

HM Treasury

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file

31 July 1990

Dear Charles,

HOUSTON ECONOMIC SUMMIT

I attach for the No 10 archives the record of the Heads discussion at Houston.

Copies of this letter go to Stephen Wall in the FCO, John Gieve in the Treasury and to Sonia Phippard in Sir Robin Butler's office.

*Truly
Yours
N L Wicks*

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1990 ECONOMIC SUMMIT OF INDUSTRIALISED NATIONS

HOUSTON, TEXAS

9-11 JULY

Present

USA

President Bush

The Honorable Mr James A Baker III
Secretary of State

The Honorable Mr Nicholas Brady
Secretary of the Treasury

The Honorable Richard McCormack
Under Secretary for Economic Affairs, Department of State and
Personal Representative to the President

United Kingdom

The Right Honorable Margaret Thatcher FRS MP
Prime Minister of the United Kingdom

The Right Honorable Douglas Hurd CBE MP
Secretary of State for Foreign and Commonwealth Affairs

The Right Honorable John Major MP
Chancellor of the Exchequer

Mr Nigel L Wicks CVO CBE
Second Permanent Secretary to Her Majesty's Treasury, and Personal
Representative of the Prime Minister

The European Community

Mr Jacques Delors
President of the Commission of the European Community

Mr Frans Andriessen
Vice President of the Commission of the European Community in
charge of External Relations

Mr Henning Christophersen
Vice President of the Commission of the European Community in
charge of Economic and Financial Affairs

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Mr Pascal Lamy
Chief of Staff to President Delors, and Personal Representative of
the President

The Federal Republic of Germany

His Excellency Helmut Kohl
Chancellor of the Federal Republic of Germany

His Excellency Hans-Dietrich Genscher
Vice-Chancellor and Federal Minister for Foreign Affairs

Dr Theo Waigel
Federal Minister of Finance

Dr Helmut Haussmann
Federal Minister of Economics

Dr Horst Köhler
State Secretary, Federal Ministry of Finance, and Personal
Representative of the Chancellor

France

His Excellency Francois Mitterand
President of the French Republic

Mr Roland Dumas
Minister of State, Minister of Foreign Affairs

Mr Pierre Bérégovoy
Minister of State, Minister of Economy, Finance and Budget

Mr Jacques Attali
Special Counselor to the President and Personal Representative of
the President

Japan

His Excellency Toshiki Kaifu
Prime Minister of Japan

His Excellency Taro Nakayama
Minister for Foreign Affairs

His Excellency Ryutaro Hashimoto
Minister of Finance

His Excellency Kabun Muto
Minister of International Trade and Industry

His Excellency Koji Watanabe
Deputy Minister for Foreign Affairs and Personal Representative of
the Prime Minister

MONDAY 9 JULY

The Summit opened at 2.35 pm.

After welcoming the new comer Mr Kaifu, President Bush said that the Summit's most important issues were trade, the need to give the GATT negotiators firm instructions, the reply to President Gorbachev's letter and the environment. After running through the Summit agenda, the President said that he hoped that participants would speak up frankly and say what was on their minds.

2. Turning to the US economic situation, the President said that the sustained economic growth throughout the '80s had been a real achievement. There was still a need to be vigilant on inflation, but growth and employment should be kept up. He was having a slight difference of opinion with the Federal Reserve Board on this issue. He was more concerned on maintaining growth while Alan Greenspan was more concerned about inflation. He was determined to do something to stop the capital draining effects of the US budget deficit. He was pleased that Mr Kaifu had told him that his actions on the budget deficit were proving helpful in the Japanese market.

3. Invited by the President to open the discussion Mrs Thatcher said that the world was entering a new phase as the command economies cracked and crumbled away. The repercussions were worldwide, including in the third world where the Communist or State Socialist model was increasingly seen to be flawed and irrelevant. There was now an opportunity to make the 1990s the decade in which much of the world adopted democracy and the policies which brought liberty and prosperity. This process needed to be taken a step at a time since the collapse of the old system was not synonymous with the adoption of genuine democracy or authentic free market economic policies. Romania was an example of a counterfeit democracy and there was still uncertainty about the Soviet Union's espousal of the market. The key was to

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persevere with the old trusted policies; policies which had helped to make the United States strong. It was important not to prop up regimes which had only half changed. That would simply postpone change.

4. She believed that these thoughts were very relevant to the Summit's discussion on assistance for the Soviet Union. Any help there must clearly be tied to facilitating and promoting genuine market policies, not to providing an oxygen tent for the survival of much of the old system. Credits would be only too likely to be used for consumer goods, not sustained reform. Advice, training and technical assistance was the best way forward until there was some certainty that real economic reform was being undertaken. A key sector on which to concentrate was agricultural production.

5. But the foremost contribution which the Summit countries could make to the new phase of democracy was to maintain their high levels of prosperity and economic success. The virtuous economic policies which characterised the second cycle of Economic Summits had to be continued. That meant bearing down on inflation and reducing public sector deficit. She had listened with interest to President Bush's remarks about growth and inflation. But she saw no conflict between maintaining growth and reducing inflation. Growth would follow if inflation was kept low. She recognised the difficulties of UK inflation in the UK. Germany was an example to follow: there economic growth had followed success in reducing inflation. In that country it had proved easier to keep down inflation because of memories of the past. Germany had successfully implemented the second cycle policies. That was why the United Kingdom intended to join the ERM so as to link sterling to the deutschmark.

6. Another important contribution by Summit countries to the new phase would be the successful completion of the GATT Round. This Summit should reach a broad political understanding on the way forward. There were effectively three groups at the Summit - the US based on the dollar; Japan based on the yen; and Europe based on the deutschmark or ecu. It was vital for countries to avoid unilateral action and always to act under the GATT. Success in

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the GATT round would help the poorer nations. The best of way of helping the developing world was by allowing them to export to the more prosperous. The previous week in London several of the Summit Seven had taken decisions for a more peaceful world. This week in Houston they should take decisions for a more prosperous world. In that way they would demonstrate the power of the market and of free competition and so provide an example for others.

7. But success should not breed complacency. It was not yet proven that societies like the Soviet Union could make the transition to democracy and a market economy. Declining empires were dangerous. The forces of nationalism in the Soviet Union were extremely strong. If things went wrong the potential for conflict was large. So public opinion should not be lulled into a false sense of security where people came to believe that defence was no longer necessary. Defence had to be sustained with sufficient resources and the US should not be left to bear the burden.

8. The Prime Minister then suggested that if the Summit countries were to make the most of the new opportunities in the '90s, they should give attention to eight major themes.

(i) It was vital that the world did not relapse into blocs, particularly in the field of trade and monetary matters: a European bloc, a Western Hemisphere bloc and perhaps a Pacific bloc. That would be a step backwards with adverse economic and political consequences, particularly for the countries which were excluded. The priority should therefore be to keep the wider world economy open and to strengthen and enlarge institutions such as GATT.

