

DETAIL

2. 200 YEARS AGO ON 14 JULY A FRENCH MOB STORMED THE BASTILLE AND RELEASED THE FEW DECREPIT PRISONERS. LAFAYETTE HIJACKED THE KEY TO THE BASTILLE AND TOOK IT WITH HIM TO AMERICA. IT HAS BEEN KEPT THERE EVER SINCE. LATER THIS WEEK IN PARIS PRESIDENT BUSH WILL HAND IT BACK (ON SHORT-TERM LOAN) TO PRESIDENT MITTERRAND. THIS WILL BE ONE OF THE SYMBOLIC HIGH SPOTS OF THE BICENTENARY CELEBRATIONS. THERE WILL BE OTHERS, ALONG WITH NO DOUBT SOME LOW COMIC RELIEF.

3. THE PRIME MINISTER, YOU AND THE CHANCELLOR WILL SEE A PARIS SURFEITED AND POSSIBLY PARALYSED BY THE CELEBRATION OF THE BICENTENARY. I HOPE THAT SOME OF IT WILL BE FUN: CERTAINLY SOME WILL BE HARD GOING. HERE ARE MY IMPRESSIONS OF WHAT IT MEANS.

4. PARIS MAY BE PARALYSED BECAUSE MITTERRAND'S DECISION TO COMBINE THE BICENTENARY CELEBRATIONS (23 HEADS OF STATE AND GOVERNMENT) AND THE ECONOMIC SUMMIT (SEVEN) MAKES FOR HORRENDOUS PROBLEMS OF SECURITY AND MOBILITY. THE FRENCH, IN A CHARACTERISTICALLY AUTOCRATIC WAY, HAVE DECIDED TO CLOSE MUCH OF PARIS TO TRAFFIC, AND INCIDENTALLY TO CLOSE THE LOUVRE FOR THREE DAYS, WHICH WILL NOT PLEASE THE TOURISTS. PIERRE JOXE WILL BE RESPONSIBLE IF ANYTHING GOES WRONG. THE DEPLOYMENT OF 30,000 POLICE AND SECURITY MEN AND THE INSTALLATION OF ANTI-AIRCRAFT GUNS ON THE TOLBIAC BRIDGE INDICATES THE SPIRIT IN WHICH HIS MEN ARE APPROACHING THE CELEBRATIONS.

5. PARIS WILL BE SURFEITED BECAUSE ONE COMMODITY THE BICENTENARY

HAS GENERATED IN FULL SUPPLY HAS BEEN WORDS. THEY ARE STILL BEING CHURNED OUT IN THEIR MILLIONS BY JOURNALISTS AND ACADEMICS, ON THE MEANING OF THE REVOLUTION FOR OUR TIME. THERE IS NO SHORTAGE OF EXHIBITIONS TOO, OF VARYING QUALITY. PARIS HAS BEEN SPRUCED UP: THE DOME OF THE INVALIDES MARVELLOUSLY RE-GILDED, THE TUILERIES GARISHLY DECKED OUT.

6. ALL THIS IS TO THE GREATER GLORY OF FRANCE AND OF MITTERRAND, IN EITHER ORDER.

7. MANY SOPHISTICATED PARISIANS HAVE HAD ENOUGH AND SAY THEY ARE ABANDONING PARIS THIS WEEK FOR THE COUNTRY. SOME POLLS SHOW DISSATISFACTION WITH THE EXPENSE AND INDIFFERENCE OR WORSE ABOUT THE CELEBRATIONS. BUT IT IS INCONCEIVABLE THAT THE BICENTENARY OF A CONSPICIOUS HISTORICAL LANDMARK LIKE THE FRENCH REVOLUTION SHOULD NOT BE CELEBRATED ON A MASSIVE SCALE. THE MAN IN THE MONTPARNASSE OMNIBUS, OR IN THE FRENCH PROVINCES WOULD EXPECT NOTHING LESS. THE FRENCH ARE GREAT GRUMBLERS. BUT MITTERRAND'S POLITICAL INSTINCTS RARELY BETRAY HIM. HE MAY TURN OUT TO HAVE JUDGED THE MOOD CORRECTLY: SATISFACTION AND PRIDE THAT FRANCE STANDS FOR A SHORT PERIOD WHERE IT NATURALLY SHOULD STAND - AT THE CENTRE OF THE WORLD'S ATTENTION. THE PROOF IS THE PRESENCE OF ALL THOSE HEADS OF STATE AND GOVERNMENT.

