

PO-CH/NL/0195 PART B

Alex
Lawson

PART B

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PART B

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

Begin: 7/6/88

Ends: 14/6/88 (CONTINUED)

DD: 25 years

7/9/95

PO -CH /NL/0195

PART B

7/6/55
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**ADMINISTRATIVE ARRANGEMENTS FOR THE UNITED KINGDOM
DELEGATION TO THE ECONOMIC SUMMIT, TORONTO: 19-21 JUNE 1988**

1. The Prime Minister, Secretary of State for Foreign and Commonwealth Affairs and the Chancellor of the Exchequer and those listed at Appendix I, will attend the Economic Summit which is to take place at the Metro Toronto Convention Centre (MTCC) from 19-21 June.

2. PROGRAMME

An outline summary programme for the whole of the Summit detailing the meetings and social programme is shown at Appendix II. Bi-lateral Ministerial engagements will be in separate circulation. See Appendix VI for plan of Toronto venues.

3. TRAVEL

(See Appendix III for passenger lists, etc)

UK on BST, ie: GMT + 1 hour (All times local)
Toronto : GMT - 4 hours

(a) Outward on Saturday 18 June

The Prime Minister and Secretary of State for Foreign and Commonwealth Affairs, Chancellor of the Exchequer and Main Delegation will travel in an RAF VC10, Task No Ascot 1179, as follows:

ETD London Heathrow (Southside) : 1230 hours
ETA Toronto : 1525 hours

Flying time : 7 hours 55 minutes

(b) Return on Tuesday 21 June

The Secretary of State, Chancellor of the Exchequer and main Delegation will travel by flight BA 72, departing Toronto 2000 hours arriving London Heathrow (Spelthorne Suite) at 0745 hours (22/6).

(c) Onward/Return on Wednesday 22 June

The Prime Minister and her party will travel in the RAF VC10, Task No Ascot 1179 from Toronto to Ottawa, and then on to London Heathrow as follows:

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ETD Toronto : 0910 hours) to be
ETA Ottawa : 1015 hours) confirmed

Flying time : 1 hour 5 minutes

ETD Ottawa : 1820 hours
ETA LHR (Southside) : 0600 (23/6)

Flying time : 6 hours 40 minutes

4. TRAVEL DOCUMENTS AND HEALTH REQUIREMENTS

(a) All members of the party should carry a valid passport. Visas are not required for Canada.

(b) There are no special health requirements.

(c) Welfare Section advise that members of the party should know their blood groups before going overseas. Those wishing to find out their blood group should go to the Civil Service Occupational Health Service at Tilbury House, Petty France, for this test. For appointments please telephone 273 6331. A Blood Group card can be obtained from the Medical Adviser's Office, 3 Matthew Parker Street, one week after the test. Members of the party should carry this card with them when travelling overseas.

5. PERSONAL BAGGAGE AND BAGGAGE LABELS

(a) Those travelling on the RAF VC10 may take with them up to 66 lbs (30 kilos) of personal baggage.

(b) Free baggage allowance for First and Club Class passengers is as follows:

(i) Two pieces of checked (ie hold) baggage; maximum weight 32 kgs and dimensions (when added together) 62" (158 cms) for each piece.

(ii) One piece of cabin baggage maximum weight 5 kgs and dimensions (when added together) 45" (114 cms).

(c) Baggage labels, colour coded, are enclosed for those travelling on the VC10 as follows:

(i)	King Edward Hotel	BLUE
(ii)	Sheraton Hotel	RED
(iii)	Official items	WHITE

In addition, items to be cabin-loaded in the VC10 must bear a YELLOW label.

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The Canadians have also provided the Economic Summit labels to provide ease in customs access. These are enclosed for those travelling to Toronto commercially.

Unused labels must be kept under safe cover. Old labels should not be left in hotels.

6. INSURANCE

A note on baggage and insurance regulations for those travelling on the RAF VC10, and commercially, is attached at Appendix IV.

7. CLIMATE AND DRESS

(a) The temperature in Toronto in June will be variable between 70-80°F (21-27°C), during the day, with some humidity, perhaps rain and 50-60°F (13-15°C) at night. All buildings will be air conditioned.

(b) The dress for all social occasions at the Summit is informal (short dress/business suit).

8. LIVING ACCOMMODATION

All members of the party will stay at the King Edward Hotel, except for Mr Dugdale, Miss Frier and Mr Smith who will be accommodated at the Sheraton Hotel, where the UK Press will also stay.

Hotel allocations are shown at Appendix I.

9. WORKING ACCOMMODATION

King Edward Hotel

(a) The No 10 Private Office will be on the ninth floor, room no 946.

(b) An FCO Private Office and General Office will also be on the ninth floor, room nos 945 and 947 respectively.

(c) Comcen will be in Room 751 on the 7th Floor.

Sheraton Hotel

(c) Mr Dugdale has a suite in the Sheraton Hotel. This hotel has been allocated by the Canadians to UK journalists.

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The Metro Toronto Convention Centre (MTCC)

(d) There is an office (consisting of three sections) for the UK Delegation in room 206C (street level) in the MTCC. These are set up:

- (i) Communications room (ie. contact between Personal Reps and Delegation)
- (ii) General office (typing, etc: joint No 10/FCO and Duty Clerk)
- (iii) Committee room for officials

(e) The Heads of Delegation each have a sitting room in the Grand Ballroom (Constitution Hall) on the lower level where the main meeting will take place. There will also be facilities for separate meetings of Heads of Delegation and Foreign and Finance Ministers and of Sherpas in this area.

(See also under press heading below).

10. OFFICE EQUIPMENT AND STATIONERY

(a) The following equipment will be provided:

(i) MTCC UK Delegation Offices:

- 1 Photocopier (Canadian Government)
- 4 Rank Xerox electronic typewriters (Canadian Government)
- 4 IBM electric typewriters (Canadian Government)
- 1 IBM Word Processor (Canadian Government)

UK Press Centre

- 1 Photocopier (Canadian Government)
- 1 IBM Model 3 Selectric self-correcting typewriter (hire)
(with orator and bookface Golfball)
- 1 Unclassified facsimile (Canadian Government)

(ii) King Edward Hotel

No 10 Office (Room 946)

- 1 Photocopier with collator (hire)

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2 Rank Xerox Electronic (hire)
typewriters (with courier
daisy wheel)

1 lock-up cupboard with (High Commission)
combination lock

FCO Private Office (Room 945)

2 Rank Xerox Electronic (hire)
typewriters (with courier
daisy wheels)

General Office (Room 947)

1 Photocopier with collator (hire)
2 Rank Xerox Electronic (hire)
typewriters

1 IBM Word Processor (Canadian Government)

Shredder (hire)

Communications Centre (Room 751)

Photocopier with collator (hire)

Secure facsimile (Cabinet Office)

(iii) Sheraton Hotel

Assistant Press Secretary's suite:

1 IBM Model 3 Selectric (hire)
self-correcting typewriter
(with orator and bookface
Golfball)

(b) All offices will be equipped with desks, typing tables, chairs, filing trays, desk lamps etc.

(c) A supply of common user stationery will be provided in all offices.

(d) Private Offices should take their own special items of stationery.

11. **COMMUNICATIONS**

(a) Telegrams

(i) The Communications Centre will be established on the 7th Floor of the King Edward Hotel. It will be

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operational throughout the period for the Summit, and provide a fully secure telegram service.

(ii) Telegrams should be addressed to UKDEL Toronto when communications are established on 17 June until after the Summit.

(iii) Telegrams should be prefixed "Following for from". Telegrams addressed "Following for Private Secretary, Prime Minister/Secretary of State/Chancellor" will be distributed to their offices only. Telegrams addressed to other individuals should not be given any distribution without the prior consent of the addressee. Telegrams addressed "Following for United Kingdom Delegation" will be distributed to all senior members of the party".

(iv) The secure facsimile will be available in the Communications Centre. It will allow texts to be exchanged directly with No 10 Downing Street.

(b) Telephones

(i) King Edward Hotel

Was to follow Direct dial international telephones will be in the following UK Delegation offices. (These should be used in preference to the normal hotel telephones):

No 10 Private Office
FCO Private Office
General Office
Communications Centre

Direct dial international telephones will also be put in the bedrooms of Mr Wicks, PS to Prime Minister, PS to Secretary of State, PS to Chancellor, Chief Press Secretary and Head of News Department, FCO.

(ii) Sheraton Hotel

Direct dial international telephones will be in Mr Dugdale's (Press) suite.

(iii) MTCC

Four direct dial international telephones in the UK Delegation Office.

(iv) UK Press Office (MTCC)

One direct dial international telephone.

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Unclassified facsimile with direct dial line.

(v) A list of useful telephone numbers is attached at Appendix V.

(c) Radio Network

A mobile radio network will be set up for co-ordinating the administrative arrangements and transport of the UK Delegation. A second separate network will be installed for use by the No 10 Press Office and a third for use by the protection officers. Three cellular radio telephones will also be used to supplement, as required, the static telephone facilities.

12. SECURITY

(a) London Office security passes should not be taken overseas.

(b) The No 10 Office in the King Edward Hotel will be under 24 hour guard by the Royal Military Police.

(c) All confidential papers will be transferred at night from the MTCC Delegation offices to the No 10 office in the hotel under RMP guard.

(d) A security cupboard with combination lock will be provided for the No 10 Office in the hotel.

(e) Suites of safehand boxes will be provided for the No 10, FCO and Chancellor's offices. The Royal Military Police will carry out a regular safehand service between the Communications Centre and the Private Offices on the 9th Floor of the King Edward Hotel and between the King Edward Hotel and the UK Delegation Office in the MTCC.

(f) Mr Kerr and Miss McGinty have been designated as Special Couriers for classified materials on the RAF VC10 aircraft. Miss McGinty will also be Special Courier for the return by the BA flight on 21 June. All boxes and briefcases containing classified material must be entered on the courier's waybills. Those concerned are asked to contact COD (Tel: 270 2781).

(g) Members of the party travelling commercially who need to carry classified documents up to and including secret are asked to apply for a letter of authority from their Head of Department or Departmental Security Officer (see Home Circular 'B' 32/85 of 26 April 1985). If documents with a high classification are carried, the official will have to be documented as a Special Courier (also contact COD telno 270 2792).

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13. PASSES

The Metro Toronto Convention Centre (MTCC)

The MTCC is divided into three zones:

- A "RED" : All areas of MTCC including restricted area of Main Meeting Rooms, Heads Offices and Delegation Offices
- B "BLUE" : Delegation Offices in MTCC
- C "YELLOW" : Press area in MTCC

Allocation of passes is as follows:

(AREA)

I. Identification Pins (4)

Prime Minister
Secretary of State
Chancellor of the Exchequer
Mr Wicks

All areas of MTCC
including Red Zone,
Delegation hotel

II. Red Special Passes (5)
(transferable)

Entry to all areas of MTCC
including Red Zone

Sir Geoffrey Littler
Sir John Fretwell
Mr Powell
Mr Galsworthy
Mr Allan

[NB: Whenever a Minister needs an official with a blue pass in the red zone, the officer may enter the red zone by exchanging his own pass for one of the red passes (eg Mr Galsworthy's red pass could be exchanged with an FCO official's blue pass)].

