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From the Private Secretary

23 May 1990

SHERPA MEETING, PARIS, 19-20 MAY 1990

The Prime Minister has seen your note of the Sherpa meeting in Paris on 19-20 May. The only aspect on which she has commented is what you call the Summit's message. She would be happy to see the Summit endorse the victory of democracy and the market economy over Communism and the command economy. But she thinks the label suggested by the Canadians - "securing democracy" - is too weak and hopes we can come up with a stronger formulation.

The Prime Minister clearly hopes that the French proposal for a task force on the international monetary system can be squashed before the Summit.

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

(C. D. POWELL)

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Nigel Wicks, Esq., C.V.O., C.B.E.

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FROM: N L WICKS
DATE: 22 MAY 1990
Ext: 4369

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PRIME MINISTER

Prime Minister

SHERPA MEETING, PARIS, 19-20 MAY 1990

COB 22/5

Discussions in Paris at last Friday and Saturday's Sherpa meeting suggested that the most difficult items for the Houston Summit will be:

- "the Summit's Message";
- the USSR;
- the Uruguay Round;
- the Environment.

The other main issues - the world economy, Eastern and Central Europe, drugs and debt and the developing countries - look more straightforward.

The Summit's Message

2. It seems that the US have still to identify the Summit's message; indeed this may not emerge until a late stage when President Bush, and his Secretary of State, engage themselves in the process. So we may be in for some surprises during the later stage of Summit preparations. One possible message suggested by the Canadian Sherpa and myself, following the draft declaration on economic and political freedom which I circulated at the last meeting, was for a Summit endorsement of the victory of democracy and the market economy over Communism and the command economy. The Canadians suggested bringing this together under the theme "Securing Democracy". This could provide a collective welcome from the Summit for the historic changes in Europe and for the positive developments in Latin America and South Africa. The

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Too weak

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● Canadians went on to suggest that a G7 funded "International Centre for Securing Democracy" should be established to ensure that aid to new democracies is compatible and mutually reinforcing. I will provide further advice on the Canadian ideas before the next Sherpa meeting.

The USSR

3. The Sherpas thought that the dire political and economic state of the USSR would be the most important topic for discussion, especially since most of the Summit leaders', including yourself, will meet President Gorbachev over the next few weeks. There was a recognition that the West should do all it could to support President Gorbachev; to keep perestroika on the rails; and to draw the Soviet Union into the international community so that Soviets do not believe themselves sidelined by the West. But no-one had practical initiatives to suggest other than limited technical assistance etc, including closer links with the OECD. There was no dissent to strong US opposition to Soviet membership of the IMF/IBRD. There was some talk of President Bush briefing President Gorbachev on the outcome of the Summit and no-one would be surprised if President Gorbachev sent another letter to Summit leaders.

4. While the USSR and East and Central Europe (on which see more below) are expected to be the main Summit issue, Sherpas agreed that it was important for the Heads Summit to avoid conveying the impression, already shared by many third world leaders, that the preoccupation with East and Central Europe was at their expense. Sherpas thought that these concerns could be met by making clear that the message of democracy and market economies was addressed to the third world and by ensuring that their interests were fully reflected in other Summit topics like trade and debt. The US were keen that Europe should support their efforts to sustain democracy in Central and Latin America, though quite what the US have in mind here, beyond Secretary Baker's proposals for a G24-type process for that region, is unclear. This is an area where we can expect US initiatives as Houston approaches.

● Trade and the Uruguay Round

5. The second major theme for the Summit is likely to be trade and the Uruguay Round. Our priorities of agriculture, dispute settlement and the new areas (intellectual property, services etc) are well recognised, though besides agriculture, the US puts emphasis on industrial subsidies and the integration of developing countries. There is general agreement among Sherpas that agriculture here is the key and that if the normal negotiation process has not put the US and the European Community closer together by the Summit, the Summit will have a role in doing just that. Another key objective will be to secure US agreement to forswear unilateral measures (like Section 301) and to bind them into the regular GATT dispute procedures.

Environment

6. The third major topic for Summit discussion is global climate. From the Sherpas' discussion it looks as if the US will take an unhelpful line at next month's London meeting of the Montreal Protocol Parties. We want this meeting to strengthen the Protocol's provisions on CFCs and halons and to persuade some major developing countries, principally India and China, to sign the Protocol. On global warming, the US still question the scientific evidence on the consequences of increased concentrations of greenhouse gases for climate change. They seemed to be reluctant to see the Houston Summit do more than endorse the need for further study and data collection. On the other side, the Germans urge early agreement on tough targets for stabilising, if not reducing, greenhouse gas emissions. The Canadian Sherpa suggested that at Houston the Heads might agree that the November World Climate Conference should provide the opportunity for decisions on targets for emissions of greenhouse gases. This is very near the approach that we have in mind, though the US seem opposed to even this.

7. We clearly need to work to avoid the prospect of US isolation on these important environmental issues at Houston. It might therefore be worthwhile for you to send, perhaps as a beginning,

a letter to President Bush about next month's London meeting on the Montreal Protocol. Departments will be providing advice shortly.

