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PART A

CHANCELLOR'S PAPERS ON
THE MEETING OF THE GROUP
OF SEVEN (G7) COUNTRIES,
19-21 JUNE 1988, TORONTO

88

Begin: 15/1/88

Ends: 6/6/88 (CONTINUED)

DD: 25 years

7/9/95

PO -CH /NL/0195

PART A

PART A



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PC
(23)

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

15 January 1988

I enclose a copy of a letter to the Prime Minister from Mr. Mulroney about the organisation of the Economic Summit in Toronto in June. I shall be grateful for any views which the Foreign Secretary may have about this before putting it to the Prime Minister. It would be helpful to have a reply by the latter part of next week.

I am also copying this letter to Alex Allan at the Treasury with a request for the Chancellor's views.

C. D. Powell

A. C. Galsworthy, Esq., CMG
Foreign and Commonwealth Office.

510
Canadian High Commission



Haut Commissariat du Canada

Macdonald House
1 Grosvenor Square
London W1X 0AB

January 13, 1988

Dear Prime Minister

I have the honour to send to you the attached letter from the Rt Hon Brian Mulroney, Prime Minister of Canada, seeking your comments on preparations for the Toronto Economic Summit in June this year.

Yours very truly

A handwritten signature in black ink, appearing to read 'R Roy McMurtry'.

R Roy McMurtry
High Commissioner

The Rt Hon Margaret Thatcher, MP
Prime Minister
10 Downing Street
LONDON SW1

SUBJECT cc MASTER
OPS

Canadian High Commission



Haut Commissariat du Canada

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T4A/88.....

Ottawa K1A 0A2

January 12, 1988

Dear Margaret

As our next Economic Summit meeting approaches, I have been devoting some thought as to how it might be organized to yield the most satisfactory substantive results possible while enhancing the value of discussions to us personally. In particular, I am anxious to foster as much informality in our exchanges as possible and to bring about, where feasible, spontaneous discussion. Our Personal Representatives discussed this issue at their meeting in British Columbia last November.

In considering programming options for the Toronto Summit, I would very much value your advice. It is clear that the dramatic economic developments since we last met would suggest more emphasis on economic discussions at Toronto than has been the case at some of our recent meetings. Accordingly, given the importance, complexity and sensitivity of many of the economic issues facing us, I believe that it would make sense to have plenary meetings where our Finance and Foreign Ministers might join with us in addressing important economic questions.

At the same time, I believe it desirable to provide more time for us to meet among ourselves, with separate Foreign and Finance Ministers meetings, to come to grips with the major Summit issues in an unstructured discussion with minimal formality. These meetings could take place either at the principal Summit or in seclusion elsewhere.

In light of these priorities, I am attaching a "suggested format" for the Summit. You will note a somewhat

...2

The Rt Hon Margaret Thatcher, MP
Prime Minister
10 Downing Street
LONDON SW1

earlier formal start than at recent Summits, a shorter official welcoming ceremony and a first session before dinner.

I would be most grateful for your views and advice on this format. Once I have received your comments, I will be in touch with you again to confirm the structure of the Summit thus enabling us to proceed with our planning.

I would like to take this opportunity to reiterate to you how very happy I am that the Summit will bring you to Canada this coming June. Meanwhile, Mila and I extend to you and Dennis our very best wishes for the New Year.

Yours sincerely

Original signed by
Brian Mulroney

SUGGESTED FORMAT

Sunday, June 19

Official welcoming ceremonies to end sufficiently early to permit separate "retreats" or private sessions in the afternoon for Leaders and Ministers in seclusion. These retreat sessions would allow Leaders and Ministers, in an unstructured fashion, to address among themselves the principal issues on the Summit agenda, to outline their priorities and set the tone for the subsequent sessions. Leaders and Ministers would dine separately, alone in the case of Leaders who would like to discuss political issues as we did last year in Venice.

Monday, June 20

A plenary meeting would be arranged on economic issues with brief discussion, if necessary, of the political texts which would be released as usual, prior to lunch. A further plenary meeting on economic issues would follow in the afternoon. Alternatively, retreat sessions could be scheduled for Leaders and Ministers. Dinners could be organized separately or together.

Tuesday, June 21

A plenary meeting would be arranged in the morning to discuss economic issues and to approve the draft communique. This session would be followed by a luncheon hosted by the Governor General prior to the reading of the communique that afternoon. Leaders could then depart Toronto by late afternoon if they so wished.

(Note: The departure from past practice would be an earlier start and the addition of a "retreat" on Sunday before dinner and/or on the afternoon of the first working day).

SUGGESTED FORMAT

Sunday, June 19

Late Morning/
Early Afternoon

Arrival Ceremony

Mid Afternoon

Separate Retreats or
Private Sessions

Evening

Separate Dinners

Monday, June 20

Morning

Plenary Meeting

Lunch

Plenary

Afternoon

Meetings Continue or
Retreat Sessions

Evening

Dinner (Separate or Together)

Tuesday, June 21

Morning

Plenary Meeting

Lunch

Lunch Hosted by the
Governor General

Afternoon

Reading of the Communique

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MDHIAN 4014

CONFIDENTIAL
FM OTTAWA
TO IMMEDIATE FCO
TELNO 038
OF 181620Z JANUARY 88
INFO PRIORITY TOKYO

OUR TELNO 32 TO FCO AND TELECON ROBERTS (DTI)/RYCROFT OF 18 JAN.

ECONOMIC SUMMIT: TRADE MINISTERS' MEETING

1. WE SPOKE TO MRS OSTRY, DEPUTY MINISTER/INTERNATIONAL TRADE AND CANADIAN SHERPA. TO ASK WHETHER THIS HAD COME UP DURING TAKESHITA'S VISIT TO CANADA LAST WEEK. MRS OSTRY SAID THAT TAMURA, JAPANESE MITI MINISTER, HAD TRIED TO CONVINCE TAKESHITA TO RAISE THE SUBJECT WITH MR MULRONEY. HE HAD, HOWEVER, FAILED. THE ISSUE WAS NOT, THEREFORE, A LIVE ONE FOR CANADIAN MINISTERS AT THE MOMENT. HOWEVER, MRS OSTRY SAID THAT TAMURA HAD SURPRISED HER AT THE EXTENT TO WHICH HE WAS PREPARED TO PUSH FOR A TRADE MINISTERS' MEETING. SHE HAD NOT DOUBT THAT HE WOULD GO ON DOING SO.

2. ALTHOUGH THE SUBJECT WAS NOT RAISED DURING ANY OF THE FORMAL SESSIONS IT APPEARS TO HAVE COME UP INFORMALLY DURING A FACTORY TOUR. THE CANADIANS WERE NOT ENCOURAGING.

3. MRS OSTRY TOLD US THAT IN HER BRIEFINGS WITH MR MULRONEY, HE HAD MADE CLEAR THAT HE WOULD NOT SUPPORT ANY MEETING OF TRADE MINISTERS ASSOCIATED WITH THE ECONOMIC SUMMIT.

PLEASE PASS ADVANCE COPY TO ROBERTS, OVERSEAS TRADE, DTI.

URWICK

YYYY

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ADDITIONAL 6

PS/NO 10
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PS/LORD YOUNG
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NNNN

PAGE 2
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MY TELNO 38

ECONOMIC SUMMIT: TRADE MINISTERS' MEETING

1. PARA 2 OF MY TUR. SHANNON, DEPUTY MINISTER/INTERNATIONAL TRADE, DEPARTMENT OF EXTERNAL AFFAIRS, CONFIRMED TO US THAT TAKESHITA HAD SAID INFORMALLY TO MULRONEY THAT HIS MITI MINISTER HAD TOLD HIM TO RAISE THE QUESTION OF THE INCLUSION OF TRADE MINISTERS AT, OR IN THE MARGINS OF, THE TORONTO SUMMIT. MULRONEY HAD REPLIED THAT HE WAS NOT IN FAVOUR. SUCH A MOVE WOULD LEAD TO FURTHER INSTITUTIONALISATION. HE HAD 18 OTHER MINISTERS WHO COULD PRESS FOR SIMILAR TREATMENT.

URWICK

YYYY

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MR COOKE DTI OT2

NNNN

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10 DOWNING STREET
LONDON SW1A 2AA

25/1

CH/EXCHEQUER	
REC.	25 JAN 1988
ACTION	SIR G. LITTLER
COPIES TO	PS/EST SIR P. MIDDLETON, SIR T. BURNS, MR LANKESTER, MR MOUNTFIELD, MR AJC EDWARDS, MR EVANS

From the Private Secretary

25 January, 1988.

mp

ECONOMIC SUMMIT IN TORONTO

I enclose the Prime Minister's reply to Mr. Mulroney's recent letter about the organisation of the Economic Summit. I should be grateful if it could be telegraphed to Ottawa for delivery today.

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

(C.D. Powell)

A.C. Galsworthy, Esq.,
Foreign and Commonwealth Office.

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10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

25 January 1988

CH/EXCHEQUER	
REC.	25 JAN 1988
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Dear Brian.

Thank you for your letter dated 12 January about the arrangements for the Economic Summit in Toronto. It was thoughtful of you to give me a chance to comment on them before you reach a firm view. I absolutely agree with you that we must give priority to economic issues.

I find it very useful and convivial to have the first meeting of Heads of Government as a dinner, which can go on quite late if needs be. In my experience, we always manage to get down to the issues very quickly. Moreover this has the advantage of leaving time on the first day for bilaterals, which are an essential part of our meeting. For the rest, I favour plenaries on the morning of the first day and at the final session, with separate meetings of Heads of Government, Foreign Ministers and Finance Ministers on the afternoon of the second day. I would be very much against trying to move this meeting to a separate venue which is what your suggestion of a retreat implies. It would simply use up valuable time.

In short my strong preference is to stick to the traditional format for these meetings. I would have

difficulty in particular with the idea of an earlier start.

I look forward very much to seeing you at the NATO Summit in March. Meanwhile Denis joins me in sending warm regards to you and your wife.

Yours ever

Raymond

The Right Honourable Brian Mulroney, M.P.

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✓ 19/2

CH/EXCHEQUER	
REC.	19 FEB 1988
ACTION	SIR G. LITTLER
COPIES TO	SIR P. MIDDLETON
	SIR T. BURNS
	MR H. P. EVANS

PRIME MINISTER

MEETING OF SHERPAS

*GMA Re US
election campaign,
the issue of protection
many important from
Mr W's
with*

*✓ Nor must we
infer no specific
questions of
agriculture, where
no Canadians
will be
can't
just be
with
w/ly
Expect our
supp.*

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

French and US Elections: the Summit will be sandwiched between the French elections in May and the US elections (Presidential and Congressional) in November. The French elections will have been completed, but France could still be in some political turmoil, especially if elections to the General Assembly have to follow the Presidential elections. So French tactics at the Summit, and in its preparation, will be more than usually difficult to predict. American eyes will be on the Conventions in July, but our present guess is that the shadow of the US election will tend to undermine their credibility in economic discussion, rather than lead them to promote specific proposals.

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

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

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

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

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

The perennial economic subjects will inevitably come up for discussion.

Macro economic issues: the analysis in your Guildhall speech (uncertainties stemming from the US Budget and trade deficits, Japan and Germany's trade surpluses, fears of protectionism and of returning inflation) and its prescriptions (sound money and low inflation, prudent finance, removing the obstacles to enterprise and the principle of free trade) still stand; and some progress has been made since the Autumn. The markets are more settled, though confidence remains vulnerable, especially to any bad US trade figures, or to any ill-judged reduction of interest rates. The US will need to do more on their budget deficit but the election is bound to be an impediment. Among surplus countries: the Japanese have moved a good deal, and effectively, although they have still a long way to go in opening their markets; the German economy is very sluggish, and they are likely to be strongly attacked by France and Italy (growing imbalance within Europe) as well as the US; South Korea and Taiwan must be a target - the scale of their supluses is now enormous.

Our Summit aim looks clear: maintaining pressure on the US, Japanese and Germans to take the action necessary to reduce their imbalances and seeking some way of getting at Taiwan and South Korea (on which more below).

Trade: beyond standard reiteration of our opposition to protectionism, what we say on trade will depend on progress in the GATT Round. An emerging aspect of the trade problem is the position of some Newly Industrialised Countries (principally South Korea, Taiwan and Singapore: Hong Kong remains a special case). They need to reduce their growing trading surpluses especially with the US (e.g. by opening their markets and letting their currencies rise against the dollar). They also need to be persuaded to graduate out of their preferential trading status as developing countries. Recent US action to remove their GSP is a measure of US concern and an example of their enforced integration into the developed world's trading arrangements. Our Summit aim will be to find the right mix of carrot and stick to persuade these NICs to adjust in their own interest; Hong Kong's special position will need protection. There may be trouble next weekend between the Americans and the French over the Ministerial "Mid-Term Review" of the GATT Round next December (despite the attempt of the European Commission to outflank the French in Brussels). These disputes about dates have occurred before previous Summits. They are particularly futile and I shall seek to defuse this one if it occurs.

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

Debt: two of the three biggest debtors, Argentina and Brazil, are still in deep trouble. Mexico is doggedly plodding forward (just about) and their new bond deal, involving retirement of some debt, offers them some hope. Our aim here is to avoid the Canadians putting undue emphasis on the middle income countries at the expense of the poorest debtor

countries. Governments have less locus in Latin American debt and we want to emphasise the good story we have to tell for Sub-Saharan Africa, including giving the Chancellor's initiative a further push.

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

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

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

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

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- 5 -

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

N.L.W.

N.L. Wicks

19 February 1988

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Presented to
2/22
(+NLW)
pup

Ch. Anything to add to your
ms. comments, behind?

From: Sir G. Littler
Date: 22 February 1988

CHANCELLOR

SUMMIT PREPARATION

no; but
New
implications
X

22/2

You have just been sent a copy of a note to the Prime Minister by Nigel Wicks about the preparatory meeting he and I are attending this coming weekend in Canada. The note was written after a discussion we had last week.

2. Although this is absurdly early to begin preparing in any detail for discussion at the Summit in June, it is an opportunity either to register any particular UK interests, or to detect any likely initiatives by others. There will be two further meetings, in May and early June, for preparations before the Summit itself.

3. Pursuing your African debt initiative is the only specific UK point we have identified so far. I would recommend against inventing anything else for this meeting: we should instead take stock with the Summit in mind as we go through the agendas of the April meetings in Washington and the May OECD meeting.

4. That said, does anything occur to you which you would like me to bear in mind this weekend.

(Geoffrey Littler)



Handwritten initials or signature in the top right corner.

CH/EX	EQUER
REC.	23 FEB 1988
ACTION	SIR G. LITTLER
COPIES TO	SIR P. MIDDLETON
	SIR T. BURNS
From the Principal Private Secretary	
Mr H.P. EVANS	

Handwritten mark: 23/2

10 DOWNING STREET
LONDON SW1A 2AA

23 February 1988

Dear Tony,

MEETING OF SUMMIT SHERPAS IN QUEBEC - 28/29 FEBRUARY

The Foreign Secretary and the Chancellor of the Exchequer will wish to know the Prime Minister's comments on my minute of 19 February about the meeting next weekend in Quebec to discuss the preparations for the Economic Summit in June.

The Prime Minister has generally endorsed the approach set out in my minute. She believes that the most important single task for the Summit is to secure further progress in the reduction of trade imbalances; she believes that reductions have been minimal so far. The position of Germany is key here. The continued fight against protectionism and agricultural subsidies and support for the GATT should, in the Prime Minister's view, be the second major item for the Summit's agenda. The Prime Minister has endorsed in particular the suggested Summit aim on macro-economic issues (summarised at the top of page 3 of my minute) that we should maintain pressure on the US and that the Japanese and Germans should take the action necessary to reduce their imbalances. On agriculture, she agrees with the suggested Summit aim (in the penultimate paragraph on page 3) that there should be no backsliding from the principles for reform agreed at last year's OECD. The Prime Minister accepts that none of this will be easy against the background of uncertain stock markets throughout the world.

On more particular points:-

- the Prime Minister is not convinced that trade imbalances are being corrected. Japan and Germany continue to be in heavy trade surpluses and it is countries like the UK who are absorbing the reduction in the US deficit. She therefore endorses the sentiment that the Japanese still have a long way to go in opening up their markets;
- she has endorsed too the suggestion that we should seek some way in persuading South Korea and Taiwan to reduce their growing trade surpluses. She accepts that Hong Kong remains a special case and that their position will need protection.

I am sending a copy of this letter to Alex Allan
(H. M. Treasury) and Trevor Woolley (Cabinet Office).

Handwritten signature

Nigel Wicks.

N. L. WICKS

A. C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office

PPS Jutta Jonathan

CONFIDENTIAL

ppp

From: Sir G.Littler
Date: 24 February 1988

MR ALEX ALLAN

c.c. Sir P.Middleton
Sir T.Burns
Mr Huw Evans

SUMMIT SHERPAS MEETING

The letter of 23 February from Nigel Wicks giving the reactions of the Prime Minister to his minute of 19 February is fine as far as briefing for our forthcoming meeting of sherpas is concerned.

2. I do think, however, that the Prime Minister's comments underestimate the correction which is taking place in the major imbalances - not enough, or not fast enough, perhaps, but there undoubtedly is some correction which is becoming more visible.

3. I have asked Huw Evans to look into this further - he will shortly have available the latest OECD and IMF figures. We may want to take an opportunity later to let No 10 have a note about the extent of progress and the prospects as we see them - which in any case will be needed for the Summit meeting itself.

[Note. Comments all passed on to 266 + Mr Wicks on 4/2/88]

Check
Altho' again -
Comments (19/2) have
still not been returned
6m - Wicks; despite
@X - I agree v. much with XX.
2. There is a good deal of
para 2: central to the
is urgent work done
to ensure high-quality
ref. to ...

(Geoffrey Littler)

CONFIDENTIALPRIME MINISTERMEETING OF SHERPAS

CH/EXCHEQUER	
REC.	01 MAR 1988
ACTION	SIR G. LITTLE
COPIES TO	SIR P. MIDDLETON
	SIR T. BURNS
	MR H.P. EVANS

The Sherpas' discussion over the weekend confirmed that the Summit is likely to cover the ground described in my note of 19 February. I have minuted separately on the Summit format. The paragraphs below summarise the main points of the discussion on substance.

World Economy

The general view was that while there was no room for complacency on world economic prospects, progress was being made in bringing a better balance into the world economy. There needed to be a clear message from the Summit to give the markets confidence that international co-operation was working. That message might be:

The world economy was moving in the right direction; the task now was to continue and intensify the process of adjustment - to reduce current account imbalances while keeping growth up and inflation down.

Financing the US current account in this transitional period was a vital issue. Predictably, no country accepted that they needed to take further action to reduce imbalances.

Predictably too, the US, Germans and Japan said that focus of discussion should extend to other economies besides their own, notably the Newly Industrialised Countries (NICs).

The French drew attention to their Finance Minister's paper on international monetary reform just published in the Wall Street Journal and suggested that there should be some discussion at the Summit of international monetary reform. They also asked the Summit to consider what they regarded as a world wide inadequate level of savings. Others felt that the real issue on savings was their mal-distribution (US low

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saver/Japan high saver) and the lack of investment in productive projects.

Because there was so little freedom of manoeuvre on macro-economic policies, it was felt that micro-economic policies - a shorthand for policies to improve the functioning of markets - took on a special importance. But there did not much seem that the Summit could do, outside the trade and agriculture fields, to speed up this process - political skill and political will were the important ingredients here.

Securities Market Matters

There was agreement that there needed to be more co-operation on security market matters. But this was not thought to be a Summit topic, though there might be a reference in the Communiqué.

NICs

There was general agreement that the Summit should send a signal to those NICs who were not assuming their responsibilities in the world economy ie Taiwan, Korea, and to a lesser extent, Singapore and Hong Kong (which we said was a special case). Further work needed to be done to define the content of the signal and to decide how a dialogue with the NICs should be opened up.

Trade

The discussion on trade produced the most lively division of views. The Americans suggested a detailed mandate for the Summit to agree for the GATT Mid Term Review (MTR) in December. The Commission said that there was no agreed consensus on the areas specified by the US. Others suggested that it would be counter-productive for the Summit to try to establish an ambitious mandate for the MTR, and then to fail in an undignified squabble. Clearly the Summit will have to say something on trade in order to give a political impetus to

the GATT process: what is most unclear. All agreed that the worst preparation for the Summit would be for a country - everyone had the US in mind - to breach the principle of standstill in the months before the Summit.

Agriculture

The Commission dealt firmly with some disparaging remarks from the US about the value of the European Council's agreement on agriculture - that the agreement dealt largely with intra EC (budgetary) problems, and did little to help solve world agricultural problems. We will no doubt hear more of this at the Summit.

Debt of the Middle Income Countries

Several countries had noted a growing impatience among both debtor nations and creditor banks. All agreed that this impatience had to be resisted; in fact the situation was better than was commonly perceived. The Summit should project the positive message that: we should persist with the case by case approach which had produced significant progress; the most pressing need now was for debtor countries to speed up the process of economic reform in their own countries; and the creditor countries had devoted substantial resources (ODA, export credit rescheduling in the Paris Club and more money for the international financial institutions). There were suggestions that the Summit should encourage banks to develop "imaginative" solutions, like the recent Mexican deal, which help reduce the stock of outstanding debt, provided this stopped well short of involving Summit Government's (and above all tax payers' money) in the negotiations between banks and the debtor countries. The outcome of the current discussions with the Brazilians, which looked to be coming to a satisfactory conclusion, and with the Argentinians, which are a very long way from a conclusion, would be important elements in the run up to the Summit.

Debt of the Poorest Countries

France, Canada and Italy appeared ready to back the UK's scheme for concessional interest rates for export credit for the poorest countries, provided they could be assured that the scheme was clearly ring fenced to the poorest countries. The US were firmly opposed for legal, political and budgetary reasons; the Germans and Japanese registered somewhat lesser opposition. The Canadians, rather plaintively, hoped that this would not become a divisive issue at the Summit.

Political Issues

The Sherpas' thought that Heads would want to discuss East/West, and particularly the outcome of President Reagan's visit to Moscow, and the Middle East. Events might push other subjects onto the agenda. There was a general wish, pushed by my German colleague, that there should be only one political declaration, and not several as in some previous years.

Initiatives

The Canadians may possibly have an initiative on the environment, (but not on acid rain). Others did not seem to have anything in mind at this stage.

Next Summit

Since Toronto completes the second round of Summits, there was some discussion about whether there should be a third round: eg annual summits, biennial summits or summits called when participants believed were necessary. Whatever the merits of these timings the general view was that Heads would want a Summit in 1989 (in France) if only to obtain the new American President's endorsement of the approach to international economic problems.

There will be another Sherpas' meeting in Paris in May after the OECD Ministerial.

I am sending a copy of this minute to the Private Secretary of the Foreign and Commonwealth Secretary and to the Chancellor of the Exchequer. A copy also goes to Sir Robin Butler.

N. L. W.

(N.L. WICKS)

1 March 1988

CONFIDENTIAL

From: Sir G.Littler
Date: 2 March 1988

MR ALEX ALLAN

c.c. Sir P.Middleton
Sir T.Burns
Mr Lankester
Mr Huw Evans
Mr Mountfield

SUMMIT PREPARATION

I attach a copy of a minute from Nigel Wicks to the Prime Minister reporting on the preparation meeting we attended in Canada over the weekend. I also attach (Lankester, Evans, Mountfield only) more detailed notes by Braithwaite (FCO) and myself on different parts of the discussions.

2. No need to spend time on this at present. There were no surprises, and the general direction of the conclusions suits us.

I pick out just two or three points:

- Chancellor's African Initiative: I think we may have achieved a useful impetus, with a bit of pre-arranged help from Trichet. After I had made it clear that the UK would continue the campaign, Trichet said it would be best to avoid a dispute at the Summit itself and so we should try to resolve it in advance. The Canadian Chairman then became very worried at the prospect of a Summit row on a subject the Canadian press would love: she foresaw parallel pictures of starving Ethiopians and overfed Summiteers! As a result some useful pressure and an invitation to me to put a paper to colleagues quickly and to Trichet to reopen Paris Club discussion quickly (both now in hand).

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- Hong Kong: In discussion of NICs attention focussed on Taiwan and Korea and opening of their markets; the fact that Hong Kong is a special case was recognised and seemed to be accepted (Allen Wallis could be a good ally on this).
- Balladur: In the margins even more than in the plenary discussions I found the US as well as all others except the French taking the view that an early study of the kind Balladur has proposed would be premature, and that the idea of appointing 'independent experts' was not very attractive - I encouraged both thoughts.

3. Perhaps I could also pick up here a diary point for the Summit itself. You will have noticed from Wicks' earlier minute about "Format of the Summit" that an earlier start is possible. I understand that in any case the Prime Minister has been thinking of flying out very early Sunday 19 June or even late Saturday, and immediately after an engagement in Llandudno (so we may all have to travel to an unusual take-off point!). Also the Prime Minister may stay on after the Summit for a speech (so we may need a separate commercial flight back). But her plans are not yet settled.

Call pursue with No 10.



(Geoffrey Littler)



10 DOWNING STREET

From the Principal Private Secretary

2 March 1988

CH/EXCHEQUER	
REC.	02 MAR 1988
ACTION	SIR G. LITTLER,
COPIES TO	Sir P. MIDDLETON
	Sir T. BURNS
	Mr H. P. EVANS

FORMAT OF THE TORONTO SUMMIT

The Prime Minister has seen my minute of 1 March about the discussion at last weekend's meeting of Sherpas concerning the format of the Toronto Summit. The Prime Minister thinks that the Sherpas reached a reasonable compromise and is content with the format suggested.

I have sent you a draft telegram for Mrs. Ostry informing her that we are now content.

I am sending a copy of this letter to Alex Allan (HM Treasury) and Sir Robin Butler.

(N. L. WICKS)

A. C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office.

RESTRICTED



FROM: J M G TAYLOR

DATE: 7 March 1988

PHP

SIR G LITTLER

cc Sir P Middleton
Sir T Burns
Mr Lankester
Mr H Evans
Mr Mountfield**SUMMIT PREPARATION**

The Chancellor was most grateful for your minute of 2 March.

JMGT

J M G TAYLOR

EXCHEQUER

29 APR 1988

29/4



Sir G. LITTLER

COPIES TO

Sir P. MIDDLETON
Sir T. BURNS, Mr
Mr H. P. EVANS

10 DOWNING STREET

LONDON

From the Principal Private Secretary

28 April 1988

Mr Mountfield

TORONTO ECONOMIC SUMMIT

You will wish to see the letter attached from my Canadian Sherpa colleague about the programme for the Toronto Economic Summit.

I am sending a copy of this letter to Alex Allan (HM Treasury).