THE DEBATE

8. FEW FRENCHMEN WOULD WANT THEMSELVES OR FRANCE TO BE SUBSTANTIALLY OTHER THAN THEY ARE. SO THE INHERITANCE OF THE REVOLUTION WHICH SHAPED MODERN FRANCE - REPUBLICAN INSTITUTIONS, UNIVERSAL EDUCATION, THE NAPOLEONIC CODE - ARE BROADLY ACCEPTED AND SOURCES OF PRIDE. BUT THERE HAS BEEN A LIVELY DEBATE ON WHAT THE REVOLUTION MEANS TODAY. THE FRENCH ASK THEMSELVES WHETHER THE REVOLUTION MUST BE ACCEPTED AS A WHOLE - QUOTE EN BLOC UNQUOTE, TERROR AND ALL. A HUNDRED YEARS AGO, WHEN THE ISSUES WERE MUCH MORE REAL AND DIVISIVE, CLEMENCEAU THOUGHT THIS WAS SO. EGGS HAD TO BE BROKEN TO MAKE THE OMELETTE OF REPUBLICAN FRANCE. MITTERRAND HAS SET HIMSELF IN THE SAME TRADITION. BUT HE HAS PICKED OUT, AS THE KEY PARTS OF THE TRADITION, HUMAN RIGHTS - ABOUT WHICH YOU WILL HEAR A LOT LATER THIS WEEK - AND CONCERN FOR THE QUOTE EXCLUDED UNQUOTE: THE POOR, IMMIGRANTS, THE REJECTS OF SOCIETY.

9. THE BICENTENARY HAS NOT, AS MITTERRAND MAY HAVE HOPED, SERVED AS A MOBILISING OR INSPIRING FORCE FOR THE YOUNG. NOR HAS IT PROVED SERIOUSLY DIVISIVE. THIS IS BECAUSE THE ISSUES IT RAISES ARE NOT THE KEY ONES FOR MODERN FRANCE. BUT ALL THE OLD ARGUMENTS HAVE BEEN

GIVEN AN AIRING. IN THE VENDEE, WHERE THE TERROR TOOK ITS BIGGEST TOLL, MANY RESENT THE FESTIVITIES. BUT BROADLY SPEAKING THE FRENCH, INCLUDING THE CATHOLIC CHURCH, ARE RECONCILED TO THEIR HISTORY.

10. LAST WEEK IN PARIS GORBACHEV PAID TRIBUTE TO 1789 AS THE BOURGEOIS REVOLUTION, UNSATISFACTORY IN MANY WAYS, WHICH SPAWNED THE GREAT OCTOBER REVOLUTION. HE GAVE THE LATTER HIGHER MARKS. THAT VIEW WOULD HAVE PLEASED FRANCE'S 1950S AND 1960S MARXISTS. IT DOES NOT PLEASE TODAY'S SCEPTICAL INTELLECTUALS, WHO ARE DISENCHANTED WITH COMMUNISM. THEY PREFER TO SEE THE IDEAS OF 1789 AS HAVING BEEN BETRAYED BY 1917 AND REASSERTED IN TIANANMEN SQUARE AND IN POLAND AND HUNGARY TODAY. THIS WILL BE ANOTHER MAJOR THEME OF THE CELEBRATIONS.

11. THE DECLARATION ON HUMAN RIGHTS WILL BE CENTRE STAGE. THERE IS A CERTAIN DELICIOUS IRONY IN ITS EXPLOITATION TO BRING TOGETHER FIRST AND THIRD WORLD: AT THE TIME, AS A COMMENTATOR POINTED OUT ONLY THIS WEEK IN LE MONDE, THE AUTHORS OF THE DECLARATION AFFIRMED THE NEED TO MAINTAIN SLAVERY, ESSENTIAL TO FRANCE'S SUGAR AND COFFEE TRADE. IT WAS ONLY ABOLISHED IN 1794 IN ORDER TO WIN THE SUPPORT OF THE SLAVES OF SANTO DOMINGO AGAINST THE INVADING ENGLISH EXCLAMATION MARK IN OTHER WORDS, THE DECLARATION OF HUMAN RIGHTS WAS A DOCUMENT OF ITS TIME, NOT A UNIVERSAL PRESCRIPTION.

