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YOUR TELNO 1116 TO WASHINGTON: HOUSTON ECONOMIC SUMMIT

SUMMARY

1. MR MULRONEY HAS NOT YET FOCUSSED ON THE ECONOMIC SUMMIT. CANADIAN OFFICIALS REGARD EAST/WEST RELATIONS, THE URUGUAY ROUND AND ENVIRONMENT AS THE KEY ISSUES. CONCERN ABOUT FRANCO-GERMAN INITIATIVES ON AID TO THE SOVIET UNION, AND POSSIBLE PROPOSALS ON DEBT RELIEF TO POLAND.

DETAIL

2. I CALLED ON 26 JUNE ON DODGE, ASSOCIATE DEPUTY MINISTER FOR FINANCE. WE HAVE ALSO DISCUSSED PROSPECTS FOR THE SUMMIT WITH MALONE AT DEA AND COLLINS AT THE PRIVY COUNCIL OFFICE. IT IS CLEAR THAT BECAUSE OF HIS PREOCCUPATIONS WITH MEECH LAKE AND ITS FAILURE, MR MULRONEY HAS NOT YET FOCUSSED EITHER ON THE NATO SUMMIT OR ON THE HOUSTON SUMMIT. HE IS EXPECTED TO HAVE A MEETING TO DISCUSS THE NATO SUMMIT ON 27 JUNE. FOR THE MOMENT THEREFORE THERE IS NOTHING TO ADD BY WAY OF PRIME MINISTERIAL VIEWS ON ARMS CONTROL AND DISARMAMENT ISSUES FOR THE NATO SUMMIT (AND THEREFORE THE ECONOMIC SUMMIT) TO MY TELELETTER OF 19 JUNE TO GOULDEN. WE ALSO UNDERSTAND THAT A BRIEFING MEETING FOR HOUSTON DUE TO TAKE PLACE BETWEEN BURNEY AND MR MULRONEY THIS WEEK HAS BEEN POSTPONED. THE CANADIAN APPROACH TO THE VARIOUS ECONOMIC SUMMIT ISSUES SET OUT BELOW THEREFORE REFLECTS PRIMARILY THE VIEWS OF OFFICIALS ALTHOUGH IN THE CASE OF ASSISTANCE TO THE SOVIET UNION, WE HAVE BEEN TOLD THAT THE VIEWS GIVEN TO US HAVE BEEN ENDORSED BY DEPARTMENTAL MINISTERS.

SUMMIT DECLARATION

3. ACCORDING TO MALONE, THE CANADIANS HAVE NOW DROPPED THEIR EARLIER PROPOSAL FOR A NEW QUOTE INTERNATIONAL CENTRE FOR SECURING DEMOCRACY UNQUOTE ALTHOUGH DODGE SEEMED TO THINK THE IDEA WAS STILL IN PLAY.

4. MALONE ALSO TOLD US THAT THE CANADIANS HAD RECEIVED INDICATIONS FROM SOME CONTACTS IN WASHINGTON THAT FOLLOWING THE EXPECTED ROUND OF MEETINGS BETWEEN THE US SHERPA AND PRESIDENT BUSH THIS WEEK, THE US MIGHT PRODUCE A SHORT DRAFT COMMUNIQUE NOT LINKED DIRECTLY TO THE CURRENT DRAFT THEMATIC PAPER. MALONE OBSERVED THAT IF THE US DID TRY THIS TACTIC THEY MIGHT WELL RUN INTO TROUBLE WITH SOME E.G. JAPAN.

INTERNATIONAL ECONOMIC SITUATION

5. DODGE CONFIRMED THAT IT WOULD BE IN MR MULRONEY'S INTEREST TO HAVE THE SUMMIT ENDORSE THE MESSAGE THAT CANADIAN ANTI-INFLATIONARY POLICIES WERE IN STEP WITH G7 THINKING THROUGH AN APPROPRIATE REFERENCE IN THE COMMUNIQUE.

