

CONFIDENTIAL

20
Prime Minister

This all seems
eminently sensible.
PRIME MINISTER

FROM: N L WICKS
DATE: 24 MAY 1989
Ext : 4369

cent-h? CD 25/5

Yes no

PARIS ECONOMIC SUMMIT: MEETING OF SHERPAS 2-4 JUNE 1989

Attali is holding another Sherpas' meeting at Evian in France at the weekend of 2-4 June after the OECD Ministerial. For the discussion he has circulated a draft thematic paper. He probably intends this to serve as a quarry for his first draft of a communique. It has some useful points though needs a lot of work to spruce it into shape.

2. Discussion at Evian is likely to focus on the following issues.

(i) Macro and Micro Economic Policies

Debate will be resumed between those, like us, who think that controlling inflation is the major priority, and those, like the US and France, who put the priority on economic stimulation as a means of reducing major trade imbalances through faster world economic growth. This debate would be given added spice if the dollar continues at its present strength. I still think that this is unlikely to cause public disagreements between the Summit Heads, but Attali's paper certainly leans too much towards the latter position. If the OECD communique strikes the right balance - and the present draft is helpful - the right backdrop should have been laid for discussion at the Summit on lines that we would support.

3. I will re-emphasise at the Sherpa meeting the importance of structural reform in Germany and Japan as a means of facilitating external adjustment. We will need to be ready to respond to German arguments that structural reform will make them more competitive and thus increase their trade surplus. Rather than take this argument head on and get bogged down in technical argument, it might be more effective to set structural reform in

CONFIDENTIAL

the context of deregulation worldwide, of Europe's which 1992 is a good example. You will be in a strong position to remind the Summit that our own programme of structural reform is still steaming ahead: water and electricity privatisation, abolition of the dock labour scheme etc.

4. The objective is the same with Japan - urging structural reform in areas like land, the distribution system and air fares - but the tactic in their case will be different. The new Prime Minister, whoever he is, is likely to be on weak ground. So putting pressure on Japan to speed up structural adjustment could cut either way: it might yield results, or it might be utterly impossible for Japan to translate G7 demands into domestic action. We should be able to judge better after this Sherpa meeting how far you should go at the Summit. We will not wish to give any pretext for eg France to rush to Japan's defence so as to curry favour in an attempt to persuade them to divert some of their heavy investment in Britain towards Continental Europe.

(ii) Trade

5. My aim at the Sherpa meeting will be to persuade the French to make their thematic paper more action orientated and to set broad objectives for the second half of the Uruguay round, including agriculture. But the real argument will be over US and EC trade policies. The US Super 301 list, to be published on 30 May, will identify unfair trading practices in priority countries. These are likely to include Japan and perhaps also the EC as a group. The US administration is doing its best to limit the damage which the Congress-led campaign on Super 301 could cause. But we will need to speak firmly in support of multilateral rather than unilateral action. If the US and Japan may counter attack on the external aspects of 1992, we have a good story to tell here; for example, the draft of the Banking Reciprocity Directive is now, thanks partly to UK efforts, much less of a protectionist instrument, a development which the US banking community recognise. More generally, the UK should take the lead among Community partners in insisting that the single

European market programme will be a liberalising force opening, not closing markets.

(iii) Debt

6. Technical discussions are now underway at the World Bank and IMF following up the Interim and Development Committee communiques and we hope that the main elements will be in place by the time of the Summit. But there is a strong likelihood that the French will press for further action, benefiting both middle income debtors and perhaps poorer countries, at the Summit. Indeed, it is just possible that the Americans may join the French in calling for an issue of SDRs, something that I think that you would wish to oppose. We are likely to have German support in arguing against further new initiatives.

(iv) Environment

7. I suggest that at the Summit we should concentrate on securing agreement on a some specific communique commitments, for example on the economic aspects (and Attali's paper reflects many of the ideas in our paper on the economics of environmental protection), CFCs, forestry and above all on the need for a framework UN convention buttressed in due course by more detailed protocols. As the follow-up to the Hague conference is showing, the tide seems to be flowing in our direction and away from majority voting, sanctions and automatic compensation. The Sherpas will no doubt discuss too President Mitterrand's latest message with French ideas for concrete measures on the environment and to consider how to carry forward work on flood control in Bangladesh.

Foreign Policy Issues

8. I will want to insist that besides the declaration on human rights, which looks to have support among several Summit countries, there should be a political declaration too dealing with East/West and other topical issues. The Summit too needs to take a firm line in terrorism in the wake of Pan Am 103. But

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until the outcome of the Lockerbie investigation is clearer, we cannot be certain exactly what the Summit should say or whether terrorism should be dealt with in a separate declaration or as part of the political declarations. We are having bilateral discussions with the Americans on both aspects.

9. I will, of course, report the outcome of this Sherpa meeting.

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

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24. V
P. 1
P. 109