III. Blue Pass (25) (transferable) Entry to B and C above

Mr Ingham
Mr Braithwaite
Mr Meyer
Mr Richardson
Mr Gieve
Mr Dugdale
Mr Kerr
Miss Lowe
Miss Jelley

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Mrs Reinholt-Webb
Miss McGinty
Mr Davies
Miss Waghorn
Miss Gibson
Miss Sutcliffe
PA/Ottawa
Mr Haslett
4 RM Police (who will be on shift duty)

= 21

Plus 4 floating blue passes (held by Conference Officers)
shared between:

High Commissioner)
Miss Frier) (See also under
Miss Rea) Press Official
Mr Donald) below)
Communications Officers (Technical))
Consulate-General staff)

IV. Security Passes (5) Special Arrangements

5 Detectives

V. Yellow Passes (Press Official) 'C' area above

Miss Frier
Miss Rea
Mr Donald
Mr Smith
Mrs Marshall (Consulate-General, Toronto)

VI. Photo Identification Badges

These badges can be collected on arrival from the liaison desk in the Kensington Room at the King Edward Hotel. The Delegation's press officers will also be accredited in the Kensington Room on arrival.

All members of the UK Delegation hotel and
Delegation (except those at I) MTCC entrance only

VII. LUNCHEONS/DINNERS

Separate passes will be issued for the various hospitality and events sited away from the MTCC.

VIII. Visitors to Delegation hotels

There will be a system allowing Delegations to receive visitors in Delegation hotels on invitation and under escort

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of a member of the Delegation.

14. INTERPRETATION

At all meetings there will be simultaneous translations into English, French, German and Italian.

15. ENTERTAINMENT

The Canadians are arranging social events (see programme) for Ministers and Senior Advisers. Private Secretaries will accompany their Ministers to functions and be given separate dining arrangements.

16. TRANSPORT

(a) The Canadian government will provide one limousine driven by RCMP for the Prime Minister, and two sedans driven by RCMPs for the Secretary of State and Chancellor of the Exchequer respectively. Four cars driven by members of the Canadian Forces for the senior officials will also be provided.

(b) Cars for the rest of the Delegation and a transit van will be hired as necessary.

(c) Shuttle Service: A bus shuttle service will be available from 0700 to 2300 hours between the Delegation hotels and the Metro Toronto Convention Centre.

17. NEWSPAPERS AND COI BULLETINS

(a) Sets of UK daily newspapers will be sent out by air for the Ministers and senior members of the party as required.

(b) The COI press summaries for 19-22 June inclusive will be sent to the Communications Centre each morning and distributed as above.

18. PRESS ARRANGEMENTS

(a) Mr Dugdale will have a suite in the Sheraton Hotel.

(b) In the Press Centre the British team will have a Press Office and a main briefing/press conference room with seating for 250. There will be a journalist's working room with facilities and services for 3,000 media including 150 from Britain. The British Press Centre will be equipped with one direct dial telephone, FAX machine, photocopier, typewriter, etc.

(c) Miss Frier will work from the UK Press Office or Mr Dugdale's suite at the Sheraton. Miss Rea will work from

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the UK Press Office or FCO Private Office at the King Edward Hotel.

19. DUTY FREE

Duty free as ordered in advance will be placed on the RAF VC10 for those returning by that aircraft. Duty free for those travelling by other aircraft will be distributed in Toronto.

Duty free drinks for entertainment purposes will be placed in Ministerial and press suites. Mixes for drinks will be ordered from hotels.

20. ELECTRICITY

110/115 Volts, AC 60 cycles.

21. FINANCE

(a) Costs will be borne by parent departments (except as in (f) below) and common service costs (ie, transport, official entertainment, telephone installation, telephone calls, hire of office machinery and equipment, newspapers, etc) by the Office of the Minister for the Civil Service (OMCS). The FCO Vote is A1(1)(U)(1). The Ottawa party will be covered from the High Commission subhead.

(b) Subsistence rates for Toronto are:

Class A (i)	=	C\$200	
Class A (ii)	=	C\$174	(Approx. C\$ 2.33 = £1)
Class B	=	C\$130	

(c) Members of the party who are guests of Government, ie. those on the official Delegation list, see Appendix I (1) will be given a cash payment of one-tenth the Class A subsistence rate. The Canadian government will pay the cost of hotel suites/rooms, all normal meals, laundry services and local telephone calls.

(d) Those who are not guests of Government staying at hotels will be on Class A(ii) conference terms, ie. the cost of room, service and taxes will be paid direct to hotels by the Consulate-General and the individual concerned will receive one-half the Class A (ii) rate to cover all meals and expenses.

(e) The detectives will provide their own cash subsistence but their hotel bills for rooms will be paid by the Consulate-General and charged to the Metropolitan Police.

(f) The Conference Section element plus the Royal Military

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Police team and costs for Mr Smith (COI), Mr Dalby and Mr MacDonald will be charged to the Office of the Minister for the Civil Service (OCMS). The cost for the communications team (except Mr Dalby and Mr McDonald and freight of communications equipment) will be borne by FCO.

22. ADMINISTRATION

The party will be administered by Miss Sheila Waghorn and Miss Caroline Gibson of Overseas Conference Section with the back-up of the British High Commission, Ottawa and Consulate-General, Toronto. Enquiries at the London end from 13 June may be addressed to Miss Davis, (tel no 210 6374).

The Conference Section Duty Officer for 18-19 June is Miss M Goldsmith (home tel no 788 2368) or radio pager via Resident Clerk.

Caroline Gibson

C S Gibson (Miss)
Protocol Department
210 6375

7 June 1988

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APPENDIX I

UK DELEGATION TO THE ECONOMIC SUMMIT, TORONTO
(not in protocol order)

Serial No	Name	Designation	Accommodation at King Edward Hotel (nights)
1	The Rt Hon Margaret Thatcher FRS, MP	Prime Minister	18-21 June
<u>No 10 Downing Street</u>			
2	Mr N L Wicks, CBE	Personal Represen- tative of the Prime Minister	18-21 June
3	Mr C D Powell	Private Secretary	18-21 June
4	Mr B Ingham	Chief Press Secretary	18-21 June
5	Mr S Dugdale	Assistant Private Secretary	Sheraton Hotel 18-21 June
6	Mrs C Crawford	Personal Assistant	18-21 June
7	Mr D Kerr	Duty Clerk	18-21 June
8	Miss S Lowe	Duty Clerk	18-21 June
9	Miss M Jelley	Secretarial Assistant	18-21 June
10	Mrs S Reinholt-Webb	Secretarial Assistant	18-21 June
11	Miss B Frier	Secretarial Assistant (Press)	Sheraton Hotel 18-21 June
12	Det Chief Insp M Dwyer	Detective	18-21 June
13	Det Sgt A Leach	Detective	18-21 June
14	Det Sgt S Cranfield- Thompson	Detective	18-21 June
<u>Foreign and Commonwealth Office</u>			
15	The Rt Hon Sir Geoffrey Howe QC MP	Secretary of State for Foreign and Commonwealth Affairs	18-20 June

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16	Mr A C Galsworthy CMG	Principal Private Secretary	18-20 June
17	Miss S McGinty	Personal Assistant	18-20 June
18	Det Insp K Carthew	Detective	15-20 June
19	Det Con C Stickland	Detective	18-20 June
20	Sir John Fretwell GCMG	Deputy to the Perm. Under Secretary of State and Political Director	18-20 June
21	Mr R Q Braithwaite CMG	Deputy Under Secretary	18-20 June
22	Mr T L Richardson	Head of Economic Relations Dept	18-20 June
23	Mr C J R Meyer	Head of News Department	18-20 June
24	Miss E Rea	Personal Assistant to Head of News Dept	18-20 June

HM Treasury

25	The Rt Hon Nigel Lawson MP	Chancellor of the Exchequer	18-20 June
26	Mr A Allan	Principal Private Secretary	18-20 June
27	Sir Geoffrey Littler KCB	Second Permanent Secretary	18-20 June
28	Mr J Gieve	Press Officer to the Chancellor	18-20 June

Central Office of Information

29	Mr M Smith	Radio Division	Sheraton Hotel 17-21 June
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Support Staff

30	Mr C K Davies	Communications Coordinator, Cabinet Office	16-21 June
31	Miss S M Waghorn	Conference Officer	12-23 June

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32	Miss C Gibson	Conference Officer	12-19 June
33	Miss K Sutcliffe	Personal Assistant	12-21 June
34	Mr M J Belton	Communications Officer (Technical)	16-22 June
35	Mr K M Baker	Communications Officer (Technical)	16-22 June
36	Mr D S Hardy	Communications Officer	16-21 June
37	Mr J Worsfold	Communications Officer	16-21 June
38	Mr D A Barlow	Communications Officer	16-21 June
39	Mr M A Dalby	Communications Officer	18-21 June
40	Mr A J E MacDonald	Communications Officer	18-21 June
41	Major N M B Barnard	Royal Military Police	16-22 June
42	S/Sgt D T Humphries	Royal Military Police	16-21 June
43	Cpl L Black	Royal Military Police	16-22 June
44	L/Cpl N A Ashton	Royal Military Police	16-22 June
45	L/Cpl M J Chappell	Royal Military Police	16-21 June
46	L/Cpl D J Hole	Royal Military Police	16-21 June
<u>British High Commission, Ottawa</u>			
47	Sir Alan Urwick KCVO, CMG	British High Commissioner	17-21 June
48	Lady Urwick		17-21 June
49	Mr D E Donald	Information Officer	

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50 Mr C C D Haswell Second Secretary
(Chancery)

British Consulate-General, Toronto

51 Mr B Sparrow Consul General

OFFICIAL DELEGATION (15) IN PROTOCOL ORDER

<u>Name</u>	<u>Designation</u>
1. The Rt Hon Margaret Thatcher FRS MP	Prime Minister
2. The Rt Hon Sir Geoffrey Howe QC MP	Secretary of State for Foreign and Commonwealth Affairs
3. The Rt Hon Nigel Lawson MP	Chancellor of the Exchequer
4. Mr N I Wicks CBE	Personal Representative of the Prime Minister
5. Sir Geoffrey Littler KCB	Second Permanent Secretary
6. Sir John Fretwell GCMG	Deputy to the Permanent Under-Secretary of State and Political Director
7. Mr R Q Braithwaite CMG	Deputy Under Secretary
8. Mr C D Powell	Private Secretary to the Prime Minister
9. Mr B Ingham	Chief Press Secretary
10. Mr A C Galsworthy CMG	Principal Private Secretary to Secretary of State
11. Mr A Allan	Principal Private Secretary to Chancellor
12. Mr T L Richardson	Head, ERD
13. Mr C J R Meyer	Head, News Department
14. Mr J Gieve	Press Officer to the Chancellor
15. Mr S Dugdale	Assistant Private Secretary