URUGUAY ROUND

6. AGRICULTURE WAS FLAGGED AS A KEY ISSUE. THE CANADIANS WOULD ALSO LIKE TO SEE A POSITIVE REFERENCE IN THE COMMUNIQUE TO THE PROPOSED MULTILATERAL TRADE ORGANISATION. MALONE TOLD US THAT BURNNEY WOULD BE WRITING TO WICKS WITH SOME SUGGESTED WORDING ON THIS.

EAST/WEST ECONOMIC RELATIONS

7. DODGE EXPRESSED CONCERN ABOUT FRANCO/GERMAN INITIATIVES FOR MAJOR AID TO THE SOVIET UNION, THE KEY SUMMIT ISSUE IN CANADIAN EYES. THE WEST DID NOT KNOW ENOUGH ABOUT THE SOVIET ECONOMY. IT WOULD BE DIFFICULT TO SELL THE AID IDEA TO CANADIANS. THERE WERE ALSO THE FAMILIAR CANADIAN BUDGETARY PROBLEMS. DODGE CONFIRMED THAT THIS RESERVED LINE HAD BEEN AGREED INTERDEPARTMENTALLY AT MINISTERIAL LEVEL (ALTHOUGH NOT WITH MR MULRONEY). HE THOUGHT THAT AGREEMENT AT HOUSTON TO STUDY THE ISSUE FURTHER WOULD BE A SATISFACTORY OUTCOME FOR CANADA. HE WENT ON HOWEVER TO EXPRESS DEPARTMENT OF FINANCE RESERVATIONS ABOUT WHETHER A G24 EXERCISE UNDER EC LEADERSHIP WOULD BE THE RIGHT VEHICLE. ASSISTANCE TO THE SOVIET UNION RAISED DIFFERENT ISSUES FROM AID TO EASTERN EUROPE AND HE WAS CONCERNED THAT A G24 GROUP WOULD BE DOMINATED BY THE SMALLER EUROPEAN COUNTRIES.

8. WHILE MALONE CONFIRMED THAT MR CLARK AND MR WILSON WERE AGREED IN THEIR RESERVATIONS ABOUT PROVISION OF CREDIT ASSISTANCE TO THE SOVIET UNION, BOTH HE AND COLLINS RECOGNISED THAT POLITICAL IMPERATIVES MIGHT LEAD CANADA TO JOIN AN INTERNATIONAL ASSISTANCE EFFORT. COLLINS, AT LEAST, SAW TECHNICAL ASSISTANCE AS THE LEAST PAINFUL WAY OF PROCEEDING.

DEVELOPING COUNTRIES

9. MALONE CONFIRMED THAT THE CANADIANS WISHED TO SEE THE SUMMIT PROVIDE SOME REASSURANCE FOR DEVELOPING COUNTRIES. HE ADDED THAT THE CANADIANS HAD NO PLANS TO REVIVE THE IDEA OF A NORTH/SOUTH SUMMIT.

AID

10. BOTH DODGE AND MALONE EXPRESSED CONCERN THAT THERE MIGHT TURN OUT TO BE A PROPOSAL AT THE SUMMIT TO PROVIDE DEBT RELIEF TO POLAND. CANADA WOULD HAVE GREAT DIFFICULTY WITH ANY SUGGESTION THAT IT SHOULD

WRITE OFF POLAND'S OUTSTANDING DEBT OF US DOLLARS 3 BILLION BECAUSE OF THE EFFECTS ON THE FEDERAL DEFICIT. THEY HOPED THE ISSUE WOULD NOT ARISE.

