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FROM: N L WICKS  
DATE: 10 JANUARY 1990  
Ext : 4369

*Rice Minister*

*COO 12/i*

PRIME MINISTER

1990 SUMMIT

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It was clear from the Sherpa meeting at the weekend that Summit participants have not carried their thinking far on the substance of the Houston Summit. Certainly, the US does not seem to have a ground strategy for the Summit. They also have to determine the Summit's exact location in Houston - though it looks as if it will take place in the Rice University.

Follow-up to the Paris Summit

2. There were mixed views about the adequacy of the follow-up to the Paris Summit. Attali expressed himself appalled about the lack of implementation and thought that events in Eastern Europe had quickly made the Summit declarations obsolete. Other Sherpas disagreed. The Summit had provided the framework - the G24 process under Commission chairmanship - for a unified and prompt response to the economic requirements of Poland and Hungary. On debt, the Brady Plan was proceeding; the IDA settlement had turned out as well as could be expected; and the Bangladesh flood control conference had successfully taken place in London in December. On environment, the Noordwijk Conference had usefully carried work forward. On drugs, the Summit's Financial Action Task Force was producing a useful report (about which the Chancellor wrote to you on 29 December 1989). So there had been real accomplishments since the Paris Summit, though there was still a lot more to do to follow up tasks. This applied especially to the environment, on which there was a feeling that the plethora of meetings now planned should result in concrete action. Without such action, there would be a risk that future Summit declarations would lose credibility. (You may like to glance through the useful FCO note attached which summarises

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follow-up of the Paris Summit conclusions. This shows that the UK has been active.)

The Houston Summit

3. Everyone agreed that East/West issues, in one guise or another, would dominate the Summit. There was unanimous agreement that the success of President Gorbachev was a top priority, though no-one thought that Summit participants could do much to help him with his internal reforms. Only the Japanese, with the comment that perestroika and glasnost had still to appear in the Soviet Union's Far Eastern policies (their northern islands) struck a jaundiced note. Burney (Canada) suggested that the Chairman of the Summit, Mr Bush, should brief President Gorbachev after the Summit on its results. The US's initial reaction did not seem to be enthusiastic, partly, I think, because of their wish to keep the Soviet Union some distance from Western international organisations until there is real evidence of a drastic reduction in the Soviet military threat. We are to discuss this further at the next Sherpa meeting in March and I will seek your guidance on my line before then. McCormack (US) gave a gloomy account of Soviet economic prospects, especially in the light of the recently announced economic plan of Prime Minister Ryzhkov which his experts thought in some respects a regression to almost to Brezhnevian ideas. Attali was more sanguine, discerning in Gorbachev's moves a clear strategy: first creating a new elite at the top of the party and democratic institutions at the centre, developments which were now almost complete; then to use this new elite and the democratic institutions to create new elites and democratic institutions at local level; and then, and only then push through real economic reform at local level on a bottom-up basis. He expected this last process to begin later this year. Others were much more gloomy about Soviet economic prospects.

4. On the world economy, the US, Germans and ourselves particularly emphasised the importance of maintaining the "second Summit cycle policies" which had produced such good results. The US representatives and myself joined forces in flagging that the issue of structural reform in the two major surplus countries,

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Japan and Germany, would be bound to be an issue at the Summit. The US Treasury representative was in uncharacteristically sombre mood about the prospects for the US economy, suggesting that by July it would be clear that the US economy would be growing at a rate of some 2 per cent, and possibly lower, and that there would be increasing evidence of fragility in the financial markets of the US (bad debts to banks, falling land prices as the savings and loans realise security) and of Japan (overvalued land and stock prices). If the world economy turned sour in this way, this Summit would meet in a very different atmosphere to the last two or three.

Leaders' Objectives for the Houston Summit

5. Turning to individual leaders' objectives for the Summit:

Canada: Mulroney would be preoccupied with severe economic problems. He would continue to look to the Summit for a lead on environment. Like you, he believed that environmental policy should be based on sound science and sound economics; the language agreed at the Commonwealth Conference on this issue was helpful. The Uruguay Round was bound to figure prominently at the Summit. So were drug issues, a particular Canadian priority as evidence increasingly emerged that Canada was being used as a conduit both for drugs and drug money.

UK: I spoke in terms of my minute to you of 21 December, supplemented by the two comments in Charles Powell's letter of 22 December (on the need for structural reform in Germany and Japan and on the failure of state socialism). I mentioned the idea of a possible separate Summit declaration on this issue and will prepare language later which we might table.

