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FROM: N L WICKS
DATE: 12 APRIL 1989
Ext : 4369

PRIME MINISTER

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Prime Minister
for information
CP 12/4.

PARIS ECONOMIC SUMMIT

During the Sherpas' meeting at the weekend, the outlines of the likely Summit discussion became firmer, though it was evident that the attention of the US President has not yet been engaged on the subject. The position on the main issues is as follows.

World Economy

2. There is a clear division between the UK, Germany, Canada and perhaps Japan who regard the control of inflation as the main priority and the US, France, Italy and the Commission, who ascribe equality of importance to reducing inflation and to a reduction in the world trade imbalances.

3. Those in the former camp, while not wishing to be alarmist, pointed out that the 12-month rate of G7 consumer price inflation was the highest in January since mid-1985, the G7 producer price inflation index had increased from 2.3 per cent in November to about 3.5 per cent in January, oil prices were on the rise and capacity utilisation rates close to or above previous peaks. They argued too that imbalances ought to be financeable provided that the G7 countries followed sound monetary and fiscal policies and continued their programmes of structural reform. The latter camp put more emphasis on the maintenance of growth (even at the expense of risking inflation) and prophesy problems in the international financial markets if action (by which they probably mean stimulatory fiscal action) is not taken by the surplus countries to reduce trade imbalances.

4. This divergence in approaches will no doubt be debated at the Summit. But I doubt whether it will lead to serious rifts. The

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French will no doubt press, too, as they did at the Sherpa meeting, their ideas for international monetary reform with a view to the establishment of some sort of G7 EMS system. They received no support and there was a consensus among the G7 countries that exchange rate policy cannot be divorced from the fundamentals of economic policy.

5. The Sherpa meeting had difficulties in getting to grips with the issue of structural reform - or increasing economic efficiency as the French prefer to call it. At the next meeting I intend to direct the Sherpas' attention to particular items of structural reform in Japan and Germany which could have particular reference to trade imbalances in Germany and Japan.

Trade & Agriculture

6. Last week's agreements in Geneva should provide a useful background for the Summit to urge progress in the GATT round and to emphasise the importance of maintaining the open multilateral trading system and resisting protectionism. It is, however, just possible that trade relations between the US and the rest of the world, particularly Japan, may have taken a turn for the worst by the Summit. The US Sherpa drew attention to the fact that the US Administration will have responded, by the Summit, to Congress' request, in last year's Trade Bill, to list those countries which did not provide fair trading opportunities for the US. From what he said, most of the trading nations in the world could figure on that list. He went on to warn that if US trade deficit was not showing signs of a decrease by the Summit and the Japanese trade surplus continued to increase, the temperature in the US Congress would be such that the US Administration might be forced to strike some tough attitudes in trade matters. If this does transpire, it could provide an awkward backdrop on trade before the Summit with the US taking, or threatening, action which is hardly compatible with GATT. But it is still too early to come to judgements here.

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International Debt

7. The French clearly wish to try to build upon the US's recent proposals, about which the Chancellor minuted you on 7 April, so that the Summit can be crowned by agreement to a French initiative. In fact the US have stolen many of the French ideas in their own initiative. Their one substantial proposal left is a fund for helping debtors financed by SDRs. The Germans, the US and ourselves have hitherto resolutely opposed an SDR issue, but US opposition at the Spring Meetings was somewhat softer so a flip flop on their part cannot be altogether ruled out. If the follow-up to the US proposal is not completed before the Summit the Heads may become drawn into complex discussions in order to resolve outstanding issues.

Environment

8. Our paper on the economics of the environment was well received by the Sherpas. Tietmeyer also circulated a paper, a copy of which is attached, personally endorsed by Chancellor Kohl. It includes many ideas with which we can agree. The French are still pushing their ideas for flood alleviation in Bangladesh, though they seem to accept that the Summit cannot get into details here and should do no more than give the project political impetus and encourage World Bank co-ordination. The French are aware of your personal interest following your conversation with President Ershad. The next task for the Sherpas is to weld together the approaches and ideas in the various papers.

Money Laundering etc

9. It become even clearer during the Sherpa discussion that President Mitterrand's letter to Heads of 10 February was motivated more by domestic political pressures than by deep analysis of problems of the misuse of the international capital markets for money laundering etc. We think, however, that his letter can be turned to useful advantage in prompting a discussion of money laundering in the drug trade with the aim of getting Heads to urge countries to ratify the recent UN convention on

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illicit traffic in narcotic drugs and psychotropic substances and to negotiate further agreements to enhance co-operation etc in combating the drug trade. The French, for domestic political reasons, are likely to want discussion of measures to combat insider trading. This ought not to cause us problems.

