

PO-CH/NL/0094 PT B



Part B.

**CONFIDENTIAL**

(Circulate under cover and notify REGISTRY of movement)

Begins: 5/5/87.  
Ends: 13/5/87.

  
 PO -CH /NL/0094  
  
 PART B

Chancellor's (Lawson) Papers:

**MEETING OF THE ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT MAY 1987**

PO -CH /NL/0094  
PART B

Disposal Directions: 25 Years

*[Signature]*

1/8/95



b/f 6/s  
(for OECD  
mtg)



FROM: A W KUCZYS  
DATE: 5 May 1987

SIR T BURNS

- cc Sir P Middleton
- Sir G Littler
- Mr Cassell
- Mr Lavelle
- Mr Evans
- Mr Odling-Smee
- Mr Sedgwick
- Mr Culpin
- Mr S Matthews

**REMARKS TO EPC 30 APRIL 1987**

The Chancellor was grateful for your note of 1 May. He has commented: "A very good analysis".

A W KUCZYS



*Andrew* <sup>bt 6/5</sup>  
~~to Tony~~  
 Pps with  
 you  
 T



FROM: A W KUCZYS  
 DATE: 5 May 1987

MR S W MATTHEWS

cc Sir P Middleton  
 Sir T Burns  
 Sir G Littler  
 Mr Byatt  
 Mr H P Evans  
 Mr Mountfield  
 Mr Culpin  
 Miss O'Mara

**OECD MINISTERIAL MEETING: COMMUNIQUE**

The Chancellor had a few comments on the draft communique enclosed with your note of 1 May.

2. Paragraph 3, line 8, delete "strengthen growth prospects". This was the old heresy.
3. Paragraph 4, line 2: what does "exploiting to the full the potential for non-inflationary job-creating growth" mean? It is very suspect.
4. Paragraph 12, delete the last sentence ("In this latter respect, ... other European countries"). Again, the Chancellor has asked what this means? (It looks like a Commission sentence. It can only cause trouble.)
5. Paragraph 27, line 5: the statement that "Tax reform should focus on ... providing incentives to ... save and invest" looks rather odd.
6. Paragraph 29, line 9. The sentence: "Second, more flexible labour markets ... and technical change accelerates" needs more emphasis.
7. Paragraph 35 needs beefing-up in the light of the UK initiative.

*A W K*  
 A W KUCZYS



UNCLASSIFIED



FROM: A W KUCZYS

DATE: 5 May 1987

SIR G LITTLER o/r

cc: PS/EST  
Sir P Middleton  
Sir T Burns  
Mr Lavelle  
Mr H P Evans  
Mr S Matthews  
Mr Culpin  
Mr Hudson

**OECD MINISTERIAL**

We are having a briefing meeting on Thursday. The Chancellor has commented that the starting point for this is:

- (i) What do we (the UK) want to get out of this?
- (ii) What do I (Chancellor) want to make the main point of my speech?

A handwritten signature in black ink, appearing to be "A W K".

A W KUCZYS



CONFIDENTIAL

ORGANISATION FOR ECONOMIC  
CO-OPERATION AND DEVELOPMENT

CONFIDENTIAL

Paris, drafted: 5th May 1987

dist: 5th May 1987

C/MIN(87)11(Final)

Or. Engl.

COUNCIL  
AT MINISTERIAL LEVEL

CONCLUSIONS OF THE ECONOMIC POLICY COMMITTEE  
ON REFORM OF MICROECONOMIC POLICIES

(Note by the Secretary-General)

Ministers will find attached, for consideration, the conclusions on reform of microeconomic policies adopted by the Economic Policy Committee at its meeting of 29th and 30th April 1987 after examination of the Report of the Secretary-General on Structural Adjustment and Economic Performance [C/MIN(87)3(Final)].

CONFIDENTIAL

3165P

4444



Conclusions of the Economic Policy Committee  
on Reform of Microeconomic Policies

1. The OECD economies have been severely hampered by rigidities and distorted incentives. These have contributed to persistently disappointing economic performance. The expansion of output has fallen far below what could be achieved; the problem of unemployment has become severe; and adjustment to changing market and technological opportunities has been retarded.
2. Microeconomic policies can do much to raise employment and living standards. By calling forth more effectively the private initiative of firms and workers, and by improving the efficiency with which governments carry out their responsibilities, microeconomic reforms can reduce obstacles to the redirection of labour and capital towards greater production. Over the medium to long run it is the extent to which the flexibility, efficiency and dynamism can be enhanced in each country and in international markets that will largely determine whether higher rates of growth and low unemployment can be achieved and maintained.
3. The need for microeconomic reform goes beyond the pursuit of economic efficiency. Nothing more severely undermines the goal of equity than high joblessness. Moreover, many forms of intervention in OECD countries act to strengthen the privileged positions of some while disadvantaging others. Some of these policies were originally introduced with the intention of promoting fairness. More dynamic economies in which markets and competition played a wider and less constrained role, with complementary public and private initiatives to equip better all individuals to seize the opportunities provided them, would be fairer.
4. Macroeconomic policies are also needed to promote stronger, non-inflationary growth. Strains and uncertainties coming from



large current account imbalances, the domestic imbalances that are their counterparts, and the debt situation of developing countries are compromising growth prospects. Macroeconomic policies must be got right in order to reduce these imbalances, but mastering this challenge also has a microeconomic dimension. The many adjustments that will accompany the reduction of these imbalances lend an even greater urgency to the task of freeing economies from impediments.

5. Thus, improved microeconomic and macroeconomic policies are interrelated elements in a strategy for stronger growth of output and jobs. Both are essential, and there can be no question of deferring action in either sphere. Important microeconomic reforms have been taken in recent years. Further reforms, however, are needed. The Economic Policy Committee has examined the Report of the Secretary General on Structural Adjustment and Economic Performance and has drawn conclusions concerning the requirements for microeconomic reform. These are as follows.

#### I. General Requirements

6. The areas are many in which economic reform would contribute to better economic performance in every member country. Each country has different specific problems and priorities, reflecting circumstances, goals and social orientations, as well as the extent of reform already undertaken. There are, nonetheless, a number of common requirements for success:

- Reform must be built on a foundation of international cooperation. In some areas -- notably in industrial and agricultural trade and in increasingly international markets for transport, communications and finance -- policies must conform to multilateral "rules of the game" that are the outcomes of negotiations among governments. The approaches taken internationally in these areas should be supportive of, and be supported by, domestic policies to reduce constraints on markets, enhance competition and



improve incentives: a better international environment will give impetus to domestic reforms. Indeed, for many sectors and in most Member countries, competitive market disciplines can only be sustained, and economies of scale and scope can only be realised, if markets are open to international competition. Domestic reforms in such areas as taxation should also contribute to reduced international distortions. Finally, in all aspects of microeconomic reform, governments can usefully draw on the experiences of others in formulating policies and draw support from one another through the elaboration of a common approach.

- Reform must be broad. Visibly better economic performance will follow from the cumulative effects of steps taken across the full range of markets and policies, each of which may make a relatively small contribution in itself. Not only are the effects of reform cumulative, but they are often complementary, with the full benefits of improvements in one area only obtainable if there is action in another -- as with reform of education and of labour markets, or removal of trade barriers and of domestic market distortions.
- Reform must be bold. Individual reforms attract concerted resistance from groups favoured by current policies. A bold programme can call forth more effectively the active support of the broad public to whom benefits will accrue, albeit diffusely. And a bold programme will stimulate the imagination of individuals to recognise and act on the opportunities created.
- Reform must be sustained. Rigidities and distortions that have built up over more than a decade cannot be swept away overnight. The process has begun. Momentum must now be built and sustained until the full benefits of reform are obtained.



## II. The agenda for reform

7. Member governments must commit themselves to implementing reform on a broad front. The requirements in specific areas are as follows:

### a) More competitive and efficient product markets

8. Trade policies are central. The broad liberalisation of the international trading system in the decades of the 1950s and 1960s contributed greatly to the prosperity of all nations. But in recent years, the trend of trade policies has run counter to the broader thrust of policy reform. Recourse to special trade restrictions, which impede and distort the functioning of markets, has become widespread. Measures originally introduced as temporary have in many instances become permanent. Uncertainty about the future course of trade policies is discouraging for investment. For a broad programme of microeconomic reform to be credible and effective, major continuing steps must be taken, starting now, to reverse these trends, and to bring trade policies of Member countries into line with the principles of the GATT system. Central objectives for the Uruguay Round of multilateral trade negotiations must be to provide a framework for greater discipline, transparency and predictability in the use of trade measures and to establish "rules of the game" for trade in services and agriculture that improve the functioning of international markets in these areas.

9. The situation in national and world agricultural markets requires immediate action, thus improving the prospects of establishing a durable GATT framework for international agricultural trade. The current vicious spiral of mounting surpluses, collapsing prices on international markets and further restrictions and subsidies in domestic markets is financially costly and economically damaging. Moreover, policies are failing in their objective to provide stability in agriculture. Rational production and investment decisions should be increasingly guided by market



signals. Assistance to those now engaged in agriculture, when appropriate, should be gradually decoupled from incentives to produce.

10. Although scaled back in a number of cases, industrial subsidies remain large in many countries. The economic costs as well as the budgetary costs of these subsidies are high. The trend towards "off-budget" financing of industrial support has reduced some budgetary expenditures, but with further loss of transparency, while in no way reducing the adverse economic consequences. Sectoral measures, even when introduced as temporary and degressive, have too often been perpetuated from year to year. As a result, adjustment has been slowed and incentives to be efficient have been weakened. National economies would be strengthened by phasing-out measures which shield industries from price signals, while strengthening policies to improve the environment in which industry operates -- through enhanced competition, more responsive labour and capital markets, and more effective education and basic research.

b) Factor markets and supplies

11. The liberalisation of financial markets is already yielding substantial benefits, despite some inevitable turbulence in rapidly changing markets. Innovation has broadened the range of financial services and instruments available to savers and borrowers; management has come under greater pressure to be efficient; the channels through which savings are allocated to investment have been improved; and it has become easier to finance new and high-risk ventures. Nevertheless, the scope for domestic and international liberalisation still remains great in virtually all Member countries. At the same time, prudential supervision must be adapted to changing markets while maintaining a competitive environment and market responsiveness. Given the internationalisation of financial markets, there is a need to intensify international cooperation among financial supervisors.