8. The other main topics for the Summit look to be more straightforward:

(i) The world economy. There is the traditional debate between those like the US who argue that the reduction of the current account imbalances have priority and the Germans and ourselves who put the stress on the control of inflation. We urged further structural reform in Japan and Germany. The French proposed a G7 task force on the international monetary system clearly designed to come up with a recommendation for a return to a Bretton Woods type arrangements - this ought to be squashed before the Summit. I emphasised the importance of encouraging household saving as part of a campaign to raise saving levels in an increasingly capital hungry world.

(ii) East and Central Europe. Other than concerns about the USSR recorded above, there was a general feeling that progress in the newly emerging democracies was as much as could be expected, the haul would be long and there would be many disappointments, particularly on the economic side.

(iii) Debt and Development. The US may put forward the debt initiative for lower middle income countries (LMICs) which is under consideration in the Paris Club. This will cause us no problems. More ambitious schemes involving debt relief are unlikely, though there is increasing recognition that something in this direction has to be done to help Poland. The French idea for a North/South summit seems to have gone away. As recorded in paragraph 4 above, all the Sherpas are anxious to avoid any perception that preoccupation with the USSR etc has crowded out attention from the developing world generally.

(iv) Drugs. I floated the ideas, described in the note attached, about controlling precursor chemicals which I will follow up at the next Sherpa meeting.

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(v) China and the World Bank. There was a brief discussion of the US's wish to continue until the Summit the ban on World Bank lending to China, other than for basic human needs. Many Sherpas were unhappy about importing political criteria into decisions on World Bank lending which are supposed to be based on economic criteria. But they were not disposed to oppose openly the US position. Departments will reflect further before the crucial World Bank meeting on 29 May.

9. Unfortunately, the US did not want discussion of their suggested informal topic, "Planning for the Year 2000". They said that the White House have arranged later this month an informal meeting of "futurists" to consider what the world would be like in 10-15 years. Ideas from that meeting would be considered by the Sherpas when they met in June. This does not sound an altogether promising approach. But I suggest we should wait to see what the US produce. Meanwhile, I shall be in touch with Sir Robin Butler to see whether there are any ideas which we could recommend you to put forward.

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

N. L. W.

N L WICKS

PRECURSOR AND ESSENTIAL CHEMICALS

UK PAPER

1. Certain industrial chemicals, otherwise produced and traded legally, are widely diverted for use in the manufacture of illicit narcotic drugs. Such 'precursor' chemicals are, for the most part, produced in industrialised countries. Preventing their diversion is extremely difficult. But effective measures to do so would significantly impede drug production, which takes place largely in developing countries.
2. Work in this field is currently proceeding in a number of areas. Countries are now moving towards ratification of/ accession to the 1988 UN Convention. The implementation of the relevant provisions in this Convention would considerably improve national and international measures to prevent the diversion of chemicals into illicit drug production. EC members are currently discussing the adoption of broadly consistent national systems for monitoring trade in precursors and essential chemicals between the Community and non-Community countries. The Colombians recently proposed a conference between interested governments and the firms which produce and distribute precursor chemicals. This, and further action, was highlighted by the UN Special Session and the Cartagena and London Summits.
3. The Houston Economic Summit offers a further opportunity to develop the momentum for international action in this important field. A number of delegations have already suggested that the Summit should look at regimes for controlling precursor chemicals. One delegation proposed that an international taskforce be established, similar to that for money laundering. The United Kingdom agrees that there is a need for an expert examination of the field, which is wide and complex, with a view to recommendations for action.
4. The United Kingdom is willing to take part in such an exercise, but is concerned that a single Task Force, which would need to involve, for example, representatives of both the chemical manufacturing and exporting countries and of the drug producing nations of Latin America and Asia, and possibly also from the industry itself, might be large, unwieldy and difficult to manage. The United Kingdom sees advantage in some subdivision of the work to enable three appropriate expert groups to scrutinise the problems of precursors and essential chemicals for, respectively, cocaine, heroin, and synthetic drugs (psychotropic substances) in order to identify ways of operating existing monitoring mechanisms more effectively and of developing new national and international procedures.

5. The proposals for structure and participation reflect the fact that the nature of the problems posed by the diversion of chemicals to illicit drug production varies markedly among drugs and that, for reasons reflecting the regional pattern of drug production, different countries will be interested in different aspects of the subject. Suitable precautions would need to be taken to avoid the risk of the results of the meetings leaking to the illicit trade, (a significant problem were the legal industry to participate). The UK would be ready to table a range of papers for this scrutiny and, if it was decided to hold separate sub-groups, might be ready to convene or lead one of them.

6. This exercise would incidentally allow developed countries to form an assessment of the extent to which drug producing countries have in place effective arrangements for preventing the diversion of chemicals to illicit use on their own territory and, for example, for acting on notifications of suspicious consignments from precursor producing countries. Where such arrangements were inadequate the precise application of technical assistance could have a disproportionate effect on illicit production.