(ii) It was not too soon to be looking beyond the GATT Round to see how the process of freeing up world trade in goods and services could be considered thereafter. The aim should be the freest possible trade over the widest possible area, with Europe accepting that the Uruguay Round would not be the last word in

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reducing agricultural subsidies and Japan accepting further liberalisation in financial services and the US in defence procurement. If trade liberalisation could not be carried out on a worldwide basis, it should be pursued among the G7 countries.

(iii) More should be done to ensure genuine competition within the G7 economies, particularly over state aids and restrictions in the financial area. One priority for action was the state-owned companies from some countries which were mounting campaigns to take over private sector companies. That was not free competition.

(iv) There needed to be adequate savings to finance the investment needed in the West and in the emerging democracies of Eastern Europe. Recent falls in savings in a number of countries had led to a sharp increase in real interest rates. Tax systems needed to be examined to ensure that they did not impose penalties on savings in the private sector. And public sectors must not put undue demands on the pool of savings.

(v) Governments were going to have to devote much more time to environmental issues. The scientific evidence for major impending changes to the world climate was constantly becoming clearer and more compelling. Common prudence suggested that the G7 countries should be guided by the report of the Intergovernmental Panel on Climate Change. The recent London Conference on CFCs had been successful. The sooner the necessary action was started to stabilise carbon dioxide emissions and to create new instruments of international cooperation, the better placed would governments be to cope with the problems of the next century.

(vi) Institutions had to be kept flexible so they could respond to new international situations. It was important not to lock governments up into new centralised bureaucracies or to allow national identities to be swallowed up by new centralised bodies. Bad government had to be criticised wherever it was found. There were lessons for the Third World and in particular Africa in the failure of central planning in Eastern Europe, as was brought out in the recent report of the World Bank. While the debt strategy

must be examined to see whether more could be done to help the poorest, those countries must not be allowed to evade the issue of good government. Everyone knew that a lot of money had been wasted in Africa.

(vii) Training and education for the young should be improved so that countries were equipped to tackle the problems of the twenty first century. The power of computerisation was amazing - as her recent visit to a recording studio had demonstrated to her - but training was important as well, as Japan had shown through her success.

(viii) The fight against the drugs scourge, which was ravaging the lives of too many young people, had to be carried forward. Countries were still a long way from overcoming the problem. More and had to be done to help countries like Colombia which were engaged in a full scale war.

9. This was the background to the period of almost unprecedented change which the G7 countries were now entering. As the draft Summit declaration said, there was much to be preserved: democratic traditions, market economies and defence through NATO. But there were immense new opportunities to grasp. She had often been asked what Summits achieved. Her answer was that it made it easier for Heads to reject the short-term soft options in favour of the longer term, harder options. The G7 countries could not have secured their achievements separately. The rest of the world looked to them. She believed that at this Summit the touchstone of their cooperation would be their attitude to the trade and agricultural issues.

10. Mr Kaifu said that the Summit countries shared the same philosophy of the market economy and democracy. There was now a global current carrying these forces abroad. The Summit needed to draw a picture of an international order. There were smooth developments in the world economy which was demonstrating the superiority of the market economy. But there was no room for complacency. Economic policy coordination had to be strengthened. The external disequilibria had been reduced. Japan was planning

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further actions of structural reform. Deficit countries too needed to act. He praised the courage of President Bush who had indicated the possibility of tax increases. There needed to be more structural adjustments following the US/Japanese Structural Impediment Initiative (SII) talks. Benefits of those talks would spread to other countries. He hoped that the EC's efforts regarding the Single Market would similarly spread to the wider world.

11. He believed that the Summit should help formulate new rules and discipline for world trade. He agreed on the need to conclude the Uruguay Round before the end of the year, even though there were many difficulties still outstanding. But he hoped that under President Bush's leadership progress could be made at the Summit.

12. On developments in Eastern and Central Europe, Japan would actively participate in the G24 and the European Bank for Reconstruction and Development (EBRD). But she would not adopt a policy of benign neglect towards the less developing countries (LDCs). In that connection the successes of the Asian Newly Industrialising Economies (NIEs) and of ASEAN regional cooperation should not be overlooked.

13. His final area for action was the global environment. He recalled that as long ago as the 1975 Summit, which he had attended as the Deputy Chief Cabinet Secretary, the Summit had expressed determination to preserve both growth and the environment.

14. Concluding his presentation, Mr Kaifu likened the Summit to the nearby Houston space station: the Summit should provide a launching pad for new ideas.

15. President Delors said that at previous Summits Japan and the United States had shown the way to economic growth. Now the Community was joining in and indeed was pulling the world economy. That was in part due to the single market. He believed that there had been insufficient study of the explanations for the long cycle of growth. He believed that it was due to technical progress.

16. His second point was that a high level of real and nominal interest rates had, in his view, become the norm. He ascribed this to the imbalance between savings and investment. As Darman, the Head of the US Bureau of the Budget, had said, the watchword today was "nowism" - everyone wanted things immediately. But another reason for high interest rates was the reliance on monetary and exchange rate policies. To many interest rates were the only economic policy. That had an immediate effect on poor countries and threatened their growth rate.

17. His third point was that 420 million people in Eastern and Central Europe were about to be inserted into the world economy. They would provide a potential stimulus. The G24 process, agreed at the Arch Summit, had proved a success. Some lessons could be drawn from that process and perhaps applied to the Soviet Union's economy. The Polish example had lessons too.

18. Turning to his last point, President Delors asked whether it was normal for indebted countries to transfer year after year resources to the richer countries. He knew they had to service their debt, but a \$55-65 billion transfer a year could not be sustained.

19. Concluding his presentation, President Delors said that in the 1970s economies had been managed on a daily basis. But in this new era, as Mrs Thatcher had herself heralded, the emphasis was on the medium term. That emphasis should be carried over to the environment and to trade where decisions today would affect future generations. Savings and investment were medium term issues too. In short, the new era had to be looked at from the point of view of the medium term.

20. Chancellor Kohl said that millions were waiting for Houston's message. There had been unimaginable changes in Europe with the peaceful revolutions. He thanked the other Heads for their understanding of Germany in this important period for his country. The world was entering a new age. Houston had to send out a clear message. The G24 countries had to decide how to

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coordinate their assistance. Unless assistance was provided for Poland, Czechoslovakia and the other countries, they would run into difficulties. If the Soviet Union was to be integrated into the world economy, it needed to be able to participate in the international financial institutions (IFIs).

21. The old global challenges still remained: indebtedness, multilateral trade and so on. He supported everything that had been said in that direction, including the comments on environmental issues and the fight against drugs. He believed that the Federal Republic, with its strong economy, was well placed to face the future. Certainly there was the challenge of maintaining employment growth at the same time as combatting inflation. That required a well thought out monetary policy. German unity would be financed without inflationary effect. So far the public had responded well to German economic and monetary union (GEMU) and markets had not been affected. A successful completion of the Uruguay Round was essential. Negotiators had to be given a clear signal that the Round was to end in success, and to time. Certainly there were different views about the Round, but everyone sought a fair solution.