12. Improved functioning of labour markets is essential to reduce joblessness and strengthen economic performance. Progress has been made in reducing or eliminating some disincentives and constraints. Nevertheless, further reform of labour market regulation -- reducing constraints and disincentives to hire labour, to accept employment and to change jobs -- is a priority to improve the prospects for employment, especially for the young and the less well trained. There is also a need to improve the processes of collective bargaining and consultation between management and workers. In this sphere, it is for governments in most countries to provide a legal framework and promote institutional arrangements for private collective bargaining and consultation that encourage responsible behaviour and adaptation to changing conditions on the part of labour and management. Labour market outcomes are also conditioned to an important extent by the competitive environment in which firms and industries operate. Thus policies to strengthen competition in product markets, including international competition, can contribute to better labour market performance. Government has an important role as an employer, as well -- especially so, in that public sector wage behaviour in many countries has a demonstration effect on wage settlements more generally. Pay discipline in the public sector can be strengthened by greater use of cash limits and consequent employment adjustments when wage demands exceed the capacity to pay, by allowing competition in the provision of some services, and by the reduction or elimination of automatic wage indexation where it is still practiced.

13. The need to improve the quality of human resources and create a more flexible labour force by broadening education, training and retraining opportunities is made more urgent by present labour market conditions and by rapidly changing technologies. An important element of reform in this area is to introduce greater choice and decentralisation within the educational sector, so as to increase the incentives to maintain quality standards, to broaden and extend educational and retraining opportunities, and to facilitate reallocation of educational resources in line with changing needs.



14. Strong basic research is essential to expand knowledge and to realise the opportunities created by it. Greater decentralisation of research within higher education and research institutions, together with encouragement of business ties, performance review and an element of competition for funding, would enhance the development and diffusion of knowledge. The potential for gains is especially great where research is now concentrated in relatively autonomous government laboratories. International cooperation can make an important contribution to research efficiency -- by encouraging the spread of new knowledge, sharing the high costs in a number of areas of economically important research, and giving smaller countries better access to advanced facilities and the fruits of research.

c) Efficiency and effectiveness in the public sector

15. Governments have a broad responsibility to establish and enforce the rules that govern economic relationships. To the extent that governments give wider play to private initiative within the economy, this role becomes all the more important. It is essential that rules provide appropriate incentives, that they not be unduly confining and that they be fair. In addition, governments must seek to carry out their responsibilities efficiently to ensure the provision of services and the maintenance of a social safety net conducive to adjustment.

16. There is a growing awareness of the micro- and macro-economic benefits of opening additional markets to competition through deregulation. Most governments are actively moving in this direction, but there remain promising areas in which to go further. This is notably the case in the transport and communications sectors, which in many countries are reserved for state enterprises or subject to detailed regulation. Reforms can foster lower costs of services, expanded choices, more integrated international markets and more rapid innovation. The record of reforms to date indicates that concerns about possible declines in the quality, affordability and range of services that would be offered in a more competitive



environment are rarely borne out. Such problems as arise can be mitigated through policies within a more market-oriented approach to the delivery of these services.

17. Scope exists in most countries for increasing the efficiency of public enterprises. Limiting their domain of monopoly, defining more clearly the objectives and responsibilities of their boards while allowing greater operating autonomy, and making more transparent their financial arrangements and reporting can all contribute to this goal. Moreover, in some cases, further significant gains may also be achievable by transferring the ownership of these enterprises wholly or partly to the private sector.

18. The post-war expansion of social programmes has brought undoubted achievements in broadening the availability of health care and providing basic income security. But demographic and economic developments are imposing strains on these programmes. These strains seem likely to become still more intense in coming years, endangering what has been achieved. Hence there is a need to adapt these programmes and to tailor the incentives in them so that social objectives can continue to be achieved, and be achieved more efficiently.

-- Retirement pension systems will come under strain as OECD populations age. Public pensions could be put on a sounder footing by tying benefits above a basic level more closely to contributions. A greater reliance on private pension plans could also elicit an increase in current savings flows and make future retirement income needs easier to meet. Portability of private pensions is important, however, if they are not to create disincentives for labour mobility.

-- A long-term upward trend in the cost of health care is likely to persist, reflecting demographic factors, demand



pressures and advances in medical technology. There is room to meet health care aspirations more efficiently by making preventive measures more attractive for suppliers and customers alike, by increasing cost-recovery for publicly-provided services, and by introducing a degree of choice and competition with appropriate incentives into the provision of medical insurance and medical services.

-- Unemployment insurance systems have been subjected to great strains because of rising unemployment, and the inadequacy of incentives and support for retraining and re-employment has been exposed in a number of national systems. A shift of emphasis, from mainly income maintenance to improved incentives and opportunities for training, retraining and placement, would better meet the needs of the unemployed.

19. Tax reform offers important opportunities to reduce the distorted incentives created by high marginal rates of tax and many special tax provisions, and to achieve greater simplicity and fairness. These opportunities are being seized in an expanding number of countries. But the continuing high burden of taxation largely reflects current levels of public expenditure. The scope for reducing tax wedges will be enlarged insofar as the share of public outlays in GNP can be reduced, consistent with the responsibilities of governments.

### III. Surveillance of Reform

20. Through its study of structural adjustment policies, the OECD has helped to give impetus to microeconomic reform. Action to reform policies lies in the hands of governments. However, the Organisation has a continuing role to play in sustaining the efforts of governments to design and implement reforms. There are three respects in which ongoing surveillance of reform within the OECD would be useful:



1. Monitoring progress in individual countries. Here the Economic and Development Review Committee has a central role to play.
2. Examining individual policy areas across Member countries to find solutions to problems and strengthen international cooperation. This work is primarily the responsibility of the sectoral committees of the Organisation. However, the Economic Policy Committee and its Working Party No. 1, together with the Economic and Development Review Committee, can make contributions to better understanding of the economic issues involved, especially with respect to areas that have economy-wide effects.
3. Assessing the progress of reform broadly. The Economic Policy Committee intends to continue giving close attention to structural issues and to assess microeconomic policy requirements in parallel with its assessment of those for macroeconomic policy.





FROM: A P HUDSON

DATE: 5 May 1987

*PWF*  
 1. Alex Thoms  
 2. Tony  
 3. Back to me pt.

MR H P EVANS

cc Mr S W Matthews  
 Mr Dolphin  
 Mr Savage  
 Ms Symes  
 Mr Redley

### OECD MINISTERIAL

A few comments on the draft speaking note attached to your 1 May minute.

2. As you will have seen now, the Chancellor thought the analysis which Sir T Burns gave to the EPC last week was very good. I suspect he will want to stress two of the points made there which featured in his Interim Committee speech.

- First, that the main problem is one of adjustment to large real price changes, and that the basic policy analysis is right. The task is to pursue it.
- Second, that the major countries need to will the means to achieve the ends agreed in Paris and Washington.

I think these points can readily be built up in the first section of the speaking note.

3. On the UK, I think the main point will be the one in paragraph 9: that growth has been steady, and balanced, and therefore sustainable.

4. Two more specific points:

- (a) Paragraph 5 appears to suggest that growth of "2½ per cent or a little more" is disappointing, when this is the record we are proud of in the UK.
- (b) I suspect the Chancellor might find the first sentence of paragraph 7 a bit too "Keynesian". This is no doubt simply a matter of drafting.





5. One point which was made in Washington in the Autumn but not, I think, since is the differential fall in the dollar as part of the reason for the lack of improvement in US trade figures. Drawing attention to this might help take pressure off the bilateral US-Japan disputes. But I am not quite sure how it could be fitted in to the present speaking note.

A handwritten signature consisting of several vertical strokes and a horizontal line across them, resembling the initials "A P H".

A P HUDSON



FROM: S W MATTHEWS

DATE: 6 May 1987

CHANCELLOR

ch  
 Pl cd you glance  
 through this over the  
 weekend. The speaking  
 notes, with any amendments  
 you have, can be passed  
 on to Sir G Howe if you  
 do not attend OECD

cc: Economic Secretary  
 Sir P Middleton  
 Sir T Burns  
 Sir G Littler  
 Mr Byatt  
 Mr Lavelle  
 Mr Monck  
 Mr Evans  
 Mr Mountfield  
 Mr Odling-Smee  
 Mr Culpin

OECD MINISTERIAL MEETINGS, 12 - 13 MAY 1987

~~You are holding a briefing meeting at 9am tomorrow morning to discuss the~~ OECD Ministerial Council Meeting. This submission covers the organisation of the Council, the Communique and notes for your interventions.

#### Organisation of the meeting

2. The meeting agenda is attached. It covers macroeconomic policies, agriculture and structural adjustment policies, including trade. The first two items will be discussed on the first day, when you are planning to participate. There will, however, be no problem in extending your interventions to cover structural adjustment and microeconomic policy reform. There is no formal speakers' list, but it should be possible to arrange with the German chairmen (Bangemann and Genscher) suitable slots for your interventions. You will probably want to speak twice: in the morning on macro - and microeconomic policy, and in the afternoon on agriculture, trade and sub-Saharan debt. A

3. Sir Geoffrey Howe is also planning to attend the Ministerial on the first day. Mr Alan Clark will attend both days. Sir G Littler and Mr Evans will be in support.

4. Other Finance Ministers who are proposing to attend the Ministerial include Messrs Baker, Balladur, Douglas (New Zealand), Ruding and Wilson (Canada). You may wish to take the opportunity



Ruding and Wilson (Canada). You may wish to take the opportunity to have a bilateral with Baker to discuss international debt and other issues. You have agreed to see Mr Douglas in London on Friday 15 May.

### The Communique

5. There are working lunches for Ministers on both days. On the first day the Secretary-General will ask Ministers to raise any specific remaining problems with the draft communique. Officials will then attempt to reconcile these problems and report back to Ministers at the working lunch on the second day.

6. As usual, attempts are being made to reduce the amount of time that Ministers have to devote to the Communique. Your comments on the latest draft have been fed in, via Mr Bayne (our Ambassador at the OECD), to the discussion of the communique by OECD Ambassadors being held today to finalise as much of the draft as possible. We hope to have a report of this discussion by the time of your meeting tomorrow morning.