FRG: they agreed broadly with our priorities which I described, particularly the emphasis on second cycle policy themes and the importance of safeguarding the ozone layer and the need for a new international convention on climate

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change. Chancellor Kohl would push his hobby horse of tropical forest preservation and there would no doubt be a discussion in the East/West context of "overcoming European divisions". They too thought that the Uruguay Round and drugs were bound to be prominent.

Italy: the only new point in their presentation was Andreotti's reported wish to see reduced expenditure on armaments particularly in the developing countries. The Italians will, it is clear, continue to make much of their initiative to try to secure a new international law on the environment, which we believe to be premature.

France: They thought it important to emphasise "North/South" issues, especially as there was a perception in Latin America and Africa that the current focus on Eastern Europe was distracting attention from their problems, a point picked up with sympathy by many Sherpas. The French seem intent on pursuing their idea of a "North/South summit", to be held some time in 1992. The US and ourselves continued to express opposition to the proposal which was supported by Italy and Germany, and with some qualifications Canada, with Japan midway between the two groups. Attali stated that France would proceed with this initiative even if some countries were absent. But he decided, as a result of the Sherpas' discussion, to postpone the next preparatory meeting until after the next Sherpa meeting. We will continue to keep alongside the Americans on this matter. Attali stated dogmatically that France would object to making any move forward on Uruguay Round matters, particularly agriculture at the Summit. I pointed out that this attitude was hardly consistent with solicitude for the developing countries, since more liberal trading policies in the developed countries, particularly agriculture, would benefit the developing world. Other Sherpas, particularly the Americans and the Canadians, but also to some extent the Commission, supported this line in what may turn out to be a harbinger of lively discussion at the Summit on trade issues.

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Japan: they had little to add except that the situation in China would need further discussion.

Commission: they emphasised the importance of action in the Uruguay Round to encourage developing countries and Eastern European countries to liberalise their trading policies. Delors was in strong agreement with your emphasis on the use of economic instruments in environmental policies. Unless there were rapid developments on this front, the world would find that faute de mieux, an arbitrary regulatory approach had carried the day. More generally, the communique needed to set clear and precise objectives for environmental policies. Delors might want to discuss, perhaps in an informal session, "the role of technology in global economic issues, especially the position of Japan".

US: the topics referred to by the other Sherpas covered all the points that the US thought would arise at the Summit.

6. All in all, a reasonably predictable start to the Summit preparation. The group meets again on 23 March for a more intensive discussion of the themes identified and I will seek your guidance before then on my line to take.

7. I am sending a copy of this minute to the Secretary of State for Foreign & Commonwealth Affairs, the Chancellor of the Exchequer and to Sir Robin Butler.

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## PARIS SUMMIT CONCLUSIONS: FOLLOW UP

- | <u>Remit from Foreign Ministers</u>  | <u>Lead Dept</u> |
|--|------------------|
| 1. Invitation to G7 deputies to make agreed proposals by September for the IMF quota review (NB not explicit in para 12 of the Economic Declaration.)  | HMT              |
| <ul style="list-style-type: none"> <li>- Interim Committee (Sept 1989) asked IMF Executive Board to pursue work on the 9th review with a view to a Board of Governors' decision by end-1989. However, failure to agree on size of increase and rankings caused the deadline to be moved back to 31 March. Agreement appears imminent on size, though rankings remain a problem. An Interim Committee to finalise the review has been tentatively set for late January 1990.</li> </ul>   |                  |
| <br>   |                  |
| <u>Economic Declaration</u>  |                  |
| 2. Para 11, second sub para: Finance Ministers to keep under review possible steps to improve the coordination process.  | HMT              |
| <ul style="list-style-type: none"> <li>- Deputies are preparing a report for Finance Ministers on the functioning of the International Monetary System. G7 Finance Ministers and Central Bank Governors met during the IMF Annual meetings to continue the multilateral surveillance exercise, and Deputies discussed the latest economic indicators, as part of the continuing surveillance process on 14 December.</li> </ul>  |                  |
| 3. Para 16: Strengthen insider trading regulations. Pursue and enhance international cooperation.  | DTI              |
| <ul style="list-style-type: none"> <li>- The EC adopted a directive coordinating regulations on insider dealing on 13 November. This includes provisions for co-operation in the exchange of information. On 13 September the UK became the first country to sign the Council of Europe Convention on the exchange of information in connection with insider dealing. Bilateral agreements on exchange of information already exist with US and Japan; we are currently negotiating others, including with Canada. The Companies Act 1989 includes provisions to enable the UK to assist foreign regulators in, among other matters, enquiries about insider dealing.</li> </ul> |                  |

4. Para 17: Avoid any discriminatory or autonomous actions, which undermine the principles of GATT.

DTI

- Current concern focussed on US unilateralism. US has requested and received consultations on provisions of EC Broadcasting Directive. Likely also to challenge a forthcoming UK ban on the sale of certain types of oral tobacco.

