

Prime Minister
CDP
- 9/7

PRIME MINISTER

SHERPA DISCUSSION: USSR, TRADE (AGRICULTURE) AND ENVIRONMENT

The Sherpas, except Attali who has not arrived, discussed tonight the three main issues: the USSR, trade (agriculture) and the environment.

USSR

The US Sherpa, after circulating President Gorbachev's letter, said President Bush would want to introduce the discussion of this subject over dinner on Monday and continue in the plenary on Tuesday. He would not speculate on what the President would say but drew attention to his public statements.

I suggested that it would be useful to have a discussion among the Sherpas. In my personal view, a good outcome for the Summit would be agreement on a way of securing a thorough analysis of the Soviet economy. The European Community was doing this, following the Conclusions of the Dublin European Council. But the EC members did not want to do this alone. The reference in Gorbachev's letter to contacts with the IMF, World Bank and OECD was useful. The Summit could give a remit to these organisations, and some others, to make a common analysis of the Soviet economy, perhaps in parallel with the Community. As to what followed, there was no point in writing the Soviet Union a large cheque, for example to spend on consumer goods. But assistance in know-how and techniques of running a market economy could bring benefit.

Responding positively, the Japanese Sherpa said that Japan wanted to support Soviet reform efforts, though they were unsure in which direction those efforts were leading. He agreed that there should be an in-depth analysis, though his slight preference was for this to be carried out by the OECD, assisted by the EBRD. Reform, however, needed to go beyond the economy and cover the Soviet Union's external politics so that they became a responsible member of the community of nations. In his view, the Four Islands question was not just a bilateral issue.

The Canadian Sherpa said that Mr Mulroney believed that Houston should provide the counterpart on the economic side to the political/military conclusions of the London Summit. Picking up the last sentence of President Gorbachev's letter - about a dialogue with the G7 - he wondered whether the outcome of the Summit could not link in some way such a dialogue and the study which I had suggested.

The German Sherpa argued that perestroika needed support now. He was worried that calls for analysis were simply intended to gain time. Dublin showed the way forward. He hoped that the US, Canada and Japan could join the process of common analysis agreed by the EC at Dublin. This should provide a basis for reasonable financial

help this year and a means for deciding how the aid might be used.

The Japanese Sherpa asked the German how the three non-European countries could become involved in the EC's analysis. The reply was not too clear. The Commission Sherpa said that, if the Heads could agree that they should all join forces in a common analysis - as he would himself recommend - then it should not be difficult to find wording to express this. The French Deputy Sherpa and the Italian Sherpa generally agreed that they wanted a common analysis, to serve as the basis for help to the Soviet Union, and they wanted the United States, Japan and Canada to join in.

Despite requests from the US and German Sherpas, I did not divulge the contents of your letter from President Gorbachev. In fact, the tone of his request to you for assistance is more urgent and specific than in his letter to President Bush. This is perhaps not something we should divulge since eg Chancellor Kohl could use it to support the case for urgent aid.

On the basis of this discussion, it may be possible for the Heads to agree on the following:

- note the EC decisions in Dublin;
- agree on an analytical study of: the USSR's economy; the progress achieved in reforms to date; what still needs to be done; and the assistance, through the transfer of know-how, advice on techniques etc, which could be provided in support of that reform effort;
- stipulate that any assistance should be contingent not only on economic reform but also on improved international behaviour, eg Cuba, the Kurile Islands and reduced expenditure on arms;
- indicate that judgements on financial assistance should await the outcome of the study;
- ask the IMF, with the assistance of the World Bank, OECD and EBRD, and the full involvement of the European Commission, to carry out the study and to report around the turn of the year.

Trade (Agriculture)

In a short but confrontational discussion, it became clear the the EC and the US are in deeply entrenched positions. Apparently, President Bush's meeting this evening with President Delors had been unsatisfactory. President Bush believes the EC determined not to negotiate while President Delors believes that the US is making totally unreasonable demands. Against that background it was unsurprising that new US language circulated at the meeting failed to fly.

This language:

- accepted the OECD language on dispute settlement (including the passage negotiated by Mr Ridley) and on textiles;
- included unsatisfactory language (from the Toronto Summit Communique) on food security and social concerns in agriculture;
- tried to amalgamate the EC's approach on the GATT negotiations (aggregate measure of support) with the US insistence on reducing export subsidies. The language still lent too far towards the US.

In the discussion, the Canadian Sherpa suggested that one solution might be for the Summit to endorse the de Zeeuw report as the basis for negotiations on agriculture in the GATT. He said the Cairns Group had commended this approach to the Summit. The US indicated they could accept the de Zeeuw report on this basis. But the Commission Sherpa said that the Community had not yet taken a position (though they would have to in due course) and advised against pressing the point at the Summit.

We circulated, but have not formerly tabled, our language (copy attached) to the European Sherpas and, very privately, to the Canadians. The EC Sub Sherpas are meeting tomorrow afternoon to discuss further how to handle trade.

Environment

In an equally difficult discussion, the US Sherpa tabled a revised text. This effectively went back on language concerning climate change which all the Sherpas had agreed. The US side were given the clear message that they were in a seven to one minority on the substance and Sherpas generally were annoyed about tabling new language at such a late stage after Heads had been briefed on the old.

I understand privately that the new US language had been drafted by Governor Sununu. His representative who was at our meeting can be under no doubt of all other Summit participants opposition to the US position.

In short, the Sherpas are going backwards: it is time for the Heads to take over!

N.L.W.

Distribution:
Foreign Secretary
Chancellor
Mr Weston
Mr Evans
Mr Bayne

To replace bracketed passages in paragraphs 22 and 23

"Successful agricultural reform to achieve this objective,
requires that we each make progressive reductions in support and
protection, covering internal regimes, market access and export
subsidies. The negotiations on agriculture in GATT should
therefore be conducted in a framework which provides for
commitments measured by a common instrument, to be made in a
balanced way between all countries. The framework should contain
specific assurances that, by means of the common measure or in
other ways, participants will not only reduce internal support but
also curtail the impact of export subsidies and import protection.
The common measure will enable the necessary commitments to take
account of the variations between countries in the mechanisms of
agricultural support which reflect differences in the social and
economic conditions of farming and concerns about food security."

equitable

from rest of us
to achieve this objective

internal support
export subsidies
import protection