12. THE PUBLIC DEBATE HAS DENTED FRENCH EGOISM TO THE EXTENT OF BRINGING OUT THE CONTRIBUTION OF THE ANGLO/SAXONS TO LIBERTIES AND HUMAN RIGHTS. A FEW HAVE POINTED OUT HERE THAT IT HAS BEEN THE UNITED STATES, NOT FRANCE, WHICH OF RECENT YEARS HAS CARRIED THE TORCH FOR HUMAN RIGHTS IN THE SOVIET UNION AND EASTERN EUROPE. SOME HAVE REFLECTED THAT THESE EVENTS, INTENDED TO SHOW THE CENTRALITY OF FRANCE, POINT TO A DIFFERENT LESSON: THAT, UNLIKE IN 1789, FRANCE IS BUT ONE OF A NUMBER OF MEDIUM SIZE COUNTRIES, NO LONGER A MODEL TO OTHER COUNTRIES IN CULTURE, LANGUAGE OR POLITICS.

THE EVENTS

13. I CANNOT PROMISE MUCH FOR THE TROCADERO, AT WHICH AN ACTOR WILL READ EXTRACTS FROM THE DECLARATION ON HUMAN RIGHTS, NOR FOR THE MILITARY PARADE ON THE CHAMPS ELYSEES. THE MEALS SHOULD BE DELICOUS AND THE FIREWORKS STUNNING. THE CONCERT AT THE NEW BASTILLE OPERA HOUSE IS AN UNKNOWN. THE GRAND POPULAR PARADE IN THE CHAMPS ELYSEES/PLACE DE LA CONCORDE PROMISES MUCH. ITS CREATOR, A PUBLICIST, DESCRIBES IT AS A QUOTE MUSICAL AND CHOREOGRAPHIC CREATION ON A SCALE NEVER REALISED BEFORE UNQUOTE. 6,000 PEOPLE AND GROUPS WILL TAKE PART, INCLUDING THE BAND OF THE ROYAL SCOTS DRAGOON

GUARDS, AS WELL AS AMERICANS, RUSSIANS (UNDER SNOW), AFRICAN DANCERS, TORCHES, FLAGS, DRUMMERS, ELEPHANTS AND ZEBRAS. FRENCH PANACHE SHOULD GIVE US MEMORABLE MOMENTS - AT A COST. MONEY IS LITTLE OBJECT (THOUGH WE HAVE RECENTLY RECEIVED PLEAS FOR FINANCIAL HELP).

CONCLUSION

14. THE FRENCH ARE COMMEMORATING ONE OF THE FORMATIVE EVENTS IN WORLD HISTORY, MARKING FOR BETTER OR WORSE THE BEGINNINGS OF THE MODERN WORLD. THE FRENCH SEE THE REVOLUTION AS HAVING A UNIVERSAL MESSAGE, AND WE SHOULD NOT UNDER-ESTIMATE ITS APPEAL FOR THE COUNTRIES OF EASTERN EUROPE, AND LATIN AMERICA. THE ANGLO/SAXONS ARE LARGELY IMPERVIOUS TO THIS UNIVERSAL APPEAL, THOUGH BRITISH ATTITUDES TO WHETHER THE REVOLUTION WAS A GOOD THING HAVE BEEN DIVIDED FROM THE 1790S ON: TOM PAINE AND EDMUND BURKE REPRESENT THE EXTREMES.

15. VERY NASTY THINGS HAPPENED IN THE NAME OF THE FRENCH REVOLUTION. IT LED TO THE TERROR, AND THEN TO A MILITARY AUTOCRACY (NAPOLEON'S TRAINS WOULD ALSO HAVE RUN ON TIME): TO MASS ARMIES RAMPAGING AROUND EUROPE, TO THE JUSTIFICATION OF THE MEANS BY THE ABSTRACT END WHICH HAS LED TO SO MUCH EVIL IN OUR CENTURY. GORBACHEV WAS RIGHT NOT TO GIVE IT FULL MARKS, THOUGH THE OCTOBER REVOLUTION AND ITS CONSEQUENCES WERE STILL WORSE. BUT EVEN IF ONE IS CLOSER BY CONVICTION TO BURKE THAN PAINE, ONE SHOULD NOT BEGRUDGE MITTERRAND AND FRANCE THEIR POSITION CENTRE STAGE IN WHAT PROMISES TO BE A STRANGE, COLOURFUL AND MEMORABLE FEW DAYS.

