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c: Houston*

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

19 June 1990

HOUSTON ECONOMIC SUMMIT

I have shown your minute of 18 June, reporting the outcome of the recent Sherpas' meeting, to the Prime Minister who has noted it without comment. From separate comments, I know that she is increasingly concerned about the gathering wave of support for early decisions on credits or financial assistance to the Soviet Union, and we shall need to work up our position on this quite rapidly.

I am sending copies of this letter to Richard Gozney (Foreign and Commonwealth Office), John Gieve (HM Treasury), and to Sir Robin Butler.

C.D. POWELL

Nigel Wicks, Esq., CVO, CBE,
HM Treasury.

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FROM: N L WICKS
DATE: 18 JUNE 1990
Ext : 4369

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PRIME MINISTER

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HOUSTON ECONOMIC SUMMIT

Last weekend's Sherpa meeting confirmed that of the topics for discussion at Houston, only three are likely to cause real problems: the USSR, the Uruguay Round, especially agriculture, and the environment; the former because of the innate intractability of the issue and the latter two because of divisions between G7 countries. President Bush will not focus on Summit business before White House meetings on 25 and 27 June; so surprises from the US are still possible.

The Summit's Message

2. There was general agreement that the Summit should convey the message of the triumph of democracy and that the task was now to make democracy safe for the future. We will draft a political declaration to that effect at our next meeting. To the Canadians' evident chagrin, their proposal for a G7 centre to promote democracy received no support.

USSR

3. Even Attali, who has hitherto taken a sanguine view of the Soviet Union's and President Gorbachev's prospects, is now full of foreboding: the situation is out of control with division among leaders and advisers; it was a fatal mistake to seek a route forward based on trying to assemble a national consensus for social and economic reform; and there is a desperate shortage of cash. President Bush has already, I understand, told Summit leaders that he wants to discuss at the Summit aid for the USSR. The Soviets have already asked Chancellor Kohl for \$15-20 billion over three years; the French banks were that day (last Friday) in

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Moscow, at the Soviet's invitation, discussing possible loans (and had been given a political hint from the French Government to do no more than listen and report). President Gorbachev had asked Mr Mulroney for grain credits during his recent Canadian visit and right at the end of his US visit he had mentioned assistance to President Bush. My German colleague believed that Chancellor Kohl would suggest positive support for the USSR, though he thought the US should take the lead. My US colleague responded that there were legal (Congressional) difficulties in the way of US lending. The Canadian Sherpa wondered whether loans might not be made available to the Soviet Union to help them buy Polish/Czech etc goods. I said (drawing on your Private Secretary's letter of 14 June) that it was doubtful whether the Soviet Union was in a position to benefit from large chunks of credit; they would be dissipated on consumer goods and only debts would remain. There was a large measure of agreement for this view. I went on to say that even so it was important to express whatever support we could for President Gorbachev. My Japanese colleague said that if Japan was convinced that there was a catastrophic situation in the Soviet Union, then they might be prepared to help. This might be a softening of the hitherto hard Japanese position that they would do nothing to help the Soviet Union until it returned the Northern islands.

4. As you say, we will need to work out our position soon. My guess is that whatever happens at Houston will be foreshadowed by discussions at the NATO Council.

The Uruguay Round

5. The only issue in this complex area likely to raise difficult discussion at Houston is agriculture: in particular the need to secure agreement which recognises both the merits of the EC Aggregate Measure approach (which covers internal support, barriers to market, access and export subsidies) and the US and Cairns Group concerns on export subsidies. Sherpas agreed that a repetition of last month's OECD stalemate where the EC and US stated opposing positions would send a dire signal for the completion of the Uruguay Round. Guffy words which papered over

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the opposing views would not be much improvement. I argued strongly that while the Heads could obviously not negotiate in this complex area, their discussion needed to maintain the momentum of the Round, eg by setting out in broad terms a negotiating framework which could guide the G7 negotiators at the Trade Negotiating Committee later in July. Though the EC and US Sherpas seemed to accept this objective, they were unwilling to budge from their entrenched position despite a good deal of pushing. We will need to keep up the pressure.

Environment

6. As expected, the main issue concerned CO₂ emission targets. The Germans called for the industrial countries to take effective steps as soon as possible to limit CO₂ emissions and to intensify without delay their efforts to bring them down. They also wanted protocols implementing the World Climate Convention to be agreed at the same time (ie in 1992). On the other side, the US called for additional research before decisions were taken. We suggested an approach for the Summit whereby the Heads might agree that the Second World Climate Conference later this year provided the opportunity for all countries to consider the question of targets and strategies for limiting or stabilising greenhouse gas emissions, and for discussing an effective international response. We suggested, too, that the agreement to the World Climate Convention and its implementing protocols should be delinked, though work on the latter should be undertaken as expeditiously as possible. Everyone seemed ready to accept this approach, though my guess is that the US Sherpa's sympathy for this approach may be overruled by the President's immediate advisers, especially Governor Sununu whose hand is very evident in their environmental policies. This would be a pity; the risk then would be that the Germans would return to their extreme position, the US would be at the other, while others would support the approach which I outlined. Such an outcome would not demonstrate the G7 solidarity necessary to secure effective international action in this area.

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7. Further Points

(i) International Monetary System: in discussion in the margins of the Summit of the idea of an unpublicised G7 study of the future of the IMS which might reflect, among other things, the consequences for the IMS of future developments in Europe, some (France, Japan and the US) were more enthusiastic than others (the FRG). We all undertook to reflect further.

(ii) "Planning for the Year 2000": the US have decided to abandon plans for an informal session and with it their suggested topic about the year 2000.

(iii) Administrative arrangements: the US promised to let us have shortly their proposed allocation of topics between Summit sessions. They are apparently planning to treat the (now black tie) dinner on the Wednesday as the ceremonial Head of State dinner, invite other guests and dispense with the usual working dinner at that time.

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

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