N. L. WICKS

A. C. Galsworthy, Esq., C.M.G.
Foreign and Commonwealth Office

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THE TORONTO ECONOMIC SUMMIT

JUNE 19, 20, 21, 1988

OFFICIAL PROGRAMME

SUNDAY, JUNE 19, 1988

0930 -
1300 hours

Official Welcomes
Nathan Phillips Square,
Toronto City Hall

1500 -
1700 hours

Separate Sessions
Main meeting room of the
Toronto Convention Centre (MTCC)

1900 -
2100 hours

Separate dinners:

Dinner hosted by the Prime Minister of Canada
for Heads of Delegation
The Toronto Hunt

Dinner hosted by the Secretary of State for
External Affairs for Foreign Ministers
The Faculty Club
University of Toronto

Dinner hosted by the Minister of Finance for
Finance Ministers
The Old Mill

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THE TORONTO ECONOMIC SUMMIT

JUNE 19, 20, 21, 1988

OFFICIAL PROGRAMME

MONDAY, JUNE 20, 1988

0930 -
1200 hours

Plenary Session
Main Meeting Room, MTCC

1230 -
1430 hours

Separate Luncheons:

Luncheon hosted by the Prime Minister of
Canada for Heads of Delegation and
Foreign Ministers
L'Hotel

Luncheon hosted by the Minister of
Finance for Finance Ministers
L'Hotel

1500 -
1700 hours

Plenary Session
Main Meeting Room, MTCC

1830 -
2000 hours

Informal Session for Heads of Delegation
Hart House, University of Toronto

2000 -
2130 hours

Separate dinners:

Dinner hosted by the Prime Minister of
Canada for Heads of Delegation
Hart House, University of Toronto

Dinner hosted by the Secretary of State
for External Affairs for Foreign Ministers
Hart House, University of Toronto

Dinner hosted by the Minister of Finance
for Finance Ministers
Hart House, University of Toronto

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THE TORONTO ECONOMIC SUMMIT

JUNE 19, 20, 21, 1988

OFFICIAL PROGRAMME

TUESDAY, JUNE 21, 1988

0930 -
1130 hours

Plenary Session
Main Meeting Room, MTCC

1230 -
1430 hours

Luncheon hosted by Her Excellency the Governor
General of Canada for Heads of Delegation,
Foreign Ministers, Finance Ministers and
Spouses
Art Gallery of Ontario

1530 -
1600 hours

Presentation of the Communiqué
Roy Thomson Hall

*I disagree with X as I suspect that the
 Mr. of Agree. It is not at all clear that agree
 is not sufficient progress in the GATT talks,
 or in particular it is not @ all clear that there
 will be sufficient concrete progress by the time of
 this year) to prevent things from being quite
 hairy (with us to the fore). A strong lead, perhaps a concrete proposal,
 before the next meeting of the Sherpas in Paris on 19-21 May, from us
 we need to consider whether we should table: *Summit must be
 called for. It will be discussed this @ the meeting
 with Sir Cliff et al.**

CH/EXCHEQUER	
REC.	29 APR 1988
TO	SIR G LITLER
	SIR P MIDDLETON
	SIR T BURNS
	MR LAWKESTER
	MR HPEVANS
	MR MOUNTFIELD

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PRIME MINISTER

TORONTO ECONOMIC SUMMIT: POSSIBLE INITIATIVES

Before the next meeting of the Sherpas in Paris on 19-21 May, from us we need to consider whether we should table:

- (i) a 'UK initiative' for the Summit;
- (ii) subjects for the informal discussion of 'longer term economic issues'.

A UK Initiative

Traditionally, a good initiative has been one in which the Summit pushes forward or re-directs work bogged down in other international fora. The initiative should not lead to more international bureaucracy or to elaboration of the Summit machinery; and obviously a UK initiative must be of clear value in forwarding our national interest, and not just a presentational gimmick.

The Treasury and the FCO are considering what needs to be done before the Summit to prepare the ground for pushing forward the Chancellor's Sub-Saharan debt initiative; and separate advice will be submitted, as necessary. No doubt the Summit leaders will comment on major developments in East/West relations, the Middle East and Afghanistan and some other foreign policy topics in the political communique. But at the moment there does not seem to be scope for a self-standing

X | UK initiative in these areas. Trade and agriculture are already well in hand in the GATT negotiations. Drugs and terrorism hardly merit separate initiatives for the present (though the Summit may be useful in forwarding work following the Kuwaiti hijacking.) Energy is quiet. Nor would we suggest taking the lead on international monetary reform, or debt (apart from the Chancellor's Sub-Saharan initiative) and our approach is cautious towards international environmental issues.

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- 2 -

One possibility might be an initiative to further international co-operation on crime prevention/detection. Machinery is already in existence and, when successful, can have spectacular results. But Sir Clive Whitmore tells me that co-operation in the various international organisations is proceeding satisfactorily, and the Home Office do not feel that a push from the Summit is necessary. There might be difficulty in giving such an initiative real substance.

Another possibility is an initiative to encourage Summit countries to share the costs of large scientific ventures. But it is unclear that it is right for the United Kingdom to be to the fore in pressing this forward at the present time.

So we would not recommend any of these topics. It would be helpful to know whether you agree that at least for the moment we should not plan to present an initiative.

Pre-dinner informal discussion

This informal discussion "of longer-term economic issues" results from President Reagan's wish for an opportunity for relaxed, informal, discussion between Summit Leaders. It is timed for late afternoon, before dinner on the second day of the Summit. The plan is, I think, for the discussion to be completely informal with no reference to it in the communique, though that is obviously not ruled out. The United States Sherpa mentioned at our last meeting, as his first thoughts on possible topics: the effect of changing demography on economies, integrating the USSR into the world economy, and the growing inter-dependence of world markets. I do not think that we need to object to any of these topics if they receive strong endorsement from a majority of my fellow Sherpas.

Possible topics that we might consider for this informal discussion are:

Urban renewal in the 90s: many Summit countries face problems of renewing the old cities. Such a discussion might provide an interesting exchange of views on topics

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- 3 -

such as financing renewal schemes, stimulating small business, urban design, inner city crime, etc. President Reagan has taken a personal interest in this subject, particularly in promoting public/private sector partnership. The discussion might provide a useful opportunity to put a little pressure on the Japanese over land reform (e.g. to release agricultural plots in Tokyo for building). Obviously, there are risks for us in raising this subject in that the range and seriousness of inner city problems in France, Germany and Italy are perhaps less than those in the UK. To that extent a discussion might highlight, undesirably, our problems. But I think that risk can be contained.

Health care in the 90s: the provision, cost, financing, etc., of health care are lively issues in many countries. We are in the middle of our health review. So a discussion - by way of an exchange of views - could be interesting. But it would be difficult to crystalise such a discussion into a common way forward, beyond mere platitudes; and unsympathetic treatment of such a discussion by the media could complicate, rather than help, the presentation of the outcome of the NHS review.

Crime control and law and order: each country's policing, judicial and penal arrangements vary. But all suffer problems of rising crime rates, increasing public concern and political imperatives to try to do better. Discussion could focus on community responsibility (and the role of the citizen) in relation to crime prevention, with international co-operation (highly relevant and already on some Summit agendas, e.g. drugs) in relation to both prevention and detection. Such a topic might offer scope for useful public presentation afterwards if it was felt that something had to be said in the communique. (This topic might be ruled out of order since it may not be sufficiently "economic".)

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- 4 -

The Economic Condition of the Eastern European countries: the consequences, political and otherwise, of the Eastern European countries' economic difficulties could provide an interesting discussion. Together with Eastern Europe's attempts to emulate Soviet economic reform, the difficulties could lead to major political instability in one or more Eastern European countries. That would provide the Russians, and the West, with some difficult policy dilemmas. At the limit, renewed Soviet interference in Eastern Europe would seriously damage the present climate of East/West relations. Short of that, we could find the Germans in particular pressing us to help the Eastern Europeans politically by making concessions to them over debt and other matters.

So discussion of Eastern European economies could be controversial with awkward diplomatic consequences if reports leaked out, as they likely would. This may not therefore be a subject for which we should ourselves press to be discussed at the informal discussion, though it may arise naturally at one of the dinners as part of the discussion on East/West relations and the prospects for Gorbachev.

You may not wish to suggest a topic for the Leaders' informal discussion. But if you wished to propose a topic, my recommendation would be for either urban renewal or crime control and law and order. I should be grateful for views.

I am sending a copy of this minute to the Private Secretaries to the Secretary of State for Foreign and Commonwealth Affairs ^{and} the Chancellor of the Exchequer, since their Ministers may wish to comment. A copy also goes to Sir Robin Butler.

N.L.W.

N. L. WICKS
29 April 1988

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TO PRIORITY FCO

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OF 011450Z MAY 88

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MY TELNO 518 (NOT TO ALL) : TORONTO SUMMIT

SUMMARY

1. GERMANS DO NOT EXPECT IMPORTANT STEPS FORWARD ON POLITICAL MATTERS AT TORONTO. FEDERAL CHANCELLOR WANTS TO PLAY SOUTH AFRICA DOWN.

DETAIL

2. VON RICHTHOFEN, POLITICAL DIRECTOR AT THE AUSWAERTIGES AMT, TOLD ME TODAY THAT THE GERMANS THOUGHT THAT THE DISCUSSION OF POLITICAL MATTERS AT THE TORONTO SUMMIT WOULD INVOLVE NO IMPORTANT NOVELTIES. HIS MAIN CONCERN WAS THAT A CANADIAN IDEA THAT THE HEADS OF GOVERNMENT THEMSELVES SHOULD PREPARE A DRAFT POLITICAL DECLARATION SHOULD NOT PREVAIL, AND THAT OFFICIALS SHOULD PREPARE ANY DRAFT. THE MAIN SUBJECTS FOR DISCUSSION WOULD BE EAST-WEST RELATIONS FOLLOWING THE MOSCOW SUMMIT, TERRORISM AND TROUBLE SPOTS IN THE THIRD WORLD. THE CANADIANS WANTED SOUTH AFRICA TO BE DISCUSSED. BUT THERE WERE DIFFERENCES ON THIS BETWEEN THE FEDERAL CHANCELLOR AND GENSCHER, AND KOHL WOULD WANT SOUTH AFRICA TO RECEIVE LITTLE ATTENTION, IF ANY, AT TORONTO.

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SIR D MIERS

ADDITIONAL 37

ECONOMIC SUMMIT

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PAGE 2
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10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

fmp

CH/EXCHEQUER	
REC.	03 MAY 1988 ✓ 3/5
ACTION	Sr G Little
COPIES TO	Sr P M. Addeley
	Sr T Burns
	MR H P Evans
	Mr Mountfield

3 May 1988

(Seen by Mr)

TORONTO ECONOMIC SUMMIT: POSSIBLE INITIATIVES

The Foreign Secretary and the Chancellor of the Exchequer will wish to know the Prime Minister's reaction to my minute of 29 April about possible UK initiatives and subjects for informal discussion of "longer term economic issues" at the Toronto Economic Summit.

Possible UK initiatives

The Prime Minister believes that we should use the Summit to press for the improvement in the effectiveness of GATT. She regards GATT's reaction to unfair trading practices as being much too slow, and their treatment of Japanese discrimination against whisky is one small demonstration of that. The Prime Minister recognises, of course, that all this is central to the current discussions in Geneva. But she believes that we should nevertheless use the Summit to give our interests in reforming the GATT a vigorous push in the right direction. She wonders whether this could be done by tabling an initiative for the Summit. I should welcome your advice on possibilities here.

Pre-dinner informal discussions

Of the four topics for possible informal discussion, the Prime Minister's preference is for a discussion on "Health Care in the 90's". Such a discussion might cover issues such as the cost of financing health care and form part of the wider discussion, likely to be sought by the US, on the effects of changing demography on welfare policies and on economies generally. Such a discussion could touch on the costs of social security and the economic effects of the age of retirement. The Prime Minister recalls that she tried to secure such a discussion at the London Summit, but the other participants would not consider it.

The Prime Minister suggests as an alternative subject for discussion the arrangements for securing greater co-operation on terrorism and hijacks.

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I should be grateful to have your advice and that of the Treasury on how best to develop these possibilities.

I recognise that the possible initiative on GATT concerns the Department of Trade and Industry and that the possible discussions of health care etc and terrorism etc concern the Department of Health and Social Security and the Home Office. But I am not at this stage copying this letter to them since they will not have seen my minute of 29 April. However, I should be grateful if your people, in consultation with the Department of Health and Social Security and the Home Office as necessary, would prepare some briefing notes for these topics for the third meeting of Sherpas on 19-21 May.

I am copying this letter to Alex Allan (H.M. Treasury) and to Sir Robin Butler.

N. L. WICKS

A. C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office.



FROM: A C S ALLAN

DATE: 3 May 1988

SIR G LITTLER

cc Sir P Middleton
Sir T Burns
Mr Lankester
Mr H P Evans
Mr Mountfield**TORONTO ECONOMIC SUMMIT: POSSIBLE INITIATIVES**

The Chancellor has seen Mr Wicks' minute of 29 April to the Prime Minister.

2. He did not agree with the comment that "trade and agriculture are already well in hand in the GATT negotiations"; nor he suspects does the Minister of Agriculture. It is not at all clear that agriculture is making sufficient progress in the GATT talks, and in particular it is not at all clear that there will be sufficient Community progress by the time of the mid-term review (towards the end of this year) to prevent things from turning quite nasty (with the US to the fore). A strong lead, preferably a Community proposal, from the Summit might well be called for. He will be discussing this at the meeting this afternoon with the Foreign Secretary and others.

3. I passed this message onto Mr Wicks, who commented that he had not meant to imply that discussions on agriculture were going well, merely that they were been considered separately.

A handwritten signature in dark ink, appearing to read 'ACSA' with a flourish underneath.

A C S ALLAN

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10 DOWNING STREET
LONDON SW1A 2AA

EXCHEQUER	
REC.	05 MAY 1988
ACTION	SIR G. LITTLER
COPIES TO	SIR P. MIDDLETON
	SIR T. BURNS
	MR H.P. EVANS
	MR MOUNTFIELD

5/5

From the Private Secretary

4 May 1988

prop

[Handwritten signature]

Dear Tony,

ECONOMIC SUMMIT

The Prime Minister and the Foreign Secretary had a brief word this evening about subjects for informal discussion at the Economic Summit. This confirmed the Prime Minister's views as set out in Nigel Wicks' letter of 3 May, and as amplified by Paul Gray's letter of 4 May. The Foreign Secretary stressed the importance of carrying forward work on terrorism and hijacking. It was clear that the Bonn Declaration was not working. The Prime Minister added that Heads of Government should also discuss the situation in Eastern Europe which could develop in perilous ways.

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

*your sincerely,
Charles Powell*

Charles Powell

A. C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office.

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10 DOWNING STREET
LONDON SW1A 2AA

✓ 4/5 CH/EXCHEQUER	
REC.	04 MAY 1988
ACTING	SIR G. LITTLE
COPIES TO	SIR P. MIDDLETON, SIR T. BURNS, MR H.P. EVANS, MR MOUNTFIELD
4 May 1988	

From the Private Secretary

Dear Tony,

TORONTO ECONOMIC SUMMIT: POSSIBLE INITIATIVES

Further to Nigel Wicks' letter of yesterday's date, it may be helpful if I record a brief discussion the Prime Minister had with the Chancellor earlier this morning.

The Prime Minister said that one of her concerns about the present operation of the GATT was that compensation payments for those who broke the rules were not penal. She wonders whether an initiative for the Summit could take the form of pressing for the introduction of genuine penalties under the GATT rules.

In further discussion the Chancellor mentioned his concern that further progress should be made in the current GATT round on agriculture. He thought that agriculture was an important dimension for discussion on trade matters at the Summit.

I am copying this letter to Alex Allan (HM Treasury) and Trevor Woolley (Cabinet Office).

*Yours sincerely,
Paul Gray*

PAUL GRAY

A. C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office

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TO IMMEDIATE FCO

TELNO 345

OF 172125Z MAY 88

INFO PRIORITY TOKYO, WASHINGTON, UKREP BRUSSELS, PARIS, BONN, ROME

TORONTO ECONOMIC SUMMIT: CANADIAN VIEWS ON THE PROSPERITY

SUMMARY

1. THE TOP PRIORITY FOR THE CANADIANS FOR THE SUMMIT WILL BE TO KEEP UP SOME MOMENTUM FOR AGRICULTURAL REFORM AND TO AVOID A US/EC STANDOFF. THEY WOULD LIKE AN AGREEMENT ON AID FOR THE POOREST AFRICAN COUNTRIES. THERE IS LITTLE EXPECTATION OF ANYTHING NEW TO EMERGE FROM DISCUSSIONS ON THE WORLD ECONOMY. IF THERE IS AGREEMENT ON THE INCLUSION OF REGIONAL ISSUES OTHER THAN EAST/WEST, THE CANADIANS ARE LIKELY TO INSIST ON SOUTH AFRICA. A GENERAL DISCUSSION ON ENVIRONMENTAL PROBLEMS, BUT WITHOUT FOCUSING ON SPECIFIC ISSUES, IS LIKELY TO BE PROPOSED FOR THE MEETING OF LEADERS WITH ONE ADVISER.

DETAIL

2. YOU MAY FIND IT HELPFUL TO HAVE AN ASSESSMENT OF CANADIAN THINKING ON THE SUMMIT AHEAD OF MR MULRONEY'S VISIT TO LONDON AND OTHER EUROPEAN CAPITALS. WE HAVE SPOKEN TO OFFICIALS IN EXTERNAL AFFAIRS, THE TRADE NEGOTIATIONS OFFICE AND FINANCE CANADA WHO ARE INVOLVED IN PREPARATIONS FOR SUBSTANCE OF THE OECD MINISTERIAL AND THE TORONTO SUMMIT. THE FOLLOWING IS OUR ASSESSMENT OF THE WAY IN WHICH THE CANADIANS WILL TREAT THE ISSUES INVOLVED.

3. PUBLICLY AND PRIVATELY MR MULRONEY HAS MADE IT CLEAR THAT AGRICULTURAL REFORM IS TOP OF HIS AGENDA. THE CANADIANS ARE KEENLY AWARE THAT ON THE ONE HAND THE CURRENT US LINE, SHOWING LITTLE PREDISPOSITION TO MOVE FROM THE FUNDAMENTAL ZERO/2000 OPTION, IS EXCESSIVELY HARD SEMI-COLON AND THAT ON THE OTHER THE COMMUNITY POSITION, OR AT LEAST THAT OF SOME MEMBER STATES, WHO SEEM TO BE PULLING BACK FROM MAKING ANY FURTHER REFORMS, IS UNREALISTIC. THEY BELIEVE THAT THE ONLY WAY FORWARD FOR THE MTM IS TO HAVE A COMPROMISE LINE, INCLUDING SHORT AND LONG TERM MEASURES, ALONG THE FORMULA THEY HAVE PUT FORWARD IN THE OECD (UKDEL OECD TELNO 17). ALTHOUGH THE CANADIANS RECOGNISE THAT THE FEBRUARY EUROPEAN COUNCIL SHOWED CONSIDERABLE COURAGE IN ADOPTING THE AGREED AGRICULTURAL MEASURES, THEY REMAIN SCEPTICAL ABOUT REAL IMPACT OF THESE ON PRODUCTION AND THEY DO NOT THINK THAT THE EC CAN EXPECT OTHER

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COUNTRIES TO TAKE MEASURES AS A QUID PRO QUO. THE EC WILL IN THEIR VIEW HAVE TO EXPRESS READINESS TO CONSIDER FURTHER MOVES. AS FOR THE US, THE CANADIANS FEAR THAT, UNLESS SOME AGREEMENT ON A COMPROMISE FORMULA CAN BE FOUND FOR TORONTO, THEY WILL INCREASE THEIR AGRICULTURAL SUBSIDIES CAUSING ENORMOUS DAMAGE TO INTER ALIA CANADIAN AGRICULTURE.

4. THE CANADIANS SEEM TO HAVE TAKEN ON BOARD THAT THERE WILL HAVE TO BE MORE THAN AGRICULTURE ON THE TRADE SIDE TO PREPARE THE WAY FOR A SUCCESSFUL MTM IN MONTREAL. THEY WILL BE HAPPY TO SEE PROGRESS ON GATT INSTITUTIONAL ISSUES, INCLUDING DISPUTE SETTLEMENT, AND ON SERVICES.

5. THE CANADIANS WILL SUPPORT THE IDEA OF A SEMINAR WITH REPRESENTATIVES OF THE NEWLY INDUSTRIALISED ECONOMIES. THEY SEE ADVANTAGE IN STRENGTHENING CO-OPERATION WITHIN THE PACIFIC BASIN, BUT HAVE NO WISH TO UNDERMINE GATT BY SETTING UP A REGIONAL PACIFIC BLOC (CROSBIE, THE NEW MINISTER FOR INTERNATIONAL TRADE, COMES FROM NEWFOUNDLAND AND IS LESS OBSESSED BY THE PACIFIC THAN HIS SHANGHAI-BORN, VANCOUVER-BASED PREDICCESSOR).

6. THE CANADIANS SHARE OUR DESIRE FOR AN AGREEMENT TO HELP THE POOREST AND MOST INDEBTED AFRICAN STATES. THEY ARE WORKING HARD WITH US TO FIND A PROPOSAL WHICH WILL BE GENERALLY ACCEPTABLE. IT NOW SEEMS UNLIKELY THAT THEY WILL GIVE A HIGH PROFILE TO THE DEBT PROBLEMS OF THE MIDDLE INCOME LATIN AMERICAN COUNTRIES. THEY WILL PROBABLY BE CONTENT WITH A REPETITION OF THE LINE THAT THESE WILL HAVE TO BE DEALT WITH ON A CASE-BY-CASE BASIS.

7. THE CANADIANS SHARE OUR VIEW THAT MOST OF THE PIECES OF COORDINATION ON MACRO-ECONOMIC POLICIES ARE IN PLACE BUT WILL NEED REAFFIRMATION. ALTHOUGH THEY BELIEVE THAT MAJOR GLOBAL IMBALANCES SHOULD BE RIGHTED, THEY WILL TAKE A CAUTIOUS LINE ON THIS AT THE SUMMIT: GRADUAL BUT CREDIBLE REDUCTIONS. THE CANADIANS ATTACH IMPORTANCE TO MICRO-ECONOMIC REFORMS INVOLVING STRUCTURAL ADJUSTMENT. IN THEIR VIEW THE PROGRESS BY SUMMIT COUNTRIES HAS BEEN UNEVEN. THEY GATHER THAT THE GERMANS MIGHT BE GLAD OF PRESSURE ON THEM AT THE SUMMIT TO DO MORE.

8. MR MULRONEY WILL ALMOST CERTAINLY RAISE ENVIRONMENTAL ISSUES IN THE UNSTRUCTURED SESSION ON THE SECOND DAY OF THE SUMMIT, NOT IN TERMS OF A SPECIFIC INITIATIVE BUT IN ORDER TO HAVE A THOUGHTFUL DISCUSSION OF THE PROBLEMS WHICH COULD ARISE BEYOND THE YEAR 2000. AT PRESENT THE CANADIANS DO NOT PLAN TO INCLUDE A REFERENCE TO THIS

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IN THE COMMUNIQUE. HOWEVER, WE WOULD NOT BE SURPRISED TO SEE A CHANGE OF MIND ON THIS, GIVEN THE PARALLEL MEETING ORGANISED BY POLLUTION PROBE (MY TELNO 347).

9. ON THE POLITICAL SIDE, THE CANADIANS EXPECT EAST/WEST TO PREDOMINATE. HOWEVER, WE HAVE AGAIN BEEN TOLD, THIS TIME BY THE DEA COORDINATION OF BRIEFING FOR THE SUMMIT, THAT IF OTHER REGIONAL ISSUES EG MIDDLE EAST ARE DISCUSSED BY HEADS OF GOVERNMENT MR MULRONEY WILL FEEL THAT HE MUST INTRODUCE THE SUBJECT OF SOUTH AFRICA (LAST PARA OF MY TELNO 330, NOT TO ALL, REFERS). THE QUESTION OF TERRORISM IS THE SUBJECT OF SEPARATE EXCHANGES (OTTAWA TELNO 334).

URWICK

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ADDITIONAL 37

ECONOMIC SUMMIT
(PREV CRN 026641)

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PRIME MINISTER

ppp

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18/5

CH/EXCHEQUER	
REC.	18 MAY 1988
ACTION	Sir G. LITTLE, R.
COPIES TO	Sr P. MIDDLETON
	Sr T. BURNS,
	Mr H. P. EVANS,
	Mr MOUNTFIELD

THIRD MEETING OF SHERPAS FOR THE TORONTO SUMMIT

The Summit Sherpas meet for two days in Paris on Thursday following this week's OECD Ministerial meeting. Sir Geoffrey Littler and Mr. Braithwaite will accompany me to the meeting.

There will be a discussion of possible initiatives and topics for the informal discussion about which I minuted you on 29 April. We will also discuss a long "thematic" paper produced by the Canadian Sherpa on the state of, and the prospects for, the world economy on which we have a well rehearsed line.

I will let you have a report of the discussion before you see Mr. Mulroney on Monday.

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

N.L.W.

N.L. WICKS

17 May 1988

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PS/CHANCELLOR OF THE EXCHEQUER
TREASURY

FROM PRIVATE SECRETARY

SECRETARY OF STATE'S BILATERAL WITH CANADIAN FOREIGN MINISTER

SUMMARY

STRONG STATEMENT BY MR. CLARK ON FUR IMPORTS: SECRETARY OF STATE STRESSES DIFFICULTY OF RESISTING PUBLIC OPINION. CONFIRMS INTENTION TO VOTE FOR CANADA FOR SECURITY COUNCIL. BRIEF EXCHANGES ON AGRICULTURE AND TERRORISM.

FUR IMPORTS

2. MR CLARK EXPLAINED IN DETAIL THE POLITICAL PROBLEM POSED FOR THE CANADIANS IN RESPECT OF THEIR POLICY TOWARDS THE INDIGENOUS PEOPLES BY OUR PROPOSAL TO MAKE LABELLING OF FUR IMPORTS COMPULSORY. THE CANADIANS ALSO HAD A PROBLEM WITH PUBLIC OPINION ON THE USE OF LEG HOLD TRAPS WHICH HAD BEEN STOKED UP BY OUR PROPOSED ACTION. THEY VERY WELL UNDERSTOOD THE INTENSITY OF PUBLIC OPINION. THEY HAD THEREFORE PROPOSED A JOINT STUDY TO LOOK AT HUMANE TRAPPING. BUT BECAUSE OF THE PRECARIOUS ECONOMY OF THE INDIGENOUS PEOPLE, THE ISSUE WAS A BITTER ONE, AND IF WE TOOK THE ACTION PROPOSED, IT WOULD HAVE UNDESIRABLE EFFECTS IN OTHER AREAS OF OUR RELATIONSHIP. IT WAS A SERIOUS PROBLEM. MOREOVER, A DECLINE IN THE TRADE WOULD ITSELF CUT OFF FUNDS AVAILABLE FOR RESEARCH INTO HUMANE TRAPPING METHODS.

