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FROM: N L WICKS  
 DATE: 2 July 1990  
 Ext : 4369

*Prime Minister*

PRIME MINISTER

**HOUSTON ECONOMIC SUMMIT: FINAL SHERPA MEETING**

*CBM 3/7*

The Sherpas and the Political Directors spent their meeting preparing a preliminary draft of the Economic and Political Declarations. Drafts are attached at Annexes A and B. Their somewhat turgid language is the inevitable result, I fear, of the drafting process. Also enclosed at Annex C is the US proposed allocation of topics between the Summit sessions.

Economic Declaration

2. Full advice will be provided in the Summit briefing submitted to you later this week. But it may be helpful if I briefly set out the main issues on the three topics likely to occasion most debate at the Summit: the International Trading System (Uruguay Round), the Soviet Union, and the Environment. There will be decisions for the Heads to take under all three headings.

3. The International Trading System

(i) The position reached in the Sherpa discussions on agriculture is disappointing. The first square bracket in paragraph 22 represents the US position and the second the EC. We are still working on possible bridges and may have more to report before the Summit.

(ii) The first sentence in paragraph 25 on textiles represents the US position and the square bracket a stronger EC position. Our judgement is that the Commission will abandon its stronger language directly it has secured agreement to its language, in paragraph 30, on dispute settlement (see (iv) below).

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(iii) The square brackets in paragraph 30 about a World Trade Organisation cover Canadian language, which is opposed by the US and Japan. Ourselves and the rest of the EC could probably accept some modified form of Canadian words.

(iv) The last three square brackets in paragraph 30, about dispute settlement, cover first the (weak) US position, second the (strong) EC language and third the compromise negotiated by Mr Ridley at the OECD from which the US drew back in the Sherpa meeting. My judgement is that provided the rest of the text is satisfactory to the US, they will move back to this compromise language.

4. The Soviet Union

On President Bush's express instructions, his Sherpa has not attempted to prepare language on the Soviet Union: the President wants to draft that himself in the light of the discussion at Houston. This position reflects the President's view - to use his words at Friday's Press Conference of "... some differences in the alliance on this question [aid to the Soviet Union]". The German Sherpa sought to associate the US with the approach agreed at the Dublin Summit. The US representatives replied that the President's view was simply to note the European exercise and not to become involved in it. The Japanese were similarly cautious, but were ready to support an analysis of the Soviet Union's economic predicament provided that it carried with it no commitment as a first step to providing financial assistance. The Canadians, subject to pressure from their Baltic communities, are also cautious, though they seem ready to use Houston to broaden the approach agreed at Dublin to include other countries. I took the line in FCO Washington Tel No 1133 of 27 June.

5. The US Sherpa told me privately that the President was taking a much tougher line on aid to the Soviets than either Secretary Baker or General Scowcroft. The President believed it very difficult to sell to the US people (and Congress) financial assistance to the Soviet Union in view of the \$5 billion a year Soviets aid to Cuba and the 18 per cent of their GNP

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which they spend on arms. The furore raised by the President's statement about tax revenue increases make the politics even more difficult; how could he persuade the American people that taxes had to go up when taxpayers' money was being made available to the Soviets. There may be developments in the US position following further meetings at the White House next week.

6. The US Sherpa asked Sherpas to let him have possible language for the text on which he could reflect during the week. I provided, on a strictly personal basis, the material at Annex D to this minute which draws on the instructions in FCO Tel No 1133. It can, of course, be altered or withdrawn before the Summit if Ministers so wished.

Environment

7. We made good progress here. Paragraph 58 is the key one. It includes a clear statement, agreed even by the US, that the Second World Climate Conference, in November, provides the opportunity for all countries to consider the question of targets and strategies for limiting or stabilising greenhouse gas emissions. That is satisfactory: it avoids a haggle at the Summit on numerical targets and pushes the US in the direction of targets later in the year. The one disagreement concerns the timing of the agreement of the implementing protocols under the World Climate Convention which will be completed by 1992. The Germans want some protocols to be agreed simultaneously with the Convention; the US want the protocols to be developed subsequent to the Convention; while the Canadians and ourselves argue for bridging language calling for the work on the protocols to be undertaken as expeditiously as possible. Agreement is likely to be reached on the basis of our language.

8. The only other serious disagreement on the environmental passage concerned the role of the World Bank referred to in the last sentence of paragraph 72 with the US so far adamantly opposed to any role for the World Bank's proposed Global Environmental Facility.

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9. The passage in paragraph 13 about a welcome for the EMU IGC represents an Italian initiative and is objected to by the Commission and ourselves. It will be changed.

Political Declaration

10. On the foreign policy side, we agreed that the Summit should issue a political declaration on "securing democracy", an additional declaration on transnational issues (terrorism and proliferation), and a Chairman's statement for Secretary Baker on regional issues (Arab/Israel, Kashmir, Cambodia etc).