22. He believed that the US President's recent debt proposals were valuable and should be discussed. The Paris Club should consider helping middle income countries.

23. On the environment, he thought that the absence of scientific certainty was no reason to delay action since certain actions could be taken immediately. Many in the Federal Republic wanted not only to limit, but to reduce CO₂ emissions. He believed there was ground for compromise. He attached particular importance to tropical forests. In less than eight years the Brazilian tropical forests would have disappeared and action in three years time would be too late. These issues had to be discussed with the new Brazilian President so that there could be an agreement soon - in the next 12 months - by the London Summit. Financial resources had to be made available. Brazil should provide an example for joint action.

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24. President Mitterrand said that other speakers had already set out the broad principles. The situation in France was improving. Inflation was moderate. Unemployment was too high, even though 600,000 new jobs had been created. But that had not reduced unemployment because France had left it too late to invest in training and new jobs.

25. The President then recalled the two playwrights in French literature who had drawn a distinction between people as they were and people as they should be. He was firmly of the school that thought people should be recognised for what they were. The playwrights' distinction ought to be applied to the Soviet Union. Some might fondly imagine that in a few decades the Soviet Union would look like Western states with market economies and well trained citizens like those of the G7 countries. But that would not turn out to be the case. There was a real chicken and egg problem here. Of course, he agreed that reform should take place in the medium term. But unless something was done now, there would be no medium term. He therefore wanted to suggest concrete practical aid to be extended to the Soviet Union in the next few weeks or months. France would certainly contribute.

26. He had noted Mrs Thatcher's comments on good government. But in many African countries on decolonisation there had not been an elite to run the countries. In many cases single parties and poverty went together. That was a consequence of colonialism which had failed to train people to form the new elites. France had done better, for example, than Belgium. The newly decolonised African countries had all drawn up ambitious plans, but then the prices of commodities had fallen so the plan had to be scrapped. Africans were pawns and events crushed them.

27. Returning to the Soviet Union, the President emphasised that that country could not wait for years for help. The same was true for Africa. A general development plan was needed which strengthened commodity agreements: the Sugar Agreement was a good example. As President Delors had said, Africa was still exporting capital.

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28. Turning to the GATT round, President Mitterrand said that everyone agreed on objectives and the need for a better structured multilateral system. Everyone agreed too to open their markets, for example, on textiles. But the real issue was agriculture. That problem could only be solved if all agreed to reduce all forms of support in a balanced way. The same considerations applied to textiles.

29. On environment, he agreed with the emphasis on forests but thought that other environmental aspects should be tackled as well. Houston needed to define a list of priorities. Chancellor Kohl had made a very important statement about the Amazonian forests. The soil there was very poor and leaching was very common. It should not be forgotten that it took trees 80 years to grow.

30. Mr Andreotti said that Summits were useful in sending out a clear message. They were not occasions for detailed analysis, but times for giving directions. After all, detailed analyses simply led to utopias. The 1979 Summit discussions on oil quotas was an example: then three months later the oil market had changed completely. He therefore urged his colleagues to concentrate on principles.

31. This year's new factor was the clear evidence of the failure of Communism: that was no longer an opinion, but fact. In his view the former Communist countries needed to be given assistance. They were facing a crisis of generations. A few years ago their political leaders' status had depended upon what they had done in the war. But their new elites now looked to a different power structure. Naturally a transition was needed from the old to the new. The European Community had shown the way in Dublin with its clear message of assistance. But assistance had to be based on clear decisions by the countries concerned to create a new system.

32. Mr Andreotti then reflected that when people came to Houston for heart surgery, they often had waited too long and left it too late. The Heads must not make the same mistake with the Soviet Union. Certainly they did not have the right personnel to

carry through reform. But nevertheless the G7 needed to help them change their way of thinking. The other countries in Eastern and Central Europe, including the German Democratic Republic, needed help too. The Soviets had to demonstrate signs of economic and, despite all the sensitivities, political reform. Examples of the latter would be stopping their aid to Cuba and the problems of their bilateral relationships with Japan. Such issues, even though they were delicate, had to be put before them.

33. One hopeful sign in Africa was the withdrawal of the Soviets and Chinese and the waning of political colonialism. Some good things were happening in that continent, for example in Namibia and Mozambique. It was also significant that Mengistu had visited Rome two Sundays before to ask the Italian Government to intervene with the Eritrean guerillas. He saw some possibility in the UN's proposals for a federal state.

34. Another priority area was action against the drugs scourge which could damage Africa as it had done Latin America. G7 countries needed to be active too in the Mediterranean where Islamisation was making strides, as the recent elections in Algeria had shown. His fear was that the old divisions between Communists and Democrats would be replaced by divisions between the Western countries and Islam who still regarded Europeans as infidel.

35. Mr Andreotti then urged scientific cooperation on environmental issues. The Summit could also help on raising the awareness of the problem of drugs. One success here for the last Summit had been Switzerland's new cooperation against money laundering. The UN had work to do there through coordination of its activities and the creation of new structures.

36. Concluding his presentation by reference to President Gorbachev's letter, Mr Andreotti observed that last year Gorbachev had asked the Summit to cooperate with the third world. This year he was asking the Summit to cooperate to help himself.

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37. Mr Mulroney observed that 17 per cent of Canadian school leavers were functionally illiterate. That was a challenge for the future. He then made a brief reference to Canada's constitutional problems.

38. Turning to the world situation, Mr Mulroney said there had been great changes since the last Summit. He recalled that at the Paris Summit President Mitterrand had said that the nationalities issue could well destroy the Soviet Union; Chancellor Kohl had said that televised images could destroy the Berlin Wall; and Mrs Thatcher had said that the Eastern European countries would not succeed because they could not deliver freedom and basic goods. All had been proved right.

39. Mr Mulroney then proceeded to make several points which he thought the Summit should deal with:

(i) First, the euphoria from the walls' tumbling down in Eastern Europe should now be transformed into growth. Chancellor Kohl's speed of movement in helping create a united Germany was quite remarkable and he congratulated him as well as all others concerned in Europe. The Summit needed to decide its response to the Soviet Union. A strong economic signal should be sent from Houston to complement the political/military signal sent from the NATO Summit in London. He had been struck by the references in President Gorbachev's letter to the IMF and other international financial institutions as well as to the call for a dialogue with the G7. He agreed that throwing money at the Soviet Union problem would not help, but he thought that a sustained dialogue could help. The way forward might be to put together a good analysis involving the IMF, the World Bank, and led by an eminent man well versed in the workings of the Soviet economy.

