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FROM BAYNE

FOR PRIVATE SECRETARY, KERR AND HANNAY (LUXEMBOURG)
FOR BONE AND TAUWHARE (ERD/FCO)

PREPARATORY MEETING FOR HOUSTON SUMMIT, 15-17 JUNE
SUMMARY

1. MAIN ISSUES WERE HELPING SOVIET UNION, TRADE/AGRICULTURE AND ENVIRONMENT. BUSH HAS PROMISED GORBACHEV THAT HOUSTON WOULD CONSIDER ECONOMIC SUPPORT FOR USSR. FULL EXCHANGE ON AGRICULTURE IN THE URUGUAY ROUND, WITHOUT REAL MOVEMENT ON SUBSTANCE. BUT RECOGNITION THAT THIS WILL BE NEEDED BEFORE HOUSTON. ON GLOBAL WARMING, AMERICAN SHERPAS READY TO CONSIDER ANGLO-CANADIAN APPROACH, BUT WORRIED ABOUT WHITE HOUSE REACTION DETAIL
2. SHERPAS MET ON 15-17 JUNE AND MAINLY WORKED THROUGH ANOTHER VERSION OF THE US DRAFT THERMATIC PAPER, INTENDED AS QUARRY FOR THE SUMMIT DECLARATION. WICKS, WITH BAYNE AND EVANS (HMT) REPRESENTED UNITED KINGDOM.
HELPING THE SOVIET UNION
3. THIS WAS DISCUSSED OVER MEALS - NO TEXTS WERE CONSIDERED. THE AMERICANS (MCCORMACK AND DEAL) REVEALED THAT GORBACHEV HAD ASKED BUSH FOR WESTERN HELP TO CONTINUE PERESTROIKA (USD 20 BILLION HAD BEEN SUGGESTED SEPARATELY BY SCHEVERNADZE). BUSH HAD TOLD GORBACHEV THIS WAS DIFFICULT FOR THE US BUT PROMISED TO DISCUSS IT AT HOUSTON. THE GERMANS SAID KOHL HAD ALSO HAD SUCH A REQUEST, FOR USD 20 BILLION OVER 3 YEARS, AND HAD GIVEN A SIMILAR RESPONSE. ALL OTHERS SAID THEY HAD NOT BEEN APPROACHED IN THESE TERMS, DESPITE GORBACHEV'S RECENT CONTACTS WITH THATCHER, MULRONEY AND MITTERRAND. BUT THE RUSSIANS HAD APPROACHED FRENCH BANKS AND ASKED CANADA FOR CREDIT FOR BUYING GRAIN.
4. THE AMERICANS SAID BUSH WOULD WANT TO GIVE A POSITIVE, IF UNSPECIFIC RESPONSE. THEY WOULD NOT OFFER FINANCIAL AID, IF ONLY BECAUSE OF RESISTANCE BY CONGRESS. NO ONE ELSE ADVOCATED PROVIDING THE USD 20 BILLION, WHICH WOULD VANISH WITHOUT DOING ANY

GOOD. BUT THERE WAS A GENERAL CONSENSUS THAT A DIALOGUE SHOULD BE ESTABLISHED WITH THE SOVIET UNION, TO OFFER ECONOMIC ADVICE AND SOME TECHNICAL ASSISTANCE, WHILE A MECHANISM WAS NEEDED FOR COORDINATING A WESTERN POSITION. ATTALI ARGUED STRONGLY THE EBRD SHOULD DO THIS. THE COMMISSION (KRENZLER), WITH SOME SUPPORT FROM BAYNE, SUGGESTED A PARALLEL G24. ITALY SUGGESTED USING OECD.

URUGUAY ROUND AND AGRICULTURE

5. IN AN INITIAL ROUND AMONG SUB-SHERPAS, DEAL (US) SAID THE URUGUAY ROUND WOULD BE A VERY HIGH PRIORITY FOR BUSH, SINCE HIS TRADE POLICY DEPENDED ON A SUCCESSFUL OUTCOME. BAYNE SAID HOUSTON SHOULD GIVE A POLITICAL PUSH ON KEY ISSUES, INCLUDING, THOUGH NOT ONLY, AGRICULTURE. ANOTHER DISAGREED OUTCOME ON AGRICULTURE, AS AT OECD, WOULD BE BAD FOR THE TNC AND THE ENTIRE ROUND. KRENZLER (COMMISSION) AGREED.

6. TWO DRAFTING ROUNDS PRODUCED AN ADEQUATE TRADE SECTION FOR THE THERMATIC PAPER, WITH SATISFACTORY AGREED LANGUAGE ON GENERAL OBJECTIVES, NEW ISSUES AND FUTURE INSTITUTIONAL DEVELOPMENT OF GATT. BUT THE AMERICANS WOULD NOT CONFIRM THE OECD LANGUAGE ON DISPUTE SETTLEMENT AND THE COMMITMENT TO OPERATE ONLY UNDER MULTILATERAL RULES. THIS, THEY SAID, HAD CAUSED QUOTE POLITICAL DIFFICULTIES UNQUOTE, BUT THEY EXPECTED THEY COULD ENDORSE THE OECD FORMULA AT HOUSTON ITSELF.

7. ON AGRICULTURE THE DIFFERENCE IDENTIFIED AT THE OECD REMAINED. KRENZLER WAS INITIALLY RELUCTANT TO TRY TO BRIDGE THE GAP AT THIS STAGE AND THE AMERICAN (FEKETEKUTY) DID NOT PRESS. BUT WICKS POINTED OUT IN THE MAIN SHERPA MEETING THAT MORE PROGRESS MUST BE MADE. OTHERWISE HOUSTON WOULD PRODUCE DISAGREEMENT OR A FUDGE, BOTH OF WHICH WOULD BE BAD FOR THE ROUND.