Export Credits

10. The Canadians have circulated a note on a possible Summit initiative on subsidised export credits. We will need to consider this interdepartmentally before putting forward advice.

Political Matters

11. The Germans have suggested, with obvious French concurrence, that the Summit might issue, on this 200th Anniversary of the French Revolution, a declaration on human rights, liberty, democracy and all that. I said that you would want a good discussion of East/West issues and would probably wish to have issued a political declaration summarising the Heads' conclusions. The Canadians suggested that such a declaration could be incorporated into the proposed German declaration on human rights. I was somewhat sceptical. A human rights declaration may not be the right place for East/West issues which go beyond human rights, such as arms control. Many Heads seem to want to discuss, either under this political heading or separately, economic developments in Eastern Europe. While not disagreeing, Attali thought that such a discussion could be divisive if there was a split between those like the French who wanted to give to Eastern Europe substantial economic support, through credits etc, and those who while wanting to offer support, were more cautious. Attali again raised the blockage that COCOM might place on expanding East/West trades. With strong US support, I said: COCOM was not an obstacle to East/West reconciliation; controls affected only a very small percentage of trade (approximately 2 per cent in the case of the UK); they were based on legitimate security grounds; there was no sense in compromising our strategic concerns which remain valid; this was not an area in which Heads needed to become involved, especially as the issue was under active

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consideration in the COCOM Executive Committee. No-one dissented, though this will not prevent the French from raising the issue at the Summit if they so wish. The Germans did not refer at this meeting to their interest in controls on chemical weapon precursors. Our interest in carrying forward co-operation against terrorism was recognised. There was not much interest among Sherpas in the Middle East, but acceptance that it would be a topic for the Summit; Southern Africa was not mentioned.

12. In the Annex to this minute I set out each Sherpa's description of how he sees his Head's objectives for the Summit.

Organisation of the Summit

13. Attali reported that some 25 of 30 Heads of State or Government would attend the Revolutionary celebrations. They would include the Presidents of Uruguay, Argentina, Mexico, Venezuela, Brazil, Ivory Coast, Senegal, Zimbabwe, Togo, Egypt, Uganda, the Philippines, India and Pakistan. The UN Secretary General and the Presidents (sic) of Portugal and Greece have also been invited. The celebrations, to which the above and the Summit 7, have been invited, will take the following form:

Thursday 13 July

Noon - Ceremony at Place de Trocadero
13.15 - Lunch at the Elysée
17.00 - An unspecified celebration
19.00 - Inauguration of the new Bastille Opera
21.00 - Dinner at the Musée d'Orsay

Friday 14 July

10.00 -
11.30 - The Grand Parade
- Lunch for the assembled Presidents/Prime Ministers at the Ministry of Foreign Affairs

Attali assured the Sherpas that there would be no organised multilateral meetings, though there would be opportunities for

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informal bilaterals, trilaterals etc. Some Sherpa colleagues were a little suspicious that the unspecified celebration at 17.00 hours on the Thursday might mask a formal meeting, but Attali dismissed such fears, emphasising that this would not be a "North/South" Summit.

14. On the timetable for the Summit itself, the latest, and Attali hopes the final, edition of the programme is attached. In accordance with Charles Powell's minute of 23 March, I pressed for the reinstatement of a separate session for Heads of Government on the first full day. I received little support from other Sherpas on the grounds that the Heads had plenty of time for discussion by themselves (the restricted session on Friday, dinner that evening, lunch and dinner on Saturday and the informal restricted session at 18.00 hours on Saturday) and Attali was unwilling to change the programme .

15. The Sherpas will meet again at the beginning of June after the OECD Ministerial to carry forward the preparations.

16. I am sending a copy of this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and to Sir Robin Butler.

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HEADS OF STATES AND GOVERNMENTS' OBJECTIVES FOR THE PARIS SUMMIT

The Sherpas described their Heads' objectives in the following terms.

France

- Establishing an ambiance of co-operation reflecting shared common values on freedom, human rights and democracy in this bicentenary of the French Revolution.
- An announcement of some concrete measures on middle income debt.
- A step forward in protection of the environment.

Canada

- Expression of shared values.
- Allowing Mr Mulroney to place his Government's economic reforms into an agreed international context.
- Besides helping middle income debtors, building on what was agreed last year for the debt of the poorest.
- Possibly an initiative in the trade field on export credit.

Italy

- Initiatives on middle income debt and the environment.
- Strengthening international co-operation against the illicit drug trade.

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Japan

- Demonstrating confidence in open economic and political systems.
- Building up the process of economic policy co-ordination established during recent Summits, and in particular allowing peer pressure to be brought to bear on the Japanese Prime Minister.
- Initiatives on debt and the environment.