PROGRAMME OF THE TORONTO ECONOMIC SUMMIT
(19-21 JUNE 1988)

Saturday 18 June

1525 Prime Minister, Secretary of State and
Chancellor of the Exchequer arrive
Toronto on the VC10

Sunday 19 June

Time to be confirmed Bilateral Meeting between the Prime
Minister and Mr de Mita, Italian
Prime Minister
King Edward Hotel

0930-1300 Official Welcome
Nathan Phillips Square
Toronto City Hall

*UK Official Welcome
from 11.30am - 12 noon.*

1500-1700 Separate sessions
Main meeting room of the
Toronto Convention Centre (MTCC)

1900-2100 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

Monday 20 June

0930-1200 Plenary Session
Main Meeting Room, MTCC

1230-1430 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

Monday 20 June (contd)

- 1500-1700 Plenary Session
Main Meeting Room, MTCC
- 1830-2000 Informal Session for Heads of
 Delegation
Hart House, University of Toronto
- 2000-2130 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

Tuesday, 21 June

- 0930-1130 Plenary Session
Main Meeting Room, MTCC
- 1230-1430 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 Presentation of the Communiqué
Roy Thomson Hall
- Approx 1600 Prime Minister's Press Conference,
 UK Press Conference Room, MTCC followed
 by Radio and Television Interviews
- ?1930 Conrad Black's dinner in honour of the
 Prime Minister (Black tie/long dress)
Toronto Club
- 2000 Secretary of State and Chancellor of
 the Exchequer depart Toronto for London

Wednesday 22 June

0915 Prime Minister departs Toronto for
Ottawa

NB. See separate administrative arrangements for the Prime
Minister's visit to Ottawa.

TRAVEL ARRANGEMENTS
(all times local)

London = GMT + 1
Toronto = GMT - 4

OUTWARDSunday 12 June

Miss Waghorn	BA 73	ETD LHR	1515
Miss Gibson		ETA Toronto	1800

(Miss Sutcliffe arrives Toronto) Private arrangements

Wednesday 15 June

Det Insp Carthew	BA 73	ETD LHR	1515
Det Sgt Leach		ETA Toronto	1800

Thursday 16 June

Mr Davies	BA 73	ETD LHR	1515
Mr Belton		ETA Toronto	1800

Mr Baker
Mr Hardy
Mr Worsfold
Mr Barlow
Major Barnard
S/Sgt Humphries
Cpl Black
L/Cpl Chappell
L/Cpl Ashton
L/Cpl Hole

Friday 17 June

Mr Smith	BA 73	ETD LHR	1515
		ETA Toronto	1800

Saturday 18 June

Prime Minister	RAF VC10	ETD LHR (Southside)	1230
	Task No	ETA Toronto (Pearson)	1525

No 10

Mr Wicks
Mr Powell
Mr Ingham

Flying time: 7 hours 55 minutes
Luncheon will be served

Mr Dugdale
 Mrs Crawford
 Mr Kerr
 Miss Lowe
 Miss Jelley
 Mrs Reinholt-Webb
 Miss Frier
 D/Chief Insp Dwyer
 D/Sgt Cranfield Thompson

FCO

Secretary of State
 Mr Galsworthy
 Miss McGinty
 D/Con Stickland
 Sir J Fretwell
 Mr Braithwaite
 Mr Richardson
 Mr Meyer
 Miss Rea

Treasury

Chancellor of the Exchequer
 Mr A Allan
 Sir G Littler
 Mr Gieve

Support Staff

Mr Dalby
 Mr MacDonald

= 28

RETURN

Tuesday 21 June

Secretary of State	BA 7/2	ETD Toronto	2000
Mr Galsworthy		ETA LHR	
Miss McGinty		(Spelthorne Suite)	0745 (22/6)
D/Insp Carthew			
D/Con Stickland			
Sir J Fretwell			
Mr Braithwaite			
Mr Richardson			
Miss Rea			
Chancellor of the Exchequer			
Mr Allan			
Sir G Littler			
Mr Gieve			

ONWARD/RETURNMonday 20 June

Miss Gibson CP 642 ETD Toronto (Pearson) 0825
ETA Ottawa 0930

Wednesday 22 June

Prime Minister RAF VC10 ETD Toronto (Pearson) 0910) to
Mr Wicks Task No ETA Ottawa 1015) be confirmed
Mr Powell Ascot 1179
Mr Ingham Flying time: 1 hour 5 minutes
Mr Dugdale
Mrs Crawford
Mr Kerr
Miss Lowe ETD Ottawa 1820
Miss Jelley ETA LHR (Southside) 0600 (23/6)
Mrs Reinholt-Webb
Miss Frier Flying time: 6 hours 40 minutes
D/Insp Dwyer Dinner and light breakfast will be served
D/Sgt Leach
D/Sgt Cranfield-Thompson
Mr Smith (Party as for
Miss Sutcliffe Toronto-Ottawa
Mr Dalby leg
Mr MacDonald minus
S/Sgt Humphries BHC Ottawa party
L/Cpl Chappell plus
L/Cpl Hole D/Sgt Kingston
plus BHC Ottawa party: Miss Gibson = 23)
Sir A Urwick
Lady Urwick
Mr Donald
Mr Haswell
Mrs Oulmi
RCMP
RCMP

Total = 28

RETURNWednesday 22 June

Mr Meyer AL 501 ETD Toronto 0755
Mr Hardy BA 72 ETD Toronto 2000
Mr Barlow ETA LHR 0745 (23/6)
Mr Davies Own arrangements

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APPENDIX III contd.

Thursday 23 June

Mr Belton	AC 882	ETD Toronto	1940
Mr Baker		ETA Frankfurt	0905 (24/6)
Major Barnard	BA 72	ETD Toronto	2000
Cpl Black		ETA LHR	0745 (24/6)
L/Cpl Ashton			
Mr Meyer	BA 214	ETD Boston	2100
		ETA LHR	0810 (24/6)
Mr Worsfold		Own arrangements	

Friday 24 June

Miss Waghorn	am	Leaves Toronto	
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TRAVEL ON SPECIAL FLIGHTS

BAGGAGE AND INSURANCE REGULATIONS

1. BAGGAGE

- (a) Those travelling by RAF aircraft are reminded that baggage should be left unlocked for the customary check. Butane gas lighter refills and matches, other than safety ones, may not be taken on the aircraft; certain aerosol sprays are now accepted on flights, provided they are not used on the aircraft. Any electrical items must be disconnected from their batteries.
- (b) Those travelling in the VC10 may take up to 66 lbs of personal baggage.

2. INSURANCE

- (a) No refund of insurance premium is payable from public funds for officers on short-term visits overseas.
- (b) Those travelling by RAF aircraft are subject to the same statutory limits of compensation as apply to carriage by commercial airlines but international journeys to or from the UK with an agreed stopping place in the United States are governed by the provisions of the IATA/Montreal Agreement which include a compensation limit higher than the statutory one. Prospective travellers in RAF aircraft are advised to check whether their personal insurance policies provide cover for travelling by non-commercial flights and to consult their insurers if they are in any doubt about their position.
- (c) When the personal property (other than money or luxury articles) of an officer sent overseas on a short-term visit is lost or damaged during transit to or from the UK or while he is in receipt of subsistence allowance (but not local allowances and DSA) during his stay overseas and the loss or damage is not covered by an existing insurance policy, and the officer himself has not been negligent, compensation may be paid at the discretion of PSD. The amount of compensation would be based on the current cost of replacing the articles less an amount for depreciation or, if less, the full cost of repair.

CONFIDENTIAL

APPENDIX V

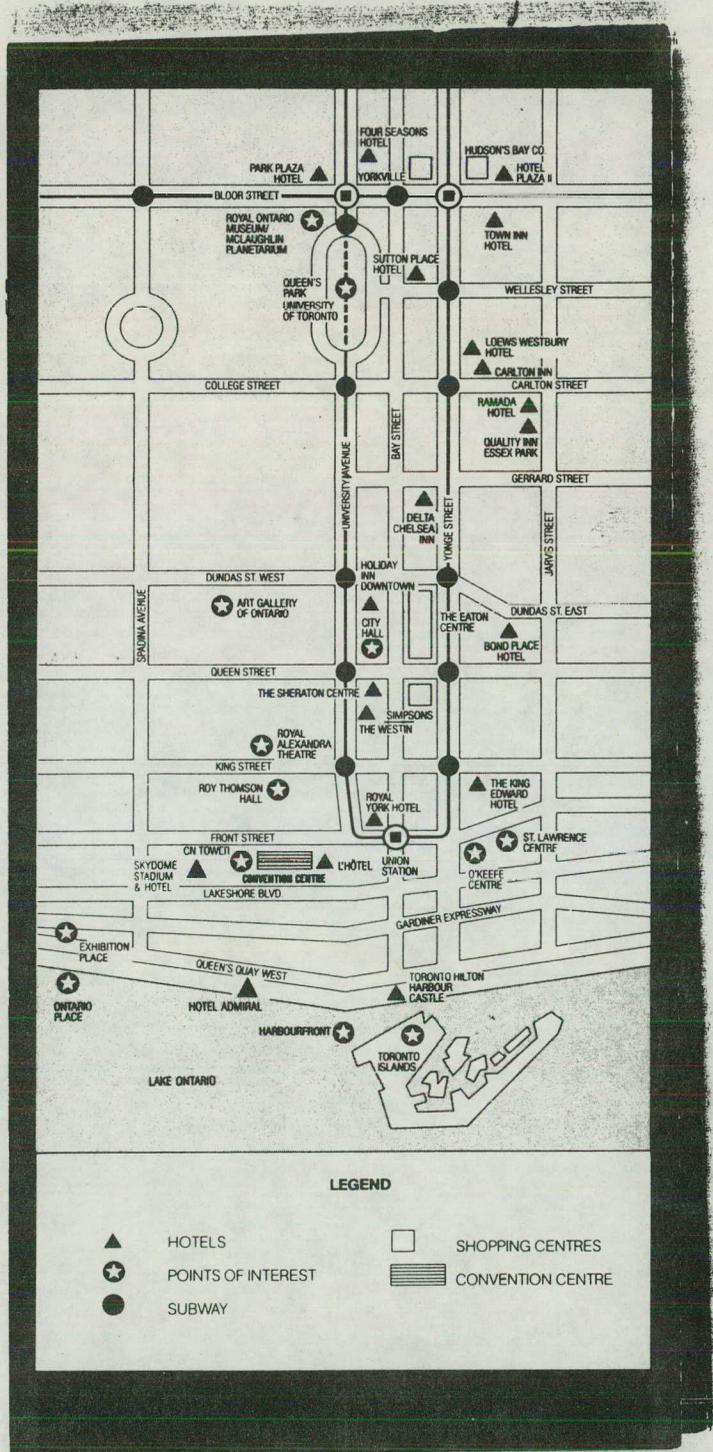
LIST OF USEFUL TELEPHONE NUMBERS

Dial Code to Toronto	0101 416
Short Dial Code FCO- Consulate-General, Toronto	#6 285
<u>British Consulate-General</u>	
Suite 1910, College Park, 777 Bay Street, Toronto	593 1290
<u>King Edward Hotel</u>	
37 King Street East	863 9700
<u>Sheraton Hotel</u>	
123 Queen Street West	361 1000
<u>Metro Toronto Convention Centre (MTCC)</u>	
255 Front Street West	585 8000/8131
Summits Management Office	973 7854
Summits Management Office (Media)	973 6060
L'Hotel	597 1400
<u>Lester B Pearson</u> (International Airport)	676 3506
Wardair (Lester B Pearson Airport)	671 3100
Other numbers to be issued later	