11. I attach at Annex B the draft of the political declaration as it now stands. It still contains a number of infelicities of language, but I think it is heading in the right direction. The Americans are anxious to avoid Houston being seen as no more than a reprise of the London NATO Summit, and so they have taken the theme of the spread of democracy not just in Eastern Europe but also elsewhere in the world. The declaration welcomes the spread of democracy, human rights and market principles (decade of democracy). It covers: Eastern Europe, German unification and the Soviet Union (including the Baltic Republics); Asia, including the need for reform in China; Africa, including the positive changes in South Africa; and Latin America. It refers to the reappearance of nationalistic conflicts, notes the link between economic and political freedom, and restates our willingness to provide constitutional, legal and economic know-how to those countries that have embarked on reform. I think the text is broadly acceptable. Virtually all of the material from our draft Declaration on political and economic freedom has been included either in this text or in the one-page summary of it for the Economic Communique (including one direct quotation from one of your speeches, "When people are free to choose, they choose freedom"). The only substantive element we have lost is our detailed section on why Communism has failed, which the others felt was too triumphalist. We have succeeded in riding off the Canadian proposal of a G7 Political Aid Institute.

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12. There are, however, a number of problem areas of which you should be aware:

- The danger that the French will argue that if the political declaration itself is retained, the one-page summary of it at the start of the Economic Communique is redundant. We want both, not least because the President will need to refer to this theme on the third day (whereas the political declaration will have been published on the second).

- The need to ensure that the text on the Soviet Union fits with what we agree on economic assistance for President Gorbachev.

- The balance between the Japanese, who want to be soft on China, and the French and Canadians who, for domestic reasons, want to be more robust. Heads will need to decide how to deal with press questions about what has become of the sanctions agreed at the Paris Summit.

- We have secured the addition of language on the need to renounce violence in South Africa. The US and Canada were, however, reluctant to accept any reference to the need for economic support, arguing that this would open up the sanctions debate.

- Difficulties with the french on the proliferation text.

We should, however, be able to iron these points out fairly quickly in Houston.

Agenda

13. The latest version of the Agenda is at Annex C. The Americans intend that the first restricted session of Heads on 9 July should discuss economic and trade issues in general. This will provide the opportunity for general statements. The Dinner that day should focus on Political Issues. Foreign Ministers will meanwhile finalise the Political Declaration, the text on

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transnational problems and a Chairman's statement on regional issues. The first two will be discussed by the Heads at the plenary session on the morning of 10 July. Secretary Baker will then release them to the press at lunchtime.

Canada

14. Mr Mulroney is expected to say a few words at some stage about the constitutional position in Canada. He does not, however, expect any discussion. His Sherpa hoped that questions from journalists to delegations about Canada's future could be answered with an expression of confidence in Canada's ability to deal with her problems as she had done for the last 120 years.

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

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HOUSTON ECONOMIC SUMMIT

1. We, the Heads of State and Government of the seven major industrial democracies and the President of the Commission of the European Communities, meeting in Houston for our annual Economic Summit, celebrate the renaissance of democracy throughout much of the world. We welcome unreservedly the spread of multiparty democracy, the practice of free elections, the freedom of expression and assembly, the increased respect for human rights, the rule of law, and the increasing recognition of the principles of the open and competitive economy. These events proclaim loudly man's inalienable rights: When people are free to choose, they choose freedom.
2. The profound changes taking place in Europe, and progress toward democracy elsewhere, give us great hope for a world in which individuals have increasing opportunities to achieve their economic and political aspirations, free of tyranny and oppression.
3. We are mindful that freedom and economic prosperity are closely linked and mutually reinforcing. Sustainable economic prosperity depends upon the stimulus of competition and the encouragement of enterprise -- on incentives for individual initiative and innovation, on a skilled and motivated labor force whose fundamental rights are protected, on sound monetary systems, on an open system of international trade and payments, and on an environment safeguarded for future generations.
4. Around the world, we are determined to assist other peoples to achieve and sustain economic prosperity and political freedom. We will support their efforts with our experience, resources, and goodwill.

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## I. THE INTERNATIONAL ECONOMIC SITUATION

5. In recent years, substantial progress has been achieved in promoting a stronger world economy through sound macroeconomic policies and greater economic efficiency. The economic expansion in our countries, now in its eighth year, has supported notable income growth and job creation in the context of rapid growth of international trade. However, unemployment remains high in a number of countries. Inflation, although considerably lower than in the early 1980's, is a matter of serious concern in some countries, and requires continued vigilance. External imbalances have been reduced in the United States and Japan, whereas in other cases they have increased. Continuing adjustment remains a priority in order to counter protectionist pressures, alleviate uncertainties in financial and exchange markets, and contribute to avoiding pressures on interest rates. Sound domestic macroeconomic policies, which may differ according to conditions in each country, will make a major contribution to further external adjustment.

6. In the developing world, the experience of the late 1980s varied widely. Some economies, particularly in East Asia, continued to experience impressive domestic growth rates. The economies of a number of other developing countries have been stagnant or declined. Nonetheless, serious efforts -- in some cases by new leadership -- to implement economic adjustment and market-oriented policies have begun to yield positive results and should be continued.