Mr Mulroney then recalled his visit to Russia last November when he had been accompanied by 150 Canadian company directors, including Albert Reichmann. The latter had complained that while he had had President Gorbachev's personal support for some land development ventures, the lethargy of middle level Soviet Union officials had brought everything to a crawl.

(ii) The second issue was the need for a strong message on trade, in particular one which would break the log jam on agriculture. The establishment of an international trade office ought to be a priority.

(iii) Third, he agreed with Mrs Thatcher's message about vigilance on inflation.

(iv) Fourth, he endorsed the call that the Summit should focus on environment, especially climate change. Environmental indicators, action against land based sources of pollution, protection of forests in Brazil and consumer labelling were other important issues in this field.

(v) The G7 countries had to provide the LDCs with evidence that they were not concentrating on Eastern and Central Europe at their expense. He recalled that he had nearly been lynched when he had returned home to Canada after announcing in his Caribbean debt initiative of debt forgiveness. Even so, debt forgiveness needed to go ahead, despite the fact that Canadians might be a little less generous than they had been previously.

(vi) The drug problem was worsening in Canada, and cooperation on drugs had to be intensified.

40. Concluding the afternoon session, President Bush agreed that the Summit had to say something positive on the environment. But agriculture was, in his view, the key issue. If the Summit could not say something positive, the press would say that the Heads had failed.

41. The meeting concluded at 5.15 pm.

TUESDAY 10 JULY

42. The session opened at 9.00 am. It had before it a draft of the Political Declaration and Declaration on Transnational Issues.

The Political Declaration

43. President Bush said that he understood that Mr Kaifu wanted an amendment to the Political Declaration. Mr Kaifu said that he believed the paragraph on China gave a too tough impression. It implied that all sanctions would, except for those involving World Bank lending, continue until next year. He proposed that an extra sentence should be added after the second sentence in the paragraph on China on page 3: namely:

"We will keep them under review for future adjustments to respond to further positive developments in China."

That amendment was the minimum necessary for him to be able to accept the text.

44. Mrs Thatcher supported the amendment. It gave China an encouragement to go in the direction everyone wished. Chancellor Kohl also supported it but observed that different yardsticks were being used to judge China's behaviour with that of the Soviet Union. Mr Andreotti gave support. President Mitterrand said that he would not oppose it on the basis that the text before the Heads had been considerably amended from the original version. President Bush said that he could agree the amendment as well. But the text contained a risk. China was extremely jealous of its internal affairs and too harsh rhetoric could push them the wrong way. Secretary Baker proposed that "moreover" in the last sentence of the paragraph on China should be replaced with "for example" on stylistic grounds. This was agreed.

The Soviet Union

45. President Bush then turned the discussion to President Gorbachev's letter. The President had not been specific about his requests, but had suggested certain items as well as a sustained dialogue with G7 countries. President Bush reminded the Summit that he had publicly said that he wanted perestroika to succeed, but there were serious political obstacles in the US against any financial assistance. He recognised that some of the other Heads had different views. He recalled the EC Summit communique, though he recalled that no final conclusions had been reached at Dublin. The US could not forget that some 18 per cent of Soviet GNP was spent on defence; they made \$5 billion available each year to Cuba; and there were still major problems in the arms control discussions. All experience had shown that substantial foreign assistance would not work when market reforms were not in place. It would simply pile up debt. He recognised Chancellor Kohl's concerns. The G7 should try to act together and build a G7 framework. One possibility was to try to reach agreement on some basic principles which should be sufficiently flexible. Those principles might link assistance to moves towards the market economy and integration in the world economy. They might also require a reduction in military expenditure and in foreign aid to hostile states. The Foreign Ministers should be asked to draft suitable conclusions.

46. President Mitterrand said that the Heads were apparently reversing the position for the Soviet Union which they had reached for China. He certainly accepted that China was not a military risk. But the Heads should not be timid. They faced a typical chicken and egg problem. His fear was that the person wanting to take reform in the Soviet Union would fall. Insufficient account had been taken of what had already been done in the Soviet Union. The sums involved would not be exorbitant. It was a question of priming the agenda. The European Community, though not unanimously, had said they wanted to contribute to Soviet Union aid. He was reluctant to adopt the text tabled by the United States. The political conditions set out in the text were too brusque. They would be difficult for a country with its own

amour propre. Certainly the Fund had enormous expertise, but the Fund should not be asked to act alone. It was wrong to treat the USSR like an African country. The contribution of the OECD and the EBRD, the only international financial body of which the Soviet Union was a member, should not be forgotten. He therefore could not support the text. Maybe the majority could, in which case France would need to consider its position.

47. Chancellor Kohl said that the circulated text was not acceptable. Foreign Ministers should discuss it urgently. He would not want to try to deal with the Soviet Union on a bilateral basis. The Federal Republic's help did not provide a long-term solution. A joint approach was necessary. There needed to be a definite time plan. Perhaps the deadline might be by the end of the year when the Soviets had taken their decisions. There should be careful analysis and study. That had to start today. The Summit could not proceed on one basis in the case of China and a different one in the case of the Soviet Union. Certainly he recognised that Tiananmen Square had taken place in China, not in Russia. But everyone wanted Gorbachev to succeed. If he failed, what would come after would be more expensive, including for disarmament. He understood President Bush's difficulty about Cuba. That country was a long way from Europe, but it was important to every Summit participant - "united we stood". In similar spirit he wished to thank President Bush and the Summit countries for their help on German unification. But now there was an opportunity for helping to create restructuring in the Soviet Union on a broad front. He had noted that the form of discourse in President Gorbachev's letter was new. The Summit should not respond as if that letter had come from some Central African developing country. He agreed that assistance provided should address a concrete programme of reform. Support should be given for the market oriented policies set out in President Gorbachev's letter. He recalled that the majority opinion in Dublin had been in favour of assistance. It should not be forgotten that what happened in the Soviet Union would affect Poland, Hungary and other Eastern and Central European countries. So support for reform in the Soviet Union was a way of supporting those countries too. Of course, there might be divergent views

among the Summit countries. If that was the case, they should not be concealed. He believed that the Soviet Union knew what it had to do. They did not lack expertise. Their difficulty was in implementation.

48. President Bush saw a distinction between China and the Soviet Union. China did not target American cities with nuclear weapons. Against that background it was difficult to ask US citizen to supports financial help to the Soviet Union. Nor did China export revolution. US laws made it also difficult to help the Soviet Union. He had noted what the European Community had decided in Dublin. But neither the United States nor Japan were members of the EEC. Nevertheless, he agreed with President Mitterrand's point that the Summit should not give a negative signal. He agreed too that Foreign Ministers should be asked to draft.

49. Mr Carli said that the USSR's problems did not arise because of their lack of experts - perhaps there were too many - but because they were confused about what to do. Some wanted to go fast; others want to go slow. A little time ago President Gorbachev had announced prospective rouble convertibility. That had given everyone great hope. But he lacked personnel to lead this reform to fruition. If Gorbachev was not successful, there could be catastrophic consequences for Europe, especially the Eastern and Central European countries. There were already insurrectional attitudes in some republics. This background led Mr Carli to conclude that it was in everybody's interest to help President Gorbachev.

