

50 Prime Minister

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① CCPE

Specific decisions required at X and Y, please



FROM: N L WICKS  
DATE: 16 MARCH 1990  
Ext : 4369

PRIME MINISTER

CBP 16/3

See various comments  
nt

**HOUSTON ECONOMIC SUMMIT: SHERPA MEETING**

I should be grateful for your views on the topics likely to arise at the Sherpa meeting in San Francisco on 23-25 March.

East/West Issues

2. East/West issues are likely to dominate the Summit, though the emphasis is still difficult to discern. For Eastern Europe, there is already much activity and help on offer, and one part of the Summit's task might be to review this, identify gaps, and give any necessary political impetus. The Summit might encourage the process of bringing the reforming East European countries into full participation in the world economic system, especially the GATT and the International Monetary Fund/World Bank (though we will need to beware the acute US sensitivity about USSR membership of the IMF).

3. One topical issue is how to place on a new basis the economic relations between the USSR and the other East European countries and to promote the unwinding of COMECON. There may be a role here for the CSCE (Basket II) since it involves the Russians and the East Europeans together with most OECD countries: a CSCE-based economic forum, meeting occasionally in close association with the OECD, and with Japanese participation might provide a useful way forward.

4. German economic and monetary union may well be in place by early July and the Summit may have something to say on its broad economic impact, particularly on trade and investment flows, and on inflation in Germany and the other G7 countries.

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5. By July, the Summit's attention may focus as much on the Soviet Union as on Eastern Europe. We agreed at our last Sherpa meeting that we should describe at this meeting our countries' present and future plans to assist the Soviet economy. In view of your wish to have a worthwhile package to announce during your visit to the USSR in June, I will not want to give a detailed picture of our plans at San Francisco. But the paper attached summarises the current UK effort to which I will draw attention. I will also explore with my fellow Sherpas the possibility that, in the current confused state of the Soviet economy, any Western help might best be targeted on specific sectors where the failures of the Soviet system are most glaring and where Western know-how would have an exemplary effect.

6. Two particular points:

- The Canadians have suggested that President Bush should brief President Gorbachev after the Summit. This might help the process of gradually tying the USSR into the framework of Western organisations and give some reassurance that the West is not exploiting recent changes to the disadvantage of the Russians. But I suggest we should not press the suggestion if the US had strong objections (which would help to keep our own powder dry for any initiatives of this sort which you might want to consider for the 1991 London Summit).

- You suggested before the last Sherpa meeting that the Summit should make a real effort to teach those countries which are in an economic mess, as a result of the failure of state socialism, what the market economy is, and why it works. Possible draft language is attached, for inclusion in either the Summit declaration or a separate piece of paper. Besides extolling the market economy, it refers also to human rights and democracy, in line with our general aim to promulgate the democratic values which underlie G7 societies. This, and the deliberate avoidance of the term "socialism" will, I hope, help to improve the prospects of selling the text to the French and Italians. Are you content with the text?

X |  
As slightly amended - it is very good

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Trade

7. The Summit communique ought, if it is to contribute positively to a successful outcome to the Uruguay Round, to move beyond rhetoric and refer to a some specific issues. Priorities for the UK are:

i. Agriculture: participants are already committed to "substantial progressive reductions" in support of protection: but there is a wide gulf between the US, who want major support and protection schemes eliminated; the EC and others with high protected markets; and the Cairns Group of other major exporters (including Australia, New Zealand and Canada) who are in the middle. Any of these could block an agreement if they are not prepared to move towards a consensus. In addition to a firm restatement of the principle of substantive progressive reductions in support, we should seek a reference to the need to cover all products (aimed in particular at Japan's protected rice market) and to using agreed criteria to assess reductions, (picking up the EC's proposal for an aggregate measure of support).

ii. Dispute Settlement Procedures: these need to be strengthened so that those, particularly the US, who resort to unilateral means of pursuing trade disputes no longer have any justification for doing so.

iii. Developing Countries: communique language which took no account of the interests of the developing countries could be counterproductive; they can block the Round if they see nothing in it for them. The key issues here are textiles, where the EC is committed to liberalisation in certain conditions, but where the US, with its strong domestic lobby, is moving more slowly; and tropical products. US sensitivities may rule out anything more than a general reference in the communique to the need for all participants to contribute to a successful outcome, even where this is painful.

*Intellectual Property & Services?*

Environment

8. Our key objective here is for the Summit to make a clear statement on how the question of greenhouse gases emissions should be addressed at the Second World Climate Conference in November and in the subsequent negotiations on a framework Convention on Climate Change. This would be a significant advance on what the 1989 Summit agreed. It is too soon to judge how far we should press at the Summit for specific agreements on emissions targets, timetables and policy instruments. - We shouldn't

9. The achievement of our objectives will be complicated by the range of differing G7 approaches, particularly on specific emission targets. In particular, we will need to persuade the US to consider the state of stabilisation necessary, on the basis of work in the Intergovernmental Panel on Climate Change. Current US arguments based on the incomplete level of scientific knowledge will be increasingly difficult to sustain after June, when the IPCC scientific assessment will be available. Apart from greenhouse gases, the Summit should seek generally to give further impetus to work on a framework Convention on Climate Change. But here too we may have to induce the US to take a rather more realistic view of the possibilities, particularly on when the first negotiating meeting (which they have offered to host) might take place, though that may well have resolved itself by July.