## II. INTERNATIONAL MONETARY DEVELOPMENTS AND POLICY COORDINATION

7. At a time of growing economic interdependence, the Summit countries have developed a cooperative process based on a common appreciation of the need for market-oriented policies and the importance of sound domestic budgetary and monetary policies. This process has contributed importantly to the strengthened performance of the world economy and to improved stability of exchange rates by concentrating attention on multilateral surveillance and close coordination of economic policies, including cooperation on exchange markets. It is important to continue and, where appropriate, to strengthen this cooperative and flexible approach to improve the functioning of the international monetary system and contribute to its stability.

8. To sustain the present economic expansion to the benefit of all countries, each nation must pursue sound policies. Balanced expansion of demand with increasing productive capacity is key, while external imbalances and structural rigidities require correction. Price pressures warrant continued vigilance.

9. Countries with sizable current account deficits should contribute to the adjustment process by the reduction of fiscal deficits, and undertake structural reforms to encourage private saving and increase competitiveness.



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10. The countries with large external surpluses should contribute to the adjustment process by sustained non-inflationary growth of domestic demand with structural reform in order to improve the underlying conditions for growth and adjustment and to promote increased investment relative to savings.

11. The investment needs of the world as a whole are expected to grow in the coming years, particularly in Central and Eastern Europe and in developing countries undertaking market reforms, as well as in some industrial countries. To meet these needs, industrial and developing countries alike should foster saving and discourage dissaving.

12. The market-oriented restructuring of Central and Eastern European economies should stimulate their growth and increase their integration into the global economy. We support these changes and seek to assure that this difficult transformation will contribute to global growth and stability.

13. Within the European Community, the European Monetary System is leading to a high degree of economic convergence and stability. We welcome the European Community's decision to launch the Intergovernmental Conference on Economic and Monetary Union and the beginning of the first stage of that union. During this first stage, closer surveillance and coordination of economic and monetary policies will contribute toward non-inflationary growth and a more robust international economic system.

14. We welcome the prospect of a unified, democratic Germany which enjoys full sovereignty without discriminatory constraints. German economic, monetary, and social union will contribute to improved non-inflationary global growth and to a reduction of external imbalances. This process will promote positive economic developments in Central and Eastern Europe.

15. We call on the IMF member countries to implement the agreement by the IMF to increase quotas by 50 percent under the Ninth General Review of Quotas and to strengthen the IMF arrears strategy.

#### Measures Aimed at Economic Efficiency

16. Considerable progress has been made over the past few years in supplementing macroeconomic policies with reforms to increase economic efficiency. We welcome the progress in the realization of the internal market in the European Community and the continuing efforts to reduce structural rigidities in North America and Japan. Nonetheless, we emphasize the widespread need for further steps to promote regulatory reform and liberalize areas such as retail trade, telecommunications,

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transport, labor markets, and financial markets, as well as to reduce industrial and agricultural subsidies, improve tax systems, and improve labor-force skills through education and training.

17. We welcome the major contributions of the OECD in identifying structural policy challenges and options. We encourage the OECD to strengthen its surveillance and review procedures, and find ways of making its work operationally more effective.

### III. THE INTERNATIONAL TRADING SYSTEM

18. The open world trading system is vital to economic prosperity. A strengthened GATT is essential to provide a stable framework for the expansion of trade and the fuller integration of Central and Eastern Europe and developing countries into the global economy. We reject protectionism in all its forms.

19. The successful outcome of the Uruguay Round has the highest priority on the international economic agenda. Consequently, we stress our determination to take the difficult political decisions necessary to achieve far-reaching, substantial result in all areas of the Uruguay Round by the end of this year. We instruct our negotiators to make progress and in particular to agree on the complete profile of the final package by the July meeting of the Trade Negotiations Committee.

20. We confirm our strong support for the essential broad objectives of the negotiations: reform of agricultural policies; a substantial and balanced package of measures to improve market access; strengthened multilateral rules and disciplines; the incorporation of new issues of services, trade-related investment measures, and intellectual property protection within the GATT framework; and integration of developing countries into the international trading system.

21. As regards agriculture, achieving the long-term objective of the reform of agricultural policies is critical to permit the greater liberalization of trade in agricultural products. Experience has shown the high cost of agricultural policies which tend to create surpluses. The outcome of the GATT negotiations on agriculture should lead to a better balance between supply and demand and ensure that agricultural policies do not impede the effective functioning of international markets. We therefore reaffirm our commitment to the long-term objective of the reform, i.e., to allow market signals to influence agriculture production and to establish a fair and market-oriented agricultural trading system.

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U.S. 22. [Agricultural reform requires that we each make substantial progressive reductions in our agricultural support programs through specific commitments in each area of the negotiations: export subsidies, internal support, and barriers to market access.] [Support for agriculture measured by a common instrument, should be reduced in order to achieve the above objectives in a balanced way between all countries] The negotiations should also lead to new rules for sanitary and phytosanitary measures.