50. Any assistance should be granted in a way which was linked to dialogue and to precautions which ensured that it would not be dissipated. The dialogue should take place not only through the international financial institutions. His personal experience of the IFIs suggested that direct dialogue was required too. The IMF might not understand the full complexities of the Soviet situation. President Delors' visit the following week would be extremely helpful.

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51. Mr Mulroney said that everyone present knew President Gorbachev. He knew that all those present knew that he was in serious difficulties. He was a politician on the ropes. He had asked himself what he would want if he were in President Gorbachev's position. He believed that the answer was a strong positive commitment to analysis and dialogue. There was no difference among the G7 on the need for a positive response. The difference lay in the speed of response. If people were unable to understand the concern about Cuba, they did not understand United States' politics, and he could speak as a country with experience of 30 years diplomatic representation with the Cuban regime. He considered that the Summit was less divided than some thought. Certainly appearance of divisions in G7 would be unhelpful to President Gorbachev, but he agreed that it would not be worthwhile papering over genuine differences. The question in his mind was not whether the engine (the Soviet economy) could be primed, but whether an engine could be designed which would work. He believed that the IMF, the EBRD and other institutions could help here. He gave a resounding yes to President Gorbachev's plea for dialogue.

52. Mr Kaifu said that Japan certainly wanted to extend the hand of friendship to the Soviet Union and to support perestroika. But there needed to be caution. The economy was in chaos. A blueprint was needed for turning the Soviet Union into a market economy. To that end he could support the transfer of management expertise to the country. But he was doubtful about the provision of large scale credits and long-term agreements since he doubted whether such financial support would be effective. The Soviets were still a military super power. They should divert military resources to civil purposes. There was also their support for Cuba and Vietnam. He had to draw the Summit's attention to the Japanese problem with the Soviet Union about the Northern Territories. This was just not a bilateral issue. For all these reasons he did not think it appropriate to provide financial assistance to the Soviet Union. But he thought that the OECD Centre for Transition could be used helpfully. He was ready to seek a consensus. He agreed that Foreign Ministers should draft.

53. The Prime Minister said that she saw no parallels between the situation in the Soviet Union and in China. With China the Summit was offering some very small concessions. But the USSR already had substantial bilateral help. It was not surprising that the Federal Republic was offering most aid because of the links between the German Democratic Republic and the Soviet Union in terms of outstanding contracts, stationing of Soviet Union forces. It was much to the Federal Republic's credit that she had been the first to accept her responsibilities. But all were helping in some way. It was impossible for the Summit Seven to run a country of 280 million stretching from the Arctic to the Tropics with different religions and nationalities. The Soviet Union's economic managers knew neither their inputs nor their outputs. They did not have a clue about what to do. The Prime Minister then drew attention to what the Political Declaration had said about helping the Soviet Union. That country already had \$48 billion of outstanding debt. Any further assistance needed to be targeted to achieve precise objectives. The country was not short of resources. They were rich in everything: they should be the granary of Europe. Their problem was that they had not yet devolved enough powers from the centre. She had been surprised to hear at the Summit some criticism of the IMF and the World Bank. But it should not be forgotten that the Summit had insisted that Poland should be helped through the IMF and the same policy was being followed for Hungary and Czechoslovakia. Help would have to be limited and it would need to be well directed. But the first step was for analysis and study. The IMF should be involved, but the role of the EBRD and the OECD should be not forgotten. One possibility for help was to organise seminars in Moscow to show the Soviet Union what needed to be done. Macdonalds in Moscow had demonstrated a way forward. The only pity with that venture was that everyone had to queue a long time to get in the door. So the key to aid was analysis and targetry.

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54. Mr Mulroney reminded the Summit that it was the Canadian branch of Macdonalds which had opened up in Moscow. It had taken them seven years to bring the venture to fruition. They had had to import everything involved. The Soviet Union Postmaster General had had to ask Macdonalds to discontinue their job advertisements. They had produced 28,000 applications, for 600 jobs, and swamped the mail.

55. President Mitterrand said that if the Soviet Union was to do everything which the Summit wanted, the Summit would not be satisfied until 2010. President Bush then said that he thought there was basis for a common agreement. He asked Foreign Ministers to meet that afternoon to draft.

Trade

56. President Bush recalled the remark of the President of the World Bank that LDCs GNP would increase by 3 per cent if agricultural protection was eliminated. More was spent on agricultural protection than on aid. The Summit must produce a success in its discussions on agriculture.

57. Commissioner Andriessen said that more was at stake in the Uruguay Round than agriculture. Topics such as services, intellectual property, trade related measures, help for the LDCs, textiles and dispute settlement were also important. Dispute settlement was particularly important. The right to retain unilateral sanctions measures had to be abolished. The Commissioner then recalled the objectives of the Uruguay Round - a global approach which did not single out any particular items. But it was difficult to find common ground when some wanted to single out one particular element. The special circumstances of agriculture needed to be taken into account. This certainly was the position regarding the particular circumstances of European agriculture.

58. The Commissioner then reminded the Summit of some figures which drew attention to the difference in agriculture in Europe and in the United States. The average size of holdings in the United States was 187 hectares and only 13 in the Community. Seventy-eight people were employed per 1,000 hectares in the Community and only 8 in the United States. The European Community was serious about agricultural reform and had taken great steps since 1984. Those would continue. Without these reforms, the Community would have paid an additional \$10 billion in subventions. But it was impossible to ask the Community to bring support to zero. That was just not politically feasible. The Summit meeting should give the clear political message of the importance which they attached to the agricultural negotiations and of the need to make progress. It was not necessary to repeat the OECD discussions. They should emphasise their determination to make progress.

59. Mr Kaifu said that it was important to give a positive signal for a successful conclusion of the Round. Mr Muto then emphasised the importance of technology transfer to the LDCs. The LDCs were also worried about the use of anti-dumping provisions.

60. Mr Mulroney said that he understood from the figures quoted by Commissioner Andriessen that the Community had political problems in reforming agriculture. But the productivity of European agriculture compared to North America's was a shambles. The same applied to Japan. It was wrong to penalise countries which had made efforts to produce efficient agricultural industries. Positive signals were needed. The problem of agricultural subsidies would dominate the Summit. He then reminded the Summit Heads of the Cairns Group statement issued in Santiago. The Cairns Group represented 25 per cent of world agricultural exports. He believed that the De Zeeuw report could provide the basis for a successful negotiation and conclusion of the Round. The example of such countries like Australia should not be overlooked. There needed to be an appropriate blend of language. The Summit should also endorse the World Trade Office. The biggest losers from any failure at the Summit would not be seated round the table. They were the LDCs.