10. We will want to press ahead with work in the Summit context on economic aspects of environment policy. The OECD work called for at the Paris Summit should point the way. We want to identify market-based instruments which will not inhibit the economic growth required to sustain the measures of environmental protection necessary in both the industrialised and developing countries. On the needs of developing countries, we should try to build on whatever the London meeting of Contracting Parties to the Montreal Protocol on the Ozone Layer (at the end of June) succeeds in doing on financing. We want to give a clear signal to them of the willingness of developed countries to contemplate mobilising resources for the transfer of technology in the context of the proposed framework Convention on Climate Change.

*Beware  
The real  
problem  
here is  
Indian  
China  
People take  
less  
notice of  
scientific  
realities.*

Drugs

11. There are several initiatives which need to be pushed forward:

- Demand reduction will be a principle<sup>al</sup> theme in our World Ministerial Summit in April. The reform and strengthening of the UN drugs bodies will be examined by an expert group to be set up soon by the UN Secretary General.

✓ We may want to suggest to you that there is a case for increased national or international action to identify and impede the flow of precursor chemicals used in the manufacture of drugs.

- There may also specific attention to extra help to producer countries.

- The follow-up of the Report of the Financial Action Task Force on Money Laundering will probably be agreed before the Summit, but the Americans may well press for further discussion of money laundering issues there.

The World Economy

12. Controlling inflation remains the top world economic priority and firm action by monetary authorities remains the correct response to inflationary pressures. We will continue to press for the dismantling of structural rigidities in Germany and Japan. Progress in both countries has been limited. Indeed, the slow progress in the US/Japan Structural Impediments Initiative (SII) brings with it dangers of market sharing deals and US restrictions for Japanese exports, with potentially damaging effects on third markets and on the multilateral trading system. EC/Japan relations are made no easier by the protectionist reflex of some of our partners. We shall need to assess these strains carefully in the run-up to the Summit so that the Summit can be used to

[N. Strain changes!]

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promote genuine change in Japan, not just in exchange of complaints.

13. In Germany, the picture is affected by the imminence of German economic and monetary union. In the short term, the switch of resources towards the GDR will tend to reduce the FRG surplus. But this does not lessen the arguments for structural reform there. We will in particular want to argue that, in the process of transforming the former GDR economy, the FRG does not simply extend its current system of regulations and subsidies.

Debt

14. So far as we are aware, there are no US initiatives in the offing. But there will be continuing pressures in the course of 1990 from developing countries, particularly the poorest, for further consideration to be given to their debt problems.

North/South Dialogue

15. I expect Jacques Attali to renew the French initiative for a North/South dialogue at Summit level. We will maintain our previous line against such a dialogue, keeping alongside the US.

Political Issues

16. The Political Directors will be meeting in San Francisco just before the Sherpas to discuss a range of foreign policy issues.

Informal Topic: Migration

17. Finally, the Sherpas may discuss a theme for the Heads' "informal discussion". The US have in mind "Looking Ahead to the year 2000: international, economic and scientific developments over the next decade, and their policy implications for the G7 countries". This looks extremely vague. What do you think?

18. Another possibility which we might put forward is migration. All G7 countries, in one form or another, are subject to

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Please  
NO

We will  
have some  
proposals  
to put

increasing pressure from migration and/or refugees. A discussion of the consequent economic and political issues could encourage acceptance at Summit level that this is a problem which has to be handled sensitively and with a clear understanding of each other's concerns. Our intention would be to encourage general rather than specific discussion. The problem of the Vietnamese boat people need not make us shy of suggesting this idea (although it would be right to reassure the Americans privately that discussion of the general theme of migration would not be intended as an attempt to criticise American policies). I would be glad to know whether you think that we should suggest migration as a suitable topic for any informal discussion.

Y |

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



The US topic is really too broad: but migration is probably too narrow for most heads of Government (and a bit sensitive in Texas!). We really need something else. I wonder whether 'Science & Government' might be a promising area.  
Too vague.

N.L.U.

N L WICKS

I think a more limited subject  
① whether a refugee  
- not an economic migrant  
- not someone seeking refuge for - unless civil war  
- and what chance when can we let to return  
NON-refugee immediately  
- entrap  
UK/US/... (to UK) No change of borders without...  
- but... must more...  
- ...

HOUSTON ECONOMIC SUMMIT : SECOND SHERPA MEETING

UK ASSISTANCE TO USSR

The UK is providing relatively modest but carefully targetted support, primarily in training, particularly to prepare Soviet managers to operate in a market economy where they can no longer rely on traditional central planning. Specific programmes have included:

- a range of management courses and seminars at UK colleges, funded by both government and private sources (worth some £300,000 in 1989/90);
- advising a visiting Soviet team in March on shifting production from the defence to the civil sector, and replacing large smoke-stack industry with smaller more adaptable units;
- advice on small-scale agriculture in Lithuania;
- an exchange programme with the Estonian Management Institute;
- training for commercial lawyers;
- various events, including a series of management seminars, during the British Month in Kiev in June, designed to promote economic reform and to explain, in relatively simple terms, how a market economy works;



- the British Council gives a high priority to training in areas of relevance to economic and political reform (the budget for the USSR has been increased 72% to £2.55m 1989/90);

- an FCO scheme provided scholarships for 62 Soviet students to study in the UK in 1989/90; this is to be expanded.

Trade, although principally a matter for the companies involved, provides essential exposure to Western business methods:

- UK-USSR trade increased by 20% last year (admittedly from a very low level);

- over 70 Anglo-Soviet Joint Ventures have now been established (although only a small proportion are fully operational);

- there is also ample ECGD-backed credit available for British exporters; since 1987 some £550m worth of contracts has been secured with ECGD-backed loans;

- major British banks have established medium-term credit lines totalling £230m during the last two years (so far only £10m of this has been drawn down).