CONFIDENTIAL

TORAAQ

APPENDIX VI



DISTRIBUTION

No 10 Downing Street

Mr N L Wicks
Mr Powell
Mr C Fountain
Duty Clerks (2)
Press Office (2)
Mrs J Richards

Cabinet Office

PS to Sir Robin Butler
Mr C K Davies
Mr P Martin, Finance Division, Cabinet Office (OCMS)
Room 70/2 GOGGS

HM Treasury

PS to Chancellor

Foreign and Commonwealth Office

PS/Secretary of State (2)
APS/Secretary of State (2)
Private Office (2)
PS/Mrs Chalker
The Hon Humphrey Maud CMG
Mr P R Fearn CMG
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COD: Major I Bamber, c/o Mails Branch Registry, W7A
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Planning Staff: Mrs M Leslie
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Mr A R Mooncie, E207
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Security Department: Mr H J Nicholls
Mr S Papworth
Ministry of Defence:

Wing Cdr Richard Johnson, Room 5166, Main Building

PM(2) RAF, Metropole Building

TORAAH

MOVOPS (RAF), Desk Officer, Room 5178, Main Building

S9 B2(Air) Mr Hucker, Room 1379, Main Building

Royal Military Police

APM London District

OC London District Provost Co

New Scotland Yard

Det Chief Supt W Greenup

British High Commission, Ottawa (4)

British Consulate-General (2)

Each Member of the Party



External Affairs
Canada

Ambassador, Multilateral Trade Negotiations
and Personal Representative of the
Prime Minister,
Economic Summit

Affaires extérieures
Canada

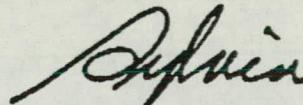
Ambassadeur aux négociations commerciales multilatérales
et représentante personnelle du
Premier ministre
pour le sommet économique

June 7, 1988

Dear Colleague,

As I promised on the weekend, I am sending you the attached revised version of the Thematic Paper that results from our last meeting.

If you wish to get in touch with me directly prior to the Summit, please feel free to call me at (613) 993-4369.


Sylvia Ostry

To: Personal Representatives of Leaders
of Economic Summit Countries

June 7

TORONTO ECONOMIC SUMMIT: THEMATIC PAPER

INTRODUCTION --

1. The Toronto Summit is the fourteenth; the end of the "second cycle". During this period, the world economy and economic policy have undergone profound changes. The information-technology revolution and the globalization of markets have increased economic interdependence, making it essential that governments consider fully the international dimensions of their deliberations.
2. Most striking is the contrast between the 1970s and 1980s. The former was a decade of high and rising inflation, declining productivity growth, commodity and oil-price shocks, policies dominated by short-term considerations, and sporadic and often inadequate international policy cooperation. In the 1980s inflation has been brought under control, laying the basis for sustained strong growth and improved productivity. However, the 1980s also saw the emergence of large external imbalances in the major industrial economies, greater exchange rate volatility, and debt-servicing difficulties in highly-indebted developing countries. Managing the transition to more sustainable economic and financial positions while supporting growth has required more continuous and effective international cooperation, such as the intensified process of policy coordination adopted at the 1986 Tokyo Summit. That process was further strengthened at the Venice Summit.
3. Thus, especially in the 1980s, Summits have motivated and spurred the expanding process of international policy cooperation. They have proven an effective forum to address the issues facing the world economy, promote new ideas and develop a common sense of purpose. They have helped bring about an increasing recognition that the conquest of inflation and of inflationary expectations is fundamental to sustained growth and job creation. That recognition has been fortified by a shift from short-term considerations to a medium-term framework for the development and implementation of economic policies, and a commitment to improve efficiency and adaptability through greater reliance on market forces and structural reform while at the same time confirming the effectiveness of social policies. Leaders have also achieved increasing consensus on the importance of resisting protectionism and strengthening the open, multilateral trading system; an effective strategy to address the challenge of development and alleviate the burden of debt; and recognition of the serious nature of the world agricultural problem.
4. The Toronto Summit provides the opportunity to acknowledge the contribution that Summits have made to international affairs; to strengthen the ties of solidarity that bind the Summit partners; and to express their greater awareness of their responsibilities to the wider community of nations.
5. Since the Venice Summit the industrialized countries have continued to grow strongly and are now in their sixth year of economic expansion. Employment has continued to expand, inflation has been restrained, and progress has been made toward the correction of major external imbalances. The situation of some developing countries was improved by the recovery in their terms of trade and strong growth in world trade.

6. These encouraging economic developments are cause for optimism, but not for complacency. A number of challenges face Summit governments: to continue narrowing large external and internal imbalances, thereby reinforcing the conditions for exchange rate stability; to spur job creation and reduce the high unemployment in a number of countries, particularly in Europe; to forestall any resurgence of inflationary pressures; to foster the process of structural adjustment; to resist protectionist pressures and strengthen the multilateral trading system; and to provide support for developing countries in their efforts to implement effective programs of structural reform and macroeconomic adjustment, which would increase capital formation and ease external debt-servicing difficulties.

To meet these challenges, Summit countries must reinforce their commitment to continued economic cooperation. This will enhance credibility, the key to market confidence.

POLICY COORDINATION

Macroeconomic Policies and Exchange Rates

7. At the Tokyo and Venice Summits and in the Group of Seven forum, the Summit countries have developed and strengthened the coordination of their economic policies. Developments in the wake of the financial strains last October demonstrate the effectiveness and resilience of the arrangements that have emerged. Regular reviews of their policies and performance are taking place in the Group of Seven. Medium term objectives and projections are being discussed for each of their economies and for Summit countries as a group, together with prospects for short term performance, as a basis for assessing current economic trends. The Summit welcomes the progress made in refining the analytical use of indicators, as well as the addition to the existing indicators of a commodity-price indicator.

8. The Summit countries have undertaken a series of fiscal, monetary and structural policies to foster the adjustment of international imbalances which is underway. Efforts in those directions, including continued reduction of budgetary deficits, must continue if the progress to date is to be sustained. To manage the transition over the medium term to more sustainable economic and financial positions in the context of non-inflationary growth, governments will follow, and where feasible strengthen, the agreed strategy of coordinated efforts to reduce spending in countries with large external deficits and sustain the momentum of domestic demand in countries with large external surpluses.

9. The reduction of external imbalances will require the cooperation not only of the Summit countries, but also of some of the smaller European economies and of newly industrializing economies with large external surpluses.

10. The exchange rate changes in the past three years, especially the real depreciation of the U.S. dollar against the Japanese yen and the major European currencies, have played a major role in the adjustment of real trade balances. The Summit should reaffirm that

[47
language] either excessive fluctuation of exchange rates, a further decline of the dollar, or a rise in the dollar to an extent that becomes destabilizing to the adjustment process, could be counterproductive by damaging growth prospects in the world economy.

Structural Reforms

Very poor section: needs tightening

11. International cooperation involves more than macroeconomic policies. Summit countries have increasingly been concerned with monitoring and promoting structural policies which complement macroeconomic policies, enhance their effectiveness, and provide the basis for more robust growth. In so doing, they facilitate the sectoral adjustments associated with the correction of external imbalances.
12. Summit countries should welcome the further development of the OECD's surveillance of structural reform. Such surveillance would be particularly useful in improving public understanding by increasing transparency. For example, improved analysis and monitoring of government subsidies to industry and agriculture would reveal their impact on government budgets, consumer prices, and international trade.
13. Summit countries should explore other ways of strengthening the momentum for structural reform; for example, by policies which mitigate the social and regional costs which such reform may engender.
14. Agriculture remains one of the most serious structural problems in both developed and developing countries. It is critically important that encouraging policy reform efforts undertaken by a number of parties be reinforced through further positive action by all Summit countries. The primary objective of agriculture in all our countries is to satisfy the demand for food in the most economic way possible. Other important objectives, such as satisfactory levels of farm incomes, the preservation of rural communities, and environmental protection, can be achieved without distorting production or market decisions. The Summit should welcome the OECD's increased emphasis on structural adjustment and development in the rural economy.
15. Financial and technological innovations are rapidly integrating financial markets internationally, contributing to a better allocation of capital but also increasing the speed and extent to which disturbances in one country may be transmitted to other countries. Summit countries should continue to cooperate amongst themselves and with other countries in the examination of the functioning of the global financial system, including securities markets.
16. Summit countries will continue to pursue structural reforms by: removing barriers, controls and regulations; increasing exposure to market competition; removing disincentives to work, save, and invest such as through tax reform; and by improving human resource development through education and training. In this context, the specific priorities that Summit countries have identified have been outlined in the attached Annex.

MULTILATERAL TRADING SYSTEM/URUGUAY ROUND

17. To realize fully the benefits of structural policies to liberalize markets and enhance competition, it is crucial that an open international trading system be maintained. Thus, a successful Uruguay Round is of critical importance.
18. A successful Uruguay Round will assure the integrity of an open, predictable multilateral trading system based on clear rules of the road, permitting trade expansion to resume its role as the engine of world economic growth and development. At Punta del Este, Ministers committed themselves to further trade liberalization across the wide range of goods and services, including such new areas as trade-related intellectual property and trade-related investment measures, and to strengthen the multilateral trading system. Countries must continue to resist protectionism and the temptation to adopt unilateral measures outside the framework of GATT rules.
19. Summit leaders should welcome the Free Trade Agreement between Canada and the USA, negotiated and concluded under the GATT, which should serve as a catalyst for progress in the Uruguay Round. They should note the steady progress toward the target of the European Community to complete the internal market by 1992. Summit leaders should affirm that these developments, together with other moves toward regional cooperation in which they are involved, would not weaken but rather support the open, multilateral trading system and the liberalizing impact of the Uruguay Round.
20. Accordingly, strengthening the GATT itself, particularly surveillance of trade policies and dispute settlement procedures, is a high priority. These objectives require the GATT to become a more dynamic and policy oriented organization, with greater Ministerial involvement, and strengthened linkages with other international organizations. To ensure that disputes are resolved speedily, effectively and equitably, GATT disciplines must be tightened so that members accept their obligations, and ensure that recommendations on dispute settlement are implemented.
21. The future role of developing and newly industrializing economies (NIEs) in the GATT system should also be a major part of this message. Both developing and developed countries share an appreciation that trade can play a key role in development. The developing countries (especially the NIEs), should be encouraged to undertake increased commitments and obligations and a greater role in the GATT, commensurate with their importance in international trade and the international adjustment process, as well as their respective stages of development. Equally, developed countries should consider what they are prepared to do to meet the legitimate need of developing countries for greater, more secure access for their exports.
22. Nowhere is the need for progress more evident than in agriculture. Reflecting the clear terms of reference provided by the Punta del Este Declaration and the political impetus provided by the 1987 OECD Ministerial and the Venice Economic Summit, good progress was made during 1987 in the Uruguay Round negotiations on agriculture,

with the tabling of major proposals. Continued political support and impetus is essential to underpin the politically difficult efforts at domestic policy reform and to advance the equally difficult and related process of comprehensive agricultural trade reform.

