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Prime Minister

cc Foreign Secretary
Chancellor of the Exchequer
Mr Gieve
Mr Gass
Mr Bayne
Mr Evans
Mr Ingham
Mr Mower
Mr O'Donnell
Mr Bone

11 July 1990

HOUSTON SUMMIT: ECONOMIC DECLARATION

The draft of the Economic Declaration is attached, completed by the Sherpas at 4am. There are only two square brackets, both on the environmental section.

World economy: paragraphs 5-17. This is familiar and satisfactory language. The reference in paragraph 9 to Summit countries with sizeable current account deficits is to the United States, the UK and Canada. As the UK already has a fiscal surplus, the first remedy is irrelevant and we are among the leaders on structural reform.

Paragraph 13. The European Community's decision to launch the inter-Governmental conference on economic monetary union is now noted, not welcomed, and this language is now tolerable.

Uruguay Round.

After a long and difficult discussion on agriculture, the passage in the Declaration on trade has been agreed without brackets.

Paragraphs (18-21) are unchanged.

Paragraphs 22-23 replace two disagreed paragraphs.

Paragraph 22 is based on your text. The order has been changed. The Americans feared that the reference to commitments "taking account" of variations between countries in mechanisms of agricultural support would look like a loophole if it came at the end of the paragraph. This sentence has therefore been moved to stand second in the paragraph and is a statement of fact. The third sentence contains useful endorsement of a 'common instrument of measurement'. The last sentence, which was the subject of fierce argument, still refers to "specific assurances" that

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participants will reduce not only internal support but also export subsidies and import protection "in a related way". Despite some ambiguity, it marks a clear step forward by the Community and should exert useful pressure towards a successful outcome. But the reference to 'use of the common measure' in this sentence is essential for the Community.

Paragraph 23 is based on a US draft. The key sentence is the second one, which "commends" the de Zeeuw report "as a means of intensifying the negotiations". This gets as close as we could to accepting the report as the basis for the negotiations on agriculture and was accepted only with great hesitation by the French.

In paragraph 24, on market access, the reference to textiles now follows the OECD language. The stronger formula proposed by the EC has been dropped. This is in return for American acceptance, in paragraph 29, of "a commitment to operate only under the multilateral rules", in the context of dispute settlement. This was the language already agreed at the OECD as proposed by Mr Ridley.

Soviet Union

Paragraphs 44 and 46. The Japanese Prime Minister is worried that the reference to the Northern Territories, in paragraph 46, does not form part of the conditions for economic assistance in para 44. The Sherpas did not touch the text which had been agreed by Foreign Ministers. But if Mr Kaifu raises it, he could be helped by moving paragraph 46 to the end of paragraph 44.

Debt/Developing Countries

Paragraph 49. The French have dropped their insistence on reference to commodity agreements and aid targets in return for a general reference to aid in the new final sentence of this paragraph. This calls on industrial countries to "continue to make efforts to enhance" aid. This is acceptable language.

Paragraphs 53-54. Italian susceptibilities have led to the references to population control being watered down, which the United States and others have reluctantly accepted. But there is still a message here. The reference in paragraph 54 to the Mediterranean Basin (an Italian proposal) is now mercifully short.

Paragraph 59. The reference in the second sentence to encouraging the Paris Club to "continuing reviewing additional options to address debt burdens" will be interpreted by the French as a bow to

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President Mitterrand's ideas on debt floated at the plenary yesterday afternoon.

Environment

Paragraph 63. This crucial paragraph has been slightly watered down to meet US concern that there should not be too much emphasis on control of CO2 emissions. The third sentence now speaks of "strategies and measures" but not of "targets". After great argument the US accepted, in the last sentence, the compromise language about the timing for the preparation of implementing protocol.

Paragraph 66. This contains an agreed language on the Brazilian pilot project advocated by Chancellor Kohl. The task is given to the World Bank in close cooperation with the Commission.

Paragraph 67. There is an important point of principle behind the square-bracketed "convention" (US language supported by most other countries) and "agreement" (our word). It is as follows.

Hitherto the understanding has been that the international agreement on forestry protection would be negotiated in the form of an implementing protocol to the World Climate Convention, which has been recommended by the IPCC. However, we learnt only yesterday that President Bush wants a free-standing convention quite separate from the Climate Convention. We do not like that approach because:

1) any forestry instrument will only be worthwhile if countries like Brazil sign it. Brazil is so far agreed in principle on the Umbrella World Climate Convention. There is better chance that she would accept an implementing protocol under that convention than a completely new convention. This is because the Umbrella Convention would be more equally balanced in placing responsibilities on the industrialised countries - reducing CO2 emissions - as well as on developing countries - protecting forests. Brazil could well feel that a free-standing forestry convention was directed particularly at herself and would therefore be reluctant to sign it.

2) The US are no friends of the IPCC process and their preference for a separate forestry convention may, intentionally or not, undermine the IPCC.

The use of the word "agreement" rather than "convention" and the phrase in the first line of the sentence "in the appropriate fora", fudge the issue of whether there is to be a separate convention or

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action through the implementing protocol.

The US Sherpa tells me that President Bush is mightily attached to the idea of a free-standing Convention. Most other Sherpas, except the German and the Commission, did not show much appreciation of our point. But given our commitment to the World Climate Convention plus protocols, I thought it right for you yourself to decide the point.

Paragraph 72. Everyone except the US can agree the square bracketed text, though with little enthusiasm on the part of the Canadians and the Japanese. The US are adamantly opposed to the proposed global environmental facility, arguing that it is unnecessary since environmental concerns should permeate normal World Bank lending. We have argued that the sentence is totally non-committal - the words "for example". Yet the US refuse to budge. You can expect President Mitterrand to argue strongly for the square bracketed language.

Paragraph 84. This announces your invitation to the other Heads to next year's Summit in London in July 1991.

N. L. W.

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