61. The Prime Minister said that she agreed with many of Mr Mulroney's remarks. It was essential to ensure a successful Uruguay Round, especially in view of the example that would set to Eastern and Central Europe. She reminded the Summit of the amount of support spent by the EC (\$93 billion), the US (\$46 billion) and Japan (\$68 billion) on agricultural support. Some 27 per cent of United States farmers' incomes were derived from state support, 38 per cent in the case of the Community and as much as 72 per cent in the case of Japan. All this compared to an OECD average of 39 per cent. She agreed that it would be impossible to reduce farm support to the levels of Australia's. But action should be taken in that direction. After all, farm support cost an average family of four in the United Kingdom some \$28 a week. There needed to be a formula which made the agricultural measure of support approach compatible with the United States' legitimate commitments on export subsidies. The Prime Minister then quoted the UK language. She hoped too that there could be agreement that dispute settlements should be always taken on a multilateral basis in the GATT.

62. Mr Andreotti reminded the Summit that agriculture had an effect on the environment. Certainly protection affected the LDCs, but it should not be forgotten that 60 per cent of the EC imports were not subject to duty and that 33 per cent of the remainder had a low duty. The EC had a negative cereals balance of \$3 billion with the United States. As Mrs Thatcher said, it should be possible to try to make a fair statement without saying that any particular line of thought would have to be given progress for priority. The Summit should show the trend, but in a cautious way. It would not be the end of the world if the Uruguay Round was not concluded by 23 December. But it would be a bad signal if the Summit made a bold statement that was not justified by events at the Trade Negotiating Committee later that week. President Bush said that language needed to be found to move the process forward.

63. President Mitterrand found Mr Andriessen's arguments convincing. Certainly the EC helped the developing countries. A global approach was needed. Export subsidies should not be singled out. Everything hung together. He agreed with Mrs Thatcher on the need to reduce the total level of support and the need for rules. But reduction should be fair and balanced. There needed to be a common means of measurement. He had seen the UK text. It was all right, though words could be moved around. It had to be looked at as a whole. These were not matters for experts. Informed politicians could reach agreement. He was ready to agree any compromise which took a global approach.

64. Mr Hausmann thought that the British language represented considerable progress. It was supported by France and Germany. He then went through to analyse the language in detail. He thought that progress could be made at the Trade Negotiating Committee meeting later in the month. Mr Nakayama reminded the meeting that Japan was a large importer of food.

65. Secretary Baker urged the Summit to avoid another OECD deadlock. The Summit should do more than recite differences. He was not sure much progress had been made on trade liberalisation in the last nine years. It had to be dealt with at political level. He doubted whether matters could be solved around this table. The De Zeeuw Report was a good one: there was something in it in with which everybody disagreed! He hoped that the Summit would be able to say that the report was a good basis for future negotiations. Mr Andreotti said that he needed to consult his experts.

66. Commissioner Andriessen said that the De Zeeuw Report was a fact which had a relevance for the negotiations. All delegations had to determine their position. All had difficulties, but the difficulties were different between different delegations. For the EC the Report had many inconveniences. The Community were still examining it. It was not possible now for the Community to endorse it. But he would not preclude that language could be found about the Report, provided that the language did not prejudice decisions. The Prime Minister and Andriessen suggested

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that the Sherpas should work up language. Chancellor Kohl agreed that Sherpas should be asked to work up text on the basis of the UK language and on what the US representatives and Commissioner Andriessen said. President Mitterrand said that Mrs Thatcher's proposal was for him the ultimate in compromise. The Prime Minister urged the Heads to stop discussing the issue because they were about to go backwards! Mr Andreotti said that he could not agree that the De Zeeuw Report was "the" basis for negotiation. But he was ready to consult Rome on these matters.

Regional Issues

67. Mr Kaifu said that events in Eastern and Central Europe had diverted attention away from Asia. But progress had nevertheless been made in that continent. There had been a settlement of outstanding Korean and Japanese problems. Those two countries had agreed to cooperate together. He had appealed to North Korea to negotiate without prior conditions. They had not replied. But the Japanese were nevertheless hopeful. Some of the talks regarding Cambodia had been successful, but unfortunately the Khmer Rouge had not been present. He had hoped for further talks. He had appealed to India and Pakistan to avoid conflict and asked them to participate in nuclear non-proliferation treaty. He hoped the G7 would be able to show a good appreciation of what was happening in Asia.

68. President Bush said that the South Korean President had been very pleased with his meeting with President Gorbachev. President Gorbachev had told him that he would take the heat from Kim Il Sung for meeting the President. There were grounds for concern about the continuation of peace on the Peninsula. North Korea was not cutting back on its arms expenditure. But one hopeful sign was that President Gorbachev was altering his approach to that region.

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69. Mr Andreotti asked whether the Soviets were discussing a loan with South Korea in return for diplomatic recognition. Mr Kaifu replied that the South Korean President certainly wished to establish diplomatic relations. But he had no knowledge about the loan and would not speculate. Another factor of note was that the Head of State of Laos would visit Japan. There had been hopeful developments too in Myanmar, Mongolia and in the Philippines.

70. President Mitterrand said that France had the co-chairmanship with Indonesia of the Cambodian peace conference. If China and the USSR stopped shipping arms to that region, there would be a quick settlement. G7 countries should put pressure on them to do just that. If arms ceased, the problem would be settled in three months.

71. The meeting concluded at about 12.30 pm.

AFTERNOON SESSION

72. When the meeting reconvened, President Bush indicated that the Sherpas had been unable to reach agreement during the lunch break on agricultural text. [In fact the Sherpas had lunched pleasantly and had not discussed the text.] After some further confusion, Mr Genscher said that the matter should be remitted to Sherpas to sort out.

73. Secretary Baker reported that the Foreign Ministers would shortly meet to consider Soviet Union text.

74. After the Foreign Ministers had left the room, President Bush described recent US actions to protect the environment. The US was trying to use market forces as much as possible. They had to keep growth up. They had negotiated a useful bilateral agreement with Japan. It was unwise in his view to become preoccupied with greenhouse gases. Other gases besides CO₂ were important. Targets and timetables should not be agreed until the Convention itself had been agreed. It should also deal comprehensively with sources and sinks. It would be wrong to become involved now in discussion of targets. He was ready to agree that there should be

a new forest Convention covering both temperate and tropical forests. This should be a major initiative coming from the Summit. He was somewhat concerned with the suggestions that the Summit should single out Brazil for attention. That might produce a hostile reaction. Regarding the proposed World Bank Green Fund, he had long argued that the IFIs should place more emphasis on tropical forests from existing activities. He thought there was general support for debt for nature swaps. But it was not sensible, in his view, to have a separate Green Fund in the World Bank. Environmental protection was already lodged in that institution's existing work.

75. Chancellor Kohl thought it important for the Summit to continue the work begun in Paris. The climate was being endangered because of gas arising from human activity. He then proceeded to describe the effect of global change on the world. The 1992 Conference should agree a convention to limit, and where possible, reduce CO₂ emissions. He wanted the Protocols to be in force at the same time as the Climate Convention. Protection of forests was vital. He welcomed President Bush's comments on that subject. It was difficult to reforest Europe. But Europe should give an example as the protectors of tropical forests. The new Brazilian President had a different evaluation to his predecessor. Without action, there would be no forest left in Brazil after eight years. Reforestation would be impossible in some areas. He suggested that before the Summit met next year there should be a pilot programme to look at the concrete problems of the Brazilian forests. He was happy that the World Bank should be associated with that project. Action was needed.

76. Mr Dumas agreed that Houston should take further steps to follow up the Paris Summit. He supported action on global change and on forestry protection. He agreed with President Bush on the dangers of picking out Brazil; other forests were threatened, for example in Africa. He reported on the meeting in Paris in June, attended by 500 political figures, about the proposed Sahel Observatory. The first task was to fill in the information gaps. Policy should not compromise the development of the South. Aid

should be given and the World Bank Green Fund was, in his view, a good approach. France and other countries had suggested a convention about Antarctica. The Summit could emphasise the importance of protecting that part of the world.

77. Mr Kaifu described Japanese plans for forestry protection. Japan would be ready to agree targets, including possible stabilisation, for the year 2000. In his view the problem of tropical forests was caused in part by poverty. That meant further support for the developing countries. He reminded the Summit that the International Tropical Timber Organisation had as an important priority the protection of tropical forests. Japan was supporting that organisation. Technology transfer was important.

78. President Bush then said that if the Sherpas did their work well, it might be possible to agree the communique rather more quickly the following day in order to accommodate those who wanted to leave Houston early. But there was still a lot of work for the Summit to do .

79. Mr Andreotti recalled the words of the Club of Rome. No-one had listened to it at the time. Young people nowadays attached great importance to conservation matters. He agreed that the Summit should produce some concrete decisions so as to signal the seriousness to which they viewed the situation. He commended Chancellor Kohl's approach to protection of the Amazon Forest. He referred to the Siena High Level Forum and asked that its outcome should be taken into account in the preparations of the 1992 Conference. He supported Mr Dumas' plea about Antarctica. That area needed to be safeguarded from exploitation. As regards the references in the communique to nuclear power, he personally was convinced that they were right. But he could not accept language in the draft communique. He suggested the formula "interested countries" should be used as had happened in the past. He had to insist on this because of the outcome of a referendum in Italy secured in his view as a result of the mistaken views of the Green Party. President Bush undertook to try to accommodate the Italian concern.

80. The Prime Minister referred to the European Community's environmental programme and to the UK's plans for desulphurisation. The costs involved in both programmes showed that environmental protection was extremely expensive. But industrial countries needed to be ready to meet these costs. It was also important to guard against sea dumping. Nitrogen fertiliser was also causing problems of algae bloom. The principle that the polluter pays should be followed.

81. She recalled that CFCs had been discovered only in the 1930s when they had been hailed for their stable properties. But now it was known that they damaged the ozone layer. Complete substitutes were still not available; of those that were, some were even more dangerous. On the greenhouse effect, she had a very firm view. Yet she accepted that there was a dispute on how much was caused by man and how much by natural sources. Yet the scientists had warned the politicians that it would be rash not to take precautions [vigorous nodding from Chancellor Kohl]. But as the President had said, CO₂ gases were not the only culprit. Methane was even worse, and the contribution of CFCs and nitrous oxide should not be ignored. The UK were unable to stabilise CO₂ emissions by 2000, but thought that it would be possible to do so by 2005.

82. It would help if those who criticised governments about CO₂ emissions would back nuclear power. Many people appeared to ignore the costs of using the air and water as a waste dump. It was important in reducing CO₂ emissions to check the consequences on a per capita basis. She agreed with the emphasis on tropical forests which harboured 90 per cent of the world's species. Biodiversity had to be preserved. The British Government had successfully worked with Brazil on forestry conservation and had agreed to devote £100 million over 3 years to that purpose. A point to emphasise was that living standards could be improved in developing countries by improved tree management. She drew attention to the big ocean circulation experiment. She agreed too that there should be more climate monitoring. She supported comments already made about the World Bank Green Fund. There was

certainly a lot to be done on research but it was only common sense to take precautions, especially over the Brazilian forests. It had taken 8 years to negotiate an Antarctic Convention. Unless it was quickly signed and ratified, there would be undesirable developments. Summit countries should agree to ratify it as soon as possible.

83. Mr Mulroney commented that Mrs Thatcher's intervention had proved the value of her scientific background in explaining these issues. He then proceeded to give some graphic figures about the effect of acid rain on Canadian lakes and forests. Respiratory problems were increasing too, especially for children. More action was required to follow up the good words in last year's Paris Summit, particularly through a clear commitment to reduce greenhouse gases. Early protocols should be the aim. That approach would cost money, but in the long run inaction would cost more. The ozone meeting in London had proved a great success. He agreed with President Bush's comments on forestry and Chancellor Kohl's about Brazil. For most Canadians, environment was the key issue at Houston.

84. President Delors emphasised LDC concerns about environmental issues. He agreed with the emphasis on nuclear power. He had met a group of scientists 15 years ago who were profoundly anti-nuclear. But now that group of scientists were saying that nuclear power was the least polluting.

85. President Bush said that the Sherpas should agree language. Chancellor Kohl emphasised that Sherpas needed to be given a directive to take a strong position on Brazil. President Bush said that the US were not members of the EC and were unready to accept fait accomplis. If the Community wished to proceed with its Brazilian proposal, that was a matter for the Community. Chancellor Kohl retorted that he did not want an EC closed shop. Perhaps the United States could agree that the project should be pursued by the European Commission and the World Bank. The Prime Minister suggested that it should be managed through the World Bank. Chancellor Kohl urged that there should be action here and how. He was not against the World Bank. But what was

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wanted was a political impetus. President Bush said that he was not against the European Community either. But the United States already had an initiative with Brazil. The Prime Minister said that the fastest route forward was for each country to act. It was important to avoid building blocs on environment as in other issues. Action should be carried through either by the World Bank or UNEP. She preferred the World Bank.

86. Chancellor Kohl said that he had to contradict the Prime Minister ("Margaret") in her comment about building blocs. He was ready to make compromises. He was not against the World Bank, but it was a banking organisation. A time frame had to be set so the World Bank produced something within 12 months.