23. It is necessary to ensure that the Mid-Term Review in Montreal in December, 1988 spurs the negotiating process in this as in other fields. Summit countries should agree on a framework approach, including short as well as long term elements which will promote the reform process as launched last year and relieve current strains in agricultural markets. More precisely, this would be facilitated by agreement on the measures to be included in a device for the measurement of support and protection, such as a modified producer subsidy equivalent, and on the trade liberalization target. Also in this context, ways should be developed to take account of food security and social concerns. Any short term measures would need to be a downpayment on the achievement of long term goals. The objective of the framework would be to make the agricultural sector more responsive to market signals.

24. As the Uruguay Round enters a more difficult phase, it is vital to ensure the momentum of these ambitious negotiations. The Mid-Term Review will provide a unique opportunity to send a credible political signal to the trading world. The greatest possible advance must be made in the months to come, in all areas of the negotiations, so as to reach before the end of the year the stage where tangible progress can be registered. To this end, the Summit countries urge all participants to seek to agree during that period on framework approaches in the negotiations. [These include fundamental reform of GATT rules, market access, agriculture, trade in services, trade related intellectual property and trade related investment measures.] For their part, Summit countries are committed to ensure that the Mid-Term Review establishes a solid base for the full and complete success of the negotiations, in accordance with the Punta del Este Declaration.

25. Summit countries all recognize the critical and expanding role of international investment in the world economy. They share a deep concern that increased protectionism would undermine the benefits of open investment policies. Governments should express their resolve to progressively liberalize international investment policies.

NEWLY INDUSTRIALIZING ECONOMIES

26. Certain newly-industrializing economies (NIEs) in the Asia-Pacific region have become increasingly important in world trade. Although these economies differ in many important respects, they are all characterized by dynamic, export-led growth which has allowed them to treble their share of world trade since 1960. Other outward-oriented Asian countries are also beginning to emerge as rapidly-growing exporters of manufactures. Intra-regional investment and trade are creating greater interdependence among the economies of the region.

27. With increased economic importance come greater international responsibilities and a strong mutual interest in enhanced cooperation. There is a need for improved constructive dialogue between the industrialized countries and the Asian NIEs, as well as the other outward-oriented countries in the region. The dialogue should centre on cooperative efforts in the near term to achieve the international adjustment necessary for sustained, balanced growth of the world economy. The development of informal processes which would facilitate multilateral discussions of issues of mutual concern such as macroeconomic, trade and structural adjustment policies should be encouraged.

DEVELOPING COUNTRIES AND DEBT

28. The performance of developing countries and their role in world trade have become increasingly important to the world economy. The situation of individual developing countries varies widely; many still face serious economic difficulties. Central to the prospects of all is a global economic environment conducive to strong and sustainable growth, an open trading system, adequate financial flows and, most importantly, a commitment by debtor countries to appropriate economic reform.

Middle-Income Countries

29. The market-oriented, growth-led strategy based on the case-by-case approach for dealing with the debt problems of the highly indebted middle-income countries remains the only viable strategy. This strategy has achieved significant progress in a number of areas:

- many indebted countries have begun the process of macroeconomic adjustment and structural reform necessary for sustained progress, encouraging the return of flight capital and new investment flows;
- lending from official sources has continued to grow at a significant rate;
- the "menu approach" has continued to expand and has facilitated the channelling of commercial bank lending into productive uses; and
- the risk to the international financial system has been greatly lessened as commercial banks have strengthened their financial positions.

30. Progress toward a lasting solution, however, has been slower than earlier expected. High debt ratios persist and the return to creditworthiness for many countries remains distant. The financing situation generally is expected to remain difficult.

31. Official financing and the international financial institutions have played and will continue to play a central role in the debt strategy:

- through the Paris Club, over US\$73 billion of principal and interest have been consolidated since 1983. Export credit agencies will continue to play a flexible role in promptly resuming or increasing cover for countries which are implementing comprehensive adjustment programs;
- the US\$74.8 billion General Capital Increase (GCI) for the World Bank will substantially increase available resources. Speedy approval and subscription to the GCI by all governments is essential;
- the modified Extended Fund Facility (EFF) of the IMF will support emphasis on medium-term structural adjustment. Also, the incorporation into Fund programs of external contingency mechanisms would assist countries to adhere to their adjustment programs in the face of unexpected adverse external events.

32. Commercial banks hold nearly two-thirds of the external debt of the middle-income countries, and their continued involvement in the debt strategy is essential. In this regard, the World Bank and IMF can play an important catalytic role in mobilizing additional financing from private (and official) sources in support of debtor countries' adjustment programs.

33. In recent years there has been increasing recourse to innovative financing techniques. The important characteristics of these techniques are that they are voluntary, market-oriented, and applied on a case-by-case basis. The "menu approach" has engendered new financial flows and, in some cases, reduced the existing stock of debt. The flexibility of the present strategy would be enhanced by the further broadening of the menu approach and the encouragement of innovative financing techniques to improve the quality of new lending.

34. International direct investment can play an important role in spurring economic growth and alleviating debt problems in developing countries. Accordingly, developing countries, for their part, should welcome and encourage such investment. The positive contribution that the Multilateral Investment Guarantee Agency and the International Finance Corporation are making in stimulating international direct investment should be encouraged.

Debt of the Poorest

35. The debt burden of the poorest developing countries, especially in Sub-Saharan Africa, is part of a broader developmental challenge that requires the developing countries to persist with strong adjustment measures and developed countries to provide adequate concessional assistance. Progress in dealing with the debt burden has been encouraging over the past year:

- the recent enhancement of the IMF's Structural Adjustment Facility by SDR 6 billion will substantially increase funds available on highly concessional terms for low-income countries undertaking structural reform;

- the World Bank, in conjunction with ODA agencies, has put in place an enhanced program of co-financing aimed at the poorest countries. The donors have announced a total contribution amounting to US\$6.4 billion for the period 1988/90;
- the fifth replenishment of the African Development Fund has reached a total amount of approximately US\$3 billion;
- Paris Club creditors are rescheduling debt at extended grace and repayment periods.

The first three initiatives listed above will mobilize a total of more than US\$18 billion in favour of the poorest and most indebted countries undertaking an adjustment effort over the period 1988/90. Out of this total, US\$15 billion will be channelled to sub-Saharan African countries. The bulk of it will help finance adjustment programs.

36. In cases where it is extremely difficult for countries to meet their debt-service obligations, an increase in concessional resource flows will be necessary to help those countries resume sustained growth. One proposal is to reschedule the commercial debts of the poorest countries at concessional interest rates. An alternative is for official creditors to choose between shorter repayment periods at concessional rates and longer repayment periods at commercial rates. Thus, the adoption of options, as in the menu approach, to allow creditors the choice to offer concessional interest rates with shorter maturity periods would be a positive development. The relief provided would be additional to countries' existing aid programs.

37. Other techniques for reducing the burden of debt service should also be explored, including the provision of grants for countries undertaking adjustments, and further ODA debt cancellation.

FUTURE SUMMITS

38. The challenge for future Summits remains the same as that confronting leaders today: coping effectively with change in an increasingly interdependent world. There is a proven way to achieve this -- through an evolutionary process of improved international cooperation. In particular, we should examine the opportunities for strengthening Summit cooperation in: improving coordination of economic policies; striving for a more open international trading system; intensifying efforts in favour of poor and indebted countries; and extending international cooperation to other issues as they emerge. Based on the lessons learned from past Summits, these will be among the main tasks of future ones.

OTHER ISSUES

In addition to economic matters, the leaders have discussed other issues:

ENVIRONMENT

1. Protection and enhancement of the environment is essential. The report of the World Commission on Environment and Development has stressed that environmental considerations must be integrated into all areas of economic policy-making if the globe is to continue to support humankind. Summit countries endorse its concept of sustainable development.
2. Threats to the environment recognize no boundaries. Their urgent nature requires strengthened international cooperation, not merely among the industrialized countries, but between East and West, and North and South. Significant progress has been achieved in a number of environmental areas. The Montreal Protocol on Substances that Deplete the Ozone Layer is a milestone. All countries should be encouraged to sign and ratify it. Completion of negotiations on a protocol on emissions of nitrogen oxides within the framework of the Geneva Convention on Long-range Transboundary Air Pollution is important. The efforts of UNEP for an agreement on the transfrontier shipment of hazardous wastes are welcome and encouraged.
3. Further action is needed. Global climate change, air and water pollution, hazardous substances, deforestation, and endangered species require priority attention. A worldwide consciousness must be developed and maintained to counter threats that diminish the heritage of humankind. In this connection, the Summit countries welcome the establishment of an intergovernmental panel on global climate change under the auspices of the UNEP and the WMO. The Summit welcomes the Conference on the Changing Atmosphere to be held in Toronto.

DRUGS

4. Illicit narcotics trafficking poses grave risks to the peoples of Summit countries as well as to the peoples of source and transit countries. There is an urgent need for improved international cooperation in all appropriate fora on programs to counter all facets of the illicit drug problem, in particular, production, trafficking, and financing of the drug trade. The complexity of the problem requires not only reinforcement of present efforts but also additional international approaches. In this respect, we look forward to the successful negotiation in Vienna in November of a United Nations Convention on illicit trafficking.

5. The Summit also could consider supporting an initiative of the Government of the United States to convene a special task force comprised of senior foreign affairs, enforcement, finance and other appropriate officials from Summit countries concerned with the fight against narcotics. This task force should propose methods of improving cooperation in all areas including national, bilateral and multilateral efforts.*

HUMAN FRONTIER SCIENCE PROGRAM

6. We note the successful conclusion of Japan's feasibility study on the Human Frontier Program and are grateful for the opportunities our scientists were given to contribute to the study. We look forward to the Japanese government's proposal for the implementation of the program in the near future.