EC. 23. [The instruments of agricultural policy vary between countries because of the differences in the social and economic conditions of farming, including the need to take into account non-trade concerns such as food security. The commitments, based on the common objectives, should be implemented by taking account of this diversity.]

24. Agreement on these key issues among negotiating parties would facilitate the adoption of an appropriate framework at the July meeting of the Trade Negotiating Committee and subsequently to open the way for negotiations on how far and under what timetable the objectives above are to be achieved.

U.S. 25. Negotiations on market access should achieve agreement on a substantial and balanced package of measures. As regards textiles, the objective is to liberalize the textile and clothing sector through progressive dismantling of trade barriers and its integration, under a precise timetable, into GATT on the basis of strengthened GATT rules and disciplines. [Equally important in securing a successful overall result of the Uruguay Round in the context of market access negotiations is the textiles sector. Since this is of major concern to developing countries, a clear liberalization of restrictions, together with reduced tariff protection, on textiles and clothing, will be necessary if developing countries are to subscribe to the package. We support the progressive dismantling of trade barriers and the reintegration of the textile sector into GATT, under a precise timetable, and on the basis of strengthened rules and disciplines.]

EC. 26. Negotiations on multilateral rules and disciplines should strengthen GATT rules in areas such as safeguards, balance of payments, rules of origin, and updated disciplines for dumping and antidumping measures. Concerning subsidies, rules are needed which will effectively discipline domestic subsidies so as to avoid trade distortions, competitive subsidization, and trade conflicts. Improved disciplines must also cover countervailing measures so that they do not become barriers to trade.

27. As regards the new areas, the aim is to develop new rules and procedures within the GATT framework, including: a framework of contractually enforceable rules to liberalize services trade, with no sector excluded a priori; an agreement to reduce trade

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distorting effects of trade-related investment measures; and an agreement to provide for standards and effective enforcement of all intellectual property rights.

28. A successful Uruguay Round is essential for industrialized and developing countries alike. We seek the widest possible participation of developing countries in the Round and their further integration into the multilateral trading system. To achieve this objective, developed countries are prepared to accept greater multilateral disciplines in all areas and to offer improved market access in areas of interest to developing countries such as textiles and clothing, tropical products, and agriculture.

29. For their part, developing countries should substantially reduce their tariffs and increase the percentage of tariffs that are bound; subscribe to balanced and effective restraints on all forms of exceptions, including measures imposed for balance-of-payments difficulties; and participate meaningfully in agreements covering the new areas. The end result should be a single set of multilateral rules applicable to all GATT contracting parties, although some developing countries, especially the least developed, may need longer transition periods or other transitional arrangements on a case by case basis

30. The wide range of substantive results which we seek in all these areas will call for a commitment to strengthen further the institutional framework of the multilateral trading system. In that context, the concept of an international trade organization should be addressed at the conclusion of the Uruguay Round. We also need to improve the dispute settlement process in order to implement the results of the negotiations effectively. [This should obviate the need to take unilateral actions outside the agreed multilateral rules] [This should lead to a commitment to abandon recourse to unilateral measures other than authorized under GATT provisions] [This should lead to a commitment to operate only under the multilateral rules]

vs.

EC.

Mr. Ridley

#### IV. DIRECT INVESTMENT

31. Free flows of investment increase global prosperity by complementing the open international trade system. In particular, foreign direct investment can help restructure the economies of developing and Eastern European countries, create new jobs, and raise living standards.

32. All countries should therefore seek to reduce their barriers to investment and resist protectionist pressures to discourage or discriminate against such investment. The OECD and the GATT should continue to promote investment liberalization. The multilateral development banks and the IMF should require investment liberalization in their programs in Central and Eastern Europe and developing countries.

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## V. EXPORT CREDITS

33. We welcome the important negotiations that are underway in the OECD on a balanced package of measures to strengthen multilateral disciplines on trade- and aid-distorting export credit subsidies. This package, to be completed by spring of 1991, should reduce substantially, through improved discipline and transparency, distortions resulting from the use of officially supported commercial and aid credits. It is also important to avoid introducing trade distortions in financial flows to the nations of Eastern Europe.

## VI. REFORM IN CENTRAL AND EASTERN EUROPE

34. We welcome the political and economic reforms taking place in Central and Eastern Europe. At the recent Conference on Security and Cooperation in Europe (CSCE) in Bonn and by the establishment of the European Bank for Reconstruction and Development (EBRD) the participating countries of the region accepted the key principles underpinning market economies. However, the degree of implementation of economic and political reform varies widely by country. Several countries have taken courageous and difficult measures to stabilize their economies and shorten the transition to a market economy.

35. We and other countries should assist countries in Central and Eastern Europe that are firmly committed to economic and political reform. Those providing help should favor countries that implement such reforms.

36. Foreign private investment will be vital in the development of Central and Eastern Europe. Capital will flow to countries with open markets and hospitable investment climates. Improved access for their exports will also be important for those Central and Eastern European countries that are opening up their economies. Western Governments can support this process by various means, including trade and investment agreements. The recent decision by COCOM to liberalize export controls is a positive step.