11. THE CANADIANS ARE COMFORTABLE WITH THE PROPOSAL FOR LONGER REPAYMENT PERIODS FOR LOWER MIDDLE INCOME COUNTRIES.

ENVIRONMENT

12. BOTH MALONE AND COLLINS NOTED THAT THE UK AND CANADIAN APPROACHES WERE VERY CLOSE. MALONE SAID THAT THE CANADIANS WOULD BE LOOKING FOR A COMPROMISE ON THE PROPOSAL FOR AN ENVIRONMENT FACILITY FOR THE WORLD BANK. WHAT THE CANADIANS WANTED WAS SOME KIND OF SUPERVISORY BOARD FOR FUNDS RATHER THAN HANDING THEM OVER TO THE WORLD BANK TO MANAGE INDEPENDENTLY. MALONE SAID THAT CANADIAN PROPOSALS ON MARINE POLLUTION, ENVIRONMENTAL LABELLING AND ENVIRONMENTAL INDICATORS APPEARED TO BE UNCONTROVERSIAL. THE CANADIAN PROPOSAL ON PROTECTION OF OCEANS AND SEAS AND THEIR RESOURCES WAS IMPORTANT TO THEM BECAUSE OF OVERFISHING. IT MIGHT RUN INTO DIFFICULTIES WITH JAPAN AND POSSIBLY THE EUROPEANS. THE CANADIANS HAD NOT YET DECIDED HOW HARD TO PUSH IT.

DRUGS

13. MALONE NOTED THAT CANADA HAD NO MAJOR PROBLEMS WITH ANY OF THE UK PROPOSALS ON DRUGS.

REGIONAL AND OTHER ISSUES

14. MALONE IDENTIFIED THE MIDDLE EAST, SOUTH AFRICA (ON WHICH CANADA WOULD CONTINUE TO OPPOSE ANY MOVE TO RELAX SANCTIONS) CENTRAL AMERICA, DEMOGRAPHY (IN PRIVATE DISCUSSION) AND POSSIBLY CAMBODIA AS OTHER ISSUES WHICH THE SUMMIT LEADERS MIGHT ADDRESS. HE REFERRED TO CANADIAN INTEREST IN HONG KONG AND REFUGEES AND TO MR MULRONEY'S OFFER TO THE GOVERNOR OF HONG KONG TO RAISE THE ISSUE AT THE HOUSTON SUMMIT IF THAT WOULD BE USEFUL. HE ADDED THAT OFFICIALS WOULD RECOMMEND THAT CANADA SHOULD NOT INITIATE DISCUSSION (SINCE IT WAS A UK LEAD) BUT THE DELEGATION MAY WISH TO CONFIRM WITH THE CANADIANS IN HOUSTON THAT MR MULRONEY WILL FOLLOW THIS ADVICE.

15. MALONE ALSO SAID THAT AT A MEETING WITH OFFICIALS EARLIER THIS WEEK MR CLARK HAD BEEN RELAXED ABOUT THE POLITICAL SUBJECTS FOR HOUSTON NOTING THAT THERE WERE AT PRESENT NO QUOTE EXPLODING UNQUOTE ISSUES APART FROM EAST/WEST.

16. MALONE TENTATIVELY SUGGESTED THAT MR MULRONEY MIGHT WISH TO SPEAK AT HOUSTON ON THE MTNS, ENVIRONMENT, AND RELATIONS WITH

DEVELOPING COUNTRIES, AS WELL AS EAST/WEST. DODGE ADDED THAT IT WAS LIKELY THAT MR MULRONEY WOULD WISH TO EXPLAIN BRIEFLY TO HIS COLLEAGUES (PERHAPS OVER DINNER) WHAT THE FAILURE OF MEECH LAKE MEANT AND WHAT IT DID NOT MEAN IN TERMS OF CANADA'S CONTINUED ECONOMIC STRENGTH.

17. IT WOULD NOT BE OUT OF CHARACTER FOR MR MULRONEY TO USE THE SUMMIT TO FLY AN INITIATIVE FOR HOME CONSUMPTION. THE TEMPTATION WILL BE THERE GIVEN HIS DOMESTIC POLITICAL DIFFICULTIES BUT THERE IS NO SIGN OF IT YET. HE WILL BE CONSTRAINED BY BUDGETARY PRESSURES. WE SHALL KEEP OUR EARS OPEN.

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