BIOETHICS

7. We note that, as part of the continuing review of the ethical implications of developments in the life sciences, the Italian government hosted the fifth conference on bioethics in April 1988 and welcome the intention of the European Community to host the sixth conference in the spring of 1989.

* French reserve

ANNEX

- Europe is pursuing structural reforms to complement macroeconomic policies in order to spur job creation, enhance growth potential, and achieve a sustainable pattern of external balances. Structural reform measures are being put into place in the framework of the Community programme for a unified internal market by 1992; including full liberalisation of capital movements; removal of physical, administrative and technical barriers to allow the full mobility of persons, goods and services and an improvement of competition policy. However, full achievement will depend on timely implementation and on associated regional and social policies.
- The main elements of Germany's structural reforms are tax reform and reduction, deregulation and privatization, reform of the postal and telecommunications system, increased flexibility in the labour market, and reform of the social security system.
- In France, the main structural reforms will deal with improving the level of education and professional training and development for workers, the reform of financial markets, and the elaboration of fiscal incentives to innovation and to productive investment.
- Italy will seek to promote training and education, increase the flexibility of the labour market to spur employment, improve the functioning of financial markets, revise the tax system to promote efficiency and eliminate distortions, and enhance public sector efficiency.
- The United Kingdom has been pursuing a substantial program of tax reform, deregulation, the opening up of markets and the privatization of state industries, and will continue the program through further measures to improve the flexibility of the workforce through education, training, and other actions.
- Japan will pursue further structural reforms to support and sustain the greater reliance on domestic demand-led growth which has quickened remarkably over the past year. Japan will promote reform of government regulations in key sectors, including agriculture and land use policies, the distribution system and the tax system.
- For the United States, where recent indications that the declining trend in private savings may have bottomed out are encouraging, it is nonetheless a priority to increase incentives to save. Also the United States will strengthen the international competitiveness of its industrial sector.
- The most promising areas of structural reform in Canada are implementation of the second stage of tax reform, the proposed liberalization of the financial services sector, and, most importantly, the implementation of the Free Trade Agreement with the United States.

*One or two
a week.*

From: Sir G.Littler
Date: 7 June 1988

MR ALEX ALLAN

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

TORONTO SUMMIT: DOMESTIC STRUCTURAL REFORMS

Nigel Wicks has asked for a short (5/6 lines only) passage on domestic structural reform for the U.K. - against the possibility that the eventual Summit Communique (or at least the 'thematic paper' presented to the Summit) might include such a brief note for each of the Summit countries.

2. On the spur of the moment in Toronto on Saturday I drafted with him the following:

"In the United Kingdom, there has [already] been a substantial programme of tax reform, *trade union law reforms,* deregulation, opening up of markets and privatisation of state industries. This will continue. *but have also introduced new* There will also be further measures to improve *both* the *quality of* flexibility of the work force, in education, *and the flexibility of* training and other fields." *work market.*

3. I am sure this can be improved. Could I please have any suggestions? - I should like to give Wicks a definitive version by the weekend. (We shall not have other countries' versions before then).

(Geoffrey Littler)

CH/EXCHEQUER	
REC.	08 JUN 1988
ACTION	Sir G. LITTLER
COPIES TO	Sir P. MIDDLETON
	Sir T. BURNS
	Mr H. P. EVANS
	Mr MOUNTFIELD

2/6



par
(Wedel)

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

7 June 1988

I enclose a copy of a letter to the Prime Minister from the Italian Prime Minister about the discussion of environmental problems at the forthcoming Toronto Economic Summit. The Italian Ambassador warned me the other day that his Prime Minister would wish to raise this at the bilateral in Toronto. I should be grateful for a draft reply, if you consider this necessary and appropriate, in due course.

I am copying this letter and enclosure to Alex Allan (HM Treasury) and Deborah Lamb (Department of the Environment).

Charles Powell

Lyn Parker Esq
Foreign and Commonwealth Office.



*Al Presidente
del Consiglio dei Ministri*

Roma, 30 maggio 1988

Signora Primo Ministro e Cara Amica,

sono stato lieto di apprendere che è stato fissato un incontro fra noi Sabato 18 giugno alle ore 18.00 a Toronto. Sarà una utile e per me gradita occasione per un primo scambio di vedute su molti problemi di comune interesse in vista delle scadenze che ci vedranno insieme impegnati nei giorni successivi, il Vertice dei Sette ed il Consiglio Europeo di Hannover.

Al Vertice dei Sette è intenzione del Governo italiano sollevare il tema dell'ambiente e sollecitare un dibattito su tale argomento di grande interesse ed attualità. A tal fine ho consegnato nei giorni scorsi al Primo Ministro Canadese Mulroney, nella sua qualità di presidente di turno dei Sette, l'unito documento che vuole essere una base per tale discussione.

Nel trasmetterGlielo, La prego di farmi avere le Sue eventuali osservazioni ed i suoi suggerimenti.

Nell'attesa di incontrarLa a Toronto, Le invio i miei più cordiali saluti.

S.E. la Signora
Margaret THATCHER
Primo Ministro del
Regno Unito di Gran Bretagna
ed Irlanda del Nord
L O N D R A

All. 1

Dear Prime Minister and Dear Friend,

I am pleased to learn that a meeting has been arranged in Toronto for Saturday the 18th of June at 18h00. This will be a useful and pleasant occasion to have an initial exchange of views on several problems of mutual interest in view of the commitments in which we will be engaged in the following days, both at the Summit of the Seven and at the European Council in Hanover.

At the Summit of the Seven, it is the intention of the Italian Government to raise the environment problem and to urge a debate on this matter of such great interest and topicality. To this end, a few days ago I handed over to the Prime Minister of Canada, Mr Mulroney, in his capacity as current President of the Seven, the attached document which is intended to be a basis for discussion.

I should be grateful if you would kindly let me know your thoughts and any suggestions you may have.

Looking forward to meeting you in Toronto, I send you my kindest regards.

Signed: Ciriaco De Mita



Roma, 27 maggio 1988

DICHIARAZIONE DEL VERTICE DI TORONTO SULL'AMBIENTE

Proposta italiana

1.- In linea con i precedenti Vertici, i Sette Capi di Stato e di Governo desiderano porre in evidenza:

- la sempre maggiore importanza della questione dell'ambiente oggi, che richiede più attenzione ed una maggiore determinazione da parte di tutti i Governi del mondo, del Nord e del Sud, dell'Est e dell'Ovest;
- la necessità di una più chiara percezione del suo carattere globale, intersettoriale, internazionale, così come intergenerazionale;
- la necessità di riconoscere una volta per tutte l'interdipendenza fra ambiente e sviluppo nel contesto di una "crescita sostenibile";
- il ricorso alle "tecnologie in favore delle città" come mezzi per alleviare i crescenti problemi della vita urbana, nei Paesi industrializzati così come in quelli in via di sviluppo;
- l'urgenza di passare dalle dichiarazioni all'azione e di fare crescente ricorso a misure di carattere preventivo piuttosto che a rimedi in questo settore.

2.- Per quanto concerne i passi immediati, i Sette Capi di Stato e di Governo vogliono riaffermare gli impegni presi al Vertice di Venezia di cooperare in alcune aree di priorità, così come la protezione della fascia di ozono, l'inquinamento atmosferico ed idrico, le sostanze pericolose, le specie in pericolo, la deforestazione e la desertificazione, ecc.. Essi vogliono anche sottolineare la necessità



2.-

di completare ed allargare il lavoro già iniziato. Essi indirizzano uno speciale appello a tutti i Paesi che ancora non lo hanno fatto di firmare e/o ratificare la Convenzione di Vienna del 1985 sulla protezione della fascia di ozono ed il Protocollo di Montreal del 1987 sui CFC al più presto. Essi sono anche pronti di andare oltre ciò che è stato previsto a Montreal se il deterioramento della fascia di ozono, come sottolineato da recenti studi scientifici internazionali, viene confermato. Essi vogliono esprimere il loro appoggio per i negoziati di Ginevra sul congelamento delle emissioni di ossidi di azoto. Essi infine incoraggiano e sollecitano gli sforzi dell'UNEP per un accordo sul traffico internazionale dei rifiuti pericolosi.

3.- I Sette Capi di Stato, in conclusione, vogliono sottolineare che queste iniziative parziali, così come qualsiasi altra che potrà materializzarsi in futuro, sono solo dei punti di partenza sulla lunga strada verso quell'accordo globale, internazionale ed onnicomprensivo per la protezione dell'ambiente, che è stato chiaramente raccomandato dal rapporto Brundtland.

Unofficial Translation

TORONTO SUMMIT DECLARATION ON ENVIRONMENT

ITALIAN DRAFT

- 1) In line with previous Summits, the Seven Heads of State or Government wish to emphasize:
- the greater and greater importance of the environment problem today, which requires more attention and stronger determination by all the Governments of the World, North and South, East and West;
 - the need for a clearer perception of its global character, intersectoral, international, as well as intergenerational;
 - the necessity to recognize once and for all the interdependence between environment and development in the framework of a "sustainable growth";
 - the recourse to the "city technologies" as a means to alleviate the growing hardships of urban life, in the industrialized as well as in the developing countries;
 - the urgency to move from statements to action and to have increasing recourse to preventive rather than remedial measures in this field.
- 2) As regards immediate steps, the Seven Heads of States or Government wish to restate the commitments taken at the Venice Summit to co-operate in a few priority areas, such as ozone protection, air and water pollution, hazardous substances, endangered species, deforestation and desertification, etc. They wish also to stress the need to complete and enlarge the work already in progress. They address a special appeal to all countries which have not yet done so to sign and/or to ratify the Vienna Convention of 1985 on the protection of the ozone layer and the Montreal Protocol of 1987 on the CFC's, as soon as possible. They also stand ready to go beyond

what has been envisaged at Montreal if the deterioration of the ozone layer as pointed out in recent scientific international assessments is confirmed. They wish to express support for the Geneva negotiations on the freezing of the nitrogen oxides emissions. They finally welcome and encourage the efforts of UNEP for an agreement on the international traffic of dangerous wastes.

3) The Seven Leaders, in conclusion, wish to emphasize that these partial initiatives, as well as any other which will materialise in the future, are just stepping stones on the very long way to that international global agreement, all-encompassing and far-reaching, for the protection of environment, which is clearly recommended by the Brundtland Report.

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10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

7 June 1988

Jes Rodric,

TORONTO ECONOMIC SUMMIT: THE PRIME MINISTER'S SPEAKING
NOTE FOR THE OPENING SESSION

As you know, the Prime Minister has agreed to Mr. Mulroney's request to open the discussion at the first session of the Economic Summit. The purpose of this initial discussion is for the Heads to describe their main priorities for the Summit.

Mr. Mulroney's hope is that she will speak without notes in order to encourage the informality of the occasion. Nevertheless, I think that it would help the Prime Minister if she had a speaking note on which she could base her intervention.