5. Para 21: Strengthen multilateral disciplines on export credit subsidies. Pursue actively in the OECD and improve present guidelines at the earliest possible date.

EGCD

- The OECD Consensus Group met in November. Whilst no agreement reached on Specific reforms, broad consensus in favour of eliminating export credit matrix (subsidised) finance for sales to intermediate (middle income) countries coupled with a parallel review of the Commercial Interest Reference Rate (CIRR) system. Less agreement apparent in the tied aid field, but Participants agreed to consider certain of the proposals made by the US aimed at improving "aid orientation" and limiting "commercial" considerations.

Discussions continue in the EC Export Credit Working Group aimed at making definitive proposals for the next meeting of Consensus Participants in April. An informal preparatory meeting between the US, EC, Japan and the OECD Secretariat is scheduled for January. Participants are to prepare interim progress report for OECD Ministers meeting in May 1990.

6. Para 26: Substantial replenishment of IDA resources.

ODA

- Negotiations on the Ninth Replenishment of the International Development Association (IDA 9) were successfully concluded in Washington on 14 December. Donor countries agreed on a replenishment of SDR 11.68bn (about \$15bn). This maintains in real terms the value of IDA 8. With repayments from earlier loans, there will be a real increase in the total available for commitment to the poorest countries over the three years starting on 1 July 1990, which will be about \$17bn. The UK has agreed to contribute 6.7% of IDA 9, or nearly £619mn at the agreed exchange rate.

7. Para 28: Further steps to convert loans into grants. ODA

- UK took lead in 1979 with Retrospective Terms Adjustment scheme; to date 22 countries have been forgiven nearly £1 billion debt. Nigeria may benefit soon. The RTA qualifying threshold is adjusted in line with movements in IBRD's Civil Works Preference Threshold. It is currently \$545 per capita GNP.

8. Para 32, second and third tirets: Urge debtor countries to develop strong economic reform programmes and urge banks to move promptly to conclude agreements on financial packages including debt reduction etc. HMT

- No further programmes involving debt or debt service reduction operations have been agreed by IMF or IBRD since Summit. Agreement reached between Mexico, Philippines and Costa Rica and main creditor banks on a debt reduction package. We await the start of the actual operations. Negotiations between the banks and Venezuela are stalled, with little prospect of agreement on debt reduction.

9. Para 32, third tiret: Consider tax, regulatory and accounting practices with a view to eliminating unnecessary obstacles to debt and debt service reductions. HMT

- Detailed reviews completed by both G7 Deputies and World Bank. In UK case, it is accepted that there are currently no unnecessary tax, regulatory or accounting obstacles to debt and debt service reduction.

10. Para 34, last sub para: Improve observation and monitoring on a global scale. DoE

- UK already contributes to wide range of monitoring and research programmes, most of which are being strengthened. New initiatives are planned to monitor long term environmental change in the atmosphere and in terrestrial, freshwater and marine ecosystems. The UK strategy supports the setting up of a European Environment Agency.

11. Para 35: Enhance international cooperation in the field of technology and technology transfer. DTI

- UK contributed constructively to discussions to agree the new EC R&D Framework Programme for 1990-4. Playing active part in WIPO and GATT negotiations to improve



protection and enforcement of IPRs. UK committed, with other parties to the Montreal Protocol, to facilitate the international transfer of ozone-benign substances and technologies. Also contributing effectively to international discussion on cooperation to confront climate change problems.

12. Para 37, fourth sub para: Encourage the World Bank and regional development banks to integrate environmental considerations into their activities. ODA

- The Development Committee in September commended the World Bank on the progress made in integrating environmental issues in its activities, but stressed the need to continue and intensify these efforts. The Bank was asked to prepare a study of the mechanisms and financial requirements that may be needed to address the environmental challenges in developing countries. Environmental issues were among the policy areas identified for higher priority during the IDA 9 negotiations, including (at the UK's suggestion) IDA participation in TFAP reviews for countries with major tropical forest resources. Environmental issues are increasingly featuring in other multilateral development banks.

13. Para 37, fourth sub para: International organisations such as the OECD and UN to develop further techniques of analysis which would help governments assess appropriate economic measures to promote the quality of the environment. DoE

: OECD to DoE  
examine how selected environmental indicators could be developed.