8. MCCORMACK (US) CHALLENGED THE COMMISSION ON WHETHER THE EC WERE PREPARED TO NEGOTIATE, ALL THE EVIDENCE REACHING HIM SUGGESTED THEY WERE NOT. LAMY (COMMISSION) SAID THE EC WAS PREPARED TO NEGOTIATE ON ALL ISSUES. BUT CURRENT US ATTITUDES MADE IT VERY DIFFICULT FOR THE COMMUNITY TO MOVE. HE ADDED THAT DELORS WOULD WANT TO SPEAK AT HOUSTON ON QUOTE SOCIAL CONCERNS UNQUOTE IN AGRICULTURE, AS AT TORONTO IN 1988. KRENZLER SAID THE ISSUE COULD ONLY BE RESOLVED IN GENEVA. WICKS SAID THE SUMMIT LEADERS WOULD CERTAINLY WANT TO ADDRESS THE MATTER THEMSELVES. BUT IT WAS TOO COMPLEX TO BE LEFT FOR MIDNIGHT DRAFTING AT HOUSTON.

9. IN A FINAL ROUND BAYNE, PICKING UP A COMMENT BY SCHOMERUS (GERMANY), SAID THE DISPUTE SHOULD NOT BE EXAGGERATED. NOW THE US WERE NO LONGER INSISTING ON ELIMINATION OF EXPORT SUBSIDIES,

IT SHOULD BE POSSIBLE FOR THE TWO SIDES TO MOVE TOWARDS EACH OTHER. THE US MUST ACCEPT THE EC HAD TO TAKE THE THREE AREAS (DOMESTIC SUPPORT, IMPORTS, EXPORTS) TOGETHER: THE EC MUST REASSURE THE AMERICANS THAT EXPORT REFUNDS WOULD BE CAUGHT. KRENZLER AND FEKETEKUTY AGREED, AFTER DEBATE, THAT A COMPROMISE SHOULD BE POSSIBLE, WITH THE US STARTING FROM POLICY COMMITMENTS BUT ADMITTING A ROLE FOR THE AMS, WHILE THE EC APPROACHED FROM THE OPPOSITE DIRECTION. FEKETEKUTY DEMONSTRATED TO LEFAS (FRANCE) THAT THE US WOULD PUT ALL ITS SUPPORT PROGRAMMES ON THE NEGOTIATING TABLE.

10. WICKS GAVE KRENZLER OUR PROPOSED COMPROMISE LANGUAGE, WHICH HE AGREED TO CONSIDER. HE DID NOT ADVANCE IT THIS TIME, BUT THOUGHT AGREEMENT POSSIBLE AT THE NEXT SHERPA MEETING ON 29/30 JUNE. HE URGED THAT MR RIDLEY SHOULD PRESS HARD ON THE ISSUE AT THE FAC, ON THE LINES OF HIS LETTERS TO ANDRIESSEN AND MACSHARRY. LAMY ALSO SAID HE WOULD SUGGEST TO DELORS THE NEED FOR A FRESH APPROACH.

ENVIRONMENT

11. THERE WAS A CONFUSED DISCUSSION OF THE DRAFT THEMATIC PAPER. KOHLER (GERMANY) TRIED TO INSIST THAT A RADICAL GERMAN DRAFT BE TAKEN AS THE BASIS FOR WORK. THIS CALLED FOR AMBITIOUS CO2 EMISSIONS TARGETS, THOUGH WITHOUT DATES, TO BE EMBODIED IN AN INTERNATIONAL PROTOCOL ADOPTED BY 1992. THIS WAS TOO MUCH FOR THE AMERICANS. BUT THEY WERE PREPARED TO CONTEMPLATE UK LANGUAGE WHICH IDENTIFIED THE SECOND WORLD CLIMATE CONFERENCE AS THE PLACE TO CONSIDER TARGETS AND STRATEGIES AND SET 1992 AS THE DATE FOR A CLIMATE CONVENTION, WITH A SLOWER TIMETABLE FOR IMPLEMENTING PROTOCOLS. THIS WAS BACKED BY BURNEY (CANADA) AND LAMY AND WAS GENERALLY ACCEPTED, THOUGH THE AMERICANS WERE VERY ANXIOUS ABOUT SUNUNU'S REACTION.

FURTHER AMBITIOUS GERMAN LANGUAGE ON TROPICAL FORESTS WAS SHORTENED. THE EUROPEANS BACKED A WORLD BANK ENVIRONMENT FACILITY, AGAINST UAT AND CANADIAN RESERVE. BUT THE US AGREED TO QUOTE NON-PRECEDENTIAL UNQUOTE AID TO HELP DEVELOPING COUNTRIES PHASE OUT CFCS.

OTHER ISSUES

12. ALL AGREED TO MAKE FREEDOM AND DEMOCRACY THE MAIN SUMMIT THEME, BUT DISCUSSION OF SUBSTANCE WAS DEFERRED TO THE NEXT MEETING.

13. THE DISCUSSION ON MACRO-ECONOMIC ISSUES WAS UNREMARKABLE. ON DEBT, LANGUAGE WAS AGREED ENCOURAGING THE PARIS CLUB TO ALLOW LONGER REPAYMENT PERIODS FOR LOWER MIDDLE-INCOME DEBTORS AND TO REVIEW OPTIONS FOR THE POOREST. VATTANI (ITALY) WANTED REFERENCE TO CRAXI'S REVIEW OF DEBT PROBLEMS, BUT THIS WAS

ANGRILY CONTESTED BY MULFORD (US).
14. PLEASE PASS ADVANCE COPIES WICKS (HMT), ROBERTS (DTI),
CARDEN (MAFF) AND OSBORN (D/ENVT).

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ADDITIONAL 33

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