37. We commend the work done by the Commission of the European Communities on the coordination by the G-24 of assistance to Poland and Hungary inaugurated at the Summit of the Arch, which has made a significant contribution to helping these countries lay the foundation for self-sustaining growth based on market principles. We welcome the decision of the group of 24 (G-24) to enlarge the coordination of assistance to other emerging democracies in Central and Eastern Europe, including Yugoslavia.

38. We recognize that these countries face major problems in cleaning their environment. It will be important to assist the countries of Central and Eastern Europe to develop the necessary

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policies and infrastructure to confront those environmental problems.

39. We also welcome the recent initiatives in regional cooperation, e.g., in transport and the environment, that will make a positive contribution to economic progress and stability in the region.

40. We expect the new EBRD to play a key role in fostering investment in those countries and to contribute to orderly transitions toward market economies and a sound basis for democracy. We urge the rapid entry into force of the Bank.

41. The Center for Cooperation with European Economies in Transition at the OECD will encourage reforms and strengthen relations between these countries and the OECD, as will the OECD's followup work from the CSCE Economic Conference in Bonn.

42. We invite the OECD to consider a closer relationship with those Central and East European countries that are committed to political and economic reform.

#### VII. THE SOVIET UNION

[TO BE ADDED]

#### VIII. THE DEVELOPING NATIONS

45. We reiterate that our commitment to the developing world will not be weakened by the support for reforming countries in Central and Eastern Europe. The poorest of the developing nations must remain the focus of special attention. The IDA replenishment of SDR 11.6 billion, agreed to last December, will provide needed resources for these countries, and marks the incorporation of environmental concerns into development lending. It is our intention to take a constructive part in the Paris Conference on the least developed countries in September.

46. The advanced industrial economies can make a number of major contributions to the long-run development of the developing countries. By sustaining economic growth and price stability, we can offer stable, growing markets and sources of capital for the developing world. [By encouraging the proper functioning of commodity agreements and the Common Fund we can contribute to alleviating price fluctuations of raw materials.] By providing financial and technical support to developing countries undertaking genuine political and economic reform, we can reinforce their ongoing liberalization. [The developed nations should make efforts to increase their development aid to reach the target of 0.70% of GNP, while reinforcing the efficiency of this aid.]

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47. In the developing world, there is a growing acceptance of the view that growth can be encouraged by a stable macroeconomic framework, sectoral reform to provide more competition, and an opening of markets. Open, democratic, and accountable political systems are important ingredients in the effective and equitable operation of market-oriented economies.

48. Important contributions to a hospitable investment climate can be made by the protection of intellectual property, and by liberalization of investment regimes, including transparent and equitable investment rules, and equality of treatment for foreign and domestic investors.

48a. The recent Enterprise for the Americas initiative announced by the U.S. President will support and encourage more market-oriented policies in Latin America and the Caribbean. We believe that such U.S. efforts hold great promise for the region and will help improve prospects for sustained growth in the Americas through the encouragement of trade, open investment regimes, the reduction of U.S. bilateral concessional debt and the use of debt for equity and nature swaps.

49. In a number of countries, a slower growth of population is a condition for sustainable development. Supporting the efforts of developing countries to implement effective population programs is a priority. Improved educational opportunities for women and their greater integration into the economy can make important contributions to population stabilization programs.

50. [In the Mediterranean basin, economic growth is difficult because of political tensions and the rapid increase in population relative to resources. The initiatives of regional integration, which are underway, deserve encouragement and support.]

#### IX. THIRD WORLD DEBT

51. Significant progress has been made during the past year under the strengthened debt strategy, which has renewed the resolve in a number of debtor countries to continue economic reforms essential to future growth. In particular, the recent commercial bank agreements with Chile, Costa Rica, Mexico, Morocco, the Philippines, and Venezuela involve significant debt and debt service reduction. Important financial support for debt and debt service reduction is being provided by the IMF and the World Bank, as well as by Japan. The Paris Club has agreed, in order to support medium term IMF-supported reform and

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financing programs, to provide adequate restructuring agreements, notably through multiyear reschedulings and through lengthening of the repayment period. The combination of debtor reform efforts and commercial bank debt reduction has had a notable impact on confidence in debtor economies, as clearly demonstrated through flows of both new investment and the return of flight capital to Mexico, in particular.

52. These measures represent major innovations in the case by case debt strategy and are potentially available to all debtor nations with serious debt servicing problems which are implementing economic adjustment policies.

53. The adoption by debtor nations of strong economic reform programs with the IMF and World Bank remains at the heart of the debt strategy, and a prerequisite for debt and debt service reduction within commercial bank financing packages. It is vital that debtors countries adopt measures to mobilize savings and to encourage new investment flows and the repatriation of flight capital to help sustain their recovery. In this connection, the recent U.S. Enterprise for the Americas initiative to support investment reform and the environment in Latin America needs to be given careful consideration by Finance Ministers.

54. For countries implementing courageous reforms, commercial banks should take realistic and constructive approaches in their negotiations to conclude promptly agreements on financial packages including debt reduction, debt service reduction and new money.

55. Creditor nations will continue to play an important role in this process through ongoing contributions to the international financial institutions, rescheduling of official debt in the Paris Club, and new finance. In the case of the lower middle income countries implementing strong reform programs, Heads encourage the Paris Club to lengthen the repayment period, taking account of the special situations of these countries. The Heads also encourage the Paris Club to continue reviewing additional options to address debt burdens. We welcome the decisions taken by France with respect to Sub-saharan Africa and by Canada with respect to the Caribbean to alleviate the debt burden of the lower middle income countries.

56. Creditor governments have also provided special support for the poorest countries through the implementation of Toronto terms in Paris Club reschedulings. All of us have cancelled official development assistance (ODA) debt for the poorest countries. We encourage the Paris Club to review the implementation of the existing options that apply to the poorest countries.



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56a. We note and will study with interest the Craxi Report on debt commissioned by the U.N. Secretary General.

#### X. THE ENVIRONMENT

57. One of our most important responsibilities is to pass on to future generations an environment whose health, beauty, and economic potential is not threatened. Environmental challenges such as climate change, ozone depletion, deforestation, marine pollution, and loss of biological diversity require closer and more effective international cooperation and concrete action. We as industrialized countries have an obligation to be leaders in meeting these challenges. We agree that, in the face of threats of irreversible environmental damage, lack of full scientific certainty is no excuse to postpone actions which are justified in their own right. We recognize that strong, growing, market-oriented economies provide the best means for successful environmental protection.

58. Climate change is of key importance. We are committed to undertake common efforts to limit emissions of CO<sub>2</sub> and other greenhouses gases. We strongly support the work of the IPCC and look forward to the release of its full report in August. The Second World Climate Conference provides the opportunity for all countries to consider the question of targets and strategies for limiting or stabilizing greenhouse gas emissions, and for discussing an effective international response. We reiterate our support for the negotiation of a framework convention on climate change, under the auspices of UNEP and WMO. The convention should be completed by 1992, [with work on possible early protocols being undertaken as expeditiously as possible] [with work on early protocols being undertaken simultaneously.] [Any implementing protocols should be developed subsequent to the completion of the framework convention and should treat all sources and sinks comprehensively.]

59. We welcome the amendment of the Montreal Protocol to phase out the use of CFCs by the year 2000 and to extend coverage of the Protocol to other ozone depleting substances. [Details to be added.]

60. We acknowledge that enhanced levels of cooperation will be necessary with regard to the science and impacts of climate change and economic implications of possible response strategies. We recognize the importance of working together to develop new technologies and methods over the coming decades to complement energy conservation and other measures to reduce CO<sub>2</sub> and other greenhouse emissions. We support accelerated scientific and economic research and analysis on the [causes to and] potential impact of climate change, and on potential responses of developed and developing countries.

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61. We are determined to take action to increase forests, while protecting existing ones and recognizing the sovereign rights of all countries to make use of their natural resources. The destruction of tropical forests has reached alarming proportions. [We support the approach taken under the IPCC of giving legal substance to the protection of forests in the form of an implementing protocol to be concluded at the same time as the framework climate convention in 1992. The protocol on forest protection should attach special significance to the conservation of tropical forests.] The Tropical Forestry Action Plan must be reformed and strengthened, placing more emphasis on forest conservation and protection of biological diversity. The International Tropical Timber Organization action plan must be enhanced to emphasize sustainable forest management and improve market operations. We urge all countries to join us in these efforts.

62. The destruction of ecologically sensitive areas around the world continues at an alarming pace. Loss of temperate and tropical forests, developmental pressures on estuaries, wetlands and coral reefs, and destruction of biological diversity are symptomatic. To reverse this trend, we will expend cooperation to combat desertification; expand projects to conserve biological diversity; to protect the Antarctic; and assist developing countries in their environmental efforts. We will work within UNEP and other fora to achieve these objectives [and support UNEP's work in developing a convention to protect biodiversity.]

63. Efforts to protect the environment do not stop at the water's edge. Serious problems are caused by marine pollution, both in the oceans and in coastal areas. A comprehensive strategy should be developed to address land-based sources of pollution; we are committed to helping in this regard. We will continue our efforts to avoid oil spills, urge the early entry into force of the existing IMO Convention, and welcome the work of that organization in developing an international oil spills convention. We are concerned about the impact of environmental degradation and unregulated fishing practices on living marine resources. We support cooperation in the conservation of living marine resources and recognize the importance of regional fisheries organizations in this respect. We call on all concerned countries to respect the conservation regimes.

64. To cope with energy-related environmental damage, priority must be given to improvements in energy efficiency and to the development of alternative energy sources. Nuclear energy will continue to be an important contributor to our energy supply and can play a significant role in reducing the growth of greenhouse gas emissions. Countries should continue efforts to ensure highest worldwide performance standards for nuclear and other energy in order to protect health and the environment, and ensure the highest safety.

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65. Cooperation between developed and developing countries is essential to the resolution of global environmental problems. In this regard, the 1992 U.N. Conference on Environment and Development will be an important opportunity to develop widespread agreement on common action and coordinated plans. We note with interest the conclusions of the Siena Forum on International Law of the Environment and suggest that these should be considered by the 1992 UN Conference on Environment and Development.

66. We recognize that developing countries will benefit from increased financial and technological assistance to help them resolve environmental problems, which are aggravated by poverty and underdevelopment. Multilateral development bank programs should be strengthened to provide greater protection for the environment, including environmental impact assessments and action plans, and promoting energy efficiency. We recognize that debt-for-nature swaps can play a useful role in protecting the environment. We will examine how the World Bank can provide a coordinating role for measures to promote environmental protection [through, for example, a proposed Global Environmental Facility.]

67. In order to integrate successfully environmental and economic goals, decisionmakers in government and industry require the necessary tools. Expanded cooperative scientific and economic research and analysis on the environment is needed. [We recognize the importance of coordinating and the sharing the collection of satellite data on earth and its atmosphere. We welcome and encourage the ongoing discussions for the establishment of an International Network.] It is also important to involve the private sector, which has a key role in developing solutions to environmental problems. We encourage the OECD to accelerate its very useful work on environment and the economy. Of particular importance are the early development of environmental indicators and the design of market-oriented approaches that can be used to achieve environmental objectives. We also welcome Canada's offer to host in 1991 an international conference on environmental information in the 21st Century. [We support voluntary environmental labelling as a useful market mechanism which satisfies consumer demand and producer requirements and promotes market innovation.]

68. We note with satisfaction the successful launching of the Human Frontier Science Program and express their hope that it will make positive contributions to the advancement of basic research in life science for the benefit of all mankind.

## XII. NARCOTICS

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69. We urge all nations to accede to and complete ratification of the UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the Vienna Convention), and to apply provisionally terms of the Convention.

70. We welcome the conclusion of the U.N. Special Session on Drugs and urge the implementation of the measures contained in the Program of Action it has adopted.

71. We support the declaration adopted at the Ministerial meeting on drugs convened by the United Kingdom that drug demand reduction should be accorded the same importance in policy and action as the reduction of illicit supply. Developed countries should adopt stronger prevention efforts, and assist demand reduction initiatives in other countries.

72. We endorse the report of the Financial Action Task Force (FATF) and commit our countries to a full implementation of all its recommendations without delay. As agreed at the May meeting of Task Force Finance Ministers, the FATF should be reconvened for a second year, chaired by France, to assess and facilitate the implementation of these recommendations, and to complement them where appropriate. All OECD and financial center countries that subscribe to the recommendations of the Task Force should be invited to participate in this exercise. The report of the new FATF would be completed before we next meet. We also invite all other countries to participate in the fight against money laundering and to implement the recommendations of the FATF.

73. Effective procedures should be adopted to ensure that precursor and essential chemicals are not diverted to manufacture illicit drugs. A task force similar to the FATF should be created for this purpose, composed of Summit participants, and other countries that trade in these chemicals, with the involvement of representatives of the chemical industry. The task force should address the problems which concern cocaine, heroin and synthetic drugs and report within a year.

74. We support a strategy for attacking the cocaine trade as outlined in particular in the Cartagena Declaration. We recognize the importance of supporting all countries strongly engaged in the fight against drug trafficking, especially Colombia, Peru, and Bolivia, with economic, law enforcement and other assistance and advice, recognizing the need to make contributions within the framework of actions against drug trafficking carried out by the producer countries.

75. The heroin problem is still the most serious threat in many countries, both developed and developing. All countries should take vigorous measures to combat the scourge of heroin.

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76. We should support an informal narcotics consultative arrangement with developed countries active in internal narcotics control. Such a group could strengthen efforts to reduce supply and demand, and improve international cooperation.

77. We welcome the current review of UN drug abuse control agencies and urge that it result in a more efficient structure.

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78. Prime Minister Thatcher invites the next Summit to meet in London in July 1991.

Agreed text

June 29, 1990  
10:00 p.m.**DRAFT POLITICAL DECLARATION****SECURING DEMOCRACY**

1. We, the Leaders of our seven countries and the Representatives of the European Community, salute the men and women around the world whose courage and wisdom have inspired and brought about the historic advances of democracy we have witnessed over the past year. As we enter the final decade of this century, which we intend should be a Decade of Democracy, we reiterate our commitment to support the strengthening of democracy, human rights, and economic reconstruction through market-oriented economies. We emphasize the important opportunity provided in this forum for representatives from Europe, Japan, and North America to discuss critical challenges of the coming years.

2. Europe is at the dawn of a new era. We welcome enthusiastically the profound and historic changes sweeping the continent. We are determined to seize all opportunities to achieve a Europe whole and free and recognize the European Community's contribution to that effort. We applaud the unification of Germany, which is a tangible expression of mankind's inalienable right to self-determination and a major contribution to stability in Europe.

We welcome the replacement of repressive regimes in Central and Eastern Europe by governments freely chosen by their peoples. We applaud the introduction of the rule of law and the freedoms that are the bedrock of a democratic state. We urge Romania, following recent events, to adhere to the positive trend taking place in other countries of Central and Eastern Europe.

3. We welcome the intention of the Soviet Union to move toward a democratic political system, as well as Soviet attempts to reform their economy along market principles. We commit ourselves to working with the Soviet Union to assist its efforts to create an open society, a pluralistic democracy, and a market-oriented economy. Such changes will enable the Soviet Union to fulfill its responsibilities in the community of nations founded on these principles. We are heartened by indications that a constructive dialogue is underway between the Soviet government and the Baltic states, and we urge all sides to continue this dialogue in a democratic spirit.

4. The advance of democracy accompanied by market-oriented economic reforms is not just a European phenomenon. Since we last met, we have witnessed the spread of democratic values in many parts of the world.

In Asia, there are encouraging signs of new political openness in Mongolia, Nepal, and Myanmar (Burma). In the Philippines, the government continues to engage in courageous efforts to consolidate democracy.

We hope that some recent developments in China are an indication that the Chinese leadership sees the need to return to the path of political and economic reform, although the pace and scope of these efforts do not yet measure up to that need.

5. In Africa, we hope that Namibia's attainment of independence and democracy will be a positive example for freedom and pluralism throughout the continent. We also welcome the positive developments that have taken place in South Africa, especially the launching of talks between the government and representatives of the black majority. We hope this will lead to a peaceful transition to a non-racial democracy and the complete dismantlement of the apartheid system. We will continue to support this process and we call on all parties to refrain from violence or its advocacy.

6. In Latin America, we welcome the re-establishment of freedom and democracy in Chile. We applaud the recent fair and free elections in Nicaragua, as well as progress on the path to peace through dialogue in El Salvador and Guatemala. We encourage the efforts of the Panamanian government to re-establish democracy and



the rule of law. We note with satisfaction the positive evolution in Haiti. We hope that Cuba will take steps to join the democratic trend in the rest of Latin America.

7. While we applaud the reduction of ideological conflicts that have divided much of the world since the end of the Second World War, we note with deep concern the reemergence of intolerance affecting ethnic and religious groups. We agree that such intolerance can lead to conflicts, which can threaten fundamental human rights, as well as political and economic development.

8. We reaffirm our commitment to the fundamental principles on which our societies are built, and we underscore that political and economic freedoms are closely linked and mutually reinforcing. Each of us stands ready to help in practical ways those countries that choose freedom, through the provision of constitutional, legal, and economic know-how and through economic assistance, as appropriate.

In drawing from our different constitutional and historical experiences, we stand ready, individually and jointly in relevant fora, to:

- assist in the drafting of laws, including bills of rights and civil, criminal, and economic framework laws;
- advise in the fostering of an independent media;
- establish training programs in government, management, and technical fields;
- develop and expand people-to-people contacts and exchange programs to help diffuse understanding and knowledge.

We agree the challenge facing the industrialized democracies is to continue the effort already underway in Europe while expanding efforts to support political <sup>Reforms</sup> and economic <sup>Development</sup> ~~reforms~~ in other parts of the world. We call on our people and the people of other democracies to join in this great endeavor.

June 30, 3 p.m.

ANNEX C

Houston Summit Sessions  
Heads

1. First Session, July 9, 3:00 - 5:00 p.m
  - o Economic Overview
  - o Trade
2. Second Session (dinner), July 9, 7:30 - 9:00 p.m.
  - o ~~Regional~~ Political Issues
3. Third Session, July 10, 9:00 a.m. - 12:15 p.m
  - o Political Statement
  - o Trade (continued if necessary)
  - o Soviet Union and Eastern Europe
4. Fourth Session (lunch), July 10, 12:45 - 2:15 p.m.
  - o Political Issues
5. Fifth Session, July 10, 2:30 - 4:00 p.m. (or later to 5:30 p.m. if necessary)
  - o Developing Countries and Debt
  - o Environment
6. Sixth Session, July 11, 9:00 - 11:00 a.m.
  - o Other Issues (e.g., narcotics, terrorism)
  - o Finalize and Approve Communique
  - Environment if necessary to be continued

USSR*continua*

We affirm our <sup>2</sup>interest in the success of economic reform and renewal in the USSR. To help towards that end, we have decided to establish a task force of <sup>high level</sup> experts [under the Chairmanship of.....] drawing upon the expertise of the IMF, the World Bank, the EBRD, the OECD and the GATT. The European Commission would need to be fully involved in this work, bearing in mind the conclusions of the European Council on June 26. We invite other members of G24 to be associated with this effort. The task force will prepare an analysis of the economic situation in the USSR in full consultation with the USSR Government in order to help the international community formulate the most effective and timely response. The task force could make recommendations regarding technical assistance in the formulation of appropriate economic policies.