87. President Bush said that at some time the Summit would have to discuss these EC issues. The US did not want to block the Community's action. There was a philosophical issue. Today the issue had been Brazil; yesterday it had been the European Bank for Reconstruction and Development; he did not know what would be tomorrow's. This was a big and complex question. The US needed to be there when initiatives took off if they were expected to be there when they landed. He was not suggesting that the World Bank should manage the Brazilian project in order to stall it. Mr Mulroney suggested that there might be a working agreement between the European Community and the World Bank. Sherpas should draft language. Mr Kaifu said that it was not right simply to follow the decisions on the Community. These issues needed to be decided in an institution where all the Summit countries were members. Mr Andreotti urged the importance of working out concrete details that day. President Bush asked why Chancellor Kohl was against the World Bank. Chancellor Kohl retorted that he was not. But he wanted action within 12 months. Why could not we say that the World Bank should manage the issue and cooperate with the European Community? The steering would be done by the World Bank. President Bush said that the Sherpas should be instructed to draft in this way.

Debt

88. President Mitterrand said that the Paris Club should adopt an option or menu approach for official debt for intermediate countries in the same way as the commercial bankers' scheme for private debt. The menu should cover debt reduction, debt service reduction and new money. He might circulate to colleagues before the conclusion of the Summit a summary of what he had in mind. [In the event, no summary was circulated.]

89. Mr Andreotti agreed that there should be a progressive approach. He referred to the Craxi Report. For the poorest countries, with per capita income below \$540 a year, credits should be cancelled. There should be different treatment for intermediate categories with per capita income up to \$1,000 and more advantageous rescheduling terms for countries with per capita income between \$1,300 and £6,000. As regards Eastern and Central Europe, it would become necessary to distinguish between old and new credit.

90. Mr Mulroney described Canadian policies regarding debt cancellations. He had noted a change of attitude in Canada on the issue. But he nevertheless agreed with the approach by President Mitterrand which was one that Canada could embrace with enthusiasm.

91. The Prime Minister emphasised the importance of the case by case approach. She agreed that the Paris Club should keep under review the treatment of the debt of the poorest. On lower middle income countries, she agreed that the Paris Club should lengthen repayment periods if there were strong adjustment programmes. She recalled the discussion in the margins of the Paris Summit when some developing countries had said to her that if debt was written off, the message would be that they should borrow as much as they could and then write it off. That was why she emphasised the importance of the case by case approach. She reminded the Heads

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that even with commercial debt it was the taxpayer who, through tax provisions, eventually paid for the relief. She would look at President Mitterrand's proposal with that background very much in mind.

92. Mr Waigel said that support for Eastern Europe should not be at the expense of the developing countries. Some 60 developing countries, some of whom were very poor, had no problems in repaying their debt. The Brady initiative should be continued and work carried forward in the Paris Club. President Mitterrand's proposal was well worth assessing. He was prepared to take account of Poland's special circumstances, but cautious for fear of creating precedents. President Bush said that he would want to assess President Mitterrand's proposals.

93. Mr Hashimoto said that he preferred to put the emphasis on debt service reduction rather than on debt reduction. He thought it risky to apply debt reduction to official debt. That would make it difficult to offer new money to countries which were not repaying debt. The Japanese would have great difficulty in providing Exim funds to countries which were not repaying debt. Some of the implications in President Mitterrand's ideas gave him difficulty, particularly as regards new money and moral hazard. But Japan would study them.

USSR

Soviet Union

94. Discussion then turned to the draft of the communique on the Soviet Union prepared by Foreign Ministers.

95. Mr Dumas confirmed the French agreement to the version of the third paragraph of the text on the USSR which appeared in the communique. Mrs Thatcher asked whether the US could accept the phrase "as expeditiously as possible" instead of the proposed "within four months" for the completion of the study. President Mitterrand said that action needed to take place quickly. "Six months" should be the words. Chancellor Kohl

suggested between "now and the end of the year". Secretary Baker said that a definite entity needed to be in the lead. The work should be done under the chairmanship of the IMF and the World Bank. President Bush said that the United States would be ready to accept six months and that chairmanship. President Delors suggested that it would not be a good beginning for the EBRD if its President did not coordinate the study. President Bush said that the EBRD did not yet have enough staff. He reminded Heads that they wanted some urgency on the study. Mr Dumas suggested that the study should be completed by December. This was agreed.

96. Reverting to the question of the leadership of the study, Chancellor Kohl said that the EBRD had been created for the very purpose of helping Eastern and Central European countries, including the Soviet Union. It could not be said that the United States was in a position of inferiority in that institution. Mr Mulroney said it was unfair to ask Jacques Attali to chair the study. It had to be done very urgently. For the time being Attali was the Bank. President Mitterrand said that when Attali joins the Bank he would not be sitting there [turning round to point at Attali behind him]. The two jobs would be incompatible. The Prime Minister said that clearly Attali would have to be involved. What could the President accept? Could it be a joint study between the EBRD and the IMF? President Bush asked about the staffing of the EBRD. The Prime Minister said they would be in Trafalgar Square, but had not yet any staff. Mr Andreotti suggested that coordination might be done by the Chairman of the Summit in office. Mr Kaifu supported the US position. President Bush said that the US would not want the responsibility of chairing the study ("Leroy does not want the ball"). President Mitterrand said that the four organisations should work it out between themselves. President Bush thought that would cause difficulties for the Soviet Union. President Gorbachev would not understand and it would cause problems for him. Mr Mulroney suggested that the study should be coordinated by the IMF and the World Bank. President Mitterrand said that would cause him

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problems. He suggested that the communique should say that it should be done at the initiative of the IMF. President Bush suggested that the phrase should be that it would be "convened" by the IMF. This was agreed.

97. The meeting concluded at about 5.15pm.

WEDNESDAY 11 JULY

98. The meeting began at 9.00 am.

Economic Declaration

99. The Summit had before it the draft of the communique prepared by the Sherpas.

100. President Bush said that thanks to good work by the Sherpas, the communique appeared to be agreed except for two points on the section on environment. He hoped that the Sherpas' drafting had not sublimated anyone's interest. He proposed to summarise the communique rather than read it out to the press conference.

101. Regarding the square bracket in paragraph 67, he had proposed a Forestry Convention in view of Chancellor Kohl's concern about forests. He thought that there was advantage in sticking to a free-standing convention rather than proceeding through implementing protocols to the World Climate Convention. Regarding the square bracket in paragraph 72, he could support a greater role for the World Bank on environment, but did not support a separate facility. The IBRD and IDA had had a \$75 billion increase in resources in 1988, partly to take account of environmental concerns. Mr Brady added that he thought a convention could be agreed quicker because a convention was easier to call. If there was a global facility in the IBRD, there would be arguments about which pocket the money should come from. That would slow down agreement.

102. Mr Andreotti suggested rewording the first square bracket on the lines "negotiation for a global commitment on forests". The Prime Minister said that she would be content with the phrase "convention or agreement". She agreed that it would be wrong to compartmentalise World Bank funding. She was therefore ready to delete the words in square brackets in paragraph 72. Chancellor Kohl agreed. The text was agreed on that basis.

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103. The Prime Minister then paid tribute to President Bush's chairmanship of the Summit and thanked the US for their great generosity. Other Heads joined in.

104. The meeting concluded at 9.10 am.