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FROM: N L WICKS
DATE: 10 JULY 1989
Ext : 4369

MR C D POWELL

THE BICENTENNIAL CELEBRATIONS AND THE PARIS ECONOMIC SUMMIT

You may be interested to have the following information which Attali gave Sherpas at the weekend on the arrangements for the Bicentennial celebrations. Some of this is, I think, not new.

i. The Presidents of Yugoslavia, Mali, Cameroon, Niger and Cyprus have now been added to the guest list. President Menem of Argentina was not now coming.

ii. The Presidents of Mexico, Philippines, Egypt, Bangladesh and a group of Latin nations had asked the French to arrange a joint meeting between Summit Heads and the Heads attending the Revolutionary Celebrations. Attali said that the French had declined to organise such a meeting on the basis that the Revolutionary Celebrations and the Summit were separate. The Presidents of Senegal, Egypt and Venezuela and the Prime Minister of India had asked the French to use the occasion to announce a North/South Summit. The first three had indicated that they could well raise this issue in any bilaterals with the Summit Seven though Mr Gandhi had, apparently, said that he would not raise this if there was no consensus for the proposal. Attali told Sherpas that the French had replied that they would not raise this question at the Summit. It was up to the guests to raise it, if they wanted. The French would simply take note.

iii. The Presidents of Gabon, Congo and the Cameroon had given notice that they would wish to raise at their bilaterals with Summit Heads the issue of public sector (presumably Paris Club) debt.

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iv. The Bicentennial Celebrations had given the French Protocol nightmares, not least of which was the fact that according to international precedence, President Bush was the most junior of the Presidents attending. Gallic ingenuity had solved this conundrum by dividing the world into five regions, into alphabetical order: Africa, America (North), America (South), Asia and Europe. Allotting protocol precedence to the first in each group, followed by the second and so on. This had the convenient result of putting President Bush second in protocol order after President Houphouet-Boigny!

v. President Mitterrand hoped that the Heads would use their intervention at the first session on Friday to give their priorities for the Summit as well as dealing with world economic issues. I will provide a paragraph or so as supplement to the speaking notes which I sent to you last week. Attali said that the President's present intention was to call speakers at this session in international protocol order - which, I think, puts Mrs Thatcher at No 3 after President Mitterrand and President Bush (which seems satisfactory).

I am sending a copy of this minute to Stephen Wall (FCO), Alex Allan (HMT) and to Trevor Woolley (Cabinet Office).

N.L.W.

N L WICKS

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ECONOMIC SUMMIT: FRENCH VIEWS ON NORTH/SOUTH DIALOGUE

SUMMARY

1. ATTALI HINTS AT FRENCH AMBITIONS FOR A RENEWED NORTH/SOUTH DIALOGUE.

DETAIL

2. IN AN INTERVIEW IN TODAY'S LIBERATION DESIGNED TO COUNTER CRITICISM OF THE DECISION TO HOLD THE ECONOMIC SUMMIT AT THE SAME TIME AS THE BICENTENARY CELEBRATIONS, THEREBY ORIENTING THEM TOWARDS THE RICH AND POWERFUL RATHER THAN THE POOR AND DEPRIVED, ATTALI (FRENCH SHERPA) WAS ASKED WHETHER THE FRENCH HAD TRIED BUT FAILED TO ORGANISE, IN EFFECT, A NORTH-SOUTH SUMMIT. ATTALI DENIED THAT THIS HAD EVER BEEN THE FRENCH INTENTION (QUOTE THESE THINGS TAKE SEVERAL YEARS TO ORGANISE UNQUOTE). BUT HE DREW ATTENTION TO THE REAL BENEFIT TO NORTH AND SOUTH THAT WOULD FLOW FROM THE MANY NORTH/SOUTH BILATERALS THAT WOULD TAKE PLACE IN THE MARGINS OF THE SUMMIT/CELEBRATIONS, INCLUDING THOSE, FOR EXAMPLE, BETWEEN THE MEXICAN PRESIDENT AND REPRESETNATIVES OF CREDITOR COUNTRIES, AND THE PRESIDENT OF BANGLADESH AND THOSE CONCERNED WITH FLOOD RELIEF THERE.