I now attach the first draft of such a note and should be glad for your comments and amendments. You will see that there are some requests for comment and information. Could I ask, in particular, that Geoffrey Littler should provide the "facts" requested in paragraphs 3 and 4 of the notes. I should welcome comments from both of Geoffrey and yourself as well as drafting suggestions where appropriate, on the references in the other square brackets.

Please could I have comments by 5pm on Thursday 9 June. If you would like to talk, please let me know.

Please could I ask Geoffrey to provide, in slower time, a two page speaking note on our view on the prospects for the world economy. This is a subject which is supposed to be covered at the first session and it would be helpful to have a note available. But I hope that we can avoid it clogging the flow of the Prime Minister's main intervention.

I am sending a copy of this letter to Geoffrey Littler (H M Treasury) and Tom Richardson (Foreign and Commonwealth Office).

Nigel Wicks

N. L. WICKS

Rodric Braithwaite, Esq., C.M.G.

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DRAFT SPEAKING NOTE FOR THE PRIME MINISTER TO USE AT THE
OPENING SESSION OF THE ECONOMIC SUMMIT

1. Any initial courtesies which are necessary
e.g. welcoming Mr. De Mita and Mr. Takeshita
congratulating President Mitterrand
saying farewell to President Reagan
thanking Mr. Mulroney for the Summit
arrangements, etc.

2. The annual Economic Summits are a time for sharing, quite
informally, experience on the economic situation and a
time for resolution on the common economic action which
we should follow in the year^s ahead.
*give us
1970s shock
mission!*

3. This is the last of this series of Summits which
President Mitterrand initiated in Versailles in 1982.
President Mitterrand, President Reagan and the President
of the ^{European} Commission (who was present as the French Minister
of Finance) will remember the problems which faced us at
that Summit.

[3 or 4 gloomy facts about the world economic situation
in 1981-82]

6. The recent record of economic history shows the rightness of these policies.

The world economy could not have withstood so well the shock of last Autumn's fall in stock prices unless our policies had built sound foundations.

7. I suggest that our task at this Summit is to consider how to carry these policies through the rest of the Eighties and into the Nineties, so that we can carry on the progress already made. That will require,

first, continuing action to reduce trade and budgetary imbalances;
second, progress with our national structural reform programmes;
third, a successful conclusion to the Uruguay Round; and as part of that, fourth, continuing action to - and here I use the words in the Economic Declaration issued in Tokyo in 1986 - "to adjust structure of agricultural production in the light of world demand."

The Imbalances

8. First on the imbalances. There has certainly been some progress. [What can we say on the US budget and trade deficits and on the German and Japanese positions? Can

The US budget deficit is now under way down, and the trade imbalances are at least beginning to decline (Item 974)

need more remains to be done

we single out the growth of Japanese imports for favourable comment?] Despite the progress, [I do not believe that the present scale of imbalances is sustainable.] The imbalances certainly add an unnecessary element of fragility into the world financial system. More has to be done in the year ahead to reduce them.

*push
Kohl's
month*

Structural Reform

9. Second, structural reform. The thematic paper describes each country's plans for structural reform. Each of us have more actions to take. I would be particularly interested to hear from Chancellor Kohl and from Mr. Takeshita about their plans. [Should we amplify what aspects?]

*Replace
with
as*

10. Education and training is a particular element of structural reform that I want to stress. We face a decade of technological change, fewer young people coming into the workforce, and the need for training and retraining, not just for the young people but right through the working life, so that people can be re-equipped with new skills. I look forward to discussing this important issue at our informal session tomorrow.

*1. but
delete*

Trade and agriculture

11. Agriculture and trade are, in my view, priority topics this Summit. Certainly, Summits are not negotiating

bodies. We cannot get into the details which are under discussion in Geneva. But we ^{must} can give an impetus to those discussions and map out some common directions so as to keep up the momentum. ~~That should be our task.~~

Trade

12. To take trade first: too often in the last few years there have been threats of trade wars. Protectionism has inched forward. And protectionism reduces growth in our countries, puts up inflation in the short term, increases unemployment in the long term and damages the developing countries. The GATT Round provides an opportunity to turn back protectionism to the benefit of both our own economies and to the developing countries. We must seize that opportunity and maintain and extend the open world trading system by multilateral reduction of trade barriers.

Take n
Laffer
pmc

13. I believe that the Mid Term Meeting (MTM), to be held in Montreal in December, offers a valuable opportunity to demonstrate that real progress can be made in all areas of the Uruguay Round. This progress should cover the areas to which we gave special emphasis at our previous meeting at the Tokyo summit, namely trade and services, intellectual property rights and foreign direct investment. A significant step towards the Round's successful conclusion would be the establishment at an early date of an agreed negotiating framework. I believe, too, that we should use to the fullest extent

Balance - the 5 v long ✓

possible at the mid term meeting the provision in the Punta Del Este Declaration which permits the implementation of agreements reached at an early stage in the negotiations. We ^{must} should not hold up action until an agreement is reached on everything. ^{In addition,} The strengthening of GATT itself ^{must be} is a high priority. We should work for the earliest possible agreement on ways of reinforcing the GATT process: through greater involvement of political Ministers; through intensification of the surveillance of trade policies; and through greater effectiveness of dispute settlement procedures so that disagreements can be resolved speedily, conclusively and fairly.

14. I suggest that these are the objectives which Summit countries should set themselves in making their contributions to the preparation for the Montreal meeting.

Agriculture

gather Mr. Gvas to govt to deal with the state, we should be shorter.

15. The Venice and Tokyo Summits made reform of agriculture policy a priority for our Governments. Too often, present agricultural policies distort national economies by putting unfair burdens on the consumer, ~~straining~~ ^{taxpayers & workers} ~~Treasuries~~ and wasting national resources. And agricultural policies often create strains for the world's trading system and reduce the welfare of some of the developing countries, including some of the poorest.

16. The European Community took some important steps to

reform agricultural policy in February:

agreement for effective measures, including stabiliser measures necessary to control output and spending; automatic price penalties on individual commodities if an agreed quantity of production is exceeded;

That agreement was a real achievement for the Community and for the world.

17. No-one should belittle what the Community has achieved. But I certainly agree that far more needs to be done to achieve our long term objective of reducing agricultural support, while maintaining, at the same time, a dynamic and viable agricultural sector.

18. This Summit should make clear that the Montreal Mid-Term Review should give a good shove to the negotiating process. There is an urgent need for any action. We need to agree a principle of reducing levels of assistance without getting bogged down into any precise final target. We need too to find an overall framework, as the OECD recently agreed, to measure progress in implementing this principle. There should be an immediate down-payment towards a long term goal of liberalising agriculture markets, together with a commitment to freeze support at present levels.

eh?

19. There are many other issues we need to consider at the Summit - the Newly Industrialising Economies and the developing countries are obvious examples. But I will reserve my comments on these subjects until later.

20. Mr. Chairman, this Summit gives us an opportunity to help shape economic history for the rest of the century. Let us seize it.

*1985
economic
growth*

? shouldn't she trail SSA debt initiative success here.

*Assessment
essential
W7 - 20 80*

FROM: H J BUSH
DATE: 7 JUNE 1988

*I have added a sentence on Scotch
(clear) with REF. DTI) JL*

- 1. MR GIEVE
- 2. CHANCELLOR

cc Economic Secretary
 Sir G Littler
 Mr Evans
 Mr Peretz
 Mrs Lomax
 Mr R I G Allen

PS/Customs & Excise

NIHON KEIZAI SHIMBUN

You agreed with Richard Allen to provide the above Japanese newspaper with a written interview. The paper sent in a rather long questionnaire to which the relevant Groups have drafted the attached short answers.

2. The interview is intended by the paper to be a pre-Toronto feature, and they have asked for a reply by 10 June. I would therefore be grateful to know that you are content to proceed with these draft answers.

3. The second part of question 5, on possible action against the Japanese on market access has been deliberately left unanswered.

*OK
 by
 AA
 an
 x TR.
 JL*

Henry Bush
 H J BUSH

had 2 matters to do in an hour of the 2 hours for the news? rumors for news? suggest another report now stop in

Don't get GJK asks the paper - US draft - Canada's bus. Mr Allan

12/2 Alex JBL says we have received this (yesterday). It is the draft "the other part" We'll get a note about tonight. JF.

9410718

MORNING PRESS

INTERNATIONAL MONETARY FUND WEDNESDAY, June 8, 1988 EXTERNAL RELATIONS DEPARTMENT

DOLLAR MIXED; GOLD OFF SHARPLY. Wire services in Asia and Europe reported the U.S. dollar mixed in today's trading, up at the Frankfurt fixing to DM 1.7150 (1.7118 yesterday), with no Bundesbank intervention reported, but down in European trading against the yen, at 125.10 (125.77), the pound sterling at \$1.8215 (\$1.8122), and the Canadian dollar, at 81.76 cents (81.23 cents). The dollar was also stronger at 5.7945 French francs (5.7855); 1.43 Swiss francs (1.4261); 1.9260 guilders (1.9240), 35.80 Belgian francs (35.83), and 1,274.25 lire (1,273.5). The SDR was \$1.36501 (\$1.36373). Gold was off markedly at the London morning fixing to \$458.75, from \$464.40 yesterday.

G-7 TO OPPOSE FURTHER DOLLAR DECLINE, SEEK MORE USE OF FISCAL POLICIES. AP-DOW reported from Tokyo that Japanese newspapers said that the draft statement now circulating for the economic summit to be held later this month in Toronto declares that further significant currency fluctuations would be counterproductive to efforts to reduce external imbalances, and that the U.S. dollar's decline against the yen and European currencies over the past three years has played a major role in adjustment of external imbalances among those countries. The draft also said, according to Japanese newspapers, that monetary policies of the G-7 countries have actively supported international coordination, but it is now feared that an excessive burden may have been placed on them in trying to achieve the mutually contradictory goals of containing inflationary pressure and keeping major currencies stable; it is therefore now necessary for fiscal policy and structural adjustment to play a larger role. Challenges still to be faced require that the large industrial countries strengthen their coordination of economic policies in the future, according to the draft.

FRANCE TO PRESS U.K. ON EMS PARTICIPATION. Ldn. Fin. Times, p1, said in a Paris report that the new French Government intends to step up pressure on the U.K. to become a full member of the exchange rate mechanism of the EMS, as an essential complement to the liberalization of capital movements in the EC. Pierre Berezgouvoy, French Finance Minister, is expected to lay out the French argument at Monday's Council of Ministers meeting that the U.K.'s nonparticipation in the mechanism has a destabilizing effect on the ECU, an issue on which the Italian Government also expressed anxiety in a paper submitted to the EC Monetary Committee in March. The problem lies in the fact that the pound is a component of the ECU, but is not stabilized within the rules of the exchange rate mechanism. In the end, France believes that the U.K. must either join or leave the EMS entirely, or Berezgouvoy would consider withholding French agreement to the liberalizing of EC financial services, which would be to the U.K.'s advantage.