3. THE SECRETARY OF STATE SAID THAT HE UNDERSTOOD THE SCALE AND NATURE OF CANADIAN CONCERN. THE FCO WAS WELL AWARE OF THE INTERNATIONAL DIMENSIONS. IT WAS, HOWEVER, NOT POSSIBLE TO IGNORE THE STRONG EMOTIONAL INTEREST IN THIS SUBJECT AMONG THE UK PUBLIC. THE KIND OF TRAP IN QUESTION HAD BEEN BANNED IN THE UK SINCE THE MID-1950S. HE STRESSED THAT IT WAS NOT PROPOSED TO BAN IMPORTS, ONLY TO INSIST ON LABELLING SO THAT CONSUMERS COULD IF THEY WISHED DISCRIMINATE. MR CLARK INTERJECTED THAT THE VERY LABELLING WOULD FUEL THE EMOTION. THE SECRETARY OF STATE WENT ON THAT THERE WAS A LIMIT TO THE

EXTENT TO WHICH ANY GOVERNMENT COULD RESIST ITS OWN PUBLIC OPINION. HE RECOGNISED THE LEGITIMACY OF CANADIAN CONCERNS ABOUT THE LIVELIHOOD OF THE INDIGENOUS PEOPLES. BUT THIS HAD TO BE WEIGHED IN THE BALANCE AGAINST PUBLIC PRESSURE IN THE UK. MR CLARK SAID THAT TRAPPING METHODS WERE STEADILY BECOMING MORE CIVILISED. THE CANADIANS RECOGNISED THE NEED FOR A RESPONSE TO PUBLIC PRESSURES, AND THEREFORE THE NEED TO CHANNEL EMOTION INTO THE SEARCH FOR MORE HUMANE TRAPPING METHODS. HE PREDICTED THAT IF WE WENT AHEAD WE WOULD HAVE A FLOOD OF VISITS FROM PROTESTING CANADIANS. HE DREW A CONTRAST BETWEEN OUR UNWILLINGNESS TO INFLICT SANCTIONS ON SOUTH AFRICA BECAUSE OF THE RISK DAMAGE TO THE POOREST IN THE COMMUNITY, BUT OUR WILLINGNESS TO DO THE SAME TO CANADA, THEREBY DAMAGING THE POOREST CANADIANS. THE SECRETARY OF STATE SAID THAT A LABELLING REQUIREMENT WAS NOT A SANCTION. HE THOUGHT THAT THE IDEA OF JOINT RESEARCH INTO MORE HUMANE TRAPPING METHODS HAD INTRINSIC MERIT WHETHER OR NOT THE MEASURE WAS INTRODUCED.

4. MR CLARK REFERRED TO THE PUBLICATION OF THE NOTICE ABOUT THE PROPOSED MEASURE IN THE INDEPENDENT. THE SECRETARY OF STATE SAID THAT THIS HAD BEEN AN ERROR. THE DEBATE ON WHETHER OR NOT TO INTRODUCE THE MEASURE WAS IN FACT CONTINUING IN LONDON.

POLITICAL COOPERATION LINKS WITH CANADA

5. MR CLARK THANKED US FOR OUR HELP IN SECURING AN ACCEPTABLE OUTCOME TO THE DISCUSSIONS ON POLITICAL COOPERATION LINKS WITH CANADA. THE SECRETARY OF STATE SAID THAT WE ATTACHED IMPORTANCE TO IT, AND WERE HAPPY WITH THE RESULT.

ELECTION TO THE SECURITY COUNCIL

6. MR CLARK SAID THAT CANADA HOPED FOR OUR SUPPORT IN THE FORTHCOMING ELECTION TO THE SECURITY COUNCIL, AND SET OUT THE CANADIAN CASE FOR ELECTION. HE WAS PARTICULARLY ANXIOUS THAT CANADA SHOULD NOT BE VICTIMISED FOR NOT BEING EUROPEAN. THE SECRETARY OF STATE SAID THAT IN SPITE OF OUR GENERAL RULE OF NOT DISCLOSING OUR VOTE, WE WOULD IN FACT VOTE FOR CANADA BECAUSE OF OUR SPECIAL RELATIONSHIP WITH HER. HE ASKED MR CLARK TO KEEP THIS STRICTLY CONFIDENTIAL. MR CLARK AGREED TO DO SO. THE SECRETARY OF STATE ASKED FOR CANADIAN SUPPORT FOR OUR CANDIDATES IN ELECTIONS TO THE ICJ AND THE LAW COMMISSION. MR CLARK SAID THAT HE WOULD LOOK INTO THIS, AND LET US HAVE AN ANSWER.

AGRICULTURE

7. MR CLARK SAID THAT CANADA WAS VERY ANXIOUS TO SEE PROGRESS AT THE OECD AND MID-TERM MEETINGS IN ORDER TO TAKE PRESSURE OFF THE TORONTO SUMMIT. THE SECRETARY OF STATE AGREED. OUR APPROACHES WERE VERY SIMILAR. HE HOPED THAT THE LINGUISTIC PUNCH UP BETWEEN THE AMERICANS AND OTHERS WOULD NOT GET OUT OF HAND. WE SHARED THE SAME PRACTICAL OBJECTIVES. HE STRESSED THE IMPORTANCE OF DEVELOPING THE CONCEPT OF PSE. HE THOUGHT THERE MIGHT BE SCOPE FOR MORE COOPERATION ON FINDING ALTERNATIVE SOURCES OF RURAL PROSPERITY.

8. MR CLARK SAID HE SHUDDERED TO THINK WHAT CANADIAN PSE MUST BE BY NOW. THERE WAS NO DOMESTIC AGREEMENT IN CANADA ON WHAT TO DO ABOUT THEIR OWN SUBSIDIES.

SSNS

9. THE SECRETARY OF STATE SAID THAT HE HOPED THAT WE HAD DONE EVERYTHING POSSIBLE TO EASE THE CANADIAN TASK OF EXAMINING THE CLAIMS OF OUR SUBMARINE. MR CLARK NODDED.

TERRORISM

10. THE SECRETARY OF STATE SAID THAT WE WERE CONCERNED THAT ALL THE BRAVE WORDS SPOKEN AFTER PREVIOUS SUMMITS WERE NOT FORGOTTEN WHENEVER A HIJACKING OR KIDNAPPING ACTUALLY TOOK PLACE. THE ICAO WAS PROBABLY THE BEST CHANNEL FOR MAKING PROGRESS ON THIS SUBJECT BUT WE THOUGHT IT IMPORTANT THAT THE TORONTO SUMMIT SHOULD GIVE A PUSH TO THIS WORK. THE FORTHCOMING MEETING OF EXPERTS SHOULD PREPARE A TEXT FOR TORONTO. HE GAVE MR CLARK A COPY OF HIS OWN 5 POINT PLAN. MR CLARK AGREED THAT THIS SHOULD BE DISCUSSED BETWEEN EXPERTS.

11. MIFT COVERS DISCUSSION ON SOUTH AFRICA.

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OF 181750Z MAY 88
IMFO PRIORITY OTTAWA, PRETORIA,

FROM PRIVATE SECRETARY

MIPT (NOT TO ALL): SECRETARY OF STATE'S MEETING WITH
CANADIAN FOREIGN MINISTER: SOUTH AFRICA

SUMMARY

1. CLARK BRIEFS ON LUSAKA CFM MEETING AND PLANS FOR TORONTO.
SECRETARY OF STATE STRESSES ACTIVE ROLE OF UK POLICY.
2. MR CLARK SAID THAT THE LUSAKA MEETING OF THE COMMITTEE OF
FOREIGN MINISTERS HAD BEEN FAIRLY SUCCESSFUL GIVEN THE LIMITATIONS
ON WHAT THE GROUP COULD ACTUALLY DO. THERE HAD BEEN
SOME TETCHINESS ABOUT BRITAIN, WHICH NOW SEEMED TO HAVE
EVAPORATED. THE AUGUST MEETING IN TORONTO, WHICH RATHER TO HIS
SURPRISE WOULD BE ATTENDED BY ALL THE FOREIGN MINISTERS, WOULD
CONSIDER OBASANJO'S REPORT ON THE MILITARY
NEEDS OF MOZAMBIQUE AND THE STUDIES ON WIDENING AND TIGHTENING
SANCTIONS. PERSONALLY HE THOUGHT THESE DISCUSSIONS COULD ONLY
BE PRELIMINARY ONES. IF IT WAS CLEAR SOME COUNTRIES WERE
BREAKING SANCTIONS OR TAKING ADVANTAGE OF THEM, THE MEETING
WOULD SEE WHETHER ANYTHING COULD BE DONE ABOUT THIS. THE
CANADIANS WERE PREPARING A REPORT ON SOUTH AFRICAN PROPAGANDA
AND CENSORSHIP, AND WANTED TO PUT STRONG EMPHASIS ON THIS.
THEY HOPED TO DEVISE A PROGRAMME WHICH WOULD BE WITHIN THE MEANS
OF EVERYONE, AND WHICH WOULD BE MODULAR SO THAT COUNTRIES COULD
ADAPT AS MUCH OR AS LITTLE AS THEY WANTED OF IT. IT WOULD BE
BASICALLY CONCERNED WITH GETTING NEWS IN AND OUT OF SOUTH AFRICA
AND COMBATTING SOUTH AFRICAN PROPAGANDA. HE EXPECTED TO HAVE
AN INFORMAL MEETING WITH SOME OF THE OTHER FOREIGN MINISTERS
IN THE MARGINS OF UNSSOD.

3. HIS COLLEAGUES WERE ALL CONCERNED ABOUT THE BANNINGS, AND LEGISLATION ON FOREIGN AID. HE DETECTED SOME CHANGE IN PUBLIC PRESSURES ON THE ROLE OF THE CANADIAN EMBASSY. THERE NOW APPEARED TO BE A STRONG VIEW THAT IT SHOULD NOT BE CLOSED: BOESAK WAS URGING THE ROLE OF 'PEOPLES EMBASSIES'. THE CANADIANS WOULD SEE WHETHER THEY COULD DO MORE TO MAKE THEIR EMBASSY A PEOPLES EMBASSY WITHOUT DAMAGING ITS DIPLOMATIC ROLE. MORE GENERALLY, HE WAS CONCERNED ABOUT THE OBVIOUS POLARISATION IN SOUTH AFRICA. BOESAK SEEMED CHEERFUL ABOUT THIS, BELIEVING THAT IT WOULD LEAD TO CHANGE. IT MIGHT, BUT IT WOULD BE VIOLENT CHANGE.

4. THE SECRETARY OF STATE SAID THAT THE BRITISH POSITION WAS UNCHANGED. WE WERE PLAYING A FULL ROLE, PARTICULARLY IN GIVING MILITARY ASSISTANCE TO MOZAMBIQUE. WE WANTED TO DO EVERYTHING WE COULD TO GET THE MAXIMUM COOPERATION ON IMPROVING MOZAMBIQUE'S RAILWAY SYSTEMS. IN SOUTH AFRICA OUR NEW AMBASSADOR WAS ACHIEVING EXTREMELY GOOD ACCESS EVEN IN SOME UNLIKELY REACHES OF AFRIKAANERDOM. HE DESCRIBED MR PATTEN'S RECENT VISIT. OUR VIEW OF THE FEBRUARY MEASURES WAS SIMILAR TO THAT OF THE CANADIANS, BUT WE BELIEVED THAT PRESIDENT BOTHA'S RECENT SPEECH SHOULD BE SEEN AS A REDISCOVERY OF HIS COURAGE. THE TEST WAS WHETHER IT PRODUCED ACTION AND NEW IDEAS. THE SECRETARY OF STATE DREW ATTENTION TO HIS OWN RECENT SPEECH.

5. THE CANADIANS MIGHT BE RIGHT IN THINKING VIOLENCE INEVITABLE, BUT WE HAD TO KEEP DOING ALL WE COULD TO SUPPRESS IT. WE TOO WERE WORRIED ABOUT THE PROMOTION OF ORDERLY POLITICS BILL, BUT WE HOPED THAT ITS PROGRESS COULD BE SLOWED UNTIL AT LEAST NEXT YEAR, AND ITS PROVISIONS WATERED DOWN. WE WERE ENCOURAGED BY THE RECENT MEETING BETWEEN VELOSO AND PIK BOTHA, AND WERE ENCOURAGING BOTH SIDES TO MAKE PROGRESS, PARTICULARLY ON CABORA BASSA. THE RECENT AMERICAN REPORT ON RENAMO HAD HELPED TO DIMINISH RENAMO'S GENERAL IMPACT IN THE WEST. WE HAD BEEN GLAD TO HOST THE ANGOLA TALKS. IN GENERAL WE WERE PUTTING A LOT OF EFFORT INTO THE REGION.

6. MR CLARK SAID THAT IT WOULD BE A GOOD IDEA TO PRESS OTHERS TO JOIN IN THE LIMPOPO SCHEME, PARTICULARLY SINCE THERE WAS A SHORT-FALL OF FUNDING. HE INTENDED TO PUT PRESSURE ON THE AUSTRALIANS.

7. BOESAK'S RECENT ASSESSMENT OF P W BOTHA HAD BEEN THAT HE WAS ADRIFT, AND UNLIKELY TO MOVE, BELLIGERENT BUT AIMLESS. MEANWHILE THERE SEEMED TO BE AN INCREASING CONCENTRATION OF POWER IN THE HANDS OF THE MILITARY.

8. THE CANADIANS HAD NOT YET COME TO A DECISION ON WHETHER OR NOT TO HELP WITH MILITARY TRAINING. IF THEY DID ANYTHING IT WOULD BE SMALL AND SYMBOLIC. MEANWHILE THEY WOULD LIKE TO GIVE ANY ENCOURAGEMENT THEY COULD TO THE PROCESS OF DIALOGUE. THE FLS WERE NOW A GREAT DEAL MORE MODERATE IN PRIVATE THAN IN PUBLIC, AND PRACTICAL IDEAS MIGHT WELL BE WELCOME. THE SECRETARY OF STATE DESCRIBED MRS THATCHER'S FRIENDLY VISITS TO KENYA AND NIGERIA AND HER RECENT MEETING WITH MR MUGABE. THE RHETORIC DID SEEM TO BE DYING DOWN. THIS MADE IT DOUBLY IMPORTANT TO AVOID ACTS OF VIOLENCE ON EITHER SIDE WHICH COULD INFLAME THE SITUATION SUDDENLY. MR CLARK SAID THAT HE TOO WAS WORRIED ABOUT THIS POSSIBILITY. HE WAS GOING BACK TO HIS CABINET FOR MORE CONTINGENT AUTHORITY TO BE ABLE TO RESPOND TO ANY ACTS OF VIOLENCE BY THE SOUTH AFRICANS.

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SRWBLO

Stems from analysis. Suggests no verbal of Mr - Golden middle. Income or position. But has been to Fed. (I assume) from register. I will need Mr. Galt, as has in tank, to look out how we - we are.

CONFIDENTIAL

CH/EXCHEQUER	
REC.	23 MAY 1988
ACTION	Sir G. LITTLE
COPIES TO	Sir P. MIDDLETON, Sir T. BURNS,
	Mr H. P. EVANS, Mr MOUNTFIELD.

PRIME MINISTER

TORONTO ECONOMIC SUMMIT

Before you see Mr. Mulroney tomorrow, you may wish to have a summary of the main points which arose at the Third Sherpa meeting in Paris on Thursday and Friday.

There is general agreement that there should be only two Declarations, one Economic and one Political, succinctly and crisply drafted.

[Silent on XR stability]

ECONOMIC: There is unlikely to be disagreement about the main message to come from the Summit:

The need for continued reduction in budgetary and trade imbalances and the strengthening of structural adjustment policies, while maintaining the fight against inflation

The challenge for the Summit will be to present this now hackneyed, but nonetheless right, message in a way which conveys, particularly to the financial markets, the commitment, credibility and confidence of economic policies.

The Sherpas think that this message might be conveyed by capitalising on the fact that this Toronto Summit is the last in this round of seven summits. The Summit might note that since the first - at Versailles in 1982 - as the successive Summit Declarations bear witness, economic policy has been transformed:

The replacement of the seventies' reliance on fiscal stimulation as the route to growth by the recognition that growth comes through controlling inflation, structural reform, enterprise and the freeing of markets.

This transformation of economic policy has brought about a substantial and sustainable improvement in the world economy.

The next round of Summits have to continue this work.

Such an approach would permit the Summit leaders, most of whom will have been at all or most of the last Seven Summits, to take credit for real achievements, put current policies into context and give a coherent direction to future work. This approach might be particularly welcome to President Reagan - as a summing up of the achievements of his Presidency, while allowing the other leaders to make the point that there is still work to do, eg, reducing the US imbalances.

Just as important, this approach would provide a framework for addressing what clearly will be the two divisive issues at the Summit - trade and agriculture, global examples of the need for structural reform.

On trade, we emphasised in our Paris discussions your interest in improving the effectiveness of GATT, notably the dispute settlement procedure; and we will do more work on this so that your position is well prepared before Toronto.

On agriculture, there is a yawning gap between the United States' position of zero tolerance for agricultural subsidies and the Commission's grudging acceptance that the Brussels agreement is not the last word. This is another topic on which you may wish to take an active role at Toronto.

POLITICAL: Mr. Mulroney wants the political discussions to concentrate on East-West. I said that in addition you would wish to discuss terrorism (on which a group of Summit experts meet, at the UK's request, on 2 June to consider the Foreign Secretary's five point plan) and the Middle East; and that the East-West item could extend widely to cover eg the politics and economics of Eastern Europe, Angola, Afghanistan etc. My Canadian colleague seemed to suggest that the Canadians would raise South Africa.

OTHER ISSUES LIKELY TO COME UP AT THE SUMMIT: The US are likely to raise drugs, which is emerging as a major issue in

the Presidential Campaign. Quite what aspect is still unclear: maybe suggestions for international action against laundering drug money. We will try to find out more. Both the Germans and the Italians will raise aspects of the environment (the Brundtland Report, the ozone layer, global warming, reducing sulphur dioxide and freezing of NOX emissions, dangerous wastes, East-West cooperation, etc). Mr. Takeshita will raise the Human Frontier Science Programme mainly as courtesy to the memory of Mr. Nakasone whose brain child this was. The Italians may want to report the outcome of the Fifth Conference on Bioethics held recently in Rome.

DISCUSSION OF LONGER TERM ISSUES: The Sherpas discussed possible topics for the new item on the Summit agenda - the informal discussion, before dinner on the second day, of "long term issues". I said that you would be interested in a discussion of health and social security provision and cost, the retirement age, etc, bearing in mind the ageing of the population. The US, German, Japanese and Commission Sherpas thought that some topic like this flowing from prospective demographic changes would provide a worthwhile discussion. My French colleague, while not dissenting, said that President Mitterrand would welcome a discussion of the impact of fast changing technologies on the labour market and on the education system; education for a technologically changing world is a centrepiece of President Mitterrand's second term programme. I said that while I had not discussed this particular topic with you, you could well share President Mitterrand's interest, especially since we had a major education reform now passing through Parliament. The Canadian Sherpa pressed, with no support, for discussion of long term environmental issues. The other Sherpas, who were interested in environmental issues wanted, sensibly, to see the issue raised on the main agenda, and not as a topic for the informal long term discussion. The Sherpas will try to agree two topics for the informal discussion at our next meeting in Toronto in a fortnight's time. If there is no agreement, it may be necessary to fall back on the unsatisfactory position of each leader speaking on his chosen topic for 10 minutes or

so.

SUMMIT FORMAT: The Canadian's latest suggestion for the Summit format is attached. It is little changed from the version you last saw. One particular point to note is the Canadian suggestion that the first session should not begin with each leader summarising developments in his own country's economy. Instead, the leaders should talk about the topic which is at the forefront of their minds. This could be the state of their economy or, for example, the world trade and agricultural situation.

I would much welcome any guidance that you, the Foreign Secretary or the Chancellor of the Exchequer might wish to give on this report.

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

(N. L. WICKS)

22 May 1988

TORONTO ECONOMIC SUMMIT: FORMAT

LEADERS

COMMUNICATIONS

DAY 1

1500-1700

SEPARATE SESSION
- SUMMIT ECONOMIC
PRIORITIES AND OUTLOOK

LATE P.M.

PRESS BRIEFING ON
ECONOMIC SESSION
(FACTUAL BRIEFING BY
PRIME MINISTER'S
SPOKESMAN)

1900-2100

SEPARATE WORKING DINNER
-POLITICAL

DAY 2

1000-1015

ADOPTION BY LEADERS OF
POLITICAL TEXT

1015-1200

PLENARY SESSION
-DISCUSSION OF ECONOMIC
SUMMIT PRIORITIES

1230-1400

WORKING LUNCH
(WITH FOREIGN MINISTERS)
-OTHER POLITICAL ISSUES

1400

FOREIGN MINISTER'S READING
OF POLITICAL DECLARATION
AND SUMMARY OF POLITICAL
ISSUES

1430-1600

PLENARY SESSION
-CONTINUATION OF
ECONOMIC DISCUSSION

1830-2000

SEPARATE INFORMAL SESSION
-LONG-TERM ISSUES

2000-2130

SEPARATE DINNER

DAY 3

0930-1130

PLENARY SESSION
-ADOPTION OF ECONOMIC DECLARATION
-FINAL DISCUSSIONS

1230-1430

GOVERNOR GENERAL'S LUNCH

1530-1600

PRIME MINISTER'S READING
OF ECONOMIC DECLARATION

CONFIDENTIAL

From: Sir G. Littler
Date: 23 May 1988

CHANCELLOR

c.c. Sir P. Middleton
Sir T. Burns
Mr Lankester
Mr Huw Evans
Mr Mountfield
Mr Peretz

TORONTO ECONOMIC SUMMIT

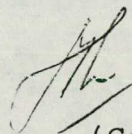
You have seen Mr Wicks' summary report to the Prime Minister on a meeting of personal representatives held in Paris on 19-20 May.

2. This is a fair summary, except that it omits reference to the short discussion on 'debt issues', in which it emerged that there are no new thoughts about middle-income debtors and in which I took the opportunity again of saying that we look for progress on your Sub-Saharan debt initiative at Toronto. The Canadians will now redraft their not very good first draft of a thematic paper: it should be available and I shall hope to show it to you before the next (and last) preparatory meeting on 3-5 June.

3. One point of substance I draw to your attention. It is clear that the US want to make 'drugs' a major extra issue - and Mr Wicks' note mentions the thought of possible action against the laundering of drug money. Privately among financial sous-sherpas, Mulford expressed concern over this - on the good ground that it might mean another dangerous essay in extra-territoriality and a course generally with a high risk of embarrassment and failure. Much sympathy expressed by myself and others for his view. I am asking the Bank of England and Mr Peretz to mobilise briefing.

CONFIDENTIAL

4. Mr Wicks invites comments on the report. Following is a draft of a short letter which you might like to have sent.



(Geoffrey Littler)

DRAFT: To: Nigel Wicks Esq CBE
10 Downing Street.

c.c. PS/Foreign Secretary
Sir Robin Butler

TORONTO ECONOMIC SUMMIT

The Chancellor has read your summary report to the Prime Minister on the recent preparatory meeting in Paris.

In general he is content with the trend of ideas on the world economy. He asked me to make three comments:

- we should keep up pressure for the Chancellor's initiative on debt of the poorest (I gather that the point was made in Paris last week);
- the idea of international action on 'laundering' of drug money could be troublesome - a high risk of failure and problems of extra-territoriality - the Treasury and Bank of England will prepare some briefing;
- plainly agriculture is the most controversial of prospective Summit subjects this year - would it not be sensible to get to grips with it early, in the first session among Heads?

(A.A.Allan)

BF 25/5

We need to wait for Charles' record of PM's meetg with Mulroney today - I gather that will say more about drugs.

CONFIDENTIAL

Content for Mox to write as suggested? (This crossed with your ms. note, but is consistent with it).
23/5
23/5

From: Sir G. Littler
Date: 23 May 1988

CHANCELLOR

c.c. Sir P. Middleton
Sir T. Burns
Mr Lankester
Mr Huw Evans
Mr Mountfield
Mr Peretz

28/5

TORONTO ECONOMIC SUMMIT

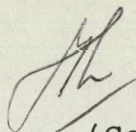
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- plainly agriculture is the most controversial of prospective Summit subjects this year - would it not be sensible to get to grips with it early, in the first session among Heads?

on laundering drug money,
there are - as the Prime Minister indicated to Mr Mulroney - some problems over extra-territoriality; we shall, as Charles Powell has asked, be preparing a note on all this;

*Mr has letter
of 25 Nov*

C.S.
(A.A.Allan)

CH/EXCHEQUER	
REC.	24 MAY 1988
ACTION	Sir G. LITTLE
COPIES TO	Sir P. MIDDLETON
	Sir T. BURNS
	Mr H.P. EVANS
	Mr MOUNTFIELD

From the Private Secretary



✓ 24/5
10 DOWNING STREET
LONDON SW1A 2AA

a
In the light of
X, I suggest amendments
draft letter as
made
OK. AB
23 May 1988

Dear Tony,

**PRIME MINISTER'S MEETING WITH THE CANADIAN PRIME MINISTER:
ECONOMIC SUMMIT**

The Prime Minister had a meeting this afternoon with the Canadian Prime Minister, most of which was devoted to the Economic Summit. This letter records their discussion of that subject: I am writing separately about bilateral matters.

Mr. Mulroney was accompanied by the Canadian High Commissioner, Mr. Derek Burney (his Chief of Staff) and Dr. Ostry (Personal Representative for Economic Summits).

Format of the Summit

Mr. Mulroney described the proposed format for the Summit on expected lines. The Prime Minister stressed the need to feed the media a steady diet of statements and announcements. For instance, the Chairman should put out a statement on his own authority on the first evening, following the discussion of economic priorities and outlook.

Mr. Mulroney said that he hoped to introduce a more informal and relaxed style of discussion. The first session would be crucial in setting the tone. He hoped that the Prime Minister would lead off, speaking frankly and without notes. If she did so, he was confident that President Reagan would follow suit. It would then be more difficult for others to stick to prepared texts. The result would be to "energize" the discussion and prevent the Japanese from wriggling off the hook.

Mr. Mulroney concluded that the United States, United Kingdom and Canada were in agreement on the most important issues and should be able to obtain some perceptible movement from the Summit.

Economic Issues

The Prime Minister said that she hoped the main economic declaration would convey the extent to which economic policy

in the Summit countries had been transformed since 1982, with recognition that growth came through controlling inflation, structural reform, enterprise and freeing of markets. The task at Toronto would be to keep the world economy on course. It would probably be necessary to repeat earlier wording on the US budget deficit: to go further could be seized upon in the United States Presidential election campaign.

Mr. Mulroney agreed that the general tone of the economic declaraton should be as the Prime Minister had suggested: luckily expectations from the Summit were not particularly high, but people would want to see some leadership.