### Briefing and Speaking notes

7. Draft speaking notes for your interventions are attached. B

8. We are attempting to agree a common set of steering and subject briefs for all UK Ministers. A draft of our objectives on macroeconomic and structural policies for the steering brief is attached. We have prepared subject briefs on the world economy and the Secretary-General's Structural Adjustment Report and will submit them on Friday, along with those prepared by DTI and the MAFF on trade and agriculture respectively. C

84.

S W MATTHEWS

PS Mr Kuczys' minute to Sir G Littler only arrived after this submission was prepared. Our objectives on macroeconomic and



structural policies are summarised in attachment C. In addition we shall want the OECD Ministerial to reject protectionism and give a boost to the GATT round, in particular on agriculture where we should seek agreement on common principles for reducing protection and government support. We shall also want to mobilise support for your initiative on sub-Saharan debt.



CONFIDENTIAL

A

ORGANISATION FOR ECONOMIC  
CO-OPERATION AND DEVELOPMENT

CONFIDENTIAL

Paris, drafted: 30th Apr 1987  
dist.: 4th May 1987  
C/MIN(87)1

Or. Engl.

COUNCIL  
AT MINISTERIAL LEVEL

Meeting to be held at the Château de la Muette, Paris  
on Tuesday 12th and Wednesday 13th May 1987, beginning at 9.30 a.m.

DRAFT AGENDA

1. ADOPTION OF THE AGENDA
  
2. TOWARDS BETTER ECONOMIC GROWTH IN  
THE CONTEXT OF GLOBAL INTERDEPENDENCE:  
PROSPECTS AND POLICIES C/MIN(87)2(Final)\*
  
3. AGRICULTURE: THE NECESSARY ADJUSTMENT  
  
Ministerial Mandate on Agricultural Trade C/MIN(87)4(Final)  
  
The problem of Agriculture C/MIN(87)5(Final)
  
4. A COMPREHENSIVE APPROACH TO  
STRUCTURAL ADJUSTMENT: THE ROLE  
OF TRADE AND OTHER POLICIES  
  
Structural Adjustment and  
Economic Performance: Synthesis Report C/MIN(87)3(Final)  
  
Conclusions of the Economic Policy  
Committee on Reform of Microeconomic Policies C/MIN(87)11(Final)
  
5. DRAFT COMMUNIQUE C/MIN(87)6
  
6. OTHER BUSINESS

\* This Note by the Secretary-General applies to Items 2 to 4 of the Agenda.

1921c

CONFIDENTIAL

4380



The following documents will also be made available to Ministers:

- Ministerial Mandate on  
Agricultural Trade Annexes I to VIII to  
C/MIN(87)4(Final)
- Trade in Services C/MIN(87)7(Final)
- Main developments in the field  
of Trade Policy C/MIN(87)8(Final)
- Strengthened transparency and  
discipline in the field of  
tied aid credits and  
associated financing of exports C/MIN(87)9(Final)
- Development Assistance Committee  
guiding principles for  
associated financing and tied  
and partially untied official  
development assistance C/MIN(87)10(Final)
- Structural Adjustment:  
Technical Report SG/ADJ(87)1 Chapters 1 to 10



OECD MINISTERIAL : SPEAKING NOTES FOR CHANCELLOR'S INTERVENTION (S)

Macro-Economic Prospects and Policies

The last year has been disappointing for the world economy. In retrospect, we did not allow enough for the difficulties caused by some very large changes in relative prices : commodity prices and exchange rates. Those whose incomes fell adjusted their spending more quickly than those whose incomes rose. We have learned the lesson that large real price changes are damaging, in either direction, up or down. The <sup>benefits</sup> ~~opportunities~~ presented by lower energy prices and <sup>market</sup> ~~exchange rate~~ changes can take quite some time to come through

2. This time last year, OECD staff were looking for growth of 3 per cent or more in 1986 and 1987; outturn looks like being 2½ per cent or so in each year.

3. It was weaker external demand than expected in 1986, rather than weaker domestic demand, that accounted for the shortfall in growth - but that is only limited consolation. For 1987 domestic demand in G7 forecast now 1% lower than a year ago.

4. We need to look closely at the differences between the main industrial countries, but we also and just as importantly need to examine the performance of the main industrialised countries as a group. Because we are concerned to avoid <sup>G7</sup> ~~an~~ inflationary or deflationary bias. a

5. For the main industrialised countries as a group [G7] the growth forecast of 2½ per cent for 1987 and 1988 is somewhat disappointing : in present circumstances of low inflation our economies should be capable of sustaining growth above, rather than below, the potential growth rate, and medium-term strategies should provide for that.

6. The point has been made time and again that domestic demand growth in <sup>major</sup> ~~surplus~~ countries needs to be substantially faster than productive potential. Yet on OECD forecasts, domestic demand in



*(No real effect from it  
in a case like r. 10)*

Japan (before allowing for the forthcoming package) and Germany is expected to expand no more than 2½ per cent this year and next. Not only is this inadequate, it is comparable to that forecast for the United States. And this comes on top of an enormous gap in growth rates of domestic demand from 1982 to 1986, 22% for US, 14% for Japan and 10% for Germany. ~~Such a development~~ <sup>This</sup> is simply not sustainable. It is the task of ~~macro~~ policies in each country to ensure a better balance, as has been agreed in meetings in Paris and Washington.

7. The desire for greater exchange rate stability has been clearly shown in these discussions. But we have also seen that achieving it is far from simple.

8. If we will the ends we must will the means. Some countries, like the UK, have been trying for many years to take exchange rates into account in assessing monetary conditions. If we are to have greater exchange rate stability even the largest countries have to give an explicit weight to exchange rates in decisions about monetary policy. This ~~also~~ <sup>probably</sup> means giving less weight to domestic indicators. <sup>then</sup> If we want to have greater exchange rate stability ~~it~~ <sup>has</sup> to be ~~turned into~~ <sup>translated into</sup> suitable action. Some of the unease round the table and in financial markets relates to worries that although Japan, Germany and the US all want greater exchange rate stability there is some doubt about whether they are willing to take the necessary action.

9. Ensuring appropriate growth in nominal demand over the medium-term is one of the main tasks of macro economic policy. This will be easier in a period of exchange rate stability. But a major reorientation of an economy towards domestic demand - in the case of Germany and especially of Japan - and some ~~shift~~ <sup>move</sup> in the other direction in the United States requires ~~more~~ <sup>more</sup> than just moving macro economic levers.

10. In the surplus countries, and especially in Japan because the size of the balance of payments surplus there in relation to exports is so large [40%], a sustained programme of structural measures is needed to support macro-economic policy in







time and effort to these issues and I congratulate the Secretary-General on the excellent report on structural adjustment and economic performance.

14. I wholeheartedly endorse the main message of the report that market orientated policies are the way to promote structural adjustment and growth. When governments ignore the long-run consequences of their intervention in markets - however laudable the motives - and of higher public expenditure, taxation and borrowing, economic performance will suffer. UK has introduced numerous domestic measures to deregulate and reduce intervention in order to promote greater efficiency in government and greater competition in factor and product markets.

15. The OECD has a key role to play in those areas where international action is most needed : agriculture; trade and related industrial policies; financial markets.

#### Agriculture

16. Nowhere are the damaging consequences of massive interference more apparent than in agriculture. Direct budgetary costs are huge, quite apart from costs to the consumer and to other sectors of the economy. Extent of problem has been well documented by the OECD, Fund, the World Bank and the FAO.

17. Fundamental reform to move to a market oriented outcome is essential. Requires a gradual and balanced reduction in all forms of intervention, including direct and indirect subsidies that encourage output.

18. OECD has done invaluable work in presenting aggregate measures of the many diverse forms of intervention used by the industrial countries. I propose annual updating of the OECD's technical analysis, together with an annual report on progress on agricultural reform, through the Economic Policy Committee, to the Ministerial Council.



19. It is of course in GATT that the major negotiations will take place. We must ensure that principles agreed at Punta del Este are respected, and that we concentrate not just on tariffs and quotas, but deal with all forms of support.

### Trade

20. Whilst <sup>e</sup>agriculture is a most pressing problem, the Structural Adjustment Report rightly emphasises the need to strengthen and extend the open multilateral trading system as a whole. Any extension of discriminatory bilateral trade arrangements can only weaken a system already damaged by existing prolonged exemptions for textiles, steel and automobiles.

21. I attach very great importance to the work proceeding in GATT on new subjects of trade in services and intellectual property. Welcome progress made in OECD on the Conceptual Framework, and on specific work on financial services, maritime transport, tourism and insurance. Hope the Trade Committee will devote significant part of its resources to extending analysis of specific sectors, and that it will report on practical achievements on liberalisation to Ministers in 1988. Greater public awareness of the Codes of Liberalisation, and increased support for work on updating and applying the Codes will be an essential step towards increasing their effectiveness.

### Conclusion (including SSA)

*with link to SSA*

22. Finally, if we can make further progress on both our macro policies and on our structural policies, we should be doing all we can to foster economic growth in our own countries, with all the benefits that can bring. At the same time, we should be contributing to a better outlook for the rest of the world.

23. Even so, some of the poorest countries face immense problems in securing any sort of worthwhile growth. Last month in Washington I proposed special treatment for the official debts of the poorest and most heavily indebted countries in sub-Saharan Africa. Let us all try and make real progress. Elsewhere, among

*MSB.  
SPM  
only  
3 points  
to para 1  
tentative.*



the larger middle income debtors, we know that they have the capacity, if they choose to use it to their best advantage, to grow out of their problems. They and we will be greatly helped if we can succeed in enhancing the open and growing world economy that we all want.



C

**OECD MINISTERIAL: MACRO/MICROECONOMIC POLICY OBJECTIVES**

1. Endorsement of key role of market-oriented, microeconomic reform in improving economic performance, while reaffirming commitment to sound fiscal and monetary policies as necessary conditions for sustainable, non-inflationary growth.
2. To maintain pressure on the three largest countries to take the necessary action to reduce their current account imbalances and to make G7 commitment to greater exchange rate stability credible to markets.
3. In particular, to press US to cut its budget deficit, and Japan to restructure its economy and strengthen domestic demand - more effective Japanese market opening measures are especially important.
4. To work for effective follow-up within OECD to Secretary-General's Structural Adjustment Report, particularly where international dimension of deregulation, liberalisation and promotion of increased competition is vital.



FROM: S W MATTHEWS  
DATE: 8 May 1987

SIR GEOFFREY LITTLER

cc: PS/Chancellor  
Mr Evans  
Mr Pickford  
Mr Savage  
Ms Symes

**OECD MINISTERIAL COUNCIL, 12 - 13 MAY**

I am attaching the subject briefs which we, the MAFF and DTI have prepared - as foreshadowed in my note to the Chancellor of 6 May.

2. I also attach the objectives for the meeting prepared by the MAFF and ourselves. Those from the DTI and FCO will follow as soon as I can get hold of them. (They will be included in the FCO's steering brief for the Foreign Secretary, which is still in preparation but promised for this evening).

3. I understand that the Chancellor is hoping to look at the speaking notes prepared by Mr Evans that were circulated with my note of 6 May, and considering whether the material on the UK and world economies and on debt might be added to the Foreign Secretary's speech.

SM

S W MATTHEWS



## OECD MINISTERIAL: MACRO/MICROECONOMIC POLICY OBJECTIVES

1. Endorsement of key role of market-oriented, microeconomic reform in improving economic performance, while reaffirming commitment to sound fiscal and monetary policies as necessary conditions for sustainable, non-inflationary growth.
2. To maintain pressure on the three largest countries to take the necessary action to reduce their current account imbalances and to make G7 commitment to greater exchange rate stability credible to markets.
3. In particular, to press US to cut its budget deficit, and Japan to restructure its economy and strengthen domestic demand - more effective Japanese market opening measures are especially important.
4. To work for effective follow-up within OECD to Secretary-General's Structural Adjustment Report, particularly where international dimension of deregulation, liberalisation and promotion of increased competition is vital.



OECD COUNCIL AT MINISTERIAL LEVEL: 12/13 MAY

STEERING BRIEF

ITEM 3: AGRICULTURE

UK Objectives

1. To secure as strong commitment as possible in OECD on principles to guide agricultural reform:

- market forces to determine more fully supply and demand;
- a gradual, balanced and sustained reduction in support and in government intervention;
- support should avoid stimulating production and distorting markets;
- recognition of collective responsibility and need for collective action.

2. To minimise attempts (eg by Japan, Germany) to water down this commitment.

3. Clear endorsement of OECD Synthesis Report, including the analytical tools (Producer Subsidy Equivalents and Consumer Subsidy Equivalents); commitment to regular updating and review to monitor progress and effects of reform.

4. Recognition of importance of Uruguay Round as the main forum in which global agricultural reform, through a reducing in levels of support, must be pursued; and of OECD countries' vital role in this process.





## OECD MINISTERIAL 1987: TRADE ISSUES

### Introduction

This brief covers trade issues not dealt with in the separate brief on agriculture and structural adjustment.

### Essential Facts

#### Main Developments: C/MIN (87)8

This regular report by the Trade Committee notes that while the last year has seen the successful launch of the GATT MTNs, it has also seen a continued increase in protectionist pressures.

Among OECD countries, the Report notes an increased resort to bilateralism and serious disequilibrium in agricultural markets.

Under the heading of "Bilateralism", the report alludes obliquely to the US/Japan agreement on semi-conductors, one affect of which was to require Japan to raise the price of its semi-conductor products to third countries (including the UK) not parties to the agreement. Debate on the background to and possible defences of the agreement has dominated official-level consultations in OECD in recent months. The US decision of April to retaliate against Japanese exports in response to alleged Japanese non-implementation of the agreement has further increased tension, and has led the EC to announce its intention of taking the necessary measures to prevent trade diversion to Community markets.

On the positive side, the Report notes some steps towards liberalisation in the field of manufactures, a degree of deregulation in some national services sectors and improvements in the protection afforded to intellectual property in certain





developing countries.

Concluding on a broadly negative note, the Report notes the existence of various troublesome proposals for fresh protectionist legislation, singling out the Commission proposal for an Oils and Fats tax as one example. In these difficult circumstances, the Committee notes the particular importance attaching to observance of Standstill and Rollback commitments, and reports that it is reviewing its own monitoring procedures to make them more effective.

Although the Trade Committee report makes no mention of it, the pace of OECD work on a range of GATT-related issues has quickened in 1987, reflecting progress in Geneva. In GATT itself, the substantive phase of negotiations has begun, all Negotiating Groups having until end-1987 to complete ground-clearing exercises with a view to beginning the negotiating phase proper in 1988. All the Groups had met once before Easter and will meet once or perhaps twice more before the summer. Progress, while unspectacular, is at this stage satisfactory. Difficulties arise in predictable areas, notably agriculture, but there are no signs on any issue of a desire to sabotage the process.

Meanwhile in OECD, trade in services is receiving increased attention (see below), as are the other new issues - intellectual property and trade-related investment measures. More time is also being allocated to discussion of the integration of newly industrialised countries, and of related topics such as the GATT Balance of Payments Rules.





Trade in services: C/MIN (87)7

This paper by the Secretary General reports on the progress of work on trade in services since the 1986 OECD Ministerial. It outlines work on the "conceptual framework" (an attempt to define the concepts which would need to be included in a multilateral services agreement), improvement of current OECD instruments (on Invisibles, Capital Movements and national treatment), statistics and intra-Committee co-ordination.

Although the paper probably understates the OECD's achievements in liberalisation of trade in services, it contains welcome recognition of the importance now of its work on this aspect of the Uruguay Round negotiations. Much of the preparatory work on services has taken place in the OECD amongst broadly like-minded countries. We see a significant continuing role for the OECD in providing the intellectual input necessary for successful negotiations in the Uruguay Round. We do not however wish the OECD to become a forum for coordinating developed country positions for the Uruguay Round. In the absence of a clear focus and purpose, the OECD discussions on services have not come to grips fully with the complexities of a multilateral services agreement. It is therefore welcome that the paper concludes that even greater effort is needed in this area, now that the Round has been launched.

The relationship between the existing OECD instruments on Invisibles, Capital Movements and national treatment and the eventual agreement in the Uruguay Round will always be difficult. The issue has not, and need not, be addressed directly at this stage. We have maintained that, because a Uruguay Round agreement will inevitably take some time to take effect, we should urgently press ahead with increasing the effectiveness of the existing OECD instruments.





There are welcome signs, reflected in the paper, that this work is moving forward. A helpful aspect in this context is the improved coordination between the various committees dealing with aspects of trade in services, also reported in the paper.

Finally, the paper reflects the work of the OECD towards improving statistics on trade in services. Whether through the absence of international rules or the difficulty of measuring "invisible" transactions, improving statistics of trade in services has proved particularly intractable. The OECD has nevertheless done some useful work in bringing together national systems of measurement. The work should continue but should not be allowed to delay substantive negotiations on multilateral rules for trade in services in the Uruguay Round.

Tied Aid Credits and Export Finance: C/MTN (87)9:

Agreement has recently been reached on a significant package of measures. The attachment to C/Min (87)9 gives details, but briefly they involve:-

- a Export Finance: From July 1988 subsidised interest rates for export credits to relatively rich countries (mainly OECD and Bloc) will be abolished and interest rate subsidies for other countries reduced.
  
- b Tied Aid Credits: (i) To reduce trade distortions resulting from the use of development aid to soften export credit terms, the minimum concessionality of tied aid credits will from July 1987 be increased from 25% to 50% for the least developed countries, and to 30% for other developing countries; from July 1988 the minimum concessionality





for other developing countries will be increased to 35%. (ii) From July 1987 the standard 10% discount rate used to calculate the concessionality of tied aid loans will be replaced by discount rates bearing some relation to market interest rates applicable to the currency of the loan.

Item (b) above will have the greatest impact on tied aid loans in low interest rate currencies rather than, currently, sterling. Germany and the Netherlands had to be outvoted on this issue in the EC. Japan too held out until the eleventh hour before agreeing.

The UK would, ideally, have preferred discount rates more accurately reflecting the actual cost of funding tied aid loans. As the export financing changes reduce the UK's interest rate subsidy capability their impact is likely to be greater on UK exporters than on those using currencies with interest rates lower than sterling.

DEPARTMENT OF TRADE AND INDUSTRY/EXPORT CREDITS GUARANTEE DEPARTMENT

MAY 1987



OECD MINISTERIAL : 12/13 MAY

SUBJECT BRIEF

ITEM 3 : AGRICULTURE

A. Points to Make

1. Problems are clear :

- severe and chronic supply/demand imbalances, shown by huge and growing surplus stocks, and by historically low commodity prices on world markets
- continuous international friction as world trade stagnates or contracts
- no incentives to LDCs to develop a viable domestic agriculture
- heavy and unsustainable costs of support borne by taxpayers and consumers
- hence severe misallocation of economic resources.

2. Root cause also well-established :

- excessive, protective support arrangements of almost all OECD countries, isolating their markets and producers from the signals that would enable the efficient adjustment of supply and demand
- rapid technological improvement in productivity, not matched by appropriate adjustment of support levels

3. Solutions now widely accepted :

- market signals must determine production levels and trade flows more freely and directly; through
- a balanced and sustained reduction in the levels of agricultural assistance; and in government intervention in the operation of markets; and through
- the development of policies that can provide the necessary support to farmers without distorting markets.

4. OECD countries must

- recognise their collective responsibility to act
- develop the right principles to guide a concerted



movement toward reform

- thus provide vital impetus toward the success of the Uruguay Round negotiations
- endorse the value of the OECD studies of agriculture, notably the Synthesis Report and its calculation of Producer Subsidy Equivalents (which, however, must be brought up to date)
- register the important contribution these analytical tools can make toward future reform.

B. Essential Facts

1. The problems facing agriculture are easily illustrated

- stocks of wheat (160 million tonnes) and of other grains (167 million tonnes) are both double annual world trade;
- stocks of dairy products are 2-3 times world trade;
- support prices in major countries are far out of line with world prices;
  - In Japan, rice, sugar and butter prices around eight times
  - In US, sugar and butter prices three times
  - In EC, sugar, butter, beef, cereals and oilseeds all 2-4 times world prices;
- direct Government support expenditure in 1986
  - \$26 billion in US;
  - \$23 billion in EC;
  - \$11 billion in Japan;

and these figures exclude transfers from consumers to producers through high food prices (these transfers are very large in Japan and EC, smaller but still important in US).

OECD Studies on Agriculture

2. There are two major documents on agriculture before Ministers

- Secretary General's Note
- Synthesis Report summarising the 1982 Ministerial Trade Mandate



3. In addition, the Secretary General's Issues Paper includes brief paragraphs on agriculture; and the Structural Adjustment Study treats agriculture in the wider economic framework.

4. All these documents point, with varying degrees of detail, to the conclusion that the underlying problems of agriculture are generated by domestic support policies; and confirm the need for more market-orientated policies if these problems are to be solved. The Synthesis Report is particularly valuable in that it represents a detailed economic study undertaken, and agreed by, OECD countries on agricultural markets and trade. It demonstrates that most OECD countries, not just the EC, give massive support to domestic agriculture and thus distort markets and trade. For this purpose, the Synthesis Report seeks to measure all forms of farm support, irrespective of the means employed, by reducing them to a single concept termed "Producer Subsidy Equivalents". This concept could provide a useful analytical and negotiating tool in the context of the GATT negotiations, which the UK would like to see direct its attention toward a general long-term reduction in levels of support.

#### Attitude of Major Players

5. (i) USA/Canada/Australia/New Zealand

- strongly committed to long term reform of agriculture through reduced levels of assistance and Government intervention; looking for strong communique language on these lines, and seeking to minimise the watering down which will be demanded by others (eg Germany, Japan); but US parts company on the need for short term measures which the others see as vital to build confidence for the new Round and improve market situation; the US fears that this would reduce pressure on the EC to reform the CAP and negotiate properly in GATT, and that Congress will not give the necessary mandate to achieve a "ceasefire" in export subsidy practices outside the main GATT negotiation.

(ii) Japan



- insists that her agriculture is a special case, and that she should not be expected to contribute to reform through opening her highly protected markets to imports; with Nordic countries and Switzerland, she points to the political/social/environmental/food security objectives of agriculture which make reform difficult; being mainly food importers, these countries tend to characterise the world agricultural problem as caused by the major exporters; OECD has usefully shown the high levels of assistance provided in these countries.

(iii) EC

- As a whole tends toward caution; UK and Netherlands most enthusiastic for proper market-orientated reform; Germans very resistant to any implication that farm support prices should be reduced, though ready to contemplate control of output through quotas or set-aside of land; France unclear, tends to be tactically obstructive; some smaller Member States particularly Ireland, concerned at prospects of reduction in their benefits from the CAP; Commission satisfactorily positive so far as possible against this background.

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD

5 May 1987



**SUBJECT BRIEF FOR OECD MINISTERIAL: MACRO POLICY****Background**

1. Economic growth turned out fairly generally to be weaker than expected in 1986, and forecasts for most countries (though not for the United Kingdom) for 1987 have been revised downwards. Growth rates in the major countries in 1986 and the latest IMF and OECD forecasts for 1987 are shown in table 1. (Note that OECD forecasts are draft prepared for EPC and will be changed before publication).

2. In Japan and Germany in particular activity has slackened, domestic demand failing to strengthen sufficiently to offset the weakening of their exports (table 2). More of the rise in real incomes from the favourable movement in the terms of trade appears to have been saved than was earlier expected. Thus the sharp real fall in oil and other commodity prices has led to losses of export markets for industrial countries, which have not been fully offset by stronger domestic demand.

3. The current payments imbalances of the United States, Japan and Germany have increased further. The process of adjustment to the re-alignment of exchange rates over the past two years - since the dollar peaked early in 1985 - is likely to take time. The IMF and OECD forecasts show only small reductions in imbalances this year and in 1988 on present policies (table 3).

4. At the Louvre meeting in February, the major countries agreed to cooperate to achieve a period of exchange rate stability at around current levels. Japan and Germany committed themselves to follow policies to strengthen domestic demand and the United States promised to reduce its budget deficit. These commitments that were reaffirmed at the IMF meeting in Washington in April.

5. After the Paris meeting, the German Government announced that income tax cuts of DM 5.2 billion or 0.3 per cent of GNP (part of



a larger tax reform originally scheduled for 1990) would be brought forward to next January.

6. During the Washington meeting, the ruling Japanese Liberal Democratic Party announced details of an expansionary package. The size of the package has been given as 5 trillion yen (almost 1½ per cent of GNP), but past experience suggests that only part of this will be genuinely additional to what is already planned. Details of the package have still to be announced. It will then have to be passed by the Diet (which failed recently to agree the Governments' tax reforms, including the introduction of a sales tax and the removal of the tax exemption of small savings).

7. In the United States, the latest Administration projections are that the Federal budget deficit will decline from \$221 billion (5½ per cent of GNP) in the fiscal year 1986 to \$173 billion (4 per cent of GNP) in FY1987 and \$108 billion (2½ per cent of GNP) in FY1988. However these projections are based on unduly optimistic economic assumptions and given Congressional opposition to most of the proposed expenditure cuts, progress in reducing the deficit is likely to be much slower than this, unless measures to raise additional revenues are agreed.



## Points to make

1. The major exchange rate re-alignment over the past two years will contribute to reducing payments imbalances, but fiscal, monetary and structural policies need to support this adjustment.
2. Domestic demand needs to grow significantly faster than real GNP in Japan and Germany; and vice versa in US. Governments must carry out their commitments of the Louvre and Washington communiques to achieve this.
3. A reduction in the US Federal budget deficit remains an essential part of the G7 cooperative strategy. The Administration and Congress need to make their promises of deficit cuts credible to markets. Accepting need for tax increases would help.
4. A temporary easing of fiscal policy by Germany and Japan would raise domestic demand in these countries. It could help convince the markets that exchange rates are appropriate. Policy in Germany still looks restrictive in circumstances of slow growth and negligible inflation. The expansionary package proposed in Japan must be both substantial and genuinely additional. It should be supported by deregulatory and liberalisation measures a la Maekawa to open its markets and reorient economy toward domestic demand.
5. Achieving greater stability in exchange rates also requires countries to give a substantial weight to exchange rate objectives in the conduct of their monetary policies. Cooperation between major countries needs to ensure that this does not produce a global inflationary or deflationary bias.



Table 1: Real growth rates in 1986 and forecasts for 1987 and 1988<sup>(a)</sup>

	<u>1986</u>	<u>1987</u>		<u>1988</u>	
		IMF	OECD <sup>(b)</sup>	IMF	OECD <sup>(b)</sup>
United States	2.5	2.3	2 <sup>3</sup> / <sub>4</sub>	3.1	3 <sup>1</sup> / <sub>4</sub>
Japan	2.5	2.7	2 <sup>1</sup> / <sub>4</sub>	3.3	2
Germany	2.4	1.9	1 <sup>1</sup> / <sub>4</sub>	2.0	1 <sup>3</sup> / <sub>4</sub>
France	2.2	1.8	1 <sup>1</sup> / <sub>4</sub>	2.1	2 <sup>1</sup> / <sub>4</sub>
Italy	2.8	2.9	3	2.3	2 <sup>1</sup> / <sub>4</sub>
Canada	3.1	2.0	2 <sup>3</sup> / <sub>4</sub>	3.0	3
United Kingdom	2.5	3.0	3 <sup>1</sup> / <sub>4</sub>	2.3	2 <sup>1</sup> / <sub>4</sub>
Total Major Seven	2.5	2.4	2 <sup>1</sup> / <sub>4</sub>	2.9	2 <sup>3</sup> / <sub>4</sub>

(a) Percentage increases in real GDP or GNP.

(b) OECD forecasts are unpublished draft of next Economic Outlook. They are subject to revision, particularly in case of UK.



Table 2: Forecasts of growth rates in Domestic Demand and Real and Nominal GNP in the three largest countries

	<u>1986</u>	<u>1987</u>		<u>1988</u>	
		IMF	OECD	IMF	OECD
<u>United States</u>					
Real Domestic Demand	3.5	1.6	2½	2.4	2½
Real GNP	2.5	2.3	2¾	3.1	3½
Money GNP	5.1	5.1	5½	6.5	6¾
<u>Japan</u>					
Real Domestic Demand	4.0	4.0	2½	3.8	2
Real GNP	2.5	2.7	2½	3.3	2
Money GNP	4.3	3.8	2½	5.9	3½
<u>Germany</u>					
Real Domestic Demand	3.7	3.1	2½	2.4	2½
Real GNP	2.4	1.9	1½	2.0	1¾
Money GNP	5.5	4.4	3½	4.6	3½
<u>Total Major Seven</u>					
Real Domestic Demand	3.6	2.5	2½	2.8	2½
Real GNP	2.5	2.4	2½	2.9	2¾
Money GNP	5.1	5.1	5½	6.2	6



Table 3: Payments balances on current account in 1985 and 1986 and forecasts for 1987 and 1988

	<u>\$ dollars</u>					
	<u>1985</u>	<u>1986</u>	<u>1987</u>		<u>1988</u>	
			IMF	OECD	IMF	OECD
United States	-118	-141	-139	-144	-129	-129
Japan	49	86	83	90	82	94
Germany	13	36	35	38	29	32

Table 4: Inflation rate forecasts

	1986*	<u>1987</u>		<u>1988</u>	
		IMF*	OECD**	IMF*	OECD**
United States	1.9	3.4	3½	3.5	3½
Japan	0.6	0.1	0	2.9	1 <sup>3</sup> / <sub>4</sub>
Germany	-0.3	0.7	<sup>3</sup> / <sub>4</sub>	2.6	1½
France	2.2	2.5	3	2.6	2
Italy	5.9	4.7	4½	5.0	4½
Canada	4.2	4.0	3 <sup>3</sup> / <sub>4</sub>	3.3	3 <sup>3</sup> / <sub>4</sub>
United Kingdom	3.4	4.4	4½	4.8	5
Total Major Seven	1.9	2.6	2 <sup>3</sup> / <sub>4</sub>	3.4	3½

\* Consumer price index

\*\* Consumers' expenditure deflator.



**OECD MINISTERIAL COUNCIL 12 - 13 MAY 1987****SUBJECT BRIEF: STRUCTURAL ADJUSTMENT**

1. The Secretary-General's study was commissioned by the 1985 Ministerial. The Synthesis Report of some 80 pages is part of the documentation for the Ministerial. A revised draft of the Main Report and its Sectoral Chapters is not yet available. Assuming that Ministers agree to publication, OECD expect to publish the Synthesis Report at the end of the Ministerial and the main report in late September.
2. The study examines how microeconomic policies have influenced economic growth. Its main theme is that they are a critical determinant of economic performance. It notes the significant reorientation of policies in recent years away from the defensive and interventionist policies of the 1970s, but argues that more needs to be done to remove constraints, and to improve and foster competition.
3. The report's emphasis on market orientated policies (combined with a clear, stable medium-term macroeconomic framework) to improve performance and promote structural adjustment is wholly welcome. The report is valuable in showing that market approaches can and should be applied, not only in financial markets but also in agriculture, labour markets, and the public sector. The importance attached to international competition and open markets is also welcome, although it is disappointing that the conclusions are not more specific.
4. The report and certain Sectoral Chapters were discussed by their respective OECD Committees. EPC focused on the Synthesis Report and its "Conclusions on Reform of Microeconomic Policies" are part of the documentation for the Ministerial. Ministers are invited to endorse these "Conclusions" in the Communique.



## Points to Make

(a) Congratulate Secretary-General on Report. Should be derestricted and published. Very useful follow up to earlier OECD work on Positive Adjustment Policies and the Costs and Benefits of Protection.

(b) Agree with EPC Conclusions. Right to stress that microeconomic policy reform is essential to improved economic performance. Action cannot be deferred until macro imbalances are removed.

(c) Agree that governments should deregulate and reduce intervention wherever possible to allow freest possible operation of market forces. UK has numerous domestic measures in this vein. Report supports UK approach on financial markets, agriculture and GATT negotiations.

(d) International dimension of trade and industrial policies very important. Must be continuing part of OECD work programme. Secretary-General should report on this regularly to Ministerial. EPC and its Working Party 1 should devote half their time to structural issues. Suggest WP1 report to EPC for full discussions of these subjects.

(e) Other OECD Committees should also be involved. E.g. clear remit from Ministers to relevant Committees to consider how conclusions on trade, industrial subsidies, agriculture, and financial markets could be put into effect.



Tony Janet  
thanks: b/f with advise P.T.  
P Davis will do action  
on this (Sheldon will recirc)  
(have told Little's office)

J.





CH/EXCHEQUER	
REC.	11 MAY 1987
ACTION	CST
COPIES TO	[REDACTED]
	[REDACTED]
	[REDACTED]
	[REDACTED]
	[REDACTED]

Foreign and Commonwealth Office

London SW1A 2AH

8 May 1987

Dear Alex

Chancellor's Visit to OECD Ministerial Meeting:

Paris 12-13 May

X | The Swedes have recently threatened to withdraw from the UN peacekeeping force in Cyprus (UNFICYP) in January next year. We understand that the cost to them of maintaining their commitment to UNFICYP is their prime concern. The Swedish Foreign Ministry are concerned about the wider implications in Cyprus of a Swedish withdrawal but it is apparently the Swedish Ministry of Finance which has the final word. We, the UN and the Americans have lobbied the Swedes - so far without success - to try to persuade them to stay.

We have two concerns over the possible Swedish departure. First, by leaving in January they may make the prospects for progress in Cyprus harder rather than easier. Elections are due in the south in February. Thereafter, a window of opportunity for progress may present itself. It would be unfortunate if the UN Secretary-General were not in a position to exploit this because of uncertainty over the future of UNFICYP, which provides the necessary background of stability for his mission of good offices. Second, if the Swedes leave, it is hard to see who would agree to take their place. We may come under a good deal of pressure ourselves to fill the gap. This would greatly increase the cost to us of UNFICYP, which, as you know, already absorbs a disproportionate part of the FCO's budget.

/We





We should therefore like to take the opportunity of the Chancellor's presence in Paris together with the Swedish Finance Minister, Mr Kjell Olef-Feldt, to urge the Swedes to reconsider their decision to withdraw. I enclose briefing in the form of points to make and essential facts. I would be grateful if this could be included in the Chancellor's briefing for his visit.

Yours sincerely,  
*L Parker*

(L Parker)  
Private Secretary

Alex Allan Esq  
 PS/Chancellor of the Exchequer  
 HM Treasury

Ps. If, of course, the Chancellor does not in the event attend, the Foreign Secretary will tackle Mr Olef-Feldt himself.

*L 875*



CHANCELLOR OF THE EXCHEQUER'S VISIT TO OECD MINISTERIAL MEETING,  
PARIS 12-13 MAY

- Share your concern about cost and apparent permanence of UNFICYP.
- But believe UNFICYP essential to stability in Cyprus. Although danger of full-scale conflict low, continued danger of isolated incidents between individuals which may easily escalate.
- More important, consider UNFICYP plays a vital role in providing essential background of stability for Secretary General's mission of good offices.
- Secretary General has brought two sides closer than ever before. Accept that his efforts currently in baulk as attention in south focusses on Presidential elections next February.
- But "window of opportunity" may open thereafter. Tragedy if Secretary General were unable to exploit it because of uncertainty over future of UNFICYP.
- We strongly urge you to reconsider your decision to withdraw in January. Worst possible time - just before Presidential elections. Hope you will agree at least to postpone your withdrawal.
- Agree that if UN fail to make progress after Presidential election, it could be right to reconsider whole future of UNFICYP's role.

Defensive

- Threat to reduce UNFICYP unlikely to encourage two sides to negotiate. Turks with 25-30,000 Turkish troops to provide security will not be affected. Kyprianou in no position to show flexibility before election. To make a move on UNFICYP now would merely waste a card that may be of value later.



CHANCELLOR OF THE EXCHEQUER'S VISIT TO OECD MINISTERIAL MEETING  
PARIS 12-13 MAY

UNFICYP

Essential Facts

1. The United Nations Peacekeeping Force in Cyprus was established in 1964 following intercommunal violence in the island. Its mandate is renewed at 6-monthly intervals. It comprises 2290 men and costs some \$100m pa. The major contributors to the force are ourselves (740 men), Austria (300), Canada (515), Sweden(374) and Denmark(341). Australia, Ireland and Finland also contribute a few men each. The force is funded by voluntary contributions. By June 1986 the UNFICYP fund was owed \$145m in arrears and troop contributors had been paid for expenses only up to December 1978.

2. In February the Swedes informed the Secretary General and the other troop contributors that they would withdraw from UNFICYP in January 1988 unless the financial basis of the force were put on a sounder footing and prospects for a political settlement improved. It soon became clear, however, that the main Swedish concern was money. UNFICYP costs them \$7m pa. With their obligations to UNIFIL they find this too much.

3. The UN hoped that a change from voluntary to assessed contributions might help the Swedes; and in April the Secretary General began taking soundings of Security Council members about this. We have been lobbying in favour, together with the other troop contributors, including Sweden (who have made clear that they do so without commitment to their participation in the force). But the chances for securing the change look poor, chiefly because of French and Russian opposition.

4. Although the Swedish decision was taken for financial reasons, they and others (particularly the French) continue to argue that the Swedish withdrawal may encourage the two sides to negotiate seriously. We do not believe this. First, the timing is bad.



During the run up to the presidential election there is little chance that Kyprianou will be flexible. Past experience has shown that in electoral terms a hard line on the Cyprus problem is popular. The signs are that President Kyprianou will be taking the tough line again.

5. Second, far from being intimidated by a threat of reduction, the Turkish side would probably welcome it. They see their protection in the Turkish forces in Cyprus and UNFICYP, if anything, as an irritant (for instance in monitoring what happens in Varosha). Denktash was quick to seize on the Swedish decision as an opportunity to raise the idea of reducing UNFICYP to an observer force. Following the recent visit to Austria by Greek Cypriot Defence Minister (Eliades), Denktash called for the withdrawal of the Austrian contingent on the grounds that its neutrality was compromised.

6. If the Secretary General fails to make progress after the election, there could be a case for considering a possible reduction in UNFICYP's role, so as to ease the burden on the troop contributors. But now is not the time.

Southern European Department  
May 1987



UNCLASSIFIED



FROM: A W KUCZYS  
 DATE: 11 May 1987

A handwritten signature, possibly 'A W Kuczys', written in blue ink.

MR H P EVANS

cc PS/Economic Secretary  
 Sir P Middleton  
 Sir T Burns  
 Sir G Littler  
 Mr Lavelle  
 Mr Mountfield  
 Mr Odling-Smee  
 Mr S Matthews  
 Mr Culpin

### OECD MINISTERIAL MEETINGS, 12-13 MAY 1987

The Chancellor read Mr Matthews' note of 6 May, with the draft speaking notes for OECD, over the weekend. He will not now be attending OECD on Tuesday, but he has suggested a few changes to the speaking notes, and would be grateful if these, as amended, could be passed on to the Foreign Secretary, who will be attending.

#### Macro-Economic Prospects and Policies

Paragraph 1: Final sentence to read: "The benefits presented by lower energy prices and necessary exchange rate changes can take quite some time to come through". (Changes underlined)

Paragraph 4: Final sentence to read: "Because we are concerned to avoid either an inflationary or a deflationary bias".

Paragraph 6: Line 2, before "surplus countries", insert "major". Over the page, after "forthcoming package" insert: "the net effect of which is in any case hard to determine". Penultimate sentence, delete "Such a development", insert "This". Final sentence, delete "macro".

Paragraph 8: Fourth and fifth sentences to read:

"This inevitably means giving less weight to domestic indicators. If we want to have greater exchange rate stability, that desire has to be translated into suitable action." (Changes underlined)





Paragraph 9: Final sentence, before "more than" insert "much".

The UK

Paragraph 11, third sentence: Take out words in square brackets, and substitute: "- and this needs to be emphasised -".

Conclusion (including SSA)

There is not enough here on SSA. Paragraph 23 needs to spell out the three points of the plan, and the conditions.

  
A W KUCZYS



CONFIDENTIAL

*M. Elwood.*

Paris, drafted: 12th May 1987

dist: 13th May 1987

C/MIN(87)6(3rd Revision)

Paragraphs 1 to 14  
Paragraphs 26 to 38

Or. Engl.

---

COUNCIL  
AT MINISTERIAL LEVEL

---

DRAFT COMMUNIQUE

(Note by the Secretary-General)

Attached hereto is a revised text of paragraphs 1 to 14 and 26 to 38 of the draft Communiqué for examination by Ministers.

4586

CONFIDENTIAL

2018R



DRAFT COMMUNIQUE

1. The Council of the OECD met on 12th and 13th May at Ministerial level. The meeting was chaired by Dr. Martin Bangemann, Federal Minister of Economics of the Federal Republic of Germany. The Vice-Chairmen were Mr Uffe Ellemann-Jensen, Minister for Foreign Affairs, and Mr Palle Simonsen, Minister of Finance, of Denmark; and Mr Roger Douglas, Minister of Finance of New Zealand. On the fortieth anniversary of his Harvard speech, the Council paid tribute to the vision of international cooperation framed by General George C. Marshall.

I. IMPROVING GROWTH PROSPECTS

2. The economic strategy of the OECD countries has, over recent years, brought inflation down to its lowest level for a generation, at the same time maintaining positive growth rates. The long-term effort must be pursued, taking account of developments, in order to strengthen the prospects for stable and sustainable growth; to reduce substantially the levels of unemployment - unacceptably high almost everywhere; to correct the massive current account imbalances of the major countries; to consolidate the improvement in exchange rate configurations while achieving greater stability; and to improve the economic performance of developing countries. The first and foremost contribution that the OECD countries can make to world



prosperity is to foster vigorous economies in an open multilateral trading system.

3. In order to achieve these objectives, Ministers agree upon the following wide-ranging and mutually reinforcing actions. They are based on a common will to use to the full the possibilities of international co-operation and to exploit for the best the interactions between macro-economic and structural adjustment policies. Improved policies in both fields are interrelated elements in the strategy for stronger growth of output and employment. Both are essential. Macro-economic policies stabilise expectations, build confidence for the medium-term and strengthen growth prospects. Micro-economic policies create a more dynamic and responsive environment, in which growth and adjustment forces are stronger and macro-economic policies are more effective.

## II. MACRO-ECONOMIC POLICIES

4. Macro-economic policies must respond simultaneously to three needs: maintaining medium-term orientations which contribute to the stability of expectations and building confidence; unwinding the present exceptionally large external imbalances of the major countries; exploiting to the full the potential for non-inflationary growth and thus for stronger job creation. International complementarity and compatibility of policies are essential in order that adjustment takes place in the perspective of growth and of exchange rate stability. Each country must make its contribution to



the collective effort. In particular, the effective implementation of the commitments in the 'Louvre agreement', together with those in the recent communiqué of the Group of Seven countries, shall be achieved quickly. Member countries will reinforce their co-operation, continue to review the policy requirements of the situation and introduce further measures as necessary.

5. Monetary policies, supported by fiscal policies, should remain geared towards growth of monetary aggregates and maintenance of financial market conditions consistent with low inflation objectives and real growth potential; they should also contribute to the orderly behaviour of exchange rates. In view of the outlook for low inflation in many countries, a further decline of interest rates in these countries -- in particular a market-led decline of long-term rates -- would be helpful.

6. Since the possibilities for monetary policy, by itself, to improve prospects are limited, these need to be enhanced by further action on the fiscal front.

7. In the United States, the process of reducing the Federal budget deficit -- which is coming down from 5.2% of GNP in 1986 to less than 4% in 1987 -- must and will continue in the years ahead. Holding firm to this course is essential for external and domestic reasons. The confidence of economic agents, in the United States and elsewhere, depends heavily upon it; so do, consequently, the prospects for moderate interest rates and stable exchange rates,



sound economic activity with an adequate flow of funds into productive investment, and resistance to protectionist temptations. These highly beneficial effects of reducing the Federal budget deficits should over time outweigh any short-term damping effect in the United States. Exchange rate changes have improved the cost competitiveness of US products and are having a positive effect on net exports.

8. For Japan the objective is to achieve stronger growth with domestic demand increasing more rapidly than output, accompanied by a rapid growth in imports, consistent with the substantial terms of trade gains which have taken place. The reaffirmation by the Japanese Government of its intention to further improve access to its domestic markets for foreign goods and services is also welcome. The Japanese authorities will take further substantial fiscal and other measures to strengthen the growth of domestic demand. This will not prejudice medium-term budgetary objectives of the central government. In this regard, it is to be noted that the recently announced Japanese initiative to expand domestic demand is part of the far-reaching longer-term effort to reorient the Japanese economy.

9. In Germany, also, the growth of domestic demand, and particularly of private investment, must exceed substantially the growth of potential output. In order to support growth and external adjustment, the German government has already announced that some scheduled tax cuts will be accelerated to 1st January 1988 and a



broader tax reform will be implemented in 1990. This will have a favourable influence on investment. In addition, further measures of structural adjustment, including reduction of subsidies, will be implemented. Taken together, these actions will contribute to an increase of the general budget deficit relative to GNP between now and 1990. Fiscal prudence over recent years permits this kind of action. Should there be a serious risk to the sustained expansion of domestic demand, especially private investment, the medium-term strategy for growth and higher employment would be adjusted as a consequence.

10. Other countries with substantial current account surpluses should also take appropriate action to encourage domestic demand growth relative to sustainable output.

11. Some countries face tight constraints insofar as fiscal policy is concerned. For countries which have large budget deficits, priority must continue to be given to correcting them. There are a few countries in Europe, however, where budget deficits are not large but where current account considerations constrain policy. Scope for fiscal action on the part of these countries would be increased and growth prospects improved if demand strengthened in their major trading partners. In this latter respect, and as an example, a co-operative economic strategy of the EEC countries could take advantage of their interdependence and be accompanied by other European countries.



III. STRUCTURAL ADJUSTMENT POLICIES

12. Ministers welcome the Report on Structural Adjustment and Economic Performance. Despite progress in recent years, OECD economies are still hampered by major distortions and rigidities. These compound current macro-economic problems and retard growth. Increasing competition in product markets, responsiveness in factor markets and effectiveness in the public sector will contribute significantly to growth potential in all countries. Priorities in reforming structural policies will vary in individual countries reflecting differing national situations but also international requirements. It is thus essential that concerted action be guided by common principles. To ensure the greatest gains from reform, action must be broad, bold, sustained and, to the extent possible, built on international economic cooperation. The effects of such action will emerge mainly in the medium term. Implementation now, by expanding opportunities and bolstering confidence about the future, will underpin present efforts to strengthen non-inflationary growth and to reduce unemployment. Successful structural adjustment can simultaneously increase fairness and offer improving opportunities for all. Increasing social dialogue is an integral part of this process.

13. Industrial subsidies, to the extent they are a source of domestic and international distortions and an impediment to structural adjustment, should be reduced. The work on industrial



subsidies initiated by the Organisation is, therefore, to be encouraged and pursued actively.

14. The conclusions drawn by the Economic Policy Committee on the Report on Structural Adjustment were endorsed and will guide action in the forthcoming years. The Secretary-General is requested to report, at appropriate intervals, on the work of the Organisation on micro-economic and structural issues at subsequent meetings of the Council at Ministerial Level.

PARAGRAPHS 15 TO 25 WILL BE ISSUED SEPARATELY

#### Financial Markets

26. The process of liberalisation in financial markets and financial institutions must continue. In order to secure the clear benefits deriving from this process and to ensure the viability and stability of these markets, efforts will be intensified in the appropriate fora with a view to increasing compatibility and convergence of policies regarding prudential supervision of these markets.



Tax Reform

27. Most OECD countries have undertaken or are considering major tax reforms. Well-constructed tax reform can considerably enhance performance at both macro and micro-economic levels. Tax reform should focus on simplicity, equity and reducing distortions affecting incentives to work, save and invest. The competent bodies of the Organisation will actively contribute to reflection on tax reforms in Member countries and consider the best means of achieving them with due respect given to international aspects.

Technological Change

28. The development and diffusion of technology is central to the growth of output, employment and living standards. The process of technological change provides opportunities that must be grasped. Much work has already been done within the Organisation on analysing and interpreting various elements of this process. It now seems necessary to define an integrated and comprehensive approach to the different technology-related questions, to deepen the analysis in order to understand better, and make better use of, technological advances. The Secretary-General's intention to develop and carry out such an approach was welcomed. A progress report will be made to Ministers at their meeting in 1988.



Employment and Socio-Economic Reform

29. In view of the seriousness of unemployment problems in most countries, three areas of socio-economic reform are particularly important - all involve, in varying degrees, the private sector and the social partners as well as governments. First, there is a pressing need in many countries to improve the quality of education and training systems, and to adapt them more to the needs of societies and economies undergoing rapid structural change. Second, more flexible labour markets are needed to facilitate access to the new jobs emerging as structural and technical change accelerates. Third, employment and social protection policies need to evolve so that displaced and unemployed people are given not only income support but also -- especially through training -- opportunities and incentives to get back into work or other useful activities such as local employment initiatives. OECD work in these areas will be intensified, a key aim being to prepare a new framework for labour market policies as agreed at the meeting of the Manpower and Social Affairs Committee at Ministerial level in November 1986.

Environment

30. There is general agreement that environmental concerns have to be given a high priority in government policies, in order to safeguard and improve the quality of life as well as to preserve the resource base needed for sustained global economic development. Member countries will develop, within OECD, approaches and methods



for more systematically and effectively incorporating environmental considerations into the policy-making process. Work will be intensified on policies needed to prevent more effectively the release of hazardous substances to the environment, including from large-scale accidents. In this connection international co-operation should be reinforced. The recently presented report of the World Commission on Environment and Development, "Our Common Future", will be studied closely in Member governments and in the Organisation.

#### Energy

31. The past year has seen considerable falls in the prices of oil, gas and coal. While lower energy prices have broad economic benefits, they tend to increase consumption and reduce indigenous production of energy. The Chernobyl reactor accident has underlined the safety aspects of nuclear power. These developments could intensify the tightening of energy markets expected for the 1990s. The Governing Board of the International Energy Agency, meeting at Ministerial level on 11th May 1987, agreed to strengthen existing policies in a number of areas in order to advance the objectives of energy policy while continuing to secure the general benefits of lower energy and oil prices. These areas include indigenous energy production, the efficient use of energy, diversification of sources of primary energy particularly those used in the generation of electricity, the promotion of free and open trade in energy,



measures to respond to an interruption in oil supplies, and due recognition of environmental concerns.

#### IV. RELATIONS WITH DEVELOPING COUNTRIES

32. In a world characterised by an increasing level of interdependence, the economic problems and performance of developing countries have become increasingly diverse. While a number of developing countries, particularly in Asia, have made significant progress, many others have suffered economic setbacks in recent years. Economic cooperation with developing countries must respond to varying capacities and needs in the critical areas of development, trade, debt and finance. Developed countries must strive to ensure a better environment for developing countries' growth and exports in the interest of these countries as well as of the international economy more generally. In this regard, the implementation of the policy directions and objectives set out in this Communiqué will represent a significant contribution by OECD countries to better global prospects.

33. Economic policies in developing countries themselves will remain a major factor in their own performance. Upon them depend heavily confidence, savings and investment, both domestic and foreign. The wide range of developing countries presently implementing economic policy reforms to establish a sound development process must be supported and encouraged by all possible means including improved market access and official development



assistance. In this regard, it is important to maintain and as far as possible increase the flow of development assistance, as well as to improve its quality and effectiveness. Those developing countries whose economic strength is already significant should progressively play their full part in the rights and obligations of the multilateral trading system. It is important that the potential offered by the private sector be fully exploited.

34. Large debt burdens remain a major impediment to growth in certain heavily indebted middle-income countries. There is no feasible alternative today to the co-operative strategy adopted for the solution of these problems. Only enhanced co-operative action, on a case by case basis, by all parties involved -- debtor and creditor governments, the international financial institutions and private banks -- will permit reducing the strains in a growth-promoting environment. For some countries notable progress has been made in this process. However, in some cases difficulties in the adjustment and financing processes point to the need for improvements. The trend towards innovative and more flexible approaches on the financing side, both private and official, should play a key role in making debt burdens more manageable and restoring capital flows.

35. Even more constraining are debt problems among low-income countries. Proposals have recently been made by OECD countries for additional action to reduce the debt servicing burden of the poorest countries, especially in Sub-Saharan Africa, undertaking strong



growth-oriented adjustment programmes. Early results from the current discussions among creditor governments will be urgently sought.

36. For poorer developing countries, provision of adequate concessional finance is essential. OECD countries' record in this respect is already substantial but should be further enhanced. The volume and forms of aid must be commensurate with the growing requirements of policy reform programmes and broader development efforts. The new DAC guiding principles for using aid to support improved development policies and programmes and strengthening aid co-ordination with developing countries are welcomed.

37. Commodity-dependent developing countries face difficult problems in view of the outlook for many commodities. An acceleration in world growth would improve the prospects for these countries. New efforts should be made to diversify their economies and to address the structural and development dimensions of commodity dependence. Action to remove measures distorting trade in commodities will make an important contribution to export prospects for commodity-dependent developing countries.

38. UNCTAD VII provides an opportunity to discuss with developing countries the major problems and policy issues in the global economy with a view to promoting common perceptions and effective policies for trade and development.



CONFIDENTIAL

13/5/87-

3d3

- 2 -

C/MIN(87)6(3rd Revision)  
Paragraphs 15 to 25

FACSIMILE TRANSMISSION

TO : MR S. PICKFORD  
HM TREASURY

LONDON  
FAX No: 270 5244

FROM : H. EVANS  
UK DELEGATION, OECD

DRAFT COMMUNIQUE

Trade Policies

15. International trade provides, through competition, the most powerful means of promoting economic efficiency and growth. Measures which impede or distort the functioning of international markets tend to impair structural adjustment, preserve outdated economic structures, damage consumer interests, weaken incentives for efficient investment and thus hinder economic growth. Therefore, it is of paramount importance to reverse recent trends towards restrictive trade measures, notably of a bilateral or a discriminatory nature, and to act with determination to strengthen and extend the open multilateral trading system. The OECD will intensify its monitoring of the various aspects of trade policies.\*

\* It is proposed that the following entry into the minutes be adopted:

"The Council invited the Trade Committee to consider urgently the issue of monitoring the various aspects of trade policies and to report to the Council in the Autumn."

2008R

CONFIDENTIAL



CONFIDENTIAL

- 3 -

C/MIN(87)6(3rd Revision)  
Paragraphs 15 to 25

16. The Uruguay Round presents a unique opportunity to create an improved framework for trade in the 1990s and beyond. It is essential to ensure that renewed signs of protectionism and conflict management on a bilateral basis should not be allowed to undermine confidence in the Punta del Este Declaration or in the negotiating process it has initiated. Ministers affirmed the determination of their countries to resist these trends and to work for rapid, sustained and substantive progress in the negotiations towards a balanced global result which would be of benefit to all, developed and developing countries alike. OECD countries will prove this determination by tabling in the coming months comprehensive proposals covering the various fields of the negotiations, by carrying out the standstill and rollback commitments they have entered into and by opposing domestic protectionist pressures. In keeping with the Punta del Este Declaration, Ministers reaffirmed that the conduct and the implementation of the outcome of the negotiations shall be treated as parts of a single undertaking. However, agreements reached at an early stage may be implemented on a provisional or a definitive basis by agreement prior to the formal conclusion of the negotiations. Early agreements shall be taken into account in assessing the overall balance of the negotiations.

17. Ministers noted the welcome progress on trade in services in the Organisation. This is of particular importance in the light of the inclusion of services in the Uruguay Round. Further related work will be needed to refine the concepts for liberalisation of trade in services as well as continuing efforts to strengthen the



CONFIDENTIAL

- 4 -

C/MIN(87)6(3rd Revision)  
Paragraphs 15 to 25

OECD Codes of Liberalisation of Invisible Operations and of Capital Movements. This will be pursued actively.

18. Ministers welcome the agreement recently reached by the Participants in the Arrangement on Guidelines for Officially Supported Export Credits in response to directives from the 1984 and 1985 meetings of the Council of the OECD at Ministerial level. The agreement will strengthen substantially the Arrangement and reduce the risk of trade and aid distortions. Ministers also welcomed the recent agreement on the related DAC guiding principles. These are a tangible sign of co-operation in a difficult period.

Agriculture

19. The joint report of the Trade and Agriculture Committees was approved. This important work clearly highlights the serious imbalances that prevail in the markets for the main agricultural products. Boosted by policies which have prevented an adequate transmission of market signals to farmers, supply substantially exceeds effective demand. The cost of agricultural policies is considerable, for government budgets, for consumers and for the economy as a whole. Moreover, excessive support policies entail an increasing distortion of competition on world markets; run counter to the principle of comparative advantage which is at the root of international trade; and severely damage the situation of many developing countries. This steady deterioration, compounded by technological change and other factors such as slow



CONFIDENTIAL

- 5 -

C/MIN(87)6(3rd Revision)  
Paragraphs 15 to 25

economic growth or wide exchange rate changes, creates serious difficulties in international trade, which risk going beyond the bounds of agricultural trade alone.

20. All countries bear some responsibilities in the present situation. The deterioration must be halted and reversed. Some countries, or groups of countries, have begun to work in this direction. But, given the scope of the problems and their urgency, a concerted reform of agricultural policies will be implemented in a balanced manner.

21. Reform will be based on the following principles:

a. The long-term objective is to allow market signals to influence by way of a progressive and concerted reduction of agricultural support, as well as by all other appropriate means, the orientation of agricultural production; this will bring about a better allocation of resources which will benefit consumers and the economy in general.

b. In pursuing the long-term objective of agricultural reform, consideration may be given to social and other concerns, such as food security, environment protection or overall employment, which are not purely economic. The progressive correction of policies to achieve the long-term objective will require time; it is all the more necessary that this correction be started without delay.



CONFIDENTIAL

- c. The most pressing need is to avoid further deterioration of present market imbalances. It is necessary:
  - on the demand side, to improve prospects as much as possible inside as well as outside the OECD area;
  - on the supply side, to implement measures which, by reducing guaranteed prices and other types of production incentives, by imposing quantitative production restrictions, or by other means, will prevent an increase in excess supply.
  
- d. When production restrictions are imposed or productive farming resources withdrawn by administrative decision, these steps should be taken in such a way as to minimise possible economic distortions and should be conceived and implemented in such a way as to permit better functioning of market mechanisms.
  
- e. Rather than being provided through price guarantees or other measures linked to production or to factors of production, farm income support should, as appropriate, be sought through direct income support. This approach would be particularly well suited to meeting the needs of, amongst others, low-income farmers, those in particularly disadvantaged regions, or those affected by structural adjustment in agriculture.



## CONFIDENTIAL

- 7 -

C/MIN(87)6(3rd Revision)  
Paragraphs 15 to 25

- f. The adjustment of the agricultural sector will be facilitated if it is supported by comprehensive policies for the development of various activities in rural areas. Farmers and their families will thus be helped to find supplementary or alternative income.
- g. In implementing the above principles Governments retain flexibility in the choice of the means necessary for the fulfilment of their commitments.

22. The Uruguay Round is of decisive importance. The Ministerial Declaration of Punta del Este and its objectives provide for the improvement of market access and the reduction of trade barriers in agriculture and will furnish a framework for most of the measures necessary to give effect to the principles for agricultural reform agreed upon by OECD Ministers, including a progressive reduction of assistance to and protection of agriculture on a multi-country and multi-commodity basis. As agreed in paragraph 16, the Uruguay Round negotiations will be vigorously pursued and comprehensive negotiating proposals tabled over the coming months, in this as in other fields. In the Uruguay Round appropriate account should be taken of actions made unilaterally.

23. In order to permit a de-escalation of present tensions and thereby enhance prospects for the earliest possible progress in the Uruguay Round as a whole, OECD governments will carry out expeditiously their standstill and rollback commitments and, more generally, refrain from actions which would worsen the negotiating



## CONFIDENTIAL

- 8 -

C/MIN(87)6(3rd Revision)  
Paragraphs 15 to 25

climate: they will, inter alia, avoid initiating actions which would result in stimulating production in surplus agricultural commodities and in isolating the domestic market further from international markets; additionally, they will act responsibly in disposing of surplus stocks and refrain from confrontational and destabilising trade practices.

24. Agricultural reform is not solely in the interests of Member countries. Developing countries which are agricultural exporters will benefit from a recovery on world markets. Developing countries which are importers of agricultural produce will be encouraged to base their economic development on more solid ground, by strengthening their own farm sector.

25. Agricultural reform poses vast and difficult problems for Member countries. Strengthened international co-operation is needed to overcome these problems. The OECD will continue to contribute to their solution by deepening further its work; by updating and improving the analytical tools it has begun to develop and which will prove particularly valuable in many respects; by monitoring the implementation of the various actions and principles listed above. The Secretary-General is asked to submit a progress report to the Council at Ministerial level in 1988.