United States

- A demonstration of unity.
- Strong support for the debt strategy.
- Carrying forward structural adjustment.
- Renewed commitment to economic policy co-ordination in Summit countries.
- Protecting the environment.
- Keeping up the momentum of trade liberalisation (though this might cause difficulties for the US if Japanese trade surpluses were still increasing at the time of the Summit).
- Support for the Canadian export credit initiative.
- A good discussion on East/West issues.

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The United Kingdom

- A reaffirmation of the second cycle sound economic policies with particular reference to the reduction of inflation.
- Renewed emphasis on structural reform, especially in Germany and Japan with particular emphasis to structural reforms which would help bring down trade deficits.
- Strengthening the multilateral trade system and avoiding bilateral restrictions on both trade and investment.
- Using the Summit to chart the way ahead for the world's response to global atmospheric pollution, with particular reference to economic aspects.
- Carrying forward international co-operation against the illicit trade in drugs.
- A good discussion on East/West.

The European Commission

- Making sure that words and actions, for example on economic policy co-ordination, correspond.
- Initiatives on debt and the environment.
- Discussion on East/West, especially the economic aspects.

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Germany

- Reflecting the bicentenary celebrations, emphasis on human rights.
- Avoiding disarray at what will be the first Summit discussion with President Bush.
- Giving particular weight to worldwide environmental problems.
- Emphasising the importance of further co-operation on economic policy.
- Maintaining free trade and the multilateral system.
- Making progress on the debt strategy.

Bonn, 23 March 1989

Protection of the earth's atmosphere

Recent scientific findings on climatic changes and on the state of the stratospheric ozone layer give cause for alarm. The consequences of this development pose a threat to ecological systems and man's vital interests. Solutions are therefore urgently needed. Since this is a problem of global magnitude, worldwide solutions must be sought in a spirit of partnership.

1. The production and consumption of substances harmful to the ozone layer (FCHCs, halons) must be radically reduced above and beyond the commitments already assumed under the Montreal Protocol, especially since these substances are also a major cause of the greenhouse effect. The reduction quotas specified in the Montreal Protocol should as soon as possible be raised to at least 85% and till the end of this century to 100%.

The countries participating in the economic summit should, in addition, advocate the complete abandonment of the production and consumption of FCHCs covered by the Montreal Protocol by the end of the century. They should do their utmost so that all countries, not least developing countries, can use suitable substitute substances and technologies.

2. The Montreal Protocol addresses only part of the problems concerning the earth's climate. Emissions of other so-called greenhouse gases, especially carbon dioxide, must also be quickly and substantially reduced. This calls for far-reaching global measures in the energy and other sectors, especially the improvement of energy efficiency, energy conservation in all areas, increased use of renewable sources of energy and conversion to energy types leading to a reduction of carbon dioxide emissions.

No international commitments exist yet for limiting carbon dioxide emissions in particular. It is essential to conclude as soon as possible a convention on the earth's climate, with concrete commitments for individual fields being laid down in protocols to the convention.

The summit countries should also advocate that existing institutions be strengthened within the United Nations system or that a new institution be set up. This would improve the organizational preconditions for combating the global warming of the atmosphere and taking the requisite decisions. To ensure effective implementation of and compliance with the decisions made, suitable measures monitored by the International Court of Justice should be taken.

The summit countries should strongly support the work of the Intergovernmental Panel on Climatic Change (IPCC) and the proposals for new institutional structures concerning the responsibilities.

3. The clearing of tropical forests, which is assuming an ever more threatening magnitude, also influences the earth's climate by contributing to the greenhouse effect. Large forest areas are falling a prey to extensive development programmes. Economic structural problems and a shortage of foreign exchange prompt countries to overexploit their natural resources.

The summit countries should consider it a common duty of industrial and developing countries to restrict the use of tropical forests to such types as are compatible with overriding ecological requirements and with the conditions for survival of the people living there.

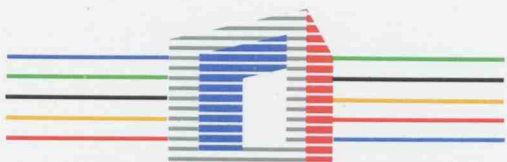
It is essential that the governments of tropical countries be placed in a position to ensure that overexploitation is avoided and that forests are used only in an ecologically beneficial manner within the limits of their growth. Utilization of the forests for timber purposes and the export earnings from timber products are also a strong economic incentive for preserving them. The international tropical timber trade and industry bear special responsibility in this respect, for example through voluntary pledges (cf. the enclosed code of conduct of the German tropical timber industry). The International Tropical Timber Organization (ITTO), which unites consumer and producer countries, is a suitable forum in this respect.