ITALY HAS LARGE APRIL BOP DEFICIT; FISCAL STEPS CONSIDERED. AP-Dow, from Rome, said Italy's balance of payments swung to a Lit. 2.953 trillion deficit in April from a surplus of Lit. 1.579 trillion a year earlier. In March, a deficit of Lit. 292 billion was recorded in a revision of the Bank of Italy's earlier report of a surplus of Lit. 646 billion for the month. Total reserves, including gold, fell to the equivalent of Lit. 72.563 trillion in April, from Lit. 74.721 trillion at the end of March. In a later despatch, AP-Dow said that the Italian Government will consider a package of restrictive fiscal measures if April's large payments deficit is repeated in May, according to Treasury Minister Giuliano Amato, who told reporters it was not yet clear whether the deterioration was due to short-term speculation against the lire before the French presidential elections in April, or to a surge in domestic demand, fueling imports.

What draft?

NICHOLAS BRADY SEEN SUCCEEDING BAKER AT U.S. TREASURY. WSJ, p3, said investment banker Nicholas Brady of Dillon, Read & Co., former U.S. Senator from New Jersey, and head of the White House task force on the October stock market crash, is emerging as a top choice to succeed U.S. Treasury Secretary James Baker, who is expected to leave his post this summer to head Vice President George Bush's presidential campaign. A possible rival to Brady is Deputy Secretary of State John Whitehead.

U.S. BANKS HAVE NEAR-RECORD EARNINGS IN FIRST QUARTER. WSJ, p4, said bank regulators reported U.S. banks earned a strong \$5 billion in the first quarter of this year, missing a record quarterly profit only because of the \$1.5 billion loss of First Republic Bank of Dallas. The figure was slightly lower than the \$5.3 billion result in the first quarter last year, and record quarterly result of \$5.8 billion in the third quarter of 1987.

GERMAN COST-OF-LIVING UP. AP-Dow said in a Frankfurt report that Germany's cost-of-living index rose 0.2% in May from April, and was up 1.1% from May 1987, compared with 1% year-on-year increases reported by the Federal Statistics Office for both March and April.

NEW OBSTACLES CONFRONT U.S.-CANADA TRADE PACT. WP, pD1, said approval of the U.S. Canada free trade agreement has run into unexpected roadblocks in both countries, with a top aide of Canadian Prime Minister Brian Mulroney flying to Washington to register his objections, and U.S. House Ways and Means Chairman Dan Rostenkowski threatening to scuttle the pact in response to a plan for a multi-million payout to U.S. uranium interests to gain support for the pact from a group of Western senators, mostly Republicans. Canadian officials are fighting against a provision agreed to by the Reagan Administration designed to ease Congressional concerns that the agreement is too soft on what U.S. lawmakers see as a web of Canadian subsidies that hurt efforts of U.S. companies to compete in industries ranging from metal mining to smelting to agricultural production.

ARGENTINE DEBT TALKS TO BE TOUGH, BANKING CHIEF SAYS. Reuters reported from the International Monetary Conference in Chicago that Citibank Chairman John Reed, whose bank heads a committee that negotiates with Argentina on behalf of several hundred banks worldwide, said Argentina's calls for concessions on its \$54B foreign debt are bound to make it harder to raise the new loans the government urgently needs this year. Reed said he was worried some banks would balk at the request because of President Raul Alfonsin's recent proposal to cut interest payments on foreign debt to 4 per cent for three years, from the current 9 per cent. Although bankers saw the proposal as a trial balloon rather than a threat of confrontation if it was rejected, they said rhetoric on the debt is likely to remain at a worryingly high pitch in the run-up to Argentina's presidential election next year. A separate Reuters report from Buenos Aires said the General Confederation of Labor has put forward a "pact for the economic and social transformation" of Argentina, supported by opposition parties, which includes a moratorium on foreign debt, and calls on State, workers and business to unite to bring about a redistribution of incomes and tax reform.

YUGOSLAVIA SEEN GETTING COMMERCIAL BANK LOAN BY SEPTEMBER. Reuters reported from a meeting of the Yugoslav-U.S. Economic Council at Split that Fulvio Dobrich, senior Vice President of Manufacturers Hanover Trust, which coordinates debt policy for the approximately 450 commercial banks which have lent money to Yugoslavia, said that \$250M has already been assembled and a further \$20M would be available later this week, being the critical amount required by the country before an SDR 260M IMF standby credit arrangement can be implemented. He said commercial banks were pleased by the government's recent move to lift controls on many prices, imports and foreign exchange in the recent program launched by Prime Minister Branko Mikulic, but that it is imperative that there be better balance and fine tuning in developing a program for dealing with social problems which could arise in implementing the reforms. Another Reuters report from Belgrade said that John Whitehead, U.S. Deputy Secretary of State, told a news conference the U.S. would use its influence with the IMF, the Paris Club of creditor governments, and commercial banks to lend support to assembling a financial package needed to execute recent economic reforms.

JAPAN RECYCLING SURPLUS FAST TO DEVELOPING NATIONS. Kyodo reported from Tokyo that Takashi Tanaka, President of the Export-Import Bank of Japan said the country has already recycled 70.3% of the targeted \$30B of its trade surplus to developing countries. Recycling aims at easing foreign criticism of Japan's trade surplus.

INDONESIAN ECONOMIC REFORMS SEEN AS PART OF LONG-TERM CHANGE. Reuters reported from Jakarta that Energy Minister Ginanjar Kartasasmita told an energy conference the government aims to make Indonesia's economy more competitive, and recent reforms such as deregulation and simplification procedures in various sectors, followed by measures which have removed or relaxed the quantitative controls on imports of raw materials, should be seen as the initial steps in a long-term restructuring process. He said Indonesia would continue to open its economy to foreign and domestic investment as part of its program to increase public participation in the national development programs and to enhance economic growth and create new job opportunities. The government, worried by a growing overseas debt burden, has promised further reforms, particularly of the financial sector. In a separate report, Finance Minister Johannes Sumarlin has suggested official debt be repaid at a "currency repayment option", which would allow debtor nations to repay in either yen or dollars at the exchange rate prevailing at the time the loans were signed.

KENYA SEES 5.1 PER CENT ECONOMIC GROWTH IN 1988. Reuters reported from Nairobi that Planning Minister Zachary Onyonka told a news conference in presenting the government's 1988 economic survey that Kenya aims to achieve 5.1 per cent economic growth, up from 4.8 per cent in 1987 as a result of stronger demand for its coffee and tea exports.

MALI ANNOUNCES CABINET CHANGES. Reuters reported from Bamako that President Moussa Traore appointed himself Premier and defence minister in a sweeping cabinet shuffle. Tiena Coulibaly was appointed Finance and Trade Minister.

SEAGA TO BE NAMED CHAIRMAN OF MIGA. AP-Dow reported from Washington that Jamaica's Prime Minister Edward Seaga is slated to be named Chairman of the Board of Governors of a new IBRD affiliate, the Multilateral Investment Guaranty Agency (MIGA). The organization, which will offer insurance-type guarantees to private investors in developing nations, is expected to begin business operations late 1988. A panel of Executive Directors representing industrial nations and developing countries, which will supervise MIGA, will be appointed within a few weeks.

U.N. GLOBAL PRICE STABILIZATION FUND TO COME INTO EFFECT. AP-Dow reported from Geneva that a spokesman for UNCTAD said the main conditions for the coming into effect of the U.N. Common Fund for Commodities have been met; the Fund will act as a source of finance for international commodity agreements that use buffer stocks.

NEW OIL FINDS HAMPER OPEC EFFORTS TO RAISE PRICE. NYT, pD5, said in a Paris report that there is little likelihood that the midyear meeting of OPEC oil ministers, beginning Saturday in Vienna, will be able to do much to raise prices because new oil is still being found around the world, including recent announcements of a potentially gigantic pool in the Amazon River delta in Brazil, and other discoveries by oil-producing nations that are not OPEC members.

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Ch.
NB 'Comment'
overleaf.

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TORONTO SUMMIT: FRENCH DEBT INITIATIVE

SUMMARY

1. FRENCH DEBT INITIATIVE FOR THE POORER COUNTRIES. MIDDLE INCOME COUNTRY DEBT INITIATIVE UNDER STUDY.

DETAIL

2. MIFT CONTAINS TEXT OF LETTER DATED 7 JUNE FROM MITTERRAND TO THE PRIME MINISTER (AND, WE ASSUME, OTHER G7 HEADS OF STATE AND GOVERNMENT) OUTLINING A FRENCH INITIATIVE ON DEBT FOR THE POOREST COUTRIES, WHICH MITTERRAND HOPES WILL MEET WITH APPROVAL AT TORONTO.

3. MITTERRAND'S LETTER PROPOSES THAT CREDITOR COUNTRIES SHOULD OFFER ONE OF THREE COURSES OF ACTION TO DEBTOR COUNTRIES:
-IMMEDIATE CANCELLATION OF ONE THIRD OF THEIR DEBT, IN THE CONTEXT OF CONSOLIDATION AGREEMENTS UNDER WHICH REMAINING DEBT WOULD BE REPAYABLE OVER TEN YEARS.

-CONSOLIDATION OF DEBT AT MARKET RATES, BUT WITH UP TO 25 YEARS MATURITY (AS OPPOSED TO 20 YEARS AT PRESENT)

-CONSOLIDATION OF DEBT AT RATES OF INTEREST REDUCED BY AT LEAST 50 PERCENT, WITH MATURITY OF UP TO AROUND 15 YEARS.

4. THE LETTER SAYS THAT FRANCE WILL ADOPT THE FIRST COURSE, WHICH WOULD HAVE THE ADVANTAGE OF AN IMMEDIATE REDUCTION IN THE DEBT BURDEN OF THE POOREST COUNTRIES.

5. MITTERRAND ADDS THAT EFFORTS MUST CONTINUE TO BE TAKEN TO RELIEVE THE DEBT BURDEN OF MIDDLE-INCOME COUNTRIES: THAT THE MOBILISATION OF NEW RESOURCES AND RECOURSE TO NEW FINANCIAL INSTRUMENTS MUST BE ENCOURAGED FOR PRIVATE BANK LENDING, AND THAT RECENT MULTILATERAL DECISIONS, SUCH AS THE INCREASE IN WORLD BANK CAPITAL, MUST BE PUT

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INTO EFFECT AS SOON AS POSSIBLE.

COMMENT

6. THIS APPEARS TO BE A WHOLLY ELYSEE INITIATIVE. AS LATE AS LUNCHTIME TODAY ROCARD'S CABINET WERE UNABLE TO GIVE US ANY DETAILS OF IT. WE UNDERSTAND THAT TRICHET (DIRECTEUR DU TRESOR) WAS SIMILARLY UNSIGHTED LAST NIGHT. ROCARD'S CABINET CONFIRMED TODAY, HOWEVER, THAT THE ELYSEