

PRIME MINISTER

HOUSTON SUMMIT

I attach a further note from Nigel Wicks about next week-end's Sherpa meeting.

The three points for decision are:

- Whether to have a free-standing declaration on 'Political and Economic Freedom'. The ideas in paragraph 3 of Nigel's minute look to be very much on the right lines. Agree? *Yes*
- What particular message to put out from the Summit about the Soviet Union. Presumably it should acknowledge and praise the very considerable changes which have already taken place and express support for policies of greater democracy and a market economy. The problem will come over practical steps, i.e. financial assistance to support these sentiments. We know from other sources that the Germans - and perhaps the Americans - may press for a commitment to provide substantial credit for the Soviet Union. We need to have a worked out position on this. Agree to instruct Nigel to temper the language of any statement to our willingness and ability to provide financial help? And meanwhile to conduct a Whitehall exercise to see what we could provide?
- What attitude to take if the French press their idea of a confidential study (if there is such a thing) of the international monetary system. The Japanese now seem ready to support this: and the Americans are not against. It has its risks: but it could also be an opportunity for pursuing your ideas on linking major world currencies to an objective standard. Agree that Nigel should at least not rule out such a study? *Agreed mb*

C.D.?
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PRIME MINISTER

HOUSTON SUMMIT

You make like an update on the main issues which will be discussed at next weekend's Sherpa meeting.

The Summit's Message

2. We want democracy and freedom to be the main theme of the Summit. That message should not be just self-congratulatory: it should look forward to further expansion of good government, should stress political conditionality and should look for the concerted resolution of remaining international disputes via regional efforts, eg CSCE and a reviving United Nations.

3. We need to consider further how to promulgate this message. Our initial view is to favour a free standing declaration incorporating elements from the original text on "Political and Economic Freedom" and Canadian and US ideas. The declaration might:

- welcome the changes in the Soviet Union, Eastern Europe and Central America and South Africa;
- explain why Communism has failed;
- outline the key elements of a market economy and of a liberal pluralistic democracy;
- reaffirm the essential principles of our system; and
- stress the universal nature of these principles and our willingness to support those who embark on the paths to

freedom (with the implicit message that we will not help those that do not).

4. As you know from my minute of 22 May, the Canadians proposed at the last Sherpa meeting a joint G7 fund for political aid. We would not recommend another international initiative here, but we see no difficulty in subscribing to the principle that each of the Seven should, in its own way, offer assistance in constitutional and legal reform: our contribution would be through the National Political Aid Fund which we are in the process of establishing.

Soviet Union

5. By the time you read this, you will have formed your own first hand views of the situation in the Soviet Union. It would be very helpful to know whether there is any particular message on the Soviet Union which you would like the Summit to impart. The Americans are likely to be very guarded about substantive assistance, though the Germans may possibly want the West to offer economic help to keep the Russians afloat until reunification is tied up.

The Uruguay Round

I do not think that large chunks of credit will help. They will be dissipated on consumer goods, and the debt will remain.

6. The OECD Ministerial meeting confirmed that the Uruguay Round will be a major issue for the Summit. Agriculture in particular proved to be a highly contentious issue: the US pressed for specific commitments on export subsidies; the Commission, with strong support from some Member States, was not prepared to move from arguing for cuts in the overall level of support and protection. However, the communique includes a firm Ministerial commitment to overcome differences by the Trade Negotiations Committee (TNC) in late July. If we can prepare the ground sufficiently, Houston could make a useful contribution to bridging this EC/US gap. We therefore plan to use every opportunity to encourage the Community to be more flexible. Mr Ridley further hopes to write to Andriessen and MacSharry after the FAC discussion on 18-19 June.

7. At the Sherpa meeting I propose to avoid further argument on the substance, which would be unproductive. But we should stress the importance of settling the dispute over how to negotiate on agriculture by the July deadline; and create conditions for a serious and, I hope, conclusive discussion on bridging the US/EC gap at the Summit itself.

Environment

8. Your speech at the Hadley Centre will have been noted in Washington and may strengthen the hand of those in the Administration who want the US to take a more positive stance in international discussions on climate change. But it may be some time yet before the US resolves its internal debate and is able to present a more positive public profile. You are writing to President Bush to urge him to agree that additional funds are needed to help developing countries develop alternatives to CFCs. We need American agreement to this, which they alone of donor countries are resisting, for a successful outcome to the Montreal Protocol Review Conference at the end of June. Our position on CO₂ emissions will continue to be that the Summit is not the occasion for quantitative decisions on targets, but that it could agree that the World Climate Conference later in the year would provide the opportunity for such decisions.

The Future of the International Monetary System

9. As you know from my minute of 22 May, the French proposed at the last Sherpa meeting a study of the International Monetary System (IMS). The proposal received support, but only muted, from the US Treasury representative. However, my opposite number in the Japanese Treasury told me yesterday that the Japanese are now considering supporting the French suggestion, provided that the study is conducted in private and not publicised in the Houston communique. He believes that the growing coherence of the EMS - and he no doubt has UK entry in mind - could well lead to a tripolar currency world. This is new territory, which in his view merits attention.

10. I believe my Japanese colleague has a point, though whether such a study could bridge the likely divisions within G7 is doubtful, and it might of course start some undesirable hares like French aspirations to a return to a more fixed exchange rate regime. However, if you agree, I propose not to oppose a proposal for an unpublicised study because it could provide a forum for following up the idea of linking the major world currencies to an objective reference standard, if Ministers agree at your forthcoming meeting that we should pursue such an initiative.

11. As to the other elements in the initiative which we discussed at your meeting on 31 May, I shall draw on your Turnberry speech regarding NATO's future role. But I propose not to mention the idea for a North Atlantic Free Trade Area pending considering at your forthcoming meeting.

12. Other items (debt, drugs etc) will be discussed, and I will take the line set out in my earlier minutes.

13. 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