An internationally accepted concept for a global strategy aimed at protecting tropical forests exists in the form of the Tropical Forest Action Plan (TFAP) adopted in 1986; its actual implementation must be greatly expedited. The summit countries should assist the efforts of nations with tropical forests through financial contributions.

4. The three outlined problem areas are closely interrelated. To cope with their complexity, comprehensive and deepened research activities are required. Policies and measures to solve the problems should be based upon a growing understanding of the interconnections between causes and effects. New technologies and substances must substitute the harmful ones.

Summit countries are therefore requested to increase their national R+D activities and to intensify their cooperation within the framework of international research programs.

5. In view of the global threats to the earth's atmosphere and their causes, the summit countries bear special responsibility vis-a-vis the international community. Acting in solidarity with developing countries and in collaboration with international institutions, they must take the decisions and measures needed to protect the earth's climate and atmosphere. In the context of the necessary development of the international debt management, the opportunities should be exploited to take into account environmental needs.



SUMMIT OF THE ARCH

14-16 JULY 1989



April 8, 1989

PROGRAMME OF THE SUMMIT OF THE ARCH (14-16 JULY, 1989)

July, 13 Thursday and 14 Friday morning

Participation of Heads of delegations in official ceremonies for the Bicentennial of the French Revolution.

July, 14 Friday

15 h 45 - 16 h 30

Heads of delegation are met by the President of the Republic at the Louvre Pyramid.

16 h 30

Opening restricted session of the XVth Summit of the industrialized nations at the Louvre Pyramid.

Simultaneously

Working session of the Ministers of Foreign Affairs at the Ministry of Foreign Affairs (Quai d'Orsay).

Working session of the Ministers of Finance at the Ministry of Economy, Finance and Budget (Bercy).

At approximately 18 h 30

At the end of the opening session, the Heads of delegation leave for their residence.

20 h 30

Dinner hosted by the President of the Republic in honour of the Heads of delegation at the Hotel de la Marine, Place de la Concorde.

Simultaneously

Dinner hosted by the Minister of State, Minister of Foreign Affairs in honour of the Ministers of Foreign Affairs at the Palace of Foreign Affairs (Quai d'Orsay).

Dinner hosted by the Minister of State, Minister of Economy, Finance and Budget in honour of the Ministers of Finance at the Ministry of Economy, Finance and Budget (Bercy).

Dinner of Personal Representatives at the Hotel de la Marine, Place de la Concorde.

July, Saturday 15

From 9 h 45

Arrival of delegations at the Arche de la Défense.

Group photo at the Arche de la Defense.

10 H 00 *

Restricted session.

10 H 15

Plenary session.

12 h 30

End of plenary session.

13 h 00

Working luncheon offered by the President of the Republic to the Heads of delegations.

Simultaneously

Lunch offered by the Minister of State, Minister of Foreign Affairs for the Ministers of Foreign Affairs at the Arche de la Défense.

Lunch offered by the Minister of State, Minister of Economy, Finance and Budget for the Ministers of Economy at the Arche de la Défense.

** to agree the Political Declaration,
probably with Foreign Ministers*

	Lunch for the Personal Representatives at the Arche de la Défense.
15 h 00	Plenary session (continuing).
18 h 00	Informal meeting of Heads of delegation and Personal Representatives in the Louvre Pyramid.
20 h 00	Dinner offered by the President of the Republic for the Heads of delegation in the Louvre Pyramid.
Simultaneously	Dinner offered for the Ministers of State, Minister of Foreign Affairs to the Minister of Foreign Affairs at the Palace of Foreign Affairs (Quai d'Orsay).
	Dinner offered by the Minister of State, Minister of Economy, Finance and Budget, for the Ministers of Economy at the Ministry of Economy, Finance and Budget (Bercy).
	Dinner for the Personal Representatives at the Arche de la Défense.

July 16, Sunday

From 9 h 45	Arrival of delegations at the Arche de la Défense.
10 h 00 - 12 h 30	Plenary session.
13 h 00	Lunch offered by the President of the Republic for the Heads of delegation and the Ministers of Foreign Affairs at the Arche de la Défense.
Simultaneously	Lunch offered by the Minister of State, Minister of Economy, Finances and Budget for the Ministers of Economy at the Arche de la Défense. Lunch for the Personal Representatives at the Arche de la Défense.
15 h 00 - 17 h 00	Plenary session.

17 h 15

Reading of the joint communiqué by the President of the Republic, in the presence of the Heads of delegation at the Arche de la Défense.

Press Conferences given by the Heads of delegation at the Arche de la Défense.

20 h 30

Dinner offered by the President of the Republic and Mrs François Mitterrand at the Elysée Palace in honour of the members of Summit delegations and their spouses.

July 17, Monday

Departure of delegations./.