

CONFIDENTIAL  
FM WASHINGTON  
TO IMMEDIATE FCO  
TELNO 1812  
OF 052100Z JULY 89

ADVANCE COPY

YOUR TELNO 1209: PROSPECTS FOR THE PARIS ECONOMIC SUMMIT

1. AS FORESHADOWED IN MY TELNO. 1794, WE HAVE DISCUSSED THE ISSUES FOR THE ECONOMIC PART OF THE SUMMIT COMMUNIQUE (EXCHANGE RATE COORDINATION, STRUCTURAL QUESTIONS, DEBT, ENVIRONMENT, TRADE AND DRUGS) WITH SENIOR FIGURES IN THE US ADMINISTRATION. IN SHORT, THEY ARE REASONABLY HAPPY WITH THE DRAFT COMMUNIQUE, SUBJECT TO WHAT FOLLOWS.

2. ON EXCHANGE RATE COORDINATION, THE TREASURY (MULFORD) WILL NOT AGREE TO FRENCH PROPOSALS FOR MORE FORMAL EXCHANGE RATE TARGETS. MORE GENERALLY, THE US WILL BE LOOKING FOR A REAFFIRMATION OF THE G7 ACCORD, PROVIDED THE LANGUAGE CAN BE MADE ACCEPTABLE TO THEM. UNDERSTANDABLY, THE ADMINISTRATION PLAY THIS CLOSE TO THEIR CHEST.

3. THE AMERICANS REGARD THE SECTION OF THE DRAFT COMMUNIQUE ON STRUCTURAL ISSUES TO BE WEAK. THEY WOULD LIKE TO SEE IT STRENGTHENED CONSIDERABLY. THEY ARE CONSIDERING WHETHER TO REMAIN WITH THE FORMAT AGREED AT TORONTO, WHERE COUNTRY ANNEXES WERE ATTACHED TO THE STRUCTURAL SECTION, OR INSTEAD TO PUSH FOR THE MAIN THEMES IN THE STRUCTURAL ANNEXES TO BE GENERALISED AND PUT IN THE COMMUNIQUE ITSELF. THESE THEMES WOULD BE THE NEED FOR TAX REFORM, OF THE DISTRIBUTION SYSTEM, ETC. THEIR INCLINATION IS FOR THE LATTER BUT THEY WOULD SETTLE FOR THE FORMER IF THE WHOLE STRUCTURAL SECTION WAS TOUGHER THAN AT PRESENT.

4. INTERESTINGLY, THE AMERICANS SAY THAT THE JAPANESE ARE KEEN FOR STRUCTURAL OBJECTIVES TO BE DISCUSSED MULTILATERALLY. THEIR THINKING MAY BE THAT IT WOULD REDUCE THE DOMESTIC POLITICAL DIFFICULTY OF RESPONDING BILATERALLY TO THE US STRUCTURAL IMPEDIMENTS INITIATIVE, IF THE AGENDA FOR THAT INSTITUTION CONSISTED OF OBJECTIVES ALREADY AGREED TO IN A MULTILATERAL CONTEXT.

5. ON DEBT, THE US REMAIN FIRMLY OPPOSED TO A REVIVAL OF THE FRENCH SDR PROPOSAL - FOR THE PRESENT. THEIR ARGUMENT IS PURELY THE TACTICAL ONE. IF BANKS AND LDCS SEE EVEN THE PROSPECT OF MORE RESOURCES FROM THE IFIS, THEY WILL STOP NEGOTIATING AND QUOTE WAIT FOR BRADY 2 UNQUOTE. IT FOLLOWS FROM THIS ARGUMENT THAT IF THE US FELT A FURTHER STIMULUS WAS NEEDED FOR THE BRADY



PLAN, THEY COULD CHANGE THEIR VIEW ON SDRS. BUT FOR THE SUMMIT, THEY ARE FIRMLY OPPOSED.

6. THEY WILL, HOWEVER, BE ANNOUNCING SOME MOVEMENT ON DEBT FORGIVENESS FOR SUB-SAHARAN AFRICA. US LEGISLATION, PASSED LAST YEAR, ALTERED THE BUDGETARY TREATMENT OF DEBT FORGIVENESS, IN A WAY THAT MAKES IT MORE MANAGEABLE. UNDER THE LEGISLATION, WHAT SCORES AGAINST THE BUDGET IS NOT THE AMOUNT OF LOAN OR INTEREST FORGIVEN, BUT THE AMOUNT THE US MIGHT HAVE RECEIVED IN THE ABSENCE OF FORGIVENESS. THIS INITIATIVE WILL NOT BE VERY LARGE FINANCIALLY, AND WILL BE IN LINE WITH THE TORONTO GUIDELINES.

7. THE MAIN ISSUES ON THE ENVIRONMENT ARE SEEN TO BE INSTITUTIONAL. THE US WOULD BE OPPOSED TO ANY NEW INSTITUTION (ON THE GROUNDS THAT EXISTING INSTITUTIONS WOULD STOP WHAT THEY WERE DOING AND START FIGHTING FOR TERRITORY). THE US IS VERY SUPPORTIVE OF THE BRITISH POSITION ON THIS. THE US WERE ALSO VERY UNEASY ABOUT SUPPORTING THE ASPIRATION OF THE ITALIANS TO HOST A NEW CONFERENCE.

8. ON TRADE, THE US ARE PLEASED THAT THEY ARE NO LONGER APPARENTLY THREATENED BY A TOUGH PARAGRAPH ON PROTECTION IN THE DRAFT COMMUNIQUE. NOW THAT IS OUT OF THE WAY, THEY FOUND THE REST OF THE COMMUNIQUE BROADLY ACCEPTABLE.

9. DRUGS ARE NOW TO BE IN THE ECONOMIC PART OF THE COMMUNIQUE. THE US ARE KEEN ON A RESTRICTED TASK FORCE, WITH MEMBERSHIP LIMITED TO G7 OR PERHAPS G10. THE REMIT, HOWEVER, WOULD BE WIDE RANGING, COVERING ACTION ON SUPPLY, DEMAND RESTRAINT, EDUCATION, LAW ENFORCEMENT COOPERATION AND MONEY LAUNDERING. THEY WERE AWARE OF RESERVATIONS BY OTHERS THAT THE GROUP SHOULD BE WIDER IN NUMBER BUT MORE RESTRICTED IN REMIT TO MONEY LAUNDERING. THEY WOULD BE PREPARED TO COMPROMISE ON NUMBERS IN ORDER TO GET THEIR WAY ON THE REMIT.

COMMENT

10. MUCH IF NOT ALL OF THIS MATERIAL WILL BE FAMILIAR AS A RESULT OF THE SHERPA MEETINGS THAT HAVE ALREADY TAKEN PLACE. FROM HERE, THE MAINTENANCE OF FIRM OPPOSITION TO THE FRENCH SDR INITIATIVE IS GOOD NEWS, EVEN IF THE GROUNDS FOR THE US POSITION ARE SUCH AS TO ALLOW A SHIFT IN POSITION IN THE FUTURE.

ACLAND

YYYY

DISTRIBUTION

7

ADVANCE

7

.ECONOMIC SUMMIT  
MR BAYNE  
MR CARRICK  
MR N WICKS, NO 10 D.S.

HD/ERD  
HD/PLANNING STAFF  
RESIDENT CLERK

NNNN