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*From the Private Secretary*

3 April 1990

**HOUSTON ECONOMIC SUMMIT: MEETING OF SHERPAS IN  
SAN FRANCISCO**

The Prime Minister has read with interest your account of the Sherpas' meeting in San Francisco but has not made any substantive comment (except for a squiggly line under 'San Francisco' which I take to represent a view that the Sherpas are too inclined to find remote and attractive spots to meet!)

I am copying this letter to Stephen Wall (Foreign and Commonwealth Office), John Gieve (H M Treasury) and Sonia Phippard (Cabinet Office).

C. D. POWELL

N. L. Wicks, Esq., C.V.O., C.B.E.,  
H. M. Treasury

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c: /for/wicks*

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Prime Minister (2)  
This seems to be  
developing quite well  
CAF

FROM: N L WICKS  
DATE: 29 MARCH 1990  
Ext : 4369

PRIME MINISTER

HOUSTON ECONOMIC SUMMIT: MEETING OF SHERPAS IN SAN FRANCISCO

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You will wish to have a report of the Sherpas' discussion last weekend in San Francisco.

East and Central Europe

2. We agreed that the Summit would inevitably be dominated by events in Eastern and Central Europe, though which aspects would predominate are uncertain. This would depend largely, we thought, on events in the Soviet Union. Some believed that by July, as the economic problems of the Soviet system progressed, we might even be faced with requests for economic aid from the Soviet Union. The United States' Sherpa was extremely cautious, not surprisingly in view of the news of Soviet tanks rumbling through Vilnius, and made clear that US policy in this area is much constrained by the hawks in Congress.

3. The Sherpas will need to pull together these somewhat inchoate strands before the Summit. One possible theme, which surfaced particularly during the Political Directors' meeting which preceded the Sherpa discussion, was that democracy should be a major theme at the Houston Summit. This was expressed in various ways, such as: "1990s - Decade for Democracy", "Security and Democracy", or "Securing Democracy". The underlying thought was that the revolution in Eastern Europe, the successful elections in Nicaragua and other Central American countries, the independence of Namibia and even attempts to preserve the constitutional acquis in such countries as Pakistan and the Philippines, all expressed the transition to a more democratic world; and that the Summit should mark and reinforce this.

[This would fit in well with your proposals]

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4. I picked up this theme during the Sherpa discussions and circulated our text on Political and Economic Freedom. I will follow this up at later Sherpa meetings. This theme is, of course, relevant to the series of Western Ministerials scheduled over the coming months (NAC, European Council, Houston Summit): they might all underline the importance of making secure and permanent freedom, democracy and the rule of law. This would be helpful both as a prelude to the CSCE Summit and ensuring that German unification and the FRG elections take place against a stable backcloth to which the wider Western alliance is seen to provide the major feature.

5. In this spirit we floated our idea about a role for the CSCE (Basket II), meeting occasionally in close association with the OECD, as a forum for discussing, on a multilateral basis, the longer term issues of reform and the related problems of cooperation. I emphasised that any arrangements must allow for Japanese participation.

6. There was general agreement that the COCOM arrangements needed to be brought up to date. If the June meeting of COCOM experts could not establish a minimum core list of the vital items to be protected, the Summit might have to resolve the issue.

World Economy

7. There was consensus that prospects for G7 growth (slowing down from the unsustainable rates of 1988) and for inflation (still too high, but generally under control) were reasonable. Concern was, however, expressed about financial market fragility (declining yen and stock prices) in Japan despite the strong underlying economy. There was also the traditional division between the US and the French who put the priority on maintaining world growth and the FRG, Canadians, Japanese and ourselves who put more emphasis on the control of inflation. The German Sherpa, speaking personally, expected German monetary union to take place between 1 July and 1 August with the precise date likely to be announced in early May. So the economic consequences of GEMU would be an important topic at the Summit, particularly if world

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interest rates looked to be edging up. There was a general consensus too that the new demand for funds for Eastern and Central Europe added to the need to increase savings and thus gave Governments an additional reason for fiscal prudence. Japan and Germany were singled out as countries where more attention should be given to structural reforms.

Debt and Development

8. There was a general feeling among the Sherpas that Eastern and Central European developments must not be seen to dominate the Summit, or divert resources, to the exclusion of the interests of the developing world. But it was not yet clear what the Summit could offer, besides words, to allay the developing countries' fears that their interests were now of less priority. One possibility was to emphasise the readiness of the Seven to respond to developing countries' concerns in the Uruguay Round. There were some hints from the US that they are considering extending debt relief to Paris Club (official) debt.

North/South Summit

9. One good piece of news: after the US and ourselves had repeated the case against the French idea for a North/South summit, Attali said that he would recommend his President to postpone his initiative (maybe because Attali thought that to press it now would harm his candidature for the Presidency of the EBRD!).

Trade

10. There was agreement that the Summit should give a firm push to the Uruguay Round, whose conclusion was now only five months away. There was also, perhaps surprising, agreement about the topics which the Heads might identify as priorities - the importance of ensuring the full participation of the developing countries in the outcome of the Round; even the French were ready for the Summit to discuss agriculture provided this did not involve "killing" the CAP; strengthening the rules of GATT,

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especially disputes settlement, and the extension of GATT rules to new areas like intellectual property and services. The Commission's approach was close to ours.

Environment

11. There was general acceptance of the Canadian Sherpa's points that the Summit Heads would lose credibility if they did not follow up the generalities of last year's communique with indications of specific follow-up. But there was uncertainty about how this precept should be put into practice, particularly in the field of climate change and greenhouse gas emissions. My German colleague argued, emphasising that he was speaking on a personal basis, for a 20 per cent cut in greenhouse gas emissions by 2005, though he was not too clear about the practical measures needed to implement such a commitment. I argued against any attempts to agree greenhouse gas emission targets, timetables and policy instruments until there was a basis in "sound science" to do so. I suggested that the Summit should be seen as an early stepping stone to the 1992 Conference on a climate convention (with the 1991 London Summit being even more important). I emphasised too the importance of further work on economic and market based instruments for securing any policy objectives which might be agreed later on. There was some interest among Sherpas in the importance of maintaining biodiversity. We are considering whether we might offer a paper here which I would, of course, show you first.

Drugs

12. There was considerable interest in next month's World Ministerial Summit in London to reduce the demand for drugs etc. I undertook to circulate a report of the conference to the Sherpas so that the Summit might be used as a vehicle for follow-up. The Italians supported our call for the Summit to reform the UN drugs bodies. Many Sherpas were concerned about precursor chemicals and there were some suggestions that the Summit might establish a task force, like that usefully used for money laundering, to make recommendations about improved methods of control. We are

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considering whether this offers scope for a UK initiative designed to ensure action at the London Summit.

Terrorism

13. The Americans circulated a note explaining their ideas on extradition. These called for the executive branch in Summit Governments to waive any discretion in extradition cases for suspected terrorists where the courts had authorised extradition. Attali said that France could never agree to this. I said that while we sympathised with its intention, such a declaration could raise counterproductive legal problems for the UK. The Canadian Sherpa was in the same position. (It does not look as if the US proposals would help us in getting IRA suspects back from the US, where the trouble usually arises with the courts.) Everyone agreed that the Summit should consider issues of aviation terrorism.

Informal Discussion

14. The US are determined that the Heads' informal discussion should focus in some way or other on "looking ahead to the year 2000". Your idea for something in the realm of science and Government was thought a possibility. We have been asked to reflect and I will submit further advice. Many Sherpas thought that a major problem facing G7 societies around 2000 was the need to maintain traditional values at a time of rapid change. But that is not an easy topic for Summit discussion.

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

N.L.W.

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