- Pearce Report published on 14 August with list of recommendations for research by DOE. DOE contributing to follow-up to WCED report, particularly under UNEP/UNECE umbrella. OECD study on the role of economic instruments about to be published; significant expansion of this OECD work envisaged for 1990. The OECD held a workshop on Environmental Indicators in December 1989 to examine how these could be developed in response to the invitation from the Summit.

14. Para 39, second sub para: Give specific attention to ozone-depleting substances not covered by the Montreal Protocol. DoE

- On CFCs, the EC negotiating position (based on UK

proposals) for revision of Montreal Protocol is the most urgent of all (50% cut by 1991/2, 85% by 1995/6). UK have proposed that carbon tetrachloride be phased out on same timetable and that methyl chloroform is frozen immediately at 1986 levels. UK industry playing leading role in research for substitutes.

15. Para 40, second sub para: Strengthen the world wide network of observatories for greenhouse gases and support the WMO initiative to establish a global climatological reference network. DoE

- A Secretariat has been created in Cambridge to coordinate research related to stratospheric ozone within the EC and EFTA. UK already involved with GO<sub>3</sub>OS (Stratospheric Ozone Monitoring), WMO BapMon (Background Air Pollution Monitoring) and GAGE (Global Atmosphere Gases Experiment). NERC is involved with research on CO<sub>2</sub> fluxes in and out of oceans.

16. Para 41: Urge international organisations to encourage measures to improve energy conservation and efficiency and promote relevant techniques. DEn

- UK leading role in IEA work on dissemination of information on energy efficiency technologies. At the September World Energy Congress Mr Wakeham stressed the vital role of energy efficiency in restraining greenhouse gas emissions. UK participating within IPCC process to explore ways of disseminating energy efficiency technologies to LDCs and CPEs.

17. Para 42: The relevant international organisations to complete reports on the state of the world's forests by 1990. ODA

- FAO are expected to complete a global assessment of state of the world's forests by 1991 is considering accelerated completion of data for selected critical areas. ODA is financing a related study by the World Conservation Monitoring Centre on protected and managed forest areas.

18. Para 43, second sub para: Rapid implementation of the TFAP. ODA

- ODA assisting in implementation in 20 of the 60 countries included in TFAP. Brazil has made a formal request for donor assistance in preparing a TFAP. Mrs Chalker called at the FAO General Conference in November for the revitalising of the TFAP to ensure it addresses policies

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as well as projects.

19. Para 43, second sub para: ITTO DTI  
to ensure better conservation of  
forests.

- Last meeting of ITTO held on 30 October. ITTO Council agreed to a UK initiative to start work on international guidelines for best practice and sustainability. UK also gained general agreement to its proposal for a pre-project to consider the feasibility of source identification (including labelling) of tropical timber. Work on both initiatives will begin in the new year.

20. Para 43, second sub para: Assist ODA  
nations with tropical forests through  
financial and technical cooperation, and in  
international organisations.

- Implementation of the PM's Forestry Initiative continues and was given a major boost by the PM's announcement during her address to UNGA on 8 November that we aim to commit a further £100 in bilateral aid to tropical forestry over the next three years. Since the Summit, ODA has had forestry aid missions to Brazil, India, Zimbabwe, Nepal, Tanzania, Malaysia, Nigeria and Cameroon.

21. Para 45: Conclude a framework MAED, FCO  
convention on climate change.

- UK has promoted within UNEP and WMO an agreement for both to make joint preparations for negotiations on a Climate Change Convention, to begin as soon as possible after the Second World Climate Conference (in November 1990). The US has offered to host the first negotiating round.

22. Para 46: Relevant UN bodies to DoE  
prepare a report on the state of the  
world's oceans.

- UN has prepared a draft report for the Secretary General to present to UNGA on the protection and preservation of the marine environment. UNEP is developing a global marine pollution monitoring system. The monitoring programmes of the various Regional Seas action plans will form an integral part.

23. Para 46, second sub para: The IMO DoE  
to put forward proposals for further  
preventive action on oil pollution.

- The General Assembly of IMO have agreed to convene a

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diplomatic conference in November 1990 to adopt an international convention on oil pollution preparedness and response. In a separate initiative, on the prevention of oil pollution, it urges greater enforcement of existing conventions and re-examination of tanker design and the role of the human element in casualties. The recent oil-spill off Morocco is likely to add urgency to the IMO process.

24. Para 47: The Italian Government MAED, FCO  
to host in 1990 a forum on international  
law for the environment.

- We do not much like the Italian proposal, but have accepted reluctantly in principle, and will decide nearer the time who should attend the meeting, which will be in Siena in April 1990.

