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Foreign and Commonwealth Office

London SW1A 2AH

19 February 1988

N L Wicks Esq CBE
10 Downing Street
SW1

Dear Nigel,

Thank you for sending me a copy of your letter of 18 February to Geoffrey Littler with its enclosure. *File with me*

2. I have some minor points on the latter:

(a) Page 2, penultimate paragraph

Always deposits
After "... to reduce their imbalances" add "The French and Italians may well press in the same direction: they are increasingly unhappy about their bilateral ~~surpluses~~ with the Germans." (Geoffrey Littler's point)

(b) Page 3, end of first sentence

QQ
After ".... will need protection." add "There may be trouble next weekend between the Americans and the French over the Ministerial "Mid-Term Review" of the GATT Round next December (despite the attempt of the European Commission to outflank the French in Brussels). These disputes about dates have occurred before previous Summits. They are particularly futile and I shall seek to defuse this one if it occurs." *Q*

(c) Page 3, second paragraph

For "agreed at last year's OECD" substitute "set out in last year's Summit and OECD Communiques".

3. On page 2 (second paragraph) I found the word "crucial" a bit strong, and would suggest "important" instead. But that is primarily for you.

Yours ever,

R Q Braithwaite

R Q Braithwaite

cc Sir G Littler KBE
HM Treasury

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me MJ2BZZ

10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

18 February 1988

Dear Geoffrey,

I attach, on a personal basis, a draft of the minute which I intend to put to the Prime Minister, with copies to the Chancellor of the Exchequer and the Foreign Secretary, about the second Sherpa meeting. You will see that it draws on Roderic Braithwaite's letter of 9 February as well as taking in a few points from your commentary on Sylvia Ostry's paper.

I should be grateful if you could let me have any comments that you might have on the draft by 1500 hours, tomorrow Friday 19 February. I will then finalise the draft so that there are copies for Ministers' weekend boxes.

I am sending a copy of this letter to Roderic Braithwaite and Tom Richardson in the Foreign and Commonwealth Office and should be grateful for their comments on the same timetable.

Nigel

Nigel

N.L. Wicks

Sir Geoffrey Littler, KCB,
HM Treasury.

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CONFIDENTIALDRAFTPRIME MINISTERMEETING OF SHERPAS

Despite my predecessor's efforts to reduce the number of Sherpa meetings, the Canadian Sherpa has called a meeting in Quebec on Sunday and Monday, 28 and 29 February to discuss the preparations for June's Toronto Summit. I shall be accompanied by Sir Geoffrey Littler and Mr. Braithwaite.

French and US Elections: the Summit will be sandwiched between the French elections in May and the US elections (Presidential and Congressional) in November. The French elections will have been completed, but France could still be in some political turmoil, especially if elections to the General Assembly have to follow the Presidential elections. So French tactics at the Summit, and in its preparation, will be more than usually difficult to predict. American eyes will be on the Conventions in July, but we do not believe, at least at this stage, that this will much affect discussion at the Summit.

The World Economy: the 'atmosphere' of the Summit in June will, no doubt, be determined to some large extent by the perception then of the prospects for the world economy.

If the prospects for growth, inflation and the elimination of imbalances, look reasonable, as we would expect, the Summit's main task will be to demonstrate governments' commitment to the goal of a sustainable economic performance; that governments have credible policies for meeting those goals; and that this commitment and credibility is restoring market confidence. So the essential message from the Summit might be:

- we are now clearly moving in the right direction (for the correction of imbalances without promoting either inflation or recession); the evidence of progress is becoming more visible; and we are committed to

intensify policies in this direction.

All rather banal. But no reason to be apologetic about that: It would be surprising if the Summit suddenly came up with new answers after the many previous discussions.

If the world economy looked to be taking a turn for the worse, the Summit would have a crucial role in helping to steer the world economy into a better path. In those circumstances, the Bank/Fund Spring Meetings (14/15 April) and the OECD Ministerial Council (18/19 May) would have an even more important role in clarifying Summit objectives.

The perennial economic subjects will inevitably come up for discussion.

Macro economic issues: the analysis in your Guildhall speech (uncertainties stemming from the US Budget and trade deficits, Japan and Germany's trade surpluses, fears of protectionism and of returning inflation) and its prescriptions (sound money and low inflation, prudent finance, removing the obstacles to enterprise and the principle of free trade) still stand; and some progress has been made since the Autumn. The markets are more settled, though confidence is rather brittle; the US has acted to reduce its budget deficit, though further action is unlikely in an election year; the Japanese are moving, but have far to go; and the Germans' confidence in the rightness of their policies may be wavering, though they are unlikely to be willing to commit themselves to the necessary policy changes.

Our Summit aim looks clear: maintaining pressure on the US, Japanese and Germans to take the action necessary to reduce their imbalances.

Trade: beyond standard reiteration of our opposition to protectionism, what we say on trade will depend on progress in the GATT Round. An emerging aspect of the trade problem is the position of some Newly Industrialised Countries

(principally South Korea, Taiwan and Singapore: Hong Kong remains a special case). They need to reduce their growing trading surpluses especially with the US (e.g. by opening their markets and letting their currencies rise against the dollar). They also need to be persuaded to graduate out of their preferential trading status as developing countries. Recent US action to remove their GSP is a measure of US concern and an example of their enforced integration into the developed world's trading arrangements. Our Summit aim will be to find the right mix of carrot and stick to persuade these NICs to adjust in their own interest; Hong Kong's special position will need protection.

Agriculture: our Summit aim here will be to ensure that there is no backsliding from the principles for reform agreed at last year's OECD.

Debt: two of the three biggest debtors, Argentina and Brazil, are still in deep trouble. Mexico is doggedly plodding forward (just about) and their new bond deal, involving retirement of some debt, offers them some hope. Our aim here is to avoid the Canadians putting undue emphasis on the middle income countries at the expense of the poorest debtor countries. Governments have less locus in Latin American debt and we want to emphasise the good story we have to tell for Sub-Saharan Africa, including giving the Chancellor's initiative a further push.

Almost certainly there will be particular economic subjects raised; but we know of nothing firm yet. We will be considering possible initiatives of our own over the next few months. We are not aware of any particular initiatives which others have in mind for the Summit; the Quebec meeting in will be helpful in discovering whether anything is afoot.

Political

Although we will want economic subjects to be at the fore at this Economic Summit, political subjects will, inevitably,

force themselves on to the agenda. Quite which, will depend on the climate in the run up to the Summit and recent unforeseen events (terrorist outrage, acts of God, etc.). Following the expected US-Soviet Summit in Moscow, the possibility of a START agreement and movement on Soviet withdrawal from Afghanistan, East/West relations is bound to be a dominant theme. Another important political subject will be the Middle East, both Arab/Israel and Iran/Iraq. The subject of terrorism may well arise; but it will probably be better to avoid a free standing terrorism declaration, and go for a few firm robust sentences on standing firm against terrorism in the wider political declaration. There are some indications from the Canadian side that Mr Mulroney is unlikely to revert to South Africa.

Finally, it is worth noting that this Canadian Summit will complete the second round of Summits. We expect the French to offer to begin the new round, as they did the previous two, by hosting the 1989 Summit.

I do not expect the Sherpas' meeting in Quebec to carry the Summit preparations beyond obvious generalities. But it would be helpful to know whether you have any views which you would like us to reflect at the meeting.

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

N.L. Wicks

18 February 1988