3. ASKED ABOUT THE CONTRAST BETWEEN THE WELL-ESTABLISHED AND WELL-ORGANISED G7 PROCESS, AND THE MUCH LESS EFFECTIVE NORTH-SOUTH COORDINATION MECHANISMS, ATTALI STRESSED THAT FRANCE HAD ALWAYS WORKED HARD FOR BETTER NORTH/SOUTH UNDERSTANDING IN THE RELEVANT INSTITUTIONS (UN, IFIS ETC) ADDING, HOWEVER, THAT QUOTE THAT DOES NOT MEAN THAT NORTH/SOUTH SUMMITS ARE DEAD. FRANCE IS KEEPING OPEN THE POSSIBILITY OF TAKING AN INITIATIVE IN THIS SENSE WHEN THE TIME IS RIPE UNQUOTE. ASKED WHEN THAT MIGHT BE, ATTALI REPLIED THAT QUOTE SINCE 1981 FRANCE HAS WANTED TO SEE CONDITIONS CREATED WHICH WOULD ALLOW REGULAR AND CONSTANT DIALOGUE BETWEEN INDUSTRIALISED AND DEVELOPING COUNTRIES. WE ARE WORKING ON IT. I CAN'T SAY MORE FOR THE MOMENT UNQUOTE.

COMMENT

4. THIS LEAVES THE WAY OPEN FOR SOME SORT OF FRENCH INITIATIVE AT

MDHIAN 2[illegible]

THE SUMMIT - EG ON THE LINES OF JAY'S TELELETTER OF 26 JUNE TO RICHARDSON (ERD) - BUT EQUALLY, BY STRESSING THE SUBSTANCE IN THE VARIOUS BILATERALS, GIVES THE FRENCH A LET OUT IF NOTHING MATERIALISES.

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ECONOMIC SUMMIT

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PRIME MINISTER

ECONOMIC SUMMIT

You started on some of the reading for the Summit at the weekend. I now attach some fuller briefs. I have organised them into the following blocks:

- World Economy, including Structural Reform and Trade
- Debt
- Environment
- Drugs and Money Laundering
- Political Subjects

Each section sets out our objectives and arguments to support them, together with background material. In the case of the World Economy and the Environment there are also speaking notes, both those prepared by Nigel Wicks and those prepared by Departments. You commented that they were rather mundane. I have asked Alan Walters to have a go at the economic one.

It is clear that the French want to make debt and the environment the main Summit issues, and there is a risk they will use the presence of so many Third World Heads of State and Government to revive the North/South dialogue in one shape or another (which would be tiresome). The Americans will want to give prominence to President Bush's initiative on aid to Poland and Hungary.

Our main positive objectives will be:

- to get a renewed firm commitment to the economic and monetary policies which proved so successful during the second phase of Summits.

- to get the firmest possible commitment to bring the GATT round to a successful conclusion by end-1990.

- to gain explicit support for our proposal for a framework Convention on Global Climate Change, and more general support for a sound economic approach to environmental decision-making.

- to get endorsement for our proposed international conference on demand reduction for cocaine and other drugs.

- to secure some reference in the Summit Communique to willingness on the part of all Summit countries to provide help and support in a worst case situation in Hong Kong.

Our negative objectives:

- to stop the French using the occasion to relaunch a North/South dialogue at high political level.

- to stop any attempt to go beyond existing IMF/World Bank decisions on debt reduction for middle income debtors.

- to stop creation of new international environmental institutions or the creation of Climate Fund.

- to prevent references to insider trading as a proper subject for international regulation.

- to inhibit the French from hijacking the flood control assistance for the Bangladesh initiative.

- to keep references to South Africa out of the Summit conclusions.

There may be further briefing to come after the final meeting of Sherpas this weekend (and possibly a draft Communique).

C.D.P.

Charles Powell

10 July 1989

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PART 29 begins:-

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