25. Para 48: Strengthen existing MAED, FCO  
environment institutions in particular  
UNEP.

- UK more than doubled its voluntary financial contribution to UNEP's 1989 budget; we have encouraged others to make similar increases. UNEP Governing Council in May decided to aim for a doubled budget over the next three years. The broader question of strengthening institutions was briefly discussed during this years UNGA. It was decided to include this on the agenda for discussion during the 1992 UN Conference on Environment and Development and in the conference's preparatory process.

26. Para 50, second sub para: The World ODA  
Bank to coordinate the efforts of the  
international community to help Bangladesh  
and to chair a meeting in the UK by the end  
of the year.

- The Bangladesh Flood Control Conference, hosted by HMG and chaired by IBRD, took place in Lancaster House on 11-12 December 1989. The Conference was highly successful. The Bangladesh Government's rolling 5-year Flood Action Plan received broad endorsement and support was forthcoming for all 26 activities in the Plan.

27. Para 53, first and third turrets: NCAD, FCO  
Strengthen the role of the UN, including  
UNFDAC.

- The UN General Assembly have adopted a resolution which, inter alia, calls on the Secretary General to convene an expert group to review the structure of the drugs bodies to make them more effective. UNGA also agreed to the

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holding of a Special Session on drugs in New York on 20-23 February to agree on new measures to strengthen UN anti-drug efforts.

28. Para 53, fifth tirect: Support the international conference planned for 1990 on cocaine and drug demand reduction. NCAD, FCO

- The conference will be held in London on 9-11 April 1990. Our posts have been instructed to approach host governments to enquire to whom invitations should be addressed.

29a) Para 53, sixth tirect: Ratify and implement the Vienna Convention. Home Office

- Aim to ratify Convention as soon as legislation is in place. This will be achieved by the Criminal Justice (International Cooperation) Bill, currently before Parliament. If passed, ratification could be completed in mid-1990.

29b) Para 53, seventh tirect: Conclude further bilateral and multilateral agreements. ERD, FCO

- Since July we have concluded five further bilateral confiscation agreements/arrangements, with Anguilla, Nigeria, Malaysia, Gibraltar and Sweden. We now have bilateral agreements/arrangements with a total of 12 countries.

30. Para 53, last tirect: France to convene a financial action task force; report by April 1990. HMT

- Financial Action Task Force met first on 18 September under French Tresor chairmanship. It agreed to create 3 subgroups covering (i) evaluation of the problem of drugs money laundering (UK chair); (ii) reinforcement of mutual judicial assistance (US chair); and (iii) reinforcement of administrative cooperation (Italian chair). The subgroups have met several times and are due to submit reports to the Task Force by the end of 1989. Meetings of the Task Force are planned for January and February. The final report is likely to be prepared during March and will be available for the G7 Summit in July.

31. Para 55: Take note and study with interest representations from various heads of state or government. A blanket reference which covers:

a) proposals from Egypt, Venezuela, Senegal, India, Brazil to promote new North/South dialogue ERD, FCO

- The UK and US did not attend the meeting between G7 and developing country senior officials in France on 11 November, and have declined to attend a further exploratory meeting proposed for February. We prefer to work through existing specialist institutions and to deflect calls for renewed high level dialogue into the April 1990 UN Special Session on Economic Recovery and Development.

b) Gorbachev's letter calling for Soviet involvement in multilateral economic coordination. ERD, FCO

- Possible Soviet participation in future Summits considered by FCO officials; in short term, believe Soviet involvement would not be appropriate. Following US agreement in principle to USSR observer status in the GATT, the EC confirmed its agreement at Strasbourg; action now reverts to Geneva.

#### Declaration on East/West Relations

32. Para 6, last tiret: European Commission to concert support for reform in Poland and Hungary. ECD(E), FCO

- Since the Summit the OECD 24 have met four times, most recently on 13 December at Ministerial level, to review progress in the implementation of aid to Poland and Hungary, and to coordinate future action. Sub-groups have been established to discuss food aid/agricultural restructuring, training, environmental protection and investment. The EC has agreed a major programme of aid to Poland and Hungary (300 mecu from EC budget in 1990, 1 becu EIB loan facility, trade concessions to improve access to EC markets, 100 mecu food aid for Poland, GSP status). In addition the Strasbourg European Council agreed in principle a range of further measures (further food aid for Poland, European Training Foundation, training and education programmes, European Reconstruction and Development Bank and recognised Hungary's need for a \$1 billion loan).

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