It was agreed that trade and agriculture would be a main theme of the Summit. Mr. Mulroney judged that the recent OECD communiqué had been a step back. He hoped that the Summit Declaration would be able to go beyond the OECD language and that the Prime Minister would give a lead in expressing readiness to tackle the problem of agricultural subsidies, in the way she had done within the European Community. The Prime Minister said that she shared the aim of getting subsidies down and if possible agreeing a framework or timetable for this. But she was cautious about the prospects of persuading the Community to go beyond the position reached in the OECD. She recalled how awkward President Mitterrand had been over GATT and agricultural matters at the Bonn Economic Summit. It was likely to be a difficult discussion.

Mr. Mulroney said that there would need to be something specific on debt. The United Kingdom had a leadership position on this. How did the Prime Minister rate the prospects of securing support for the Chancellor's Sub-Saharan African debt initiative? The Prime Minister said that would certainly be our objective. She would point out that there was in any case no real chance of getting our money back. She would also stress that trade was even more important than aid for the developing countries, a point which was no less relevant to the discussion on agriculture. But others such as the United States were likely to be difficult. Mr. Mulroney said that the Canadians had worked up a compromise proposal which might be better than nothing. The Prime Minister made no comment on this.

Mr. Mulroney hoped that a way could be found to record the Summit's welcome for the US/Canada Free Trade Agreement.

As regards the theme for the informal discussion, Mr. Mulroney made clear that he would not press for discussion of long-term environmental issues. He would be perfectly content with the Prime Minister's proposal for a discussion of health and social security provision and cost, although it would need to be handled sensitively against the background of the US Presidential election campaign. The Prime Minister agreed that this last point had to be taken into account: we should take some informal soundings of the White House. If there were difficulties, she would be content with the general theme of the impact of technology on the education system, as proposed by President Mitterrand.

X Mr. Mulroney said that the Americans would certainly want something on drugs, in part for electoral reasons. He thought that they would seek international action against laundering drug money. The Prime Minister said that she was not sure exactly what powers we had in this field (I should be grateful if the Treasury could provide a note). There might be problems over extra-territoriality which would require careful handling.

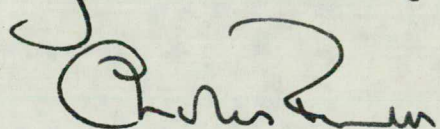
Political Issues

The Prime Minister said that President Reagan would certainly want to report on the Summit. She hoped that the political declaration might recognise with gratitude all that President Reagan had done over the years in defence of peace and freedom, both in terms of East/West negotiation and of strengthening NATO.

Mr. Mulroney asked what other priorities the Prime Minister had for the political declaration. The Prime Minister said there should be some reference to the dangers of the Middle East situation, both in relation to the Iran/Iraq conflict, the failure to make progress on Arab/Israel and the spread of ballistic missile technology and of chemical weapons. The Summit might urge the United Nations Security Council to take action to implement UNSCR 598. It might also endorse Secretary Shultz' initiative on Arab/Israel, which at the least would provide the basis for early action by the next US Administration.

The Prime Minister added that the political declaration would also need to deal with terrorism, although it would be difficult to agree a convincing text in view of France's recent conduct. Mr. Mulroney showed some disposition to argue that going beyond East/West relations in the main political declaration would lead to inclusion of a host of different items, but chose not to pursue the point. He made no mention of South Africa.

I am copying this letter of Alex Allan (HM Treasury) and to Sir Robin Butler.

your diary.


(C.D. POWELL)

A.C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office.

67 25/5



Foreign and Commonwealth Office

London SW1A 2AH

CH/EXCHEQUER	
REC.	24 MAY 1988
ACTION	Sir G. LITTLER
COPIES TO	Sir P. MIDDLETON
	Sir T. BURNS,
	Mr H.P. EVANS,
	Mr MOUNTFIELD

✓ 24/5 23 May 1988

pyp

a
seems OK
OK
AB

cc Mr Gieve

Dear Charles,

Economic Summit, Toronto: Accommodation

As you know, the Canadian Summit Management Office have allocated rooms for the United Kingdom Delegation in the King Edward Hotel, and in particular have set aside the 9th Floor for the Prime Minister, Secretary of State, Chancellor, and other members of the party, with the remainder on the 7th or 8th Floors of the same hotel. Some of the press officials are in the nearby Sheraton hotel, where the British press will stay.

I should be grateful to know if you agree with the enclosed allocation of rooms. We have had to go firm on some of the rooms since the order for telephones had to be submitted last February.

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

Yours ever,
A C Galsworthy

(A C Galsworthy)
Private Secretary

C D Powell Esq
10 Downing Street

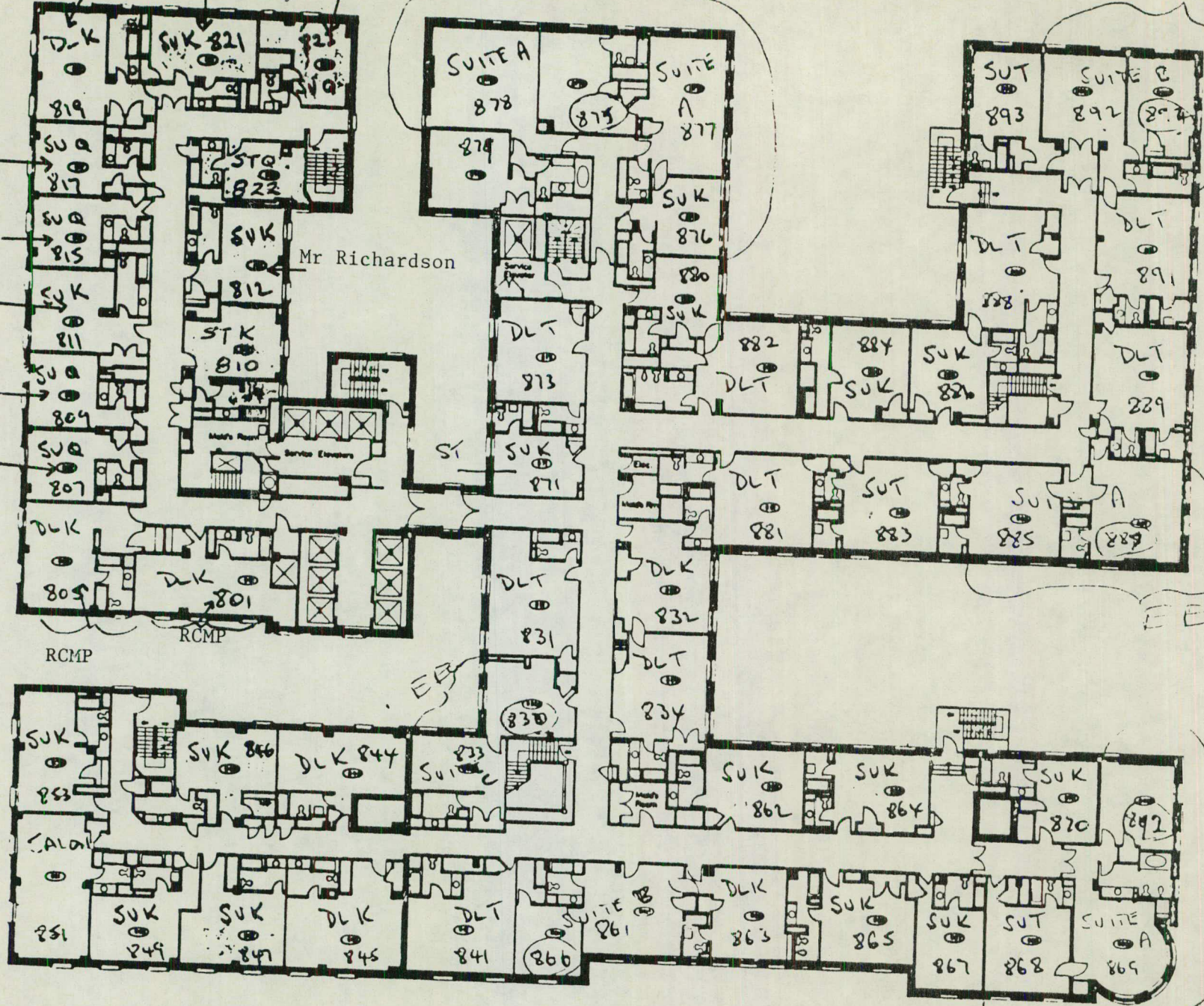
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Miss Rea Miss McGinty S/S Detective

REMP

EEC

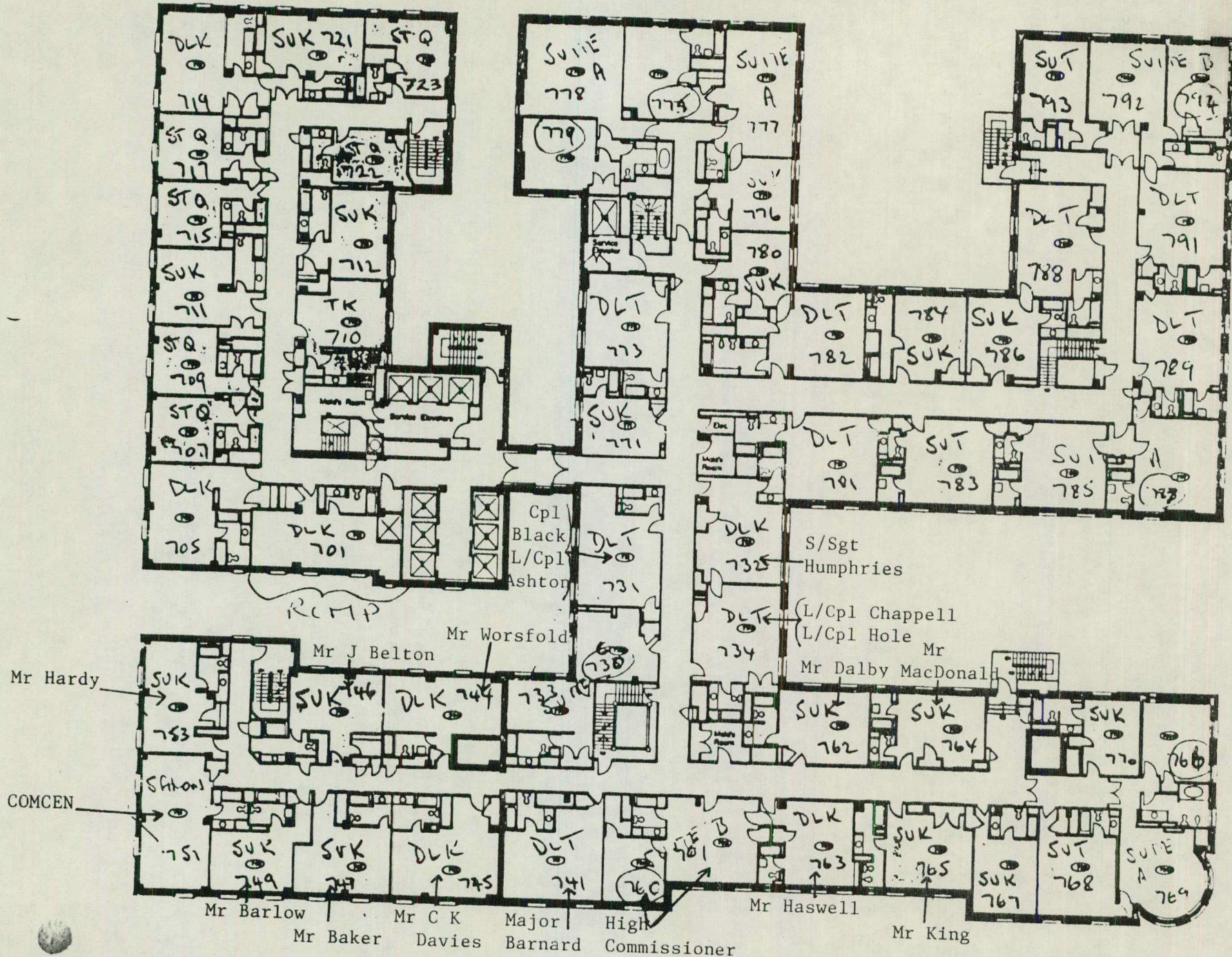
Duty Clerk
Secretarial Assistant, No 10
S Waghorn
C Gibson
K Sutcliffe



Head of Delegation
EEC

CONFIDENTIAL

KING EDWARD HOTEL
EIGHTH LEVEL



KING EDWARD HOTEL
SEVENTH LEVEL

CONFIDENTIAL



cc - Sir P. M. ...
 Sir T. ...
 Sir G. ...
 Mr. ...
 Mr. H. ...
 Mr. ...
 Mr. ...

Treasury Chambers, Parliament Street, SW1P 3AG
 01-270 3000

25 May 1988

Nigel Wicks Esq CBE
 No 10 Downing Street

Dear Nigel

TORONTO ECONOMIC SUMMIT

The Chancellor has read your summary report to the Prime Minister on the recent preparatory meeting in Paris.

In general he is content with the way things are developing on economic topics. He asked me to make three comments:

- we should keep up pressure for the Chancellor's initiative on debt of the poorest in Sub-Saharan Africa (I gather that the point was made in Paris last week);
- on laundering drug money, there are - as the Prime Minister indicated to Mr Mulroney - some problems over extra-territoriality; we shall, as Charles Powell has asked in his letter of 23 May, be preparing a note on all this;
- plainly, agriculture is the most controversial of prospective Summit subjects this year - would it not be sensible to get to grips with it early, in the first session among Heads?

I am copying this letter to Tony Galsworthy (FCO) and to Sir Robin Butler.

Yours
 Alex
 A C S ALLAN

CONFIDENTIAL



EX/CHEQUER	
REC.	25 MAY 1988
ACTION	Sr G. LITLER
COPIES TO	Sr P. MIDDLETON
	Sr T. BURNS,
	Mr H.P. EVANS
	Mr MOUNTFIELD

26/5 Foreign and Commonwealth Office

London SW1A 2AH

25 May 1988

See Charles, cc Mr Greve

MA starting work of public inquiry

Economic Summit, Toronto and Prime Minister's visit to Ottawa: Travel - Seating Plans

I enclose two suggested seating plans for the RAF VC10 as follows:

- "A" London Heathrow - Toronto
- "B" Toronto - Ottawa - London

The following members of the High Commission, Ottawa, have been included in the seating plane for the Toronto-Ottawa leg:

- British High Commissioner
- Lady Urwick
- Mr Penryhs-Evans, First Secretary
- Mr Donald, Information Officer
- Mr Haswell, Second Secretary

Also enclosed are a selection of menus and I should be grateful to know the Prime Minister's preference.

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

Yours ever,
A C Galsworthy

(A C Galsworthy)
Private Secretary

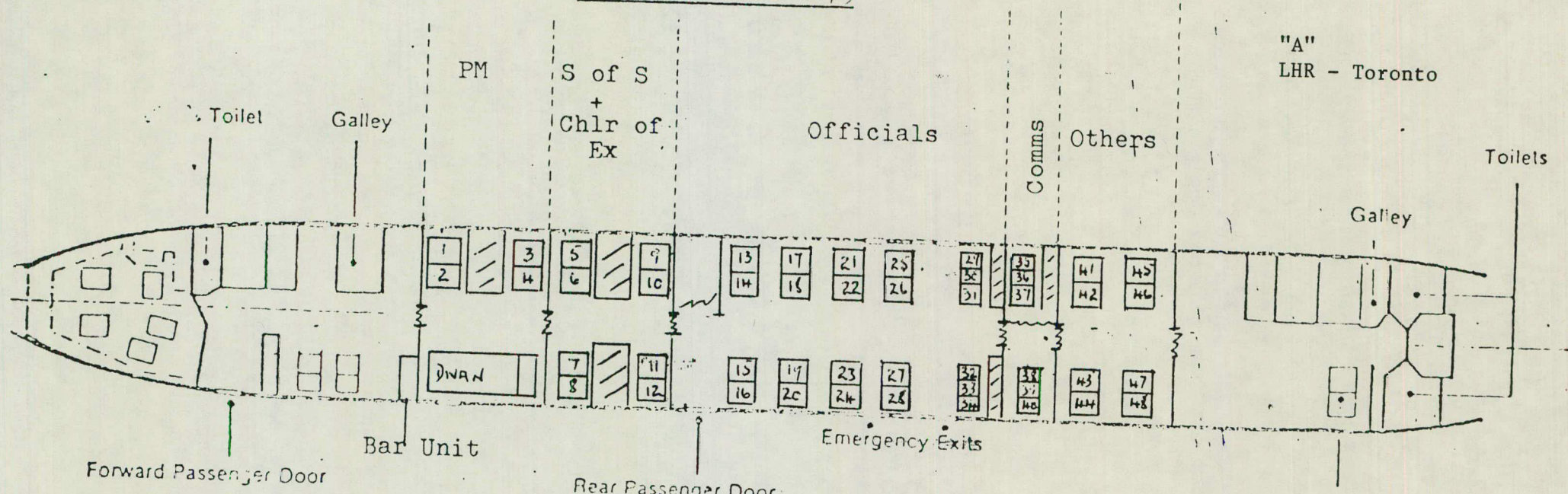
C D Powell Esq
10 Downing Street

CONFIDENTIAL

SEATING PLAN FOR THE PRIME MINISTER'S VISIT TO CANADA

OVER THE PERIOD 18 - 23 JUN 88

RAF VC10 ASCOT 1179



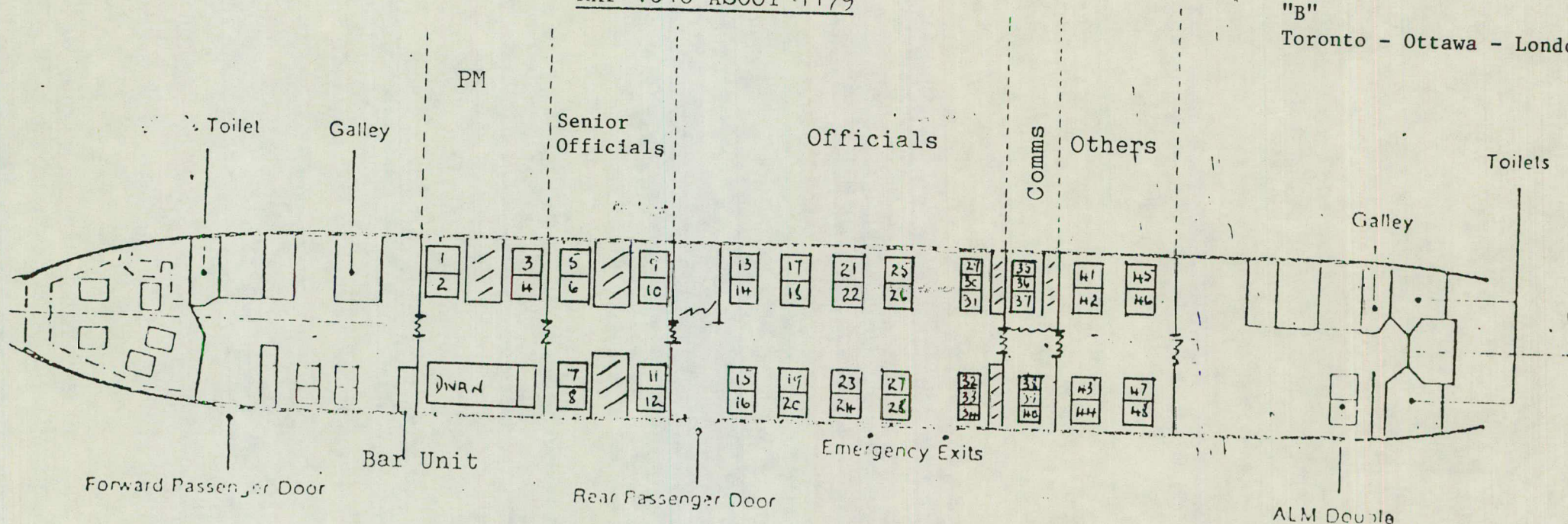
- | | | |
|--|---|---|
| <ul style="list-style-type: none"> 1. Prime Minister 2. Mr Powell 3. Mr Wicks 4. Mr Ingham 5.) Secretary of State 6.) 7.) Chancellor 8.) 9. Mr Galsworthy 10. 11. Mr Allan 12. | <ul style="list-style-type: none"> 13. Sir G Littler 14. Sir J Fretwell 15. Mr Meyer 16. Mr Braithwaite 17. Mr Richardson 18. Mr Gieve 19. Mr Dugdale 20. 21. Mr Kerr 22. Miss Lowe 23. Miss Jelley 24. Mrs Reinholt-Webb | <ul style="list-style-type: none"> 25. D/Chief Insp Dwyer 26. D/Sgt Cranfield-Thompson 27. D/Con Stickland 28. 29. 30. Not for use 31. 32. 33. Not for use 34. 35. 36. 37. Comms Officer 38. Comms Officer 39. 40. 41. Miss McGinty 42. 43. 44. Miss Rea 45. Miss Frier 46. 47. 48. |
|--|---|---|

SEATING PLAN FOR THE PRIME MINISTER'S VISIT TO CANADA

OVER THE PERIOD 18 - 23 JUN 88

RAF VC10 ASCOT 1179

"B"
Toronto - Ottawa - London



- | | | | |
|-------------------------|-------------------------------|--------------------|-------------------|
| 1. Prime Minister | 13. Mr Dugdale | 25. Miss Sutcliffe | 37. |
| 2. | 14. Miss Frier | 26. Sgt Leach | 38. |
| 3. | 15. D/Chief Insp Dwyer | 27. RMP | 39. Comms Officer |
| ? 4. *High Commissioner | 16. D/Sgt Cranfield-Thompson | 28. RMP | 40. Comms Officer |
| 5. Mr Wicks | 17. Mr Kerr | 29. RMP | 41. (Slip Crew) |
| 6. | 18. Miss Lowe | 30. Not for use | 42. |
| 7. Mr Powell | 19. Miss Jelley | 31. | 43. |
| 8. | 20. Mrs Reinholt-Webb | 32. | 44. |
| 9. *Lady Urwick | 21. Mr Smith | 33. Not for use | 45. |
| 10. | 22. *Mr Haswell/#Sgt Kingston | 34. | 46. |
| 11. Mr Ingham | 23. *Mr Donald/#Miss Gibson | 35. | 47. |
| 12. | 24. *Mr Penrhys-Evans | 36. | 48. |

* Toronto - Ottawa only
Ottawa - London only

PROPOSED MENUS FOR VC10 ASCOT 1179

PRIME MINISTER'S VISIT TO CANADA

OVER PERIOD 18 - 23 JUN 88

LEATHROW TO TORONTO (18 JUN)

LUNCH

FRESH FRUIT CUP

FILLET OF SALMON WITH SORREL SAUCE

PARISIENNE POTATOES

GREEN ASPARAGUS

BABY SWEETCORN

CHARLOTTE RUSSE

CHEESE/BISCUITS

COFFEE

WINE

OR

PATE WITH CUMBERLAND SAUCE

MEDALIONS OF VEAL OSCAR

DUCHESS POTATOES

GREEN BEANS AMANDINE

SAUTEED COURGETTES

FRESH STRAWBERRIES/CREAM

COFFEE

WINE

AFTERNOON TEA

INCLUDES:

SELECTION OF RECEPTION SANDWICHES

SMALL CAKES

BISCUITS

COFFEE/TEA

TORONTO TO OTTAWA (22 JUN)

MORNING COFFEE

INCLUDES:

SELECTION OF DANISH PASTRIES

FRESH FRUIT

BISCUITS

OTTAWA TO HEATHROW (22/23 JUN)

DINNER

HOT AND COLD CANAPES

SELECTION OF HORS D'OEUVRES

PRIME RIB OF BEEF AU JUS

PARMENTIER POTATOES

BOUQUETIERE OF VEGETABLES

RASPBERRY PRINCESS

CHEESE/BISCUITS

COFFEE

WINE

OR

HOT AND COLD CANAPES

OGEN MELON WITH PORT

ROCK CORNISH GAME HEN STUFFED WITH
WILD RICE AND MUSHROOMS WITH

MADEIRA SAUCE

BABY CARROTS

CAULIFLOWER POLANAISE

MAPLE WALNUT MOUSSE

CHEESE/BISCUITS

COFFEE

WINE

CONTINENTAL OR ENGLISH BREAKFAST

INCLUDES:

FRUIT JUICE

FRESH FRUIT APPETISER

TOAST/CROISSANT/ROLLS

PRESERVES

BEVERAGES

SCRAMBLED EGG, BACON, SAUSAGE, KIDNEY AND

GRILLED TOMATO

35/1 2174/38

FROM: SUSIE SYMES

DATE: 26 May 1988

- agreed in draft*
1. MR LANKESTER
 2. CHANCELLOR

cc Sir Geoffrey Littler
 Mr H P Evans o/r
 Mr Mountfield
 Mr Matthews
 Mr Molan
 Mr Savage

a
OK?
AA
OK

TORONTO ECONOMIC SUMMIT

The fourth and final meeting of Sherpas to prepare for the Toronto Summit takes place in Canada on 3-5 June. Sir Geoffrey Littler and Mr Braithwaite will accompany Mr Wicks. As the Canadian draft communique is not yet available, Mr Wicks has asked for UK draft communique language covering the key points on trade, agriculture, and debt to be cleared with Ministers before he shows the drafts to the Prime Minister. Mr Lankester is minuting separately on Sub-Saharan debt, this minute attaches the draft language on trade and agriculture.

2. On trade, the draft was sufficiently positive in tone but we have successfully pressed for an explicit commitment to multilateral reductions in trade barriers (as we are mindful of the bilateral deal between US and Canada). *in manuscript a draft*

3. On agriculture we have been able to get agreement on a draft that draws on the main points in your recent speech to the OECD. Ministerial: the need for liberalisation of world agricultural markets, through substantial reductions in overall support and protection; calling for the MTM to endorse this principle, and to agree a framework for the negotiations, and to make a clear multilateral commitment to early action consistent with long term goals.

4. If you are content, no further action is required.

Susie Symes

SUSIE SYMES

SUMMIT COMMUNIQUE: LANGUAGE ON TRADE POLICY,

, including the multi-lateral
reduction of trade barriers,

← see SS's para 2

We reaffirm our commitment to maintaining and extending the open multilateral trading system as an essential foundation for world economic growth and as a defence against protectionism.

Sustained progress in the Uruguay Round leading to a full and comprehensive outcome of benefit to both developed and developing countries is therefore of paramount importance. For this to be achieved all Contracting Parties must be ready to make the fullest contribution to the negotiations and be prepared to accept levels of obligation consistent with their degree of economic development.

2 [We recognise that] the Mid Term Meeting to be held in Montreal in December offers a valuable opportunity to demonstrate that substantive progress can be made in all areas of the Round including those to which we gave special emphasis at our previous meeting in Tokyo, namely trade in services, intellectual property rights and foreign direct investment. In these areas, as well as others, the establishment at an early date of an agreed negotiating framework would represent a significant step towards a successful conclusion.

3 We also share the hope that as full use as possible will be made at the Mid Term Meeting of the provision in the Punta del Este Declaration permitting the implementation of agreements reached at an early stage in the negotiations. In this context, a high priority must be the strengthening of Gatt itself. We are determined to work for the earliest possible agreement on ways of

reinforcing the Gatt process, through ~~the~~ greater involvement of Ministers, ~~the~~ intensification of the surveillance of trade policies and ~~the~~ greater effectiveness of dispute settlement procedures so that disagreements can be resolved speedily, conclusively and fairly, and disciplines enforced.

4 We affirm that the countries participating in this meeting in making their contributions to the preparation for Montreal will be guided by these objectives.

TEDABI

CONFIDENTIAL

DRAFT (SECRET)

TORONTO ECONOMIC SUMMIT
AGRICULTURE

1. As evidenced by our meetings in Tokyo and Venice, agricultural policy reform remains a priority for our governments. We note with satisfaction that important ^{first} steps have been taken ^{wards} to bring ^{ing} supply into better balance and to restrain the rising costs of agricultural support to taxpayers and consumers. We recognise, however, that far more needs to be done to achieve our long-term objective of liberalising agricultural markets through progressive and sustained reductions in support and protection. [This will enable the more efficient and rational allocation of resources within our economies, and worldwide, while facilitating the development of a viable and dynamic agricultural sector in both developed and developing countries.] We further recognise, therefore, the urgent need for early action on a concerted, multilateral basis, consistent with our long-term goals, to prevent the deterioration of market imbalances, the continuation of self defeating export subsidy competition, and any increase in the isolation of our markets.

2. At Venice we noted the importance of the agricultural negotiations in the Uruguay Round, and made a clear commitment to table comprehensive proposals. ~~This commitment has been fulfilled, and we note that satisfactory~~ ^{considerable} progress ^{has been} ~~is being~~ made in the negotiation. Recognising that agriculture is a key element in the success of the Round as a whole, we endorse the view of the OECD Ministerial Communique of 19 May 1988 that it is important that the Mid-Term Review add impetus to the negotiating process. We ^{give our full backing} ~~underline~~ the OECD commitment to seek to agree a framework approach at the MTR, including long and short-term elements.

A. ~~[[We [commit ourselves to seeking] [are be looking for] [substantive] [concrete] [practical] [significant] results at the MTR on this basis, endorsing the principle of ^{substantial} long-term reduction in support and protection, to start the process of long-term market-orientated reform of agricultural policies, and to facilitate a successful conclusion to the Round.]]~~

B. ~~[We look for the MTR to: endorse the principle of a long-term reduction in support and protection without necessarily setting any specific targets in timing or amount of reduction; and agree on measures which build on those reforms already in place so as to move the process of long-term market-orientated reform forward and to ^{promote} facilitate a successful conclusion to the Round.]~~

and in the meantime agree to implement practical measures to

Handwritten marks: a checkmark, 'PPS', 'B', and '12/2'.

LOWERS Drop fears

...billion, while im- .41 billion, or 1.3 62 billion. ...icates is that the 'ates of the dollar ...ored America's ...iveness in the ...oting that export ...port growth by ...e past year. ...g the improve- ...s agreed that the ...still too high. ...ess will have to be ...the trade deficit ...come if the dollar ...er," said Frank ...k of America ... , the trade deficit ...0.28 billion on a ...nts basis, com- ...55 billion in 1986. ...arter of 1988, the ...dropped \$1.9 bil- ...ion while the defi- ...Europe fell \$3.8 ...lillion. The deficit ...rialized countries ...illion to \$6.9 bil- ...ion said. ...ith Canada rose ...4.4 billion in the ...h Latin America, ...00 million to \$3.4 ...orts fell 12 per- ...llion in the first ...verage oil price ...4 a barrel from ...th quarter. ...imports rose 3 ...billion in the first ...because of in- ...s of nonelectrical ...rom Canada and ...

Baker's Proposals Designed to Mute Criticism

By Hobart Rowen Washington Post Service

WASHINGTON — The U.S. Treasury secretary, James A. Baker 3d, whose plan for international economic coordination has been in motion nearly three years,

NEWS ANALYSIS

may encounter resistance from the West Germans, British and French at the Toronto economic summit next month.

These nations, at least, see some adjustments needed in the coordination process set in motion in 1985.

Mr. Baker, however, remains convinced that he has placed "the world economy on a much more solid footing" and will move at Toronto to secure a few more refinements in the system as a final achievement for the Reagan administration.

In a speech in Paris last week before the Council on Foreign Relations, he unveiled two changes to the process, which began in September 1985 with an agreement in New York among the United States and its four major trading partners to manage exchange rates. The goal at that time was to drive down an inflated dollar.

The group included the United States, West Germany, Japan, France and England. Canada and Italy joined later.

Mr. Baker's purpose in outlining additional areas for potential economic coordination at this time appeared to be twofold:

• French authorities, among others, continue to raise the prospect of more sweeping monetary reforms.

• Many, including the president of the West German central bank, Karl Otto Pöhl, have criticized the group's process for putting too much weight on manag-

ing exchange rates without paying enough attention to underlying economic conditions.

Mr. Baker contended in his Paris speech that international economic cooperation had broad enough support to carry it well beyond the terms of current administrations in the seven countries.

Mr. Baker made a point of conceding that revision of the inter-

the value of the dollar against the yen, and by nearly that much against leading European currencies. Although later in Paris in 1987 the major nations had to reverse their strategy to stabilize exchange rates, the decline set in motion in New York in 1985 is credited with helping to revive U.S. manufacturing exports; the first step in reducing the trade deficit.

The second step proposed by Mr. Baker was to broaden the coordination discussion to include so-called structural reform, such as taxes, liberalization of financial markets and deregulation of labor markets.

Until now, the group's ministers have focused on macroeconomic issues: exchange rates, trade imbalances and economic growth. Increasingly, however, as last week's meeting of the Organization for Economic Cooperation and Development meeting in Paris indicated, experts are becoming convinced of the need for closer links between macro and micro economic policies.

The British chancellor of the Exchequer, Nigel Lawson, said in an OECD speech that economic growth can be stimulated by removing economic barriers and regulations.

To meet the French initiative, Mr. Baker wants to keep the momentum going for what he considers a more pragmatic coordination process, one that might have better financial-market acceptance. President François Mitterrand of France is likely to reiterate the call in Toronto for a new international monetary conference, perhaps patterned after the 1944 Bretton Woods Conference.

To meet the West German approach, Mr. Baker would use the monitoring zones for key economic indicators in a shift from the present concentration on exchange rates.

Some advocates of target zones for exchange rates remain dubious about the idea of monitoring zones. "The virtue of a reference range or target zone system," said C. Fred Bergsten, an economist, "is that it focuses on the one key variable through whose lens you can look at all other items."

'The test of an international monetary system is whether it can foster an open and growing economy.'

James A. Baker 3d, U.S. Treasury secretary.



AP

national monetary system is not simply a matter of exchange rates or reserve assets.

"Exchange rates are certainly a key variable," he said. "Ultimately, however, the test of an international monetary system is whether it can help foster an open and growing economy."

He said that U.S. efforts to reduce its budget deficits and become more competitive, as well as Japanese and West German efforts to reduce reliance on export-led growth, can be traced to a successful political mechanism that is still young.

The Group of Five of 1985 led to a decline of about 50 percent in

The more important of Mr. Baker's two new steps would be to set up monitoring zones for key economic indicators, such as economic growth and trade balances. That would provide a precise test of whether each of the participating economies is keeping to the agreed economic policy path.

For example, if the United States agreed to try to achieve a goal of 3 percent economic growth, the monitoring zone might be 2.5 percent to 3.5 percent. If actual results differed significantly, Mr. Baker explained, then consultation and possible action would be considered by the group.

Market data table with columns for Stock, Div. Yld., Sales in 100s, High, Low, 4 P.M., Net Chge, and 12 Month High Low Stock. Includes sections for MCI, MNC, MNS, MTS, MIB, and MndGE.



psf

FROM: A C S ALLAN
DATE: 27 May 1988

MS SYMES

cc Sir G Littler
Mr Lankester
Mr H P Evans
Mr Mountfield
Mr Matthews
Mr Molan
Mr Savage

TORONTO ECONOMIC SUMMIT

The Chancellor was grateful for your minute of 26 May. He is content with the UK draft communique language on trade and agriculture.

ACSA
A C S ALLAN

RESTRICTED

062737
MDLIAN 1106

RESTRICTED
FM OTTAWA
TO PRIORITY FCO
TELNO 371
OF 302110Z MAY 88

PS/CHANCELLOR OF THE EXCHEQUER
TREASURY

FOR NAD

TORONTO SUMMIT: EVENTS IN THE MARGINS: POSSIBLE CALL ON THE
PRIME MINISTER BY THE PREMIER OF ONTARIO

SUMMARY

1. RECOMMENDATION THAT THE PRIME MINISTER RECEIVE THE PREMIER
OF ONTARIO DURING HER VISIT TO TORONTO, PERHAPS AFTER HER PRESS
CONFERENCE ON 21 JUNE.

DETAIL

2. THE DIRECTOR OF THE INTERNATIONAL RELATIONS BRANCH OF THE
ONTARIO MINISTRY OF INTERGOVERNMENTAL AFFAIRS HAS ASKED OUR
CONSUL-GENERAL IN TORONTO WHETHER A SHORT MEETING BETWEEN
PREMIER DAVID PETERSON AND THE PRIME MINISTER COULD BE
ARRANGED.
3. THERE ARE SENSITIVITIES. THE FEDERAL GOVERNMENT IS GOING
TO SOME TROUBLE TO KEEP THE (LIBERAL) ONTARIO GOVERNMENT OUT OF
THE LIMELIGHT AT TORONTO AND THERE HAVE BEEN ECHOES OF THIS
IN THE PRESS. PETERSON'S OPPOSITION TO THE FREE TRADE AGREEMENT
WITH THE US AND, MORE RECENTLY, PREVARICATION OVER MEECH LAKE
HAVE NOT HELPED HIS RELATIONSHIP WITH MR MULRONEY.
4. WHILE THE PRIME MINISTER HAS NOT ALWAYS BEEN ABLE TO SEE
CANADIAN PROVINCIAL PREMIERS (SHE DID NOT RECEIVE MR VAN DER ZALM
EITHER DURING THE VANCOUNVER CHOGM OR WHEN IN LONDON SEMI-COLON
NOR DID SHE RECEIVE MR BOURASSA WHEN HE VISITED BRITAIN LAST
YEAR). HOWEVER, MR PETERSON DID CALL ON THE PRIME MINISTER IN
LONDON ON 3 FEBRUARY AND ONTARIO IS, IN ECONOMIC TERMS, CANADA'S
MOST IMPORTANT PROVINCE. A MEETING WOULD ENABLE THE PRIME
MINISTER TO QUESTION PETERSON ABOUT HIS FREE TRADE FEARS,
AND HIS PROVINCE'S OBSTACLES TO FREER TRADE WITH EUROPE
(EG LIQUOR BOARDS), AS WELL AS TO ENCOURAGE MORE CANADIAN
INVESTMENT IN THE UK.
5. WHILE IT MIGHT BE POSSIBLE TO FINESSE THIS REQUEST BY SAYING
THAT THEY WILL MEET IN ANY CASE DURING THE HOLLINGER DINNER, AT

RESTRICTED

062737
MDLIAN 1106

WHICH MR PETERSON IS TO BE PRESENT, ON BALANCE I WOULD RECOMMEND THAT THE PRIME MINISTER SHOULD AGREE TO A BRIEF MEETING (15 MINUTES) WHICH MIGHT MOST APPROPRIATELY TAKE PLACE IMMEDIATELY AFTER HER PRESS CONFERENCE ON 21 JUNE (SCHEDULED TO END AT 1700).

URWICK

YYYY

DISTRIBUTION 277

MAIN 240

.ECONOMIC SUMMIT	EED
STANDARD	UND
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ECONOMIC ADVISERS	MAED
FED	SCD
NAD	NCAD
ECDS	MR MAUD
COMED	MR MCLAREN
PLANNERS	SIR D MIERS
SOVIET	

ADDITIONAL 37

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INFO ROUTINE UKREP BRUSSELS

GERMAN VIEWS ON TORONTO ECONOMIC SUMMIT

SUMMARY

1. ECONOMICS MINISTRY AND FEDERAL CHANCELLERY HOPE FOR RECOGNITION AT TORONTO OF WHAT THE EC ACHIEVED ON AGRICULTURE AT THE BRUSSELS COUNCIL, AND FOR PATIENCE WHILE THOSE MEASURES TAKE EFFECT. ECONOMICS MINISTRY PESSIMISTIC ON AGRICULTURE FOLLOWING THE OECD MINISTERIAL ON 18-19 MAY, BUT BELIEVE THERE ARE A FEW POSITIVE POINTS ON OTHER GATT MATTERS WITH WHICH TO BOLSTER THE MTM. ON THE MACRO-ECONOMIC SIDE THEY BELIEVE THE SUMMIT WILL HAVE A GOOD IF UNDRAMATIC STORY TO REPORT. AFFIRMATION BY THE FEDERAL CHANCELLERY THAT NO GERMAN INITIATIVE ON THE ENVIRONMENT IS PLANNED.

DETAIL.

2. DURING A CALL ON VON WUERZEN (STATE SECRETARY, ECONOMICS MINISTRY) ON 30 MAY, I SOUGHT VIEWS ON PROSPECTS FOR TORONTO. I SUGGESTED THAT WE NEEDED TO FIND A SOLUTION IN THE AGRICULTURAL AREA WHICH AVOIDED PUBLIC DISAGREEMENT. VON WUERZEN REFERRED TO THE OECD MINISTERIAL MEETING ON 18-19 MAY AND SAID HE WAS UNIMPRESSED BY THE COMPROMISE FORMULA OF A 'FRAMEWORK APPROACH'. HE WAS NOT OPTIMISTIC ABOUT AGREEMENT ON AGRICULTURE AT TORONTO, THOUGH HE NOTED THAT THE GERMANS HAD SHOWN MORE FLEXIBILITY THAN THE FRENCH AT THE OECD MEETING. KUEHN, WHO WAS ALSO PRESENT, SAID THAT HAVING AGREED TO A RATHER EMPTY 'FRAMEWORK APPROACH' FORMULA IN OECD, IT WOULD BE DIFFICULT TO FIND A FURTHER AND MORE MEANINGFUL FORMULATION SO SOON THEREAFTER.

3. ON OTHER GATT MATTERS VON WUERZEN WAS MORE OPTIMISTIC, THINKING THERE WERE SOME POSITIVE POINTS WITH WHICH TO BOLSTER THE MTM. HE REFERRED PARTICULARLY TO INSTITUTIONAL QUESTIONS AND ADDED THAT THE FRG WOULD WELCOME MORE FREQUENT MINISTERIAL MEETINGS. THERE WAS A POSSIBILITY OF MOVEMENT ON INTELLECTUAL PROPERTY, ALTHOUGH THE US DEMANDS WERE TOO HIGH. SERVICES WERE AT TOO EARLY A STAGE. ON ROLL-BACK VON WUERZEN SPECIFICALLY SAID THE GERMANS HOPED TO FIND THE EC PUT UNDER PRESSURE.

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4. I ASKED WHAT THE PROSPECTS WERE THEN FOR A SUCCESSFUL SUMMIT. HE THOUGHT WE WOULD HAVE SOME GOOD THINGS TO SAY ON THE MACRO-ECONOMIC SIDE. THE US COULD REFER TO THE REDUCTIONS IN ITS DEFICITS AND THE RISE OF ITS SAVINGS RATIO. BOTH JAPAN AND GERMANY COULD REFER TO STRUCTURAL IMPROVEMENTS, EVEN IF FASTER PROGRESS WOULD HAVE BEEN DESIRABLE. THE GERMANS WOULD BE TOLD THAT THEY COULD BOOST DOMESTIC DEMAND BUT THERE WOULD BE NO REVIVAL OF THE LOCOMOTIVE THEORY. IN GENERAL, HE SAW A MEETING WITHOUT DRAMA AGAINST A GENERALLY SATISFACTORY ECONOMIC BACKGROUND.

5. IN AN EARLIER CONVERSATION WITH GRIMM (CHANCELLERY) HE EXPLAINED THAT AGRICULTURE AND THE TORONTO SUMMIT HAD BEEN DISCUSSED BETWEEN KOHL AND MULRONEY DURING THE LATTER'S VISIT TO BONN. KOHL HAD SAID THERE SHOULD BE AN HONEST STOCK-TAKING OF THE PROSPECTS FOR AGRICULTURE, OF THE WORLD SITUATION AND OF THE IDEAS BEING ADVANCED TO SOLVE CURRENT PROBLEMS. THE EC WAS ENTITLED TO RECOGNITION THAT WE HAD PUT OUR OWN HOUSE IN ORDER, AND TO PATIENCE WHILE THE RESULTS BEGAN TO SHOW. IT HAD TO BE UNDERSTOOD THAT WHILE IT WAS NOT IN EUROPEAN INTERESTS TO OVERPRODUCE AND DUMP PRODUCTS ON THE WORLD MARKET, NOR COULD WE BE EXPECTED TO ACCEPT HIGHER IMPORTS FROM THE US. KOHL WOULD PREFER A MODEST POLITICAL AGREEMENT TO MAJOR COMMITMENTS ON THE LINES OF THOSE SOUGHT BY THE US. GRIMM ADDED THAT THE JAPANESE COULD BE EXPECTED TO BE COOPERATIVE SINCE THEY WERE IN NO POSITION TO CRITICISE OTHERS' AGRICULTURAL POLICIES.

6. ON THE ENVIRONMENT, GRIMM STRESSED THAT THE CHANCELLOR HAD A CLOSE INTEREST IN THE SUBJECT BUT AFFIRMED EXPRESSLY THAT THE GERMANS WERE NOT PREPARING ANY INITIATIVES IN THAT FIELD.

FOR TORONTO.

7. BETWEEN NOW AND THE SUMMIT, I EXPECT TO HAVE OPPORTUNITIES TO DISCUSS THE GERMAN APPROACH WITH TIETMEYER, KITTEL (AGRICULTURE MINISTRY) AND JELONEK AND SUDHOFF (AUSWAERTIGES AMT). I SHALL REPORT FURTHER AS APPROPRIATE.

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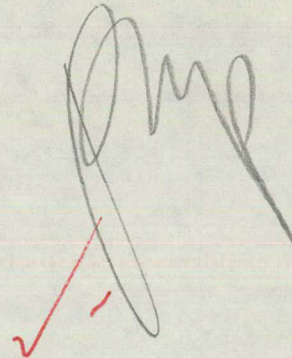
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TORONTO ECONOMIC SUMMIT: FRENCH VIEWS.

SUMMARY

1. NO SURPRISES IN QUAI D'ORSAY VIEW. DEBT AND AGRICULTURE AT TOP OF FRENCH PRIORITIES.

DETAIL

2. OUVRIEU (ECONOMIC DIRECTOR, QUAI D'ORSAY) GAVE THE MINISTER A BRIEF ACCOUNT OF FRENCH APPROACH TO TORONTO. HE MADE CLEAR THAT FRENCH THINKING WAS FAR FROM FULLY DEVELOPED: IT WOULD BE USEFUL TO SPEAK FURTHER BETWEEN THE NEXT SHERPAS' MEETING AND THE SUMMIT.
3. AGRICULTURE AND DEBT WERE FRANCE'S MAIN PREOCCUPATIONS. OUVRIEU EXPECTED A US OFFENSIVE TO QUOTE SINGULARISE UNQUOTE AGRICULTURE. HE WAS UNRESPONSIVE TO ARGUMENTS THAT TORONTO SHOULD GIVE AN IMPETUS TO PROGRESS AT THE GATT MID-TERM MEETING. THE AGREEMENT REACHED AT THE OECD MINISTERIAL MEETING WAS DELICATE AND HAD BEEN REACHED WITH DIFFICULTY. THE SUMMIT SEVEN SHOULD BASE THEMSELVES ON THAT AT TORONTO, AND NOT TRY TO PREJUDGE THE RESULTS OF THE GATT MTM.
4. OUVRIEU CONFIRMED THAT FRENCH IDEAS ON DEBT (PARIS TELNO 534) WERE STILL AT THE STAGE OF REFLECTION. HE TOOK NOTE OF OUR POINT THAT THEY SHOULD BE COMPATIBLE WITH THE CHANCELLOR'S IDEAS.
5. OUVRIEU EXPECTED A PRETTY EASY DISCUSSION ON MACRO-ECONOMIC POLICY AND INTERNATIONAL COOPERATION. THE JAPANESE HAD DONE WELL. THE ONLY POINT LIKELY TO CAUSE TENSION, MAINLY WITH THE AMERICANS, WAS THE GERMAN'S RECORD ON GROWTH AND THEIR PERSISTENT SURPLUS ON CURRENT ACCOUNT.
6. OUVRIEU FAVOURED A MORE ACTIVE DIALOGUE WITH THE ASIAN NIES. HE SAW THE OECD AS THE RIGHT FRAMEWORK FOR THIS, UNDER THE TUTELAGE OF THE SECRETARY-GENERAL RATHER THAN AT, SAY, A MEETING HOSTED BY JAPAN WHICH WOULD TEND TO EMPHASISE JAPAN'S LEADERSHIP ROLE. THERE SHOULD BE VARIABLE GEOMETRY IN THE PACE/MEANS OF INTEGRATION. OUVRIEU SAW

NO REASON WHY THIS SHOULD BE A DIFFICULT SUBJECT AT TORONTO.

7. WE CAST A FLY AS TO ANY OTHER FRENCH INITIATIVES (BESIDES DEBT). OUVRIEU DID NOT EXPECT ANY. RESEARCH/EDUCATION (ON WHICH THE CANADIANS HAD TOLD US THE FRENCH MIGHT BE COOKING SOMETHING UP) PROVIDED GOOD THEMES FOR INFORMAL DISCUSSION BETWEEN HEADS OF STATE AND GOVERNMENTS (ADAPTATION OF WORK FORCE TO NEW TECHNOLOGIES: ADAPTATION OF EDUCATION TO MODERN NEEDS). BUT IT WAS UNLIKELY THAT MITTERRAND WOULD LAUNCH DISCUSSION ON THIS OCCASION. FRANCE HAD NO PARTICULAR INTEREST IN DISCUSSION OF THE ENVIRONMENT, BUT WOULD NOT OBJECT TO IT.

8. FCO PLEASE ADVANCE BRAITHWAITE, AND LITTLER (TREASURY).

LLEWELLYN SMITH

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	Mr MOUNTFIELD

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31 May 1988

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From the Private Secretary

ECONOMIC SUMMIT: MESSAGE FROM THE UNITED NATIONS SECRETARY GENERAL

I enclose a copy of a message to the Prime Minister from the United Nations Secretary General about the forthcoming Economic Summit. As you will see, it deals principally with matters of debt and agriculture. I should be grateful for a draft reply, prepared in conjunction with the Departments principally concerned.

I am copying this letter and enclosure to Alex Allan (HM Treasury), Stephen Ratcliffe (Department of Trade and Industry) and Shirley Stagg (Ministry of Agriculture, Fisheries and Food).

Charles Powell

Lyn Parker, Esq.,
Foreign and Commonwealth Office.



THE SECRETARY-GENERAL

20 May 1988

Dear Prime Minister,

In anticipation of the summit meeting in Toronto, permit me to share with you my deep apprehension about some aspects of the present state of the world economy.

I do not wish to underestimate the improvement in the overall situation. Indeed, it is highly gratifying that economic co-operation has resulted in the greater measure of stability which seems to prevail in exchange markets, that economic growth is continuing, and that inflation remains by and large contained.

However, as you know, the economic situation in many of the poorer countries of the world is still very disturbing. In sub-Saharan Africa and Latin America and many parts of Asia, standards of living have been going down for several years, and the social and political implications of this state of affairs are deeply troubling.

It is impossible to escape the conclusion that one of the principal reasons for these widely shared difficulties is the international debt situation. At your meeting in Venice a year ago, the seriousness of the debt situation in the low-income and debt-distressed countries in sub-Saharan Africa was recognized. Within six months, important progress towards increasing the resources for Africa was made in the World Bank and IMF. In the Paris Club more generous rescheduling of the debts of some sub-Saharan African countries was agreed upon.

Her Excellency
The Right Honourable
Margaret Thatcher, M.P.
Prime Minister of the United Kingdom of
Great Britain and Northern Ireland
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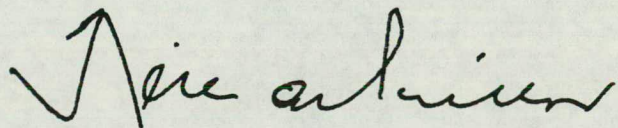
However, the proposal of the Chancellor of the Exchequer of the United Kingdom that African debts should be rescheduled at lower interest rates has so far found little support. I share the view that realism dictates a need for debt relief in those countries which will patently not be able to pay their debts in full, and whose arrears even to the World Bank and IMF are rising.

In the case of the large debts of some middle-income countries, notably in Latin America, the debt crisis has now lasted six years. The financial community in creditor countries seems increasingly to have come to the view that a measure of debt relief is a precondition for the resumption of investment and growth. Market-oriented proposals for such solutions have been put forward, which in my view deserve serious study. In view of the seriousness of the political situation in many of those countries, I appeal to you to do what you can to put this matter on the international agenda. Orderly and negotiated solutions are in these cases surely preferable to unilateral abrogations of obligations.

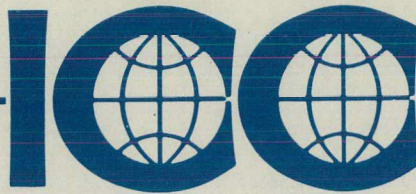
In the Uruguay round, the preparatory work seems to have advanced satisfactorily. I note the recent reaffirmation in OECD of the will to make progress in the important sector of agriculture. If the momentum is not to be lost, concrete action is now urgently needed in the observation of standstill and rollback commitments. Commodity trade remains a particular preoccupation of developing countries, and the existing mechanisms to deal with those problems certainly need to be greatly strengthened. In doing so appropriate lessons from the past need to be taken into account.

When I plead for great attention to the acute difficulties of many developing countries, I do so out of my profound conviction that these also represent a heavy burden to the world economy as a whole, and that the restoration of more buoyant growth worldwide will require their resolution.

With the assurances of my highest consideration and warm personal regards.



Javier Pérez de Cuéllar



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[Handwritten signature]

The Rt Hon Nigel Lawson, MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London
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31 May 1988

Dear Chancellor,

Attached is the ICC's briefing to the Governments attending the Toronto Summit.

As on previous occasions an identical briefing is going to other governments taking part.

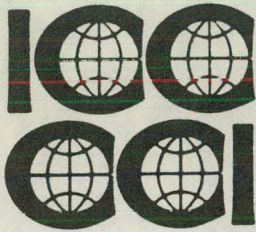
We have also sent one to the Prime Minister

Yours sincerely

[Handwritten signature of Sir Graham Wilkins]

Sir Graham Wilkins

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Secretary General's Office

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for

submission to the Heads of State and Government

attending

the Toronto Summit

19-21 June 1988

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S U M M A R Y

Closer economic cooperation among the world's industrialised countries has borne some fruit in the past six months, and the prospects for world growth in 1988 and 1989 are now brighter than was foreseen after the slump in world stock markets in late-1987.

However, the condition of the world economy is still precarious, financial markets remain very nervous, and the restoration of business confidence still has a long way to go. As at Venice last year, the principal problems of the world economy are inadequate growth, large current account imbalances, and the rumbling crisis of Third World indebtedness.

It must be the urgent priority of the Heads of State and Government meeting in Toronto to provide strong political leadership so as to bolster business confidence - which is the key to investment, trade and growth - that their countries can cooperate effectively to lift the world onto a sounder economic path for the 1990s.

The ICC believes that the leadership of the countries represented at the Toronto Summit is especially vital in three main areas :

1) To improve international coordination of national economic policies in the interest of more balanced and sustainable world growth. The principal policy challenge facing the industrialised countries today is to reduce world current account imbalances without precipitating recession or sacrificing hard-won gains on the inflation front. It is their shared responsibility to pursue coordinated economic policies which, in their aggregate, convince the markets that the prevailing imbalances are being steered firmly if gradually towards a much lower and sustainable level.

2) To achieve a successful outcome to the Uruguay Round of multilateral trade negotiations. The forthcoming mid-term review of the Round at Ministerial level must record some substantive agreements to boost the confidence of business and the financial markets at the half-way stage. The ICC believes concrete progress is feasible as well as desirable in the following areas : rollback, dispute settlement, trade policy review, trade-finance linkages, tropical products, agriculture, subsidies, tariffs, trade-related aspects of intellectual property rights, and a framework for liberalising trade in services. Action to ameliorate the crisis conditions in world agriculture is especially vital.

3) To gradually resolve the problem of Third World indebtedness. A successful strategy must have four key elements : faster growth in the industrialised world, a more open trading environment to improve access for developing country exports, growth-oriented structural adjustment in the indebted countries, and additional external financing in support of effective adjustment programmes. This broad strategy should underlie the case-by-case approach to debt problems which the ICC continues to believe is correct since it enables adjustment programmes and financing flows to be tailored to the circumstances of individual countries.

The Need for Strong Political Leadership

The Toronto Summit will be opening exactly eight months to the day since "Black Monday", when world stock markets began a dramatic collapse and the dollar dropped sharply in their wake. Those events in late-1987 were a painful vindication of the warning the ICC had issued in its statement to the Venice Summit that there was a serious loss of business confidence in the joint resolution of governments to confront effectively the many dangers facing the world economy. Regrettably, the Venice meeting itself was widely regarded as a non-event which further eroded the credibility of the participating governments. "Black Monday" was in part the verdict of the financial markets on the failure of governments to live up to their responsibilities, and indeed commitments, in an interdependent world.

As 1987 drew to a close, the outlook for economic growth in the industrialised countries, which was already modest enough, looked to be further endangered by the prospect that consumers and investors would cut back on their expenditures. World recession appeared a serious possibility. In the event, such fears have fortunately failed to materialise. Indeed, the first half of 1988 has seen a number of surprisingly favourable developments. The slump in equity prices appears to have had a negligible impact on consumer demand, particularly in the US where the negative effects had been expected to be strongest. With resilient consumer demand, rapidly rising exports and growing investment, US economic growth has remained robust. More welcome still has been the pronounced rise in the rate of growth of the Japanese economy and, very significantly, its orientation towards domestic demand. Even in sluggish Europe, growth in 1988 now looks likely to be somewhat higher than was foreseen at the beginning of the year. In addition, in volume terms important progress has been made to reduce the current account imbalances between the major trading countries; and, thanks to more committed cooperation between all the countries concerned, currency exchange rates have remained relatively stable so far this year.

These achievements, however, are in relation to a situation for 1988 which once threatened to be much worse. They should not distract attention from the facts that the condition of the world economy is still precarious, financial markets remain very nervous, and the restoration of business confidence still has a long way to go. Moreover, although current forecasts are for the industrialised countries to grow on average at around 3 per cent during 1988, that figure will be too modest to make a positive impact on European unemployment, or to raise significantly the export earnings of indebted developing countries. While the terms of trade of developing countries have been recovering with the rise in commodity prices, their aggregate debt now amounts to \$ 1.2 trillion, having risen by \$ 95 billion in 1987. This huge burden continues to be a major drag on their investment, development and creditworthiness - and on the growth prospects for the world economy as a whole. And despite encouraging evidence that current account imbalances have begun to fall in volume terms, they will continue to remain very large in the next few years.

Finally, the ICC wishes to record its concern at recently-emerging signs, within the developed world, of economic nationalism and protectionism towards international investment. We strongly believe that an open investment climate is crucial to the faster growth of international trade and the world economy. We therefore welcome the undertaking of Ministers at the OECD Council meeting in May this year to resist pressures against foreign investment and to fulfil and strengthen their international commitments in this area.

As at Venice last year, the principal problems of the world economy today are inadequate growth, large current account imbalances, and the rumbling crisis of Third World indebtedness. It must be the urgent priority of the Heads of State and Government meeting in Toronto to bolster business confidence - which is the key to investment, trade and growth - that their countries can cooperate effectively to lift the world onto a sounder and healthier economic path for the 1990s. A start has been made which has borne some fruit in the past six months. But it is only a start and there is still a very long way to go. Business is looking to Toronto for the strong political leadership and unambiguous spirit of cooperation which it had hoped, but failed, to see emerge from the Venice Summit a year ago.

The ICC, representing business throughout the world, believes that the leadership of the countries represented at the Toronto Summit is especially vital in three main areas : to improve international coordination of national economic policies in the interest of more balanced and more sustainable world growth; to achieve a successful outcome to the Uruguay Round of multilateral trade negotiations; and to gradually resolve the problem of Third World indebtedness.

Policy Coordination and Structural Adjustment

With national economies as interdependent as they are today, active policy coordination by the main industrialised countries is crucial to improving the performance of the world economy. Those countries should build on the useful steps they have already taken to establish effective arrangements for the systematic, collective monitoring of economic fundamentals and the promotion of necessary adjustments to national macro- and micro-economic policies.

The principal policy challenge facing the industrialised countries today is to reduce current account imbalances in order to ensure more evenly-balanced and sustainable economic expansion. Exchange rate adjustments can be only part of that process. They have to be complemented by an appropriate mix of fiscal, monetary and structural adjustment policies. Specifically:

- The USA must persevere with the reduction of its Federal budget deficit, stimulate private sector savings, and maintain its monetary policy objective of keeping inflation in check;

- Japan must seek to sustain its recent rapid growth and the orientation towards domestic demand while, at the same time, maintaining price stability. In addition, various micro-economic reforms in taxation, agriculture and its distribution system would help accelerate the process of reducing Japan's external surplus;

- As for Europe and Canada, the main task is still to break down structural rigidities which impede faster non-inflationary growth. Here the priorities must be to reduce government regulation and taxation of economic activity, curb industrial and agricultural subsidies, and further liberalise labour and financial markets;

- Finally, to go beyond the countries represented at Toronto, certain newly-industrialised countries in Asia with high growth rates and large current account surpluses have the ability and the responsibility to contribute towards the reduction of global imbalances by expanding domestic demand, upvaluing their exchange rates, and liberalising their imports.

On the basis of present policies, and at current exchange rates and/or interest rate differentials, the unwinding of the large current account imbalances in the industrialised world seems likely to be a slow and laborious process. In other words, the world will have to live for the foreseeable future with a US current account deficit which, in dollar terms, will remain very high - unless the US plunges into recession, which would be in the interest of no-one. In such circumstances, the financial markets will remain nervous. A sluggish reduction of the US current account deficit and/or a sharp rise in US bond yields could trigger a fright in the world's foreign exchange and/or equity markets. If a repeat of the events of late-1987 is to be avoided - and they can have left little doubt about the strong interaction today of bond, stock and foreign exchange markets - there must be close coordination among all governments in the industrialised, and newly-industrialised, world to pursue policies which in their aggregate convince the markets that the prevailing current account imbalances are being steered firmly if gradually towards a much lower and sustainable level. Reducing world current account imbalances without precipitating recession or sacrificing hard-won gains on the inflation front is, in particular, the shared responsibility of all the countries represented at the Toronto Summit.

The Uruguay Round

Protectionism is a major threat to world growth and the ICC has throughout its existence fought against it. We therefore strongly supported the launching of the Uruguay Round of multilateral trade negotiations and welcomed the re-affirmation by Ministers at Punta del Este of their commitment to liberalising international trade.

Unfortunately, the spirit of goodwill and compromise which characterised the Punta del Este meeting has been followed by an increase in tensions and disputes in international trade relations. It is a matter of particular concern that the disputes have been predominantly among the countries represented at Toronto - who ought to be providing leadership by setting a good example to the rest of the world.

The ICC believes that a successful outcome to the Uruguay Round will be an indispensable element in any credible strategy to shift the world economy onto a higher growth path in the 1990s. Though a successful outcome is in the clear self-interest of developing countries, which must therefore make an active and positive contribution to the negotiations, the primary responsibility rests on the industrialised nations, and particularly on the US, EC and Japan. The opportunity of the Uruguay Round must be seized to reverse protectionism, liberalise trade further,

and strengthen GATT disciplines. A major objective must be to restore faith in the fairness and dependability of the multilateral trading system. That means fair rules, clear rules, and enforceable rules. All this is essential for business confidence. Producers, investors, traders and job-creators must have a known, stable and reliable framework in which to make decisions for the longer term.

The ICC has welcomed the decision to hold a mid-term review of the Uruguay Round at Ministerial level this coming December in the country where the Toronto Summit participants are meeting. We believe it is vital that Ministers use that occasion to send out a positive signal, especially to the world business community and the financial markets. And a positive signal will be that the Round has some concrete agreements to its credit by the time of the Montreal review. Demonstrable, substantive progress in a number of areas of the negotiations would give a major boost to business confidence. To that end, we call upon the participants in the Toronto Summit to give their negotiators a clear directive from the highest political level. In this context, we recall that the Declaration issued by the participants in last year's Venice Summit reiterated the principle agreed at Punta del Este, namely: '..... agreements reached at an early stage might be implemented on a provisional or definitive basis by agreement prior to the formal conclusion of the negotiations'.

The ICC believes that concrete progress in the following areas of the Uruguay Round negotiations ought to be feasible as well as desirable by the time of the Montreal review:

(i) Rollback: At Punta del Este, Ministers bound themselves to the "progressive implementation" of the rollback commitment during the timeframe of the negotiations. It therefore seems reasonable to expect that a mid-term review will include evidence of some progress in this area.

(ii) Procedural areas: The ICC takes the view that a number of areas of the negotiations concern primarily procedural matters which can and should be dealt with separately since, unlike substantive issues, they are not the real stuff of trade-offs in a normal bargaining process. Such areas are dispute settlement, trade policy review, greater Ministerial involvement in the work of the GATT, and the strengthening of policy-formation linkages in trade and financial matters. We understand that the negotiating groups on the Functioning of the GATT System and on Dispute Settlement have both made considerable progress already. We have high hopes of them in the mid-term view.

(iii) Tropical products: The ICC is also pleased that significant progress has apparently been made to date in the negotiating group on Tropical Products. The Punta del Este Declaration provided for special attention and early implementation in this area; and we trust that the Montreal meeting will produce a concrete agreement for the benefit of a large number of poor countries.

(iv) Agriculture: The ICC takes the very strong view that the Montreal meeting must demonstrate some measure of concrete progress in the complex but core area of agriculture. Business continues to be extremely concerned about the state of world agricultural production and trade. We deeply deplore the distortions and diversion of resources which existing agricultural support systems have brought about, at enormous cost to taxpayers and consumers in the industrialised world, and to the

agricultural sector in many developing and smaller developed countries. We also fear that international disputes in this area are souring trading relations generally, with adverse consequences for other sectors. We believe world agriculture is in such a state of crisis that reform is urgent now to reverse overproduction and competitive subsidising. Some initial steps in that direction must form part of the mid-term review. The Ministerial meeting of the OECD Council in May 1987 raised hopes of real reform in agriculture by an agreement which was forthright and precise in its analysis of both the problems and the necessary solutions. A month later, the Venice Summit endorsed the commitments in that agreement and highlighted the "urgency" of the agricultural problem. Since then there has been precious little sign of urgency; the fine words of spring last year have essentially remained just that. It is high time that the governments represented in Toronto gave a bold lead to translate them into action on the scale required.

(v) Other areas : Finally, the ICC believes that the mid-term review could and should also produce some concrete progress in the areas of subsidies, tariffs, trade-related aspects of intellectual property rights, and a framework for liberalising trade in services. Since the ICC attaches major importance to the new issues in the Round, we would also urge Ministers at Montreal to give clearer direction to the pioneering work on trade-related investment measures.

Third World Indebtedness

Third world indebtedness continues to weigh heavily on the prospects for the world economy as a whole, in addition to its obvious drag on the development efforts of many poor countries who are suffering low growth, falling living standards, rising unemployment, and environmental degradation. Despite the attention devoted to this major problem over the past half-decade, it is still very much to the fore. Although 1987 saw the first significant fall in the debt-export ratio of Third World countries since the onset of the debt crisis, the IMF is forecasting that their aggregate ratio is likely to be 130 per cent in 1989, which is significantly higher than the 120 per cent recorded in 1982.

The ICC has continually stressed that there are four key elements in a successful strategy for resolving the debt problem : faster growth in the industrialised world, a more open trading environment to improve access for developing country exports, growth-oriented structural adjustment in the indebted countries, and additional external financing in support of effective adjustment programmes. This broad strategy should underlie the case-by-case approach to debt problems which the ICC continues to believe is correct since it enables adjustment programmes and financing flows to be tailored to the circumstances of individual countries. In particular, different approaches are necessary towards the small low-income countries and the heavily-indebted middle-income countries.

The ICC very much welcomes the trend towards growing economic liberalisation and the encouragement of private enterprise throughout the developing world. Such an evolution will inject more flexibility into Third World economies and consequently a greater capacity for ongoing structural adjustment. Within current structural adjustment programmes, the emphasis should be on promoting privatisation, strengthening the local agricultural sector, and liberalising external trade regimes, as well as the pursuit of sound fiscal, monetary and exchange rate policies. The Uruguay Round negotiations provide an excellent opportunity for many hitherto inward-looking developing countries to lock themselves more

firmly into the world economy as well as to seek a reduction in industrialised country barriers to their exports.

The ICC welcomes a number of steps governments have taken over the past year which are conducive to easing the debt problem. We consider the creation of the Multilateral Investment Guarantee Agency to be an important achievement which will assist the highly desirable process of increasing the flow of direct foreign investment to developing countries. We also welcome the recently-agreed increase in the general capital of the World Bank, the creation of the IMF's External Contingency Mechanism and its Enhanced Structural Adjustment Facility, the strengthening of the IMF's Extended Fund Facility, and the special assistance arrangements for sub-Saharan Africa. It is essential, however, that these enlarged official resources are used efficiently to support effective programmes of structural adjustment and macro-economic reform.

The ICC has constantly called upon the commercial banks to maintain their lending to countries which have embarked on necessary internal reforms, and we have urged them to display flexibility and innovativeness towards the debt problem. We welcome the emergence of the "menu-approach" of new financing options - such as debt-equity swaps, debt-bond conversions and other forms of debt exchange - as an important development which permits debtors and creditors to share the discounts on existing debt and the potential benefits from successful structural adjustment.

-:~::~:-



[Handwritten signature]

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

1 June 1988

Ch
No reason to object?
[Signature]
Controversy
John C Powell

ECONOMIC SUMMIT: 1989

Monsieur Attali telephoned me from Paris yesterday to say that President Mitterrand wished to obtain formal agreement to the date of the 1989 Paris Economic Summit while Heads of Government were in Toronto. The French wanted the Summit to begin on Friday 14 July 1989 for obvious historical reasons. They were anxious to keep this secret until the announcement in Toronto in order to achieve maximum impact. They hoped that Sherpas would be in a position to agree the date at their meeting next weekend.

The Prime Minister is disposed to agree. On the whole July suits us better than June, which tends to be a very full month. Although there might be a State visit in mid-July, a Summit on a Friday and Saturday would not interfere with that. Subject to any comments by the Foreign Secretary or the Chancellor, she intends to agree the proposed date. I should be grateful if you could let me know in the course of tomorrow whether there are any objections.

May I repeat that Monsieur Attali particularly asked for this to be kept strictly confidential. It would be better for the letter not to go beyond Private Offices for the time being.

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

C. D. POWELL

A. C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office.

FROM: SUSIE SYMES

DATE: 1 June 1988

CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Sir Geoffrey Littler
Mr Lankester
Mr Byatt
Mr Monck
Mr Burgner
Mr R I G Allen
Mr Pickford
Mr A C S Allan
Mr S W Matthews o.r
Mr Bonney
Mr Cropper
Mr Tyrie
Mr Call
Mr N Forman MP

← Mr H P Grant

CHANCELLOR'S SPEECH ON AGRICULTURE

I attach a draft speech-length press statement on agriculture, that you intend should be issued as a curtain-raiser to the Toronto Summit.

2 If issued on Friday 10 June the statement would influence those writing for the press the weekend before the weekend that the Summit starts. A slight complication of this timing is the succession of meetings on agriculture, in Brussels and Geneva, from 6-9 June. In particular the Cairns Group are likely to launch their detailed downpayment proposals on 9 June, at the GATT Agriculture Negotiating Group in Geneva. It is possible, as Cairns countries hope, that this meeting will be delayed by a week. We are keeping in touch with Australian and Canadian officials, and our impression is that the detailed proposals are much in line with our own thinking.

Susie Symes
SUSIE SYMES

Agriculture will be at the forefront of the economic agenda for the meeting of Western leaders at the Toronto Summit [next weekend]. The United Kingdom Government will continue to press for liberalisation of world agricultural markets through significant multilateral reductions of agricultural subsidies and trade barriers.

2. Interventionist agricultural policies worldwide are distorting trade, diverting resources from more productive uses, and undermining agriculture in developing countries. Consumers pay too much for their food, taxpayers bear a heavier burden than they need.

3. There is widespread international agreement on the need for real reform. Yet the latest report from the OECD says that in general little progress has been made in implementing the principles of reform agreed by OECD ministers last year.

4. All countries have contributed to the current crisis, and all countries need to share in the solution. So agriculture is a vitally important issue in the current Uruguay round of GATT negotiations. Ministers meet in Montreal next December to review progress at the mid-point of the round. Substantial advances on agriculture would be a major contribution to the success of the round as a whole. The full diversity of views will be represented at the Summit: it is a vital opportunity to show that specific progress can be made, building on considerable common ground already established.

5. The time has come for all nations to apply to agriculture the lessons we have learned about the rest of the economy. Certainly we cannot go on this way. If the agricultural sector is not to collapse under the weight of its own surpluses, a more market-oriented system is essential. Interventions distort price signals, reduce competition and discourage adjustment. Firms and individuals are held back from responding to exciting new opportunities.

6. Britain in particular learned during the sixties and seventies that an increasing burden of government intervention and expenditure deterred enterprise and initiative. But during the eighties, as we have reduced the burden of government in many areas of the economy, growth has revived. From the slowest growing major European economy in the sixties and seventies, Britain has moved to the top of the league in the eighties.

7. In Britain seven years of sustained and steady growth have followed the Government's commitment to microeconomic policies that promote growth and encourage adjustment by removing controls and making markets work better. The UK government has been in the vanguard of structural reform, but similar trends have been at work in most industrial countries [- their policies to open up their economies to market forces have helped produce five years of steady non-inflationary growth in the world economy].

8. There is a growing international consensus that economies work best when they are allowed to operate freely, with a minimum of government intervention. In the last two years the OECD Council of Ministers, and this year the IMF Interim Committee and the G7, have given a clear message that structural policies are a key determinant of the world's overall economic performance.

9. Perhaps the single most effective pressure for structural change is through international trade. Protection in one country inevitably leads to retaliatory measures by other countries, and hence to a slowdown in world trade and weaker world economic growth. Nothing would do more to stifle world growth than a resurgence of protectionism. And nothing would do more to stimulate world growth than to dismantle protectionist barriers where they are strongest, in agriculture.

10. Agriculture is one of the most heavily protected sectors, not just in Europe but in the United States and Japan as well. In no other sector are the dire consequences of domestic support regimes so painfully evident. Domestic agricultural measures have frequently led to trade tensions which have soured relations on other matters. There is nothing new in this. The long sequence of trade difficulties, from the chicken wars of the 1960s, parma ham disputes in the 1970s, the recent pasta and citrus wars, through to the squabble over soya beans, reads more like a menu than an account of diplomatic negotiation and cooperation.

11. Against this background, progress on agriculture has been painfully slow. The OECD reports that in most member countries agricultural budgets have increased substantially since the early 1980s, with a high proportion of this spending devoted to maintaining huge stocks. Wheat mountains in the EC have been as high as 16 million tonnes, roughly equivalent to 60 times St Paul's Cathedral. In 1987 the US grain stores were twice the size of total international trade in grain.

12. By 1986 the US was spending over \$50 billion on agriculture, and Japan spent some \$[11] billion. Last year the Common Agricultural Policy cost European taxpayers around \$32 billion, not including nearly the same amount from national support programmes. About 70 per cent of ^{the} EC's agricultural budget expenditure goes just on storage and disposal of surplus production.

13. The UK alone spends well over £[120] million a year just on storage. UK Government expenditure on agriculture, forestry and fishing was nearly £2.5 billion in 1986. Support for agriculture, as a proportion of its contribution to value added, is about 20 times that provided for manufacturing industry. And this does not include UK expenditure on the CAP. Total UK expenditure on agriculture, forestry and fishing, including on the CAP, is roughly equivalent to 2½p on the basic rate of income tax.

14. On top of the burdens on taxpayers, consumers pay much more than necessary ^{for their food}. Japanese consumers pay some 7½ times the price in New Zealand for a rib of beef. In Singapore 1 Kg of apples costs 10p, in Japan consumers pay 18 times that, in the USA they pay over 10 times. And artificially high food prices typically bear most heavily on those least able to afford them.

15. Even these heavy costs borne by consumers and taxpayers do not tell the whole story. Far from preserving output and employment, non-agricultural sectors lose out as too many resources are trapped in agriculture. Labour, investment, but above all land, could be used more productively elsewhere. Agriculture represents 6 per cent of employment in major OECD countries, but produces less than half that as a percentage of value added. Productivity, employment and competitiveness in other sectors suffer. [Quote from German BDI, on effects on business]

16. Most industrial countries provide substantial support for their agriculture. The OECD calculates that in Japan, in 1986, some 75 per cent of producers' income came from the various forms of support for farmers, including transfers from consumers; up from around 57 per cent in 1979/81. In the EC over 50 per cent, and in the US around 35 per cent, of producers' income was made up of such direct and indirect support (1986 figures, up from 37 per cent and 16 per cent respectively in 1979/81).

17. It is ironic that much of this assistance does not get to the poorest farmers whom it is intended to help. As domestic prices are held above prices ruling on world markets, producers have a false incentive to raise output, so increasing the price of agricultural inputs, especially land, and so many small farmers find themselves no better off. Japan is the clearest example of support going into higher land prices; reform would release scarce land from agriculture, and greatly ease pressures on land prices.

18. As small farmers do not benefit, they increase pressure for higher prices; creating a vicious spiral in which high prices attract extra R&D into the agricultural sector, and new technology boosts output still further. Higher output and intensification also generates environmental costs, and displaces other rural activities. There is often increased pressure for the public sector to intervene to compensate for the distortions caused by its own interventions in agriculture. Subsidies breed subsidies.

19. Higher quantity of agricultural output all too seldom goes with higher quality. The EC now turns quantities of wine into industrial alcohol; hardly the right incentive for the many excellent vineyards spread throughout the Community. Yet conversely the increasing competitive pressures in the dairy sector have encouraged some innovative marketing ideas by UK producers, including splendid local cheeses and ice-creams. Greater openness to market forces would allow our farmers to provide food for enjoyment instead of food for thought.

20. Industrial countries agricultural policies impose enormous costs on themselves. But these policies also damage the less developed countries, who find their export opportunities much reduced as industrial countries restrict access to their markets. The less developed countries also find themselves competing in the few open markets - and often in their own domestic markets - with the surpluses dumped by the rich countries, artificially depressing LDC prices and incomes.

21. LDCs' own domestic and trade policies also need to be reformed. Producers are often forced to sell their produce to state buying organisations, at artificially low prices. In some countries farmers may receive as little as 30 per cent of the border price. The World Bank has encouraged a welcome recognition of the folly of such policies, yet progress is undermined by the industrial countries' failure to improve access and make progress on orderly stock disposal.

22. The low income agricultural importers among the less-developed, especially those who need to grow more of their own food, might suffer initially. But in the longer term they will benefit from better use of their scarce resources, ~~the~~ greater efficiency and the benefits of more neutral taxation.

23. There is a clear message: all countries will gain from liberalisation of agricultural trade. Some countries have already made a start, including the EC - most recently at the Brussels Council in February - the US, and Japan. Yet the latest OECD Report on Monitoring and Outlook of Agricultural Policies, Markets and Trade concludes that 'there have been no major moves towards the dismantling of trade distorting measures', and that reform is as urgent as ever. Only New Zealand, and in recent weeks Australia, has instituted policy changes to reduce government intervention and bring market forces properly to bear on agriculture. Reform efforts by others are not even enough to offset likely technological improvements.

24. We must not lose the momentum for reform. ~~A real agreement at Montreal on a package~~ Some steps have been taken, but there is a long road ahead. Structural reforms are always difficult, as governments' existing policies benefit particular interest groups but impose very diffuse costs. That is why agriculture is one of the five priority areas that OECD Ministers agreed needed international cooperation.

25. The Ministerial Meeting in Montreal will be a vital opportunity to consolidate achievements, to make operational the standstill commitments that were agreed at Punta del Este, and to make an explicit commitment to liberalisation of world agricultural markets through significant reductions in overall support and protection. To get the second stage of negotiations off to a flying start, we should aim to agree the ^edetails of the long term framework for negotiations, now that the OECD countries agree to a framework approach. The long term framework will need to include some overall measure of support and protection, relating to particular commodities and policies. This alone is not enough. It is never too soon to make a deposit in a worthwhile investment: we must all make a clear multilateral commitment to specific early action towards our long term destination.

26. The sooner we can make a specific commitment, the sooner our farmers - and all the associated supplying and food-processing industries - will get a clear signal about the future, so reducing their uncertainty and encouraging adjustment. The Cairns group have made constructive suggestions for a downpayment, and even in the last day or so new ideas have emerged in Geneva.

27. The Toronto Summit could signpost the way forward. The major seven countries have a real opportunity to demonstrate their commitment to strengthening and extending the multilateral trading system, through progress on agriculture that will benefit both industrial and developing countries.

CONFIDENTIAL

From: Sir G.Littler
Date: 1 June 1988

MR ALEX ALLAN

c.c. Sir P.Middleton
Sir T.Burns
Mr Huw Evans
Mr Mountfield

TORONTO SUMMIT: P.M.'s OPENING STATEMENT

The draft attached to Mr Wicks' letter of 10 June to Lyn Parker reflects most of the comments we offered on the earlier version. I think it reads quite well and see no need to offer any further comment at this stage.

2. There will need to be some juggling between material here and material being prepared for the Plenary Opening Statement, but the Prime Minister will no doubt reflect on this after tomorrow's briefing session.

3. If the Chancellor is content, perhaps you could telephone Wicks.



(Geoffrey Littler)



CH/EXCHEQUER	
REC.	02 JUN 1988
ACTION	Sir G. LITTLER
COPIES TO	Sir P. MIDDLETON
	Sir T. BURNS
	Mr H.P. EVANS
	Mr MOUNTFIELD

✓
2/6

BF 7/16

Foreign and Commonwealth Office

London SW1A 2AH

1 June 1988

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Dear Alex,

Economic Summit, Toronto: Programme

You will see from the enclosed Programme of the Economic Summit that most of the dinners and lunches will be at venues outside the MTCC complex.

Dress for the dinners on 19 and 20 June and the lunch on 21 June will be business suit.

I should be grateful if you would let me know if you wish to accompany the Chancellor to those functions (the Aides will dine separately); in the case of the dinner at The Old Mill on 19 June, to which the sous-Sherpa is invited, I assume that Sir Geoffrey Littler will also go?

Yours ever,

A C Galsworthy

(A C Galsworthy)
Private Secretary

*What is this
Nepalo - Francais word?*

26

A Allan Esq
PS/Chancellor of the Exchequer

CONFIDENTIAL

THE TORONTO ECONOMIC SUMMIT

JUNE 19, 20, 21, 1988

OFFICIAL PROGRAMME

SUNDAY, JUNE 19, 1988

0930 -

1300 hours

Official Welcomes
Nathan Phillips Square,
Toronto City Hall

1500 -

1700 hours

Separate Sessions
Main meeting room of the
Toronto Convention Centre (MTCC)

1900 -

2100 hours

Separate dinners:

Dinner hosted by the Prime Minister of Canada
for Heads of Delegation
The Toronto Hunt

Dinner hosted by the Secretary of State for
External Affairs for Foreign Ministers
The Faculty Club
University of Toronto

Dinner hosted by the Minister of Finance for
Finance Ministers
The Old Mill

THE TORONTO ECONOMIC SUMMIT

JUNE 19, 20, 21, 1988

OFFICIAL PROGRAMME

MONDAY, JUNE 20, 1988

0930 -
1200 hours

Plenary Session
Main Meeting Room, MTCC

1230 -
1430 hours

Separate Luncheons:

Luncheon hosted by the Prime Minister of
Canada for Heads of Delegation and
Foreign Ministers
L'Hotel

Luncheon hosted by the Minister of
Finance for Finance Ministers
L'Hotel

1500 -
1700 hours

Plenary Session
Main Meeting Room, MTCC

1830 -
2000 hours

Informal Session for Heads of Delegation
Hart House, University of Toronto

2000 -
2130 hours

Separate dinners:

Dinner hosted by the Prime Minister of
Canada for Heads of Delegation
Hart House, University of Toronto

Dinner hosted by the Secretary of State
for External Affairs for Foreign Ministers
Hart House, University of Toronto

Dinner hosted by the Minister of Finance
for Finance Ministers
Hart House, University of Toronto

THE TORONTO ECONOMIC SUMMIT

JUNE 19, 20, 21, 1988

OFFICIAL PROGRAMME

TUESDAY, JUNE 21, 1988

0930 -
1130 hours

Plenary Session
Main Meeting Room, MTCC

1230 -
1430 hours

Luncheon hosted by Her Excellency the Governor
General of Canada for Heads of Delegation,
Foreign Ministers, Finance Ministers and
Spouses
Art Gallery of Ontario

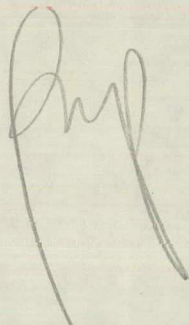
1530 -
1600 hours

Presentation of the Communiqué
Roy Thomson Hall

CONFIDENTIAL

CH/EXCHEQUER	
REC.	02 JUN 1988
ACTION	Sir G. LITTLER
COPIES TO	Sir P. MIDDLETON
	Sir T. BURNS
	Mr H.P. EVANS
	Mr MOUNTFIELD

2/6



PRIME MINISTER

TORONTO ECONOMIC SUMMIT

The last meeting of Sherpas takes place this weekend in Toronto when we will, once again, go over the ground for the Summit.

There is one particular point on which I would welcome your guidance. When Mr. Mulroney saw you last week, he asked you to open the discussion at the first meeting of Heads on the first afternoon of the Summit. He hoped that you could speak without notes so as to encourage a spontaneous discussion among the other Heads.

I think there is a great deal to be said for opening the batting in the way suggested by Mr. Mulroney. It would give you the opportunity to set the agenda for the economic discussion at the Summit and concentrate attention from the outset on the issues which you see as the important ones.

If you agree, I will tell my Canadian Sherpa colleague that you are very willing to begin the discussion in the way that Mr Mulroney suggested. Content?

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

N.L.W.

N.L. Wicks

1 June 1988

CH/EXCHEQUER	
REC.	03 JUN 1988
ACTION	Sir G. LITTLER
COPIES TO	Sir P. MIDDLETON
	Sir T. BURNS
	Mr H.P. EVANS
	Mr MOUNTFIELD
From the Private Secretary	

✓
3/6



[Handwritten signature]

10 DOWNING STREET
LONDON SW1A 2AA

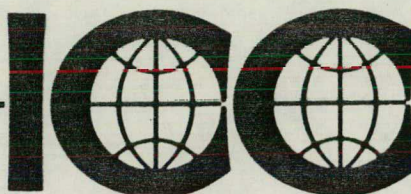
2 June, 1988.

I attach a copy of a letter and enclosure to the Prime Minister from Sir Graham Wilkins of ICC United Kingdom.

I should be most grateful if you would provide a draft reply for the Prime Minister's signature after the Toronto Summit please, and if you would coordinate that reply with Alex Allan (HM Treasury) and Jeremy Godfrey (Department of Trade and Industry) to whom I am copying this letter and enclosure.

(C.D. Powell)

Bob Peirce, Esq.,
Foreign and Commonwealth Office.



SERVING WORLD BUSINESS

**· ICC UNITED KINGDOM · CENTRE POINT · 103 NEW OXFORD STREET · LONDON WC1A 1QB ·
· TELEPHONE: 01-240 5558 · TELEX: 21332 ·**

The Rt Hon Margaret Thatcher, MP
10 Downing Street
London SW1A 2AA

31 May 1988

Dear Prime Minister

R2/6

As in previous years I am enclosing a copy of the ICC's brief to Heads of Government attending the Toronto Summit 19-21 June.

Just to remind you, an identical document is being sent to the other Heads of Government attending the Summit.

We would greatly appreciate your comments at your convenience.

Yours sincerely

Sir Graham Wilkins



**International Chamber of Commerce
Chambre de Commerce Internationale**

38, Cours Albert 1^{er}, 75008 PARIS

Telephone : (1) 45.62.34.56

Cables : Incomerc-Paris

Telex : 650770

Telefax : (1) 42.25.86.63

Secretary General's Office

24.V.1988

MW

S T A T E M E N T

for

submission to the Heads of State and Government

attending

the Toronto Summit

19-21 June 1988

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S U M M A R Y

Closer economic cooperation among the world's industrialised countries has borne some fruit in the past six months, and the prospects for world growth in 1988 and 1989 are now brighter than was foreseen after the slump in world stock markets in late-1987.

However, the condition of the world economy is still precarious, financial markets remain very nervous, and the restoration of business confidence still has a long way to go. As at Venice last year, the principal problems of the world economy are inadequate growth, large current account imbalances, and the rumbling crisis of Third World indebtedness.

It must be the urgent priority of the Heads of State and Government meeting in Toronto to provide strong political leadership so as to bolster business confidence - which is the key to investment, trade and growth - that their countries can cooperate effectively to lift the world onto a sounder economic path for the 1990s.

The ICC believes that the leadership of the countries represented at the Toronto Summit is especially vital in three main areas :

- 1) To improve international coordination of national economic policies in the interest of more balanced and sustainable world growth. The principal policy challenge facing the industrialised countries today is to reduce world current account imbalances without precipitating recession or sacrificing hard-won gains on the inflation front. It is their shared responsibility to pursue coordinated economic policies which, in their aggregate, convince the markets that the prevailing imbalances are being steered firmly if gradually towards a much lower and sustainable level.
- 2) To achieve a successful outcome to the Uruguay Round of multilateral trade negotiations. The forthcoming mid-term review of the Round at Ministerial level must record some substantive agreements to boost the confidence of business and the financial markets at the half-way stage. The ICC believes concrete progress is feasible as well as desirable in the following areas : rollback, dispute settlement, trade policy review, trade-finance linkages, tropical products, agriculture, subsidies, tariffs, trade-related aspects of intellectual property rights, and a framework for liberalising trade in services. Action to ameliorate the crisis conditions in world agriculture is especially vital.
- 3) To gradually resolve the problem of Third World indebtedness. A successful strategy must have four key elements : faster growth in the industrialised world, a more open trading environment to improve access for developing country exports, growth-oriented structural adjustment in the indebted countries, and additional external financing in support of effective adjustment programmes. This broad strategy should underlie the case-by-case approach to debt problems which the ICC continues to believe is correct since it enables adjustment programmes and financing flows to be tailored to the circumstances of individual countries.'

The Need for Strong Political Leadership

The Toronto Summit will be opening exactly eight months to the day since "Black Monday", when world stock markets began a dramatic collapse and the dollar dropped sharply in their wake. Those events in late-1987 were a painful vindication of the warning the ICC had issued in its statement to the Venice Summit that there was a serious loss of business confidence in the joint resolution of governments to confront effectively the many dangers facing the world economy. Regrettably, the Venice meeting itself was widely regarded as a non-event which further eroded the credibility of the participating governments. "Black Monday" was in part the verdict of the financial markets on the failure of governments to live up to their responsibilities, and indeed commitments, in an interdependent world.

As 1987 drew to a close, the outlook for economic growth in the industrialised countries, which was already modest enough, looked to be further endangered by the prospect that consumers and investors would cut back on their expenditures. World recession appeared a serious possibility. In the event, such fears have fortunately failed to materialise. Indeed, the first half of 1988 has seen a number of surprisingly favourable developments. The slump in equity prices appears to have had a negligible impact on consumer demand, particularly in the US where the negative effects had been expected to be strongest. With resilient consumer demand, rapidly rising exports and growing investment, US economic growth has remained robust. More welcome still has been the pronounced rise in the rate of growth of the Japanese economy and, very significantly, its orientation towards domestic demand. Even in sluggish Europe, growth in 1988 now looks likely to be somewhat higher than was foreseen at the beginning of the year. In addition, in volume terms important progress has been made to reduce the current account imbalances between the major trading countries; and, thanks to more committed cooperation between all the countries concerned, currency exchange rates have remained relatively stable so far this year.

These achievements, however, are in relation to a situation for 1988 which once threatened to be much worse. They should not distract attention from the facts that the condition of the world economy is still precarious, financial markets remain very nervous, and the restoration of business confidence still has a long way to go. Moreover, although current forecasts are for the industrialised countries to grow on average at around 3 per cent during 1988, that figure will be too modest to make a positive impact on European unemployment, or to raise significantly the export earnings of indebted developing countries. While the terms of trade of developing countries have been recovering with the rise in commodity prices, their aggregate debt now amounts to \$ 1.2 trillion, having risen by \$ 95 billion in 1987. This huge burden continues to be a major drag on their investment, development and creditworthiness - and on the growth prospects for the world economy as a whole. And despite encouraging evidence that current account imbalances have begun to fall in volume terms, they will continue to remain very large in the next few years.

Finally, the ICC wishes to record its concern at recently-emerging signs, within the developed world, of economic nationalism and protectionism towards international investment. We strongly believe that an open investment climate is crucial to the faster growth of international trade and the world economy. We therefore welcome the undertaking of Ministers at the OECD Council meeting in May this year to resist pressures against foreign investment and to fulfil and strengthen their international commitments in this area.

As at Venice last year, the principal problems of the world economy today are inadequate growth, large current account imbalances, and the rumbling crisis of Third World indebtedness. It must be the urgent priority of the Heads of State and Government meeting in Toronto to bolster business confidence - which is the key to investment, trade and growth - that their countries can cooperate effectively to lift the world onto a sounder and healthier economic path for the 1990s. A start has been made which has borne some fruit in the past six months. But it is only a start and there is still a very long way to go. Business is looking to Toronto for the strong political leadership and unambiguous spirit of cooperation which it had hoped, but failed, to see emerge from the Venice Summit a year ago.

The ICC, representing business throughout the world, believes that the leadership of the countries represented at the Toronto Summit is especially vital in three main areas : to improve international coordination of national economic policies in the interest of more balanced and more sustainable world growth; to achieve a successful outcome to the Uruguay Round of multilateral trade negotiations; and to gradually resolve the problem of Third World indebtedness.

Policy Coordination and Structural Adjustment

With national economies as interdependent as they are today, active policy coordination by the main industrialised countries is crucial to improving the performance of the world economy. Those countries should build on the useful steps they have already taken to establish effective arrangements for the systematic, collective monitoring of economic fundamentals and the promotion of necessary adjustments to national macro- and micro-economic policies.

The principal policy challenge facing the industrialised countries today is to reduce current account imbalances in order to ensure more evenly-balanced and sustainable economic expansion. Exchange rate adjustments can be only part of that process. They have to be complemented by an appropriate mix of fiscal, monetary and structural adjustment policies. Specifically:

- The USA must persevere with the reduction of its Federal budget deficit, stimulate private sector savings, and maintain its monetary policy objective of keeping inflation in check;
- Japan must seek to sustain its recent rapid growth and the orientation towards domestic demand while, at the same time, maintaining price stability. In addition, various micro-economic reforms in taxation, agriculture and its distribution system would help accelerate the process of reducing Japan's external surplus;

- As for Europe and Canada, the main task is still to break down structural rigidities which impede faster non-inflationary growth. Here the priorities must be to reduce government regulation and taxation of economic activity, curb industrial and agricultural subsidies, and further liberalise labour and financial markets;

- Finally, to go beyond the countries represented at Toronto, certain newly-industrialised countries in Asia with high growth rates and large current account surpluses have the ability and the responsibility to contribute towards the reduction of global imbalances by expanding domestic demand, upvaluing their exchange rates, and liberalising their imports.

On the basis of present policies, and at current exchange rates and/or interest rate differentials, the unwinding of the large current account imbalances in the industrialised world seems likely to be a slow and laborious process. In other words, the world will have to live for the foreseeable future with a US current account deficit which, in dollar terms, will remain very high - unless the US plunges into recession, which would be in the interest of no-one. In such circumstances, the financial markets will remain nervous. A sluggish reduction of the US current account deficit and/or a sharp rise in US bond yields could trigger a fright in the world's foreign exchange and/or equity markets. If a repeat of the events of late-1987 is to be avoided - and they can have left little doubt about the strong interaction today of bond, stock and foreign exchange markets - there must be close coordination among all governments in the industrialised, and newly-industrialised, world to pursue policies which in their aggregate convince the markets that the prevailing current account imbalances are being steered firmly if gradually towards a much lower and sustainable level. Reducing world current account imbalances without precipitating recession or sacrificing hard-won gains on the inflation front is, in particular, the shared responsibility of all the countries represented at the Toronto Summit.

The Uruguay Round

Protectionism is a major threat to world growth and the ICC has throughout its existence fought against it. We therefore strongly supported the launching of the Uruguay Round of multilateral trade negotiations and welcomed the re-affirmation by Ministers at Punta del Este of their commitment to liberalising international trade.

Unfortunately, the spirit of goodwill and compromise which characterised the Punta del Este meeting has been followed by an increase in tensions and disputes in international trade relations. It is a matter of particular concern that the disputes have been predominantly among the countries represented at Toronto - who ought to be providing leadership by setting a good example to the rest of the world.

The ICC believes that a successful outcome to the Uruguay Round will be an indispensable element in any credible strategy to shift the world economy onto a higher growth path in the 1990s. Though a successful outcome is in the clear self-interest of developing countries, which must therefore make an active and positive contribution to the negotiations, the primary responsibility rests on the industrialised nations, and particularly on the US, EC and Japan. The opportunity of the Uruguay Round must be seized to reverse protectionism, liberalise trade further,

and strengthen GATT disciplines. A major objective must be to restore faith in the fairness and dependability of the multilateral trading system. That means fair rules, clear rules, and enforceable rules. All this is essential for business confidence. Producers, investors, traders and job-creators must have a known, stable and reliable framework in which to make decisions for the longer term.

The ICC has welcomed the decision to hold a mid-term review of the Uruguay Round at Ministerial level this coming December in the country where the Toronto Summit participants are meeting. We believe it is vital that Ministers use that occasion to send out a positive signal, especially to the world business community and the financial markets. And a positive signal will be that the Round has some concrete agreements to its credit by the time of the Montreal review. Demonstrable, substantive progress in a number of areas of the negotiations would give a major boost to business confidence. To that end, we call upon the participants in the Toronto Summit to give their negotiators a clear directive from the highest political level. In this context, we recall that the Declaration issued by the participants in last year's Venice Summit reiterated the principle agreed at Punta del Este, namely: '..... agreements reached at an early stage might be implemented on a provisional or definitive basis by agreement prior to the formal conclusion of the negotiations'.

The ICC believes that concrete progress in the following areas of the Uruguay Round negotiations ought to be feasible as well as desirable by the time of the Montreal review:

(i) Rollback: At Punta del Este, Ministers bound themselves to the "progressive implementation" of the rollback commitment during the timeframe of the negotiations. It therefore seems reasonable to expect that a mid-term review will include evidence of some progress in this area.

(ii) Procedural areas: The ICC takes the view that a number of areas of the negotiations concern primarily procedural matters which can and should be dealt with separately since, unlike substantive issues, they are not the real stuff of trade-offs in a normal bargaining process. Such areas are dispute settlement, trade policy review, greater Ministerial involvement in the work of the GATT, and the strengthening of policy-formation linkages in trade and financial matters. We understand that the negotiating groups on the Functioning of the GATT System and on Dispute Settlement have both made considerable progress already. We have high hopes of them in the mid-term view.

(iii) Tropical products: The ICC is also pleased that significant progress has apparently been made to date in the negotiating group on Tropical Products. The Punta del Este Declaration provided for special attention and early implementation in this area; and we trust that the Montreal meeting will produce a concrete agreement for the benefit of a large number of poor countries.

(iv) Agriculture: The ICC takes the very strong view that the Montreal meeting must demonstrate some measure of concrete progress in the complex but core area of agriculture. Business continues to be extremely concerned about the state of world agricultural production and trade. We deeply deplore the distortions and diversion of resources which existing agricultural support systems have brought about, at enormous cost to taxpayers and consumers in the industrialised world, and to the

agricultural sector in many developing and smaller developed countries. We also fear that international disputes in this area are souring trading relations generally, with adverse consequences for other sectors. We believe world agriculture is in such a state of crisis that reform is urgent now to reverse overproduction and competitive subsidising. Some initial steps in that direction must form part of the mid-term review. The Ministerial meeting of the OECD Council in May 1987 raised hopes of real reform in agriculture by an agreement which was forthright and precise in its analysis of both the problems and the necessary solutions. A month later, the Venice Summit endorsed the commitments in that agreement and highlighted the "urgency" of the agricultural problem. Since then there has been precious little sign of urgency; the fine words of spring last year have essentially remained just that. It is high time that the governments represented in Toronto gave a bold lead to translate them into action on the scale required.

(v) Other areas : Finally, the ICC believes that the mid-term review could and should also produce some concrete progress in the areas of subsidies, tariffs, trade-related aspects of intellectual property rights, and a framework for liberalising trade in services. Since the ICC attaches major importance to the new issues in the Round, we would also urge Ministers at Montreal to give clearer direction to the pioneering work on trade-related investment measures.

Third World Indebtedness

Third world indebtedness continues to weigh heavily on the prospects for the world economy as a whole, in addition to its obvious drag on the development efforts of many poor countries who are suffering low growth, falling living standards, rising unemployment, and environmental degradation. Despite the attention devoted to this major problem over the past half-decade, it is still very much to the fore. Although 1987 saw the first significant fall in the debt-export ratio of Third World countries since the onset of the debt crisis, the IMF is forecasting that their aggregate ratio is likely to be 130 per cent in 1989, which is significantly higher than the 120 per cent recorded in 1982.

The ICC has continually stressed that there are four key elements in a successful strategy for resolving the debt problem : faster growth in the industrialised world, a more open trading environment to improve access for developing country exports, growth-oriented structural adjustment in the indebted countries, and additional external financing in support of effective adjustment programmes. This broad strategy should underlie the case-by-case approach to debt problems which the ICC continues to believe is correct since it enables adjustment programmes and financing flows to be tailored to the circumstances of individual countries. In particular, different approaches are necessary towards the small low-income countries and the heavily-indebted middle-income countries.

The ICC very much welcomes the trend towards growing economic liberalisation and the encouragement of private enterprise throughout the developing world. Such an evolution will inject more flexibility into Third World economies and consequently a greater capacity for ongoing structural adjustment. Within current structural adjustment programmes, the emphasis should be on promoting privatisation, strengthening the local agricultural sector, and liberalising external trade regimes, as well as the pursuit of sound fiscal, monetary and exchange rate policies. The Uruguay Round negotiations provide an excellent opportunity for many hitherto inward-looking developing countries to lock themselves more

firmly into the world economy as well as to seek a reduction in industrialised country barriers to their exports.

The ICC welcomes a number of steps governments have taken over the past year which are conducive to easing the debt problem. We consider the creation of the Multilateral Investment Guarantee Agency to be an important achievement which will assist the highly desirable process of increasing the flow of direct foreign investment to developing countries. We also welcome the recently-agreed increase in the general capital of the World Bank, the creation of the IMF's External Contingency Mechanism and its Enhanced Structural Adjustment Facility, the strengthening of the IMF's Extended Fund Facility, and the special assistance arrangements for sub-Saharan Africa. It is essential, however, that these enlarged official resources are used efficiently to support effective programmes of structural adjustment and macro-economic reform.

The ICC has constantly called upon the commercial banks to maintain their lending to countries which have embarked on necessary internal reforms, and we have urged them to display flexibility and innovativeness towards the debt problem. We welcome the emergence of the "menu-approach" of new financing options - such as debt-equity swaps, debt-bond conversions and other forms of debt exchange - as an important development which permits debtors and creditors to share the discounts on existing debt and the potential benefits from successful structural adjustment.

-:-:-:-



10 DOWNING STREET

LONDON SW1A 2AA

Handwritten signature

From the Principal Private Secretary

2 June 1988

CH/EXCHEQUER	
REC.	03 JUN 1988
ACTION	Sir G. LITTLER
COPIES TO	Sir P. MIDDLETON
	Sir T. BURNS
	Mr H.P. EVANS
	Mr MOUNTFIELD

Handwritten mark: 3/6

TORONTO ECONOMIC SUMMIT

As you will know from my minute to the Prime Minister of yesterday, I sought her agreement to tell the Canadian Sherpa that she was very willing to accept Mr. Mulroney's invitation, put forward when he saw her last week, to open the discussion at the first meeting of Heads on the first afternoon of the Toronto Economic Summit.

The Prime Minister has agreed that I should speak to my Canadian colleague in these terms when I see her at the final Sherpa meeting this weekend.

I am copying this letter to Alex Allan (H M Treasury) and to Sir Robin Butler.

N. L. WICKS

A. C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office.



CH/E	CHEQUER
REC.	02 JUN 1988
ACTION	Sir G. LITTLE
COPIES IU	Sir P. MIDDLETON
	Sir T. BURNS
	Mr H. P. EVANS
	Mr MOUNTFIELD

Foreign and Commonwealth Office

London SW1A 2AH

2 June 1988

Dear Charles

**Prime Minister's meeting with the Canadian Prime Minister:
Economic Summit**

In your letter of 23 May you asked the Treasury for a note on UK powers to prevent the laundering of drug money. We are replying by agreement with the Treasury and Home Office. You may want to copy the relevant part of your letter and this reply to Philip Mawer as the Home Office have a major interest in the subject.

The Drug Trafficking Offences Act 1986 (DTOA) provides stringent and comprehensive new powers to trace, freeze and confiscate the proceeds of drug trafficking. It also creates a new offence of laundering the proceeds of drug trafficking.

The DTOA allows these powers to be made available to other countries once they have been designated under the Act by Order in Council. Our policy is to designate countries with which we have negotiated reciprocal agreements that enable UK court orders and requests for assistance to be put into effect overseas. It is also our aim, by having such agreements in place, to avoid any potential extraterritorial problems; in particular with the Americans.

The first reciprocal agreement was signed with the US on 9 February. Texts have also been agreed in draft with Switzerland, Australia, Canada and the Bahamas. Talks have been started with some 20 other countries. By building up an international network of agreements, countries can develop the means to combat the laundering of drug money which takes place on a worldwide scale. We fully support the work being done to produce multilateral conventions on measures against drug trafficking. But these will take time, and we do not see them as a substitute for the immediate benefits of detailed bilateral agreements.

/Laundering



Laundering of the proceeds of crime is not, of course, confined to drugs offences. The Criminal Justice Bill, when enacted, will extend powers of freezing and confiscation to other areas of serious crime. You may also like to be aware that the US have proposed that the Committee of Banking Supervisors at the Bank for International Settlements should recommend the adoption of a code of conduct on the prevention of the criminal use of the banking system for the purpose of money laundering. Consultations on a draft are currently in progress with banks and official bodies.

I am copying this letter to Alex Allan (HM Treasury), and to Trevor Woolley (Cabinet Office).

Yours ever

A handwritten signature in dark ink, appearing to read 'R N Peirce', with a long horizontal flourish extending to the right.

(R N Peirce)
Private Secretary

C D Powell Esq
PS/No 10 Downing Street

CONFIDENTIAL



CH/EXCHEQUER	
REC.	03 JUN 1988
ACTION	SIR G. LITTLE
COPIES TO	SIR P. MIDDLETON
	SIR T. BURNS
	MR H. P. EVANS
	MR MOUNTFIELD

Foreign and Commonwealth Office

London SW1A 2AH

3 June 1988

[Handwritten signature]

Dear Charles,

Economic Summit: Welcoming Ceremony at Nathan Phillips Square, Toronto City Hall: 19 June

As for previous summits, the Welcoming Ceremony (details enclosed) is restricted to Heads of Delegation and the two Ministers. There is no problem in accommodating the Prime Minister's two protection officers (and those of the Secretary of State) but no provision has been made to seat or transport any other members of the Delegation.

The Canadians have however asked how many people will accompany the Prime Minister, the Secretary of State and the Chancellor to the Welcoming Ceremony which takes place between 0930-1300 hrs on Sunday 19 June (our slot at the ceremony - at a time to be decided - will last for approximately 20 minutes).

I know that you have in the past accompanied the Prime Minister to the ceremony, remaining self-effacedly in the background while it takes place. Can I take it that you would want to do the same on this occasion, or would you be content for the Prime Minister to be accompanied only by the Foreign Secretary and Chancellor of the Exchequer (plus protection officers)?

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

*Yours ever,
[Handwritten signature]*

(A C Galsworthy)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

**ECONOMIC SUMMIT: OFFICIAL WELCOMES, NATHAN PHILLIPS SQUARE,
TORONTO CITY HALL, 0930-1300 HOURS ON SUNDAY 19 JUNE**

Heads of Government, Foreign Ministers and Finance Ministers will be welcomed by the Canadian Prime Minister and Ministers in reverse protocol order. Each ceremony will take approximately 20 minutes.

The protected limousines carrying the Heads of Government and Ministers will approach the welcoming area from the West end of the Square and beneath the raised driveway at the front of City Hall. They will stop beneath the driveway and behind the canopy. The Head of Government will then be brought forward to the Dais beneath the canopy by the Canadian Prime Minister for the playing of the National Anthem and a short ceremony lasting a total of about 3 minutes. Meanwhile, the Chancellor and the Secretary of State will be taken directly into City Hall, where they will meet their Canadian opposite numbers. After the brief ceremony outside, the Canadian Prime Minister and the Prime Minister will come into the main area of the ground floor of City Hall where each will introduce their Ministers.* The two Prime Ministers will then go upstairs for a short meeting with the Mayor of Toronto, in his office. During this time the limousines will have moved to the underground level of City Hall, and when the various meetings are over the Prime Minister, the Secretary of State and the Chancellor will then go downstairs to rejoin the limousines and depart.

*There will be a photo opportunity.



cc Sir G Litter

pay.

10 DOWNING STREET

LONDON SW1A 2AA

3 June 1988

From the Private Secretary

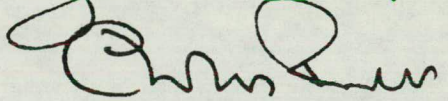
Dear Tom,

PRIME MINISTER'S MEETING WITH PRESIDENT REAGAN:
ECONOMIC SUMMIT

It became evident from the Prime Minister's discussion with President Reagan last night and from contacts with other members of the White House staff that it might embarrass Vice-President Bush if the subject for informal discussion by Heads of Government at the Summit was to be the problem of the escalating costs of health and social services. Welfare was likely to be a major theme in the United States election campaign with Dukakis pressing for improvements, and the Vice-President would be in difficulty if associated with the notion of cutting back.

In the light of this, the Prime Minister does not wish us to press for discussion of the issue. I have so informed Nigel Wicks.

I am copying this letter to Alex Allen, but it should not be seen by anyone other than those involved in the Sherpa meeting.

Yours sincerely,

 (C. D. POWELL)

A. C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office.

(get over
spokes (IMF/IBRD))

INTERIM COMMITTEE

Arka PV
~~Arka~~

~~Arka~~

Agree as an aspect of protection

The scale of the problem -
US, Japan, UK

UK (of imp mkt) (us not re and 6
infos)

Don't help foreign firms

Objectives for Tariffs - Charge up

UNCLASSIFIED



FROM: A P HUDSON
DATE: 3 June 1988

PHJ

Re X 1/2/88

CHANCELLOR

SUMMIT TRAILER PRESS RELEASE

Susie Symes in IF has done something on agriculture after all - see draft speech below.

2. I don't think it is now worth working this up and putting it out in full, but it will be a useful quarry for points to make in interviews, and in any pre-summit press release. Among the key points are the following.

- (a) Apply to agriculture lessons learned about the rest of the economy (para 5). [Could add that G7 Governments have taken tough decisions on support for other industries, eg. steel, to reduce interference with markets and enable adjustment to take place.]
- (b) Indications of the scale of the problem (paras 11-15).
- (c) Positive outcome of competition in dairy sector (para 19).
- (d) All countries stand to gain from liberalisation (para 23).
- (e) Reform has begun (para 23).
- (f) Objectives for Toronto (paras 25-26, sharpened up). In the OECD Ministerial speech, you said you hoped agreement could be reached (in Montreal) on three things:
 - liberalisation, through reductions in support;
 - a framework for the GATT negotiations, focussing on a measure such as the PSE;
 - a multilateral commitment to specific early action.



3. We were going to think about a summit trailer as a press release from the Oxford speech on Friday evening. Shall we have a small meeting next Tuesday (7 June), when Geoff will be back from the Sherpas meeting? Geoff, Huw Evans, John Gieve, Alex, and me?

A P HUDSON



Copy needed

10 DOWNING STREET
LONDON SW1A 2AA

1/6

CH/EXCHEQUER	
REC.	07 JUN 1988
ACTION	SIR G. LITTLE
	SIR P. MIDDLETON
	SIR T. BURNS
	MR H.P. EVANS
	MR MOUNTFIELD

From the Private Secretary

6 June 1988

**TORONTO ECONOMIC SUMMIT:
PRIME MINISTER'S INTERVIEW WITH
THE TORONTO STAR**

I enclose the Prime Minister's answers to written questions put to her by the Toronto Star on the forthcoming Economic Summit.

I am copying this letter and enclosure to Alex Allan (HM Treasury), Stephen Ratcliffe (Department of Trade and Industry) and Myles Wickstead (Overseas Development Administration).

(C. D. POWELL)

A. C. Galsworthy, Esq., C.M.G.,
Foreign and Commonwealth Office.

TORONTO ECONOMIC SUMMIT

QUESTIONS FOR THE PRIME MINISTER FROM THE TORONTO STAR

Q1 If among the many current issues the 'summit' was able to achieve significant progress on just one, which subject would you select for priority attention, and why?

A1 If I had to choose just one area in which to register significant progress at Toronto, I would go for reform of agriculture. It is vitally important that all developed countries - and not just the Summit seven - should reduce agricultural support and protection. The agricultural policies of the industrialised countries penalise tax payers and consumers and damage the long term interests of developing countries. We are all responsible and we all need to take action. We in the European Community have taken some, hard won steps to reduce production and expenditure. But we all need to do more. And I think we should say so in Toronto.

Q2 The annual 'summit' is a technique for improving policy co-ordination among the major Western economic powers. Given the strains in the international economy -- volatility in exchange rates; trade protectionism, etc -- are new policy co-ordination techniques needed, if so of what kind? In particular, are new co-ordination techniques needed to integrate the actions of the principal Western partners, the US, Japan, Western Europe.

A2 I believe that the Annual Summits have served the world well. Look at what we have achieved since the beginning of the decade. In 1981 inflation in the major countries averaged 10%. It is now 3%. Since the recovery from 1981-82 recession economic growth has averaged more than 3% a year. Successive summits have endorsed the strategy that has produced this improvement in performance: macroeconomic policies to control inflation and microeconomic or structural reforms to strengthen the supply side of our economies.

Of course there is no room for complacency. We must continue to co-operate closely with the aim of sustaining steady, non-inflationary growth across the world and bringing about a better balance to the pattern of world trade. There has been progress has been made in reducing the current account imbalances of the three largest economies. But these efforts need to be maintained.

So the short answer to your question is; No. I don't think we need new co-ordination techniques. We have evolved flexible instruments. The important thing is to continue to make good use of them.

Q3 Potential and actual trade protectionism may be the most acute of contemporary economic problems. Does the summit represent a 'last chance' for giving a major impetus to global trade liberalisation negotiations under GATT; are major changes in the GATT negotiation procedures and schedule necessary; in the absence of success at the GATT talks, is there a major danger of the world dividing into regional trading blocs?

A3 I think it is going too far to say that the Summit is the "last chance" to give an impetus to the negotiations in the GATT. But it is certainly a very important opportunity to summon up the political will to make them succeed. At previous Summits, we have renewed our commitment to free trade and to tackling excessive agricultural support and protection. What matters in Toronto is that Summit leaders give firm political backing to the GATT negotiations so that the GATT Mid Term Meeting in Montreal in December is a success.

One of the key elements in the negotiations, and an area where substantial progress should be possible by the time of the Mid Term Meeting, is the reform of GATT procedures. The Summit can help to strengthen international support for GATT both by stressing the need for better observance of GATT disciplines and by committing ourselves to improving such things as disputes procedures. In other words we don't just need to update the rules; we also need to ensure that countries abide by them.

If the GATT negotiations fail we shall all suffer. Failure will increase the risk of bilateral arrangements between regional trading blocks. And there could be the quickest way to a recession - the very opposite of what we are trying to achieve in GATT. This would lead to more disputes, not less; spiralling subsidies; and more trade wars. I don't believe it will happen but we must make sure it doesn't.

Q4 In several of the nations attending the summit, unemployment remains a major social problem. Are new job-creating initiatives needed, and if so what kind, or, instead, should the problem be left to the operation of the market-place?

A4 All of us can do a lot at the ⁱmacroeconomic level to reduce unemployment - by promoting efficiency and flexibility in labour markets, increasing labour mobility and improving incentives to work. Vocational training can help to reduce mismatches between the skills required by firms and those available.

A misprint, which we have had corrected.

But what governments cannot do is achieve any lasting reduction in unemployment simply by artificially expanding the economy. History shows that macroeconomic policies of this kind only cause inflation which ultimately destroys jobs.

Q5 International indebtedness remains dangerously high, and as one consequence, global trade flows have been reduced. What new actions, if any, are needed to (a) relieve the trade-inhibiting effects of global indebtedness, and (b) to prevent defaults which could threaten international monetary stability?

A5 World trade has grown steadily since the recession of the early 1980s. But the share enjoyed by debtor countries has fallen because they have had to cut their imports. One of the objectives of the debt strategy is to strengthen world trade. Industrialised countries have pledged themselves to sustain steady growth in their economies, to reject protectionism, and to open up their markets further, in the context of the GATT negotiations. Debtor countries are pursuing adjustment policies to increase exports and strengthen their balance of payments.

I remain concerned about the debt problem. But the current strategy, of considering each case on its merits, insisting that debtor countries greatly improve the management of their economy in order to qualify for further finance from creditors, is still right. We must give special attention to the poorest debtors of sub-Saharan Africa. Under an initiative by our Chancellor Nigel Lawson, we have proposed the reduction of interest rates on their rescheduled official debt. We are also giving considerable support to IMF and World Bank initiatives to help these countries. The middle-income debtor countries are in a different position. They owe most of their debt to commercial banks, and should continue to negotiate solutions directly with them. I am sure there is scope here for new market-related approaches.

Q6 Given the scope of current international problems, and the shifts in the relative power of the nations involved, is the time right for the summit to set up some high-level commission to recommend changes in collective policies and in collective policy co-ordination.

A6 I have never believed that commissions, however gilt-edged, can resolve problems. It is up to our governments to work together and to give the right political leadership. In any case, we already have Economic Summits and meetings of the OECD, IMF and Group of Seven, where countries can discuss world economic problems and reach agreement on how these problems should be tackled. So I see no case for new machinery.

Q7 East-West trade presents a potential opportunity for global trade expansion. Given the current easing of East-West tensions, should action be taken to bring Soviet bloc nations into the international order, by membership in organisations such as GATT, IMF, and through new relations between the EC and COMECON?

A7 I welcome the economic reforms taking place in the Soviet Union and Eastern Europe, and we are well aware of the opportunities for increased trade that will flow from them.

We shall try to make the most of them, both bilaterally and through the EC. We also very much welcome COMECON's decision to formalise its relations with the EC. At the same time, the Community attaches importance to concluding agreements with individual East European States (including the Soviet Union). This will all contribute to the wider process of promoting closer economic links between East and Western Europe.

The USSR is trying to make its economy more efficient and competitive, and I think we should welcome that. But there can be no question of Soviet membership of GATT until there is clear evidence that the Soviet economy can and will trade in a manner compatible with GATT's open market principles. We are looking to the Uruguay Round to strengthen GATT as an institution, and to bolster and expand the open market trading system. We cannot accept any further dilution of the GATT principles.

The USSR was a signatory of the Bretton Woods Agreement in 1944, but she did not sign the Articles of Agreement establishing the IMF in 1945. Soviet membership of the IMF/IBRD, like any other country's, depends on the Soviet Union's willingness to contribute to the Fund's capital and fulfil the normal obligations of membership.

Q8 All summits address other than strictly economic issues. Terrorism in the air, as dealt with at the Bonn, 1979, meeting, is an example. Should new initiatives, particularly in respect of the hijacking and of terrorism, be undertaken at this time? [Also, given the timing of the Toronto meeting immediately after the Moscow summit, should the summit nations issue a collective statement about the desirable development of East-West relations?]

A8 Past Summits have addressed terrorism and our countries have always taken a firm stand, particularly on hijacking. In the light of recent terrorist acts, including the Kuwaiti Airlines hijacking, I expect terrorism to be one of the subjects discussed in Toronto. We shall certainly want to discuss East-West relations and President Reagan who has just returned from Moscow will be able to bring us up to date on developments in US-Soviet relations. We want a safe and stable relationship between East and West; greater security at a lower level of armaments; and further progress on human rights and openness in the Soviet Union.

Q9 Criticisms have been made from time to time about the structure of the summit meetings, which were designed originally to be informal, private, affairs. Has the meeting outlived its usefulness in its present form, and/or should major changes be made to its structure and objectives, and if so what kind?

A9 I greatly value the opportunity that Economic Summits provide for informal exchanges between Heads of State and Government. There is no other forum quite like it and it certainly has not outlived its usefulness. It is true that summits have become something of a media event in recent years and I wish they weren't such a circus. But we can't turn the clock back. And what really matters is what is discussed and decided in the business sessions. I believe that over the years, we have achieved a great deal. The summit has proved itself a very flexible structure, and in my view, no major changes are necessary. I am looking forward very much to meeting my colleagues again in Toronto - and not least Brian Mulroney - and to seeing something of your dynamic city.

3W2AGB

CH/EXCHEQUER	
REC.	06 JUN 1988
ACTION	SIR G LITTLE
COPIES TO	SIR P MIDDLETON
	SIR T BURNS
	MR H P EVANS
	MR MOUNTFIELD

PRIME MINISTER

TORONTO SUMMIT: FINAL SHERPAS MEETING

*WT will lead a mtg
pull from to discuss
approach to the finance
here, plus press heads, etc.
As to Y, this is smart*

The Sherpas, accompanied by Finance and Foreign Affairs Sub-Sherpas and Political Directors, met in Toronto at the weekend to make the final preparations for the Economic Summit on 19-21 June.

The Political Statement

*WT have done
provided in the past. We
do to this time, this is
submit us a draft for
commit
should
to
that will
I expect
do equally
well.*

The draft of the Political Statement, attached to this minute was agreed, with some difficulty. Most countries were content with the Canadian suggestion that this statement should be confined to East/West matters. We argued strongly for passages on the Middle East and terrorism. In the end it was agreed to include paragraphs on these subjects in the text so that they were available if the Heads agreed they should be included. My feeling is that in the end the Heads will accept reference in the text to the Middle East and terrorism, though we will need to press hard for the language we want on terrorism.

The draft meets, I believe, our interests. Some particular points:

- i. Paragraph 1: The French insisted on the inclusion of the phrase in line 5 "... within the framework of our existing alliances" so as to confine to Treaty (NATO) alliance partners the statement about standing together in solidarity and cohesion. They would not countenance any language which looked to cover the Japanese. A silly point, but one to which the French stuck with theological tenacity.
- ii. Paragraph 2: The French accepted, after a struggle, the second part of the second sentence, inserted at US insistence, about the inherent limitations of the Soviet social and economic system forcing changes in Soviet policies. They may try to reopen the point at the Summit.

- iii. Paragraph 5: A French reserve on the first three sentences because, according to the French, such statements have never been said before at the Summit.
- iv. Paragraphs 9 and 10: An agreed text on the Middle East if it is agreed that it should be included.
- v. Paragraphs 11 to 15: An agreed text on Terrorism, again if it is agreed it should be included, except for the bracketed sentence in paragraph 13. We insisted on this sentence's inclusion; others, led by the Germans, argued that such detail, on work in hand on ICAO, was inappropriate for the Political Statement.

Besides reading this Political Statement, the Canadian Foreign Minister will read a summary of other political issues discussed, including regional issues.

The Economic Declaration

The Canadians will circulate in the middle of this week a "thematic paper" for the summit, which can provide a quarry for the Economic Declaration. Unfortunately, and unusually, the Canadians were unable to complete the final draft last weekend. It will now be finalised by the Canadians on the lines of our discussion.

There is wide agreement that the thematic paper, for the last summit in this cycle, should take a broad perspective - both backwards (drawing attention to the better economic performance over the last few years helped by improved economic policies) and forwards (emphasising the continuing challenges of continued control of inflation, reducing imbalances and making national economies and the world trading system more efficient).

There is still a wide difference between the Commission and the US on trade and agriculture on well rehearsed lines. The

Summit may see a stalemate between the two camps. But there may be scope for the leaders to forge an agreement which can take forward the discussions on trade and agriculture. There is a possibility that this week's discussion in the Paris Club will come to a satisfactory conclusion on African export credit debt which we can present as a notable victory for the Chancellor's debt initiative. The Germans, Japanese, and possibly the French will be making statements at, and just before, the Summit on debt.

Surprises

No "surprise" initiatives are expected though the French may present proposals on international monetary reform. A telegram just in from Ottawa suggests Mr. Mulroney may float an initiative on middle income debt. Both issues are likely to be unwelcome to us.

Other issues for the Economic Declaration

Passages on the Environment, the Human Frontier Science Programme, (dear to the Japanese hearts) and Bioethics (dear to the Italians) will be suggested. Language should not cause us difficulty. The US circulated to Sherpas a detailed note on a drugs initiative, stimulated no doubt by the attention which this issue is receiving on the Presidential campaign. They are likely to suggest at the Summit a drugs task force, under US leadership, of the Summit Seven to consider further international action against the production, trafficking and financing of the illicit drugs trade. We should be able to support this initiative.

Other matters

1. Publicity: So as to prevent publicity on the Economic Summit being swamped by political issues, Mr. Mulroney plans formal public statements as follows:

- a. The Canadian Finance Minister, Mr. Wilson, will give

journalists an open briefing on the first session, on economic issues, on the Sunday afternoon, on the bans of a report given to him by Mr. Mulroney.

b. The Canadian Foreign Minister, Mr. Clark, will read the Political Declaration and the summary of political issues after the Heads' working lunch with Foreign Ministers on the Monday.

c. Mr. Mulroney will read the Economic Declaration at the close of the Summit on Tuesday afternoon. He does not plan to deal with political issues then.

This is very much for the Canadian hosts, but looks to cause us no problems.

2. Discussion of Longer Term Issues: I said that you no longer wished to discuss health, social security and demographic issues (because such a discussion might impinge on the US Election campaign). This caused great mystification among many US colleagues and they may revert to the issue. But so far as we are concerned the topic is off the table, and discussion will centre on the French topic of training and education on which President Mitterrand will lead off. President Reagan may propose a topic.

I confirmed to the Canadian Sherpa that you were very ready to open the discussion at the first session, on Sunday afternoon, on economic issues. Mr. Mulroney hopes you can speak without notes. I will provide some material for your intervention.

A detailed agenda for all the Summit discussion is attached.

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

N. L. W.

(N. L. WICKS)

6 June 1988

June 4, 22:30 hrs

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POLITICAL STATEMENT

1. We the Leaders of our seven countries, and the representatives of the European Community, have considered the future of East-West relations. The discussion has confirmed that our free and democratic societies will stand together in solidarity and cohesion within the framework of our existing alliances. We also reaffirmed that nuclear deterrence and adequate conventional strength are the guarantees of peace in freedom. Equally, we confirm our belief in constructive and realistic dialogue and cooperation, including arms control, as the way to build stability between East and West.

2. In several important respects changes have taken place in relations between Western countries and the Soviet Union since we last met. This evolution has come about because the industrialized democracies have been strong and united, and because the inherent limitations of the Soviet social and economic system have forced changes in Soviet policies. Greater freedom and openness in the Soviet Union will offer opportunities to reduce mistrust and build confidence. Each of us will respond positively to any such developments.

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3. We call upon the Soviet leadership to play a responsible role on issues of common concern. We welcome the beginning of the Soviet withdrawal of its occupation troops from Afghanistan. It must be total, and apply to the entire country. The Afghan people must be able to choose their government freely. Each of us confirms our willingness to make our full contribution to the efforts of the international community to ensure the return of the refugees to their homeland, their resettlement, and the reconstruction of their country. We now look to the Soviet Union to make a constructive contribution to resolving other regional conflicts as well.

4. Since our last meeting, progress has been made between the United States and the Soviet Union in agreeing to reduce arms without compromising the security of any of our countries. The INF Treaty, the direct result of Western firmness and unity, is the first Treaty ever to abolish an entire class of weapons. It sets vitally important precedents for future arms control agreements: asymmetrical reductions and intrusive verification arrangements. We now look for deep cuts in US and Soviet strategic offensive arms. We congratulate President Reagan on what he has already accomplished, along with General Secretary Gorbachev, towards this goal.

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5. Nonetheless, the massive presence of Soviet conventional forces in Eastern Europe and the Soviet capacity to launch surprise attacks and large scale offensive operations lies at the core of the security problem in Europe. The Soviet military buildup in the Far East is equally a major source of instability in Asia. These threats must be reduced¹: enhanced security and stability at lower levels of forces is our goal. We seek a comprehensive, effectively verifiable and truly global ban on chemical weapons.

6. Genuine peace cannot be established solely by arms control. It must be firmly based on respect for fundamental human rights. We urge the Soviet Union to move forward in ensuring human dignity and freedoms, and to implement fully the commitments it has undertaken in the Helsinki process. Recent progress must be institutionalized, the painful barriers that divide people must come down, and the obstacles to emigration must be removed.

7. We take positive note of Eastern countries' growing interest in ending their economic isolation, for example in the establishment and development of relations with the European Community. East-West economic relations can be expanded so long as the commercial basis is sound, they are conducted within the framework of the basic principles and rules of the international trade and payments system, and are consistent with our security interests.

¹ French reserve on preceding section

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8. We pay special attention to the countries in eastern Europe. We encourage them to open up their economies and societies, and to improve respect for human rights. In this context, we support the continuation and strengthening of the Helsinki process.

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If leaders wish to have text on the Middle East, paragraphs 9 and 10 are agreed.

9. We express our deep concern at the increasing instability in the Near East. The current violence in the Occupied Territories is a clear sign that the status quo is not sustainable. An early negotiated settlement to the underlying Arab/Israel dispute is essential. We declare our support for the convening of a properly structured international conference as the appropriate framework for the necessary negotiations between the parties directly concerned. In this perspective, we salute current efforts aimed at achieving a settlement, including the initiative pursued by Mr. Shultz since March. We urge the parties to cooperate fully in the search for a solution.

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10. We have pursued our consultations about the continuing war between Iraq and Iran which remains a source of profound concern to us. We reaffirm our support for Security Council Resolution 598, which was adopted unanimously. We express our warm appreciation for the efforts of the Secretary General to work for a settlement on this basis, and reiterate our determination to ensure implementation of this mandatory resolution by a follow-up resolution if compliance cannot otherwise be secured. We condemn the use of chemical weapons by either party, deplore proliferation of ballistic missiles in the region, and renew our commitment to uphold the principle of freedom of navigation in the Gulf.

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If leaders wish to have text on terrorism, paragraphs 11-15 are agreed language.

11. We strongly reaffirm our condemnation of terrorism in all its forms, including the taking of hostages. We renew our commitment to policies and measures agreed at previous Summits, in particular those against state sponsored terrorism.

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12. We strongly condemn recent threats to air security, in particular the destruction of a Korean Airliner and the hijacking of a Kuwaiti Airliner. We recall the principle affirmed in previous declarations that terrorists must not go unpunished. We appeal to all countries who are not party to the international conventions on civil aviation security, in particular the Hague Convention, to accede to these conventions.

13. We express support for work currently underway in the International Civil Aviation Organization aimed at strengthening international protection against hijackings. (This includes measures to investigate future hijackings, to help countries to deal with hijackings, to strengthen security guidelines and to endorse the principle that hijacked aircraft should not be allowed to take off once they have landed, apart from exceptional circumstances.)

14. We welcome the adoption this year in Montreal and Rome of two international agreements on aviation and maritime security to enhance the safety of travellers.

15. We reaffirm our determination to continue the fight against terrorism through the application of rule of law, the policy of no concessions to terrorists and their sponsors, and international cooperation.

TORONTO ECONOMIC SUMMIT

DISCUSSION OF LEADERS

SUNDAY, JUNE 19

0930 - 1300 Official Welcomes

1500 - 1700 Separate Session

- Leaders' Economic Priorities for the Summit discussions
- World Economy
 - outlook
 - policy issues (macroeconomic, structural, trade including agriculture, NIEs and debt) (Prime Minister Thatcher to start off and then tour de table.)

1900 - 2100 Separate Dinners

- East-West issues
- Other Political Issues?

MONDAY, JUNE 20

1000 - 1200 Separate Session

- Adoption of political text

Followed by
Plenary Session

- Report by host Finance Minister on Finance Ministers' session
- Discussion of economic matters:
 - Macroeconomic policy
 - Structural Adjustment
 - Debt

^ NIEs

1230 - 1400 Luncheon

(Leaders and foreign ministers)

- Minister Clark reports on regional issues including Middle East, South Africa, Central America.
- Leaders and Foreign Ministers approve Chairman's Summary

1400

Reading to press by SSEA of Political Declaration and Chairman's Summary of political discussions

1430 - 1600 Plenary Session

Discussion of economic matters (cont'd)

To
Murray



- NIES
- Trade including Agriculture

1830 - 2000 Separate informal session

- long-term issues: education and training
(President Reagan to start discussion on long-term issues.
President Mitterrand to lead off discussion on education.)

2000 - 2130 Separate Dinners

- Discussion of environment, drugs and other issues

TUESDAY, JUNE 21

0930 - 1130 Plenary Session

- Adoption of Economic Declaration
- Discussion of any remaining issues

1300 - 1500 Luncheon

1530 - 1600 Presentation of the Economic Declaration