



Foreign and Commonwealth Office

London SW1A 2AH

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10 July 1989

Dear Charles,

French Bicentenary: Meeting with President Bush

The Americans have still to confirm the time and place of the Paris bilateral. We and they are working on 1650-1740 on 13 July, probably at the US Embassy.

The main objective of this meeting is to concert tactics prior to the Economic Summit, particularly over any last-minute North-South initiative by the French. The Prime Minister will also wish to touch base with the President on current issues such as debt, China and Hong Kong (including Vietnamese boat people), East-West relations and Eastern Europe, arms control, Arab-Israel and Southern Africa.

Approach to Economic Summit

Our particular concern is the prospect of a French-inspired North-South initiative.

There is also a chance that Bush, influenced by the Latin Americans, could have some sympathy for this. He may need reminding that a North-South dialogue would bring in its train other, less welcome, consequences. The Prime Minister could say:

- Share your dislike of rumoured North-South initiative by the French.
- A relaunched North-South dialogue would spread well beyond debt, eg into more aid and commodity agreements. Russians would be keen to get in on the act. Real action lies elsewhere (eg IFIs, GATT round, UNEP).
- We've worked closely so far. Looks as though Mitterrand has been diverted for the time being
- But French could still seek support from Third World leaders present for the bicentennial
- You can count on my support if it surfaces at the Summit.

/- Glad

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- Glad our positions are so close on other key summit issues, eg structural reform in Japan, and environmental concerns.
- Must reinforce support for an open multilateral trading system. US traditionally the champion of free trade.
- Trust you will resist domestic protectionist pressure and implement Trade Act in ways which do not threaten the GATT system

Debt

The French are expected to resurrect the Mitterrand plan for using a new allocation of SDRs to guarantee payments on reduced debt. Because of the slow progress in Mexico's negotiations with its creditors, the Americans may press us to intervene directly with our banks. They may even be tempted to reverse their present opposition to a new SDR allocation, which would provide more public money via the IFIs for debt reduction. The Prime Minister might say that:

- We oppose greater public sector involvement in debt reduction, which must remain primarily a matter for banks and debtors to negotiate.
- Talk of further public money will only discourage the banks from reaching a deal. The IMF and World Bank Boards have taken decisions - to which the UK gave full support - on the extent of their support for debt reduction. Banks and debtors must work within those limits. We are not prepared to put pressure on our banks.
- Believe we both oppose a new SDR allocation. There is no shortage of global liquidity. SDR allocations, if spent, are inflationary.

China and Hong Kong

The Prime Minister has already exchanged views with Bush by telephone on the situation in China and its effects on Hong Kong. He is coming under pressure from Congress to adopt further trade sanctions. The Prime Minister might say:

- Appreciate your difficult position. But West must to keep in step. Measures we have already taken show our outrage quite clearly.
- No question of business as usual under present circumstances, but we should not isolate China completely.

/- Firm

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- Firm declaration would give Chinese the message but avoid pushing them too far into a corner.
- Concerned at language adopted by Congress on 29 June questioning credibility of Joint Declaration. Need to promote, not undermine, confidence in Hong Kong. Encourage China to live up to her international obligations under the Joint Declaration, not appear to have reservations about them.
- Hong Kong business community views the prospect of trade sanctions on China with great concern.
- If the worst comes to the very worst we would do everything in our capacity to help. But if numbers leaving were too large, we would need to look to our friends for support. Any statement you could make to give (general) assurance of help in extremis would be a great boost to confidence in Hong Kong.

Vietnamese Boat People

The Prime Minister will recall that Bush gave no ground on the repatriation of Vietnamese boat people when she raised this with him in London on 1 June. In bilateral negotiations, the Vietnamese have now agreed that the first batch of non-refugees should be repatriated from Hong Kong as soon as possible. Given the strength of US feelings, it would be unwise to volunteer any details. If asked, the Prime Minister might say:

- Encouraged by the outcome of the International Conference on Indo-Chinese Refugees.
- Welcome US decision to settle 22,000 refugees from the region. Hope that good proportion of those will be taken from Hong Kong.
- Pressures in Hong Kong require comprehensive solutions, as envisaged in the Comprehensive Plan of Action endorsed at the International Conference.

Eastern Europe

Following his visits to Poland and Hungary just before the Economic Summit, President Bush will probably wish to set out his ideas (outlined in his message of 6 July) on what we should do to help. The Prime Minister might make some of the following points:

- UK will support reforms.

/- IMF

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- IMF agreement with Poland essential for longer-scale credits or longer-term debt rescheduling. But agree some rescheduling (1989 maturities) could precede IMF agreement.
- Premature large-scale help would only reduce incentive to reform.
- Should concentrate on encouraging investment, private enterprise and development of appropriate structures for a working democracy and market-based economy.
- Agree vital to coordinate assistance; important not to arouse false expectations about scale of help.
- Jaruzelski letter to G7 Governments seeks emergency food supplies. Hope US will respond sympathetically, as we are urging the Community to do.

East/West Relations

The Prime Minister might reaffirm that we and the US share a common approach. (While Bush's approach was initially slow to emerge, his recent speeches have set out a line similar to our own. The key phrase is "beyond containment" - the idea that the West should encourage the Soviet Union to join the "community of nations" through policies which meet western standards.)

The Prime Minister could cover some of the following:

- Welcome generally positive tone of Gorbachev's Strasbourg speech, and emphasis on cooperation.
- Encouraged by support for self-determination (although still balanced by references to "historical fact" of socialist system in Eastern Europe); and for international human rights and legal standards.
- Some unwelcome points eg exaggerated language on SNF, COCOM.
- Main obstacle to Gorbachev's "Common European Home" is that Soviet Union and Eastern Europeans still fall a long way short of Western standards over human rights and freedoms.
- Gorbachev's handling of the Congress of People's Deputies strengthened his political authority and led to some erosion of the party's position.
- Confused, half-hearted, reforms are not stimulating economic progress. We expect no significant improvements in the shops until the mid-1990s.

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Arms Control

There are no specific problem issues which we think could usefully be raised with the President by 13 July. The Prime Minister might cover:

- SNF (modernisation and negotiating aspects), where we believe a period of calm is needed.
- Conventional arms control, where the Americans are keen to flesh out the Bush Summit initiative, and where there is a reasonable chance that detailed proposals on aircraft, helicopters and US and Soviet stationed manpower can be presented before the end of the current round on 13 July; proposals on verification/stabilising measures would follow in September.
- CW, where we would welcome close consultations between officials, as the US policy review nears completion. We share a concern to curb CW proliferation, but extraterritorial provisions in draft sanctions legislation now with Congress are unacceptable to UK for broader reasons.

Arab/Israel

Tension in the Occupied Territories is high and the situation is deteriorating. Renewed deportations and growing settler militancy is likely to provoke more violence. The Prime Minister could draw on the following:

- Not in Israel's interest to let the situation drift. US role, responsibility crucial.
- Shamir's elections proposal offered glimmer of hope. But stalled: Likud reservations likely to kill it. Only chance is for you to press Israelis to elaborate it, ground it firmly on "land for peace".
- Your dialogue with PLO vital tool. PLO naturally even more suspicious of Israeli good faith following Likud decision. Key role in reassuring them that moderation pays dividends. No Israeli response so far to major changes in PLO policy. We should all encourage Israeli/PLO dialogue.
- We have been encouraging PLO in constructive approach to elections. Sensible idea to supplement negotiators from within Occupied Territories by Palestinian Americans - vital to involve Palestinians from both inside and outside the Occupied Territories. Hope you will encourage this.

/South Africa

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South Africa

/ The Prime Minister might go over the de Klerk visit along the lines of her message to Bush (attached).

I am copying this letter to Alex Allan (HM Treasury).

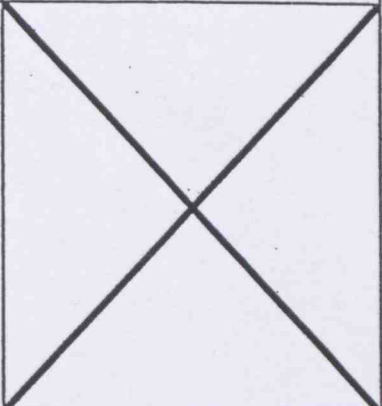
*Yours,
Stephen*

(J S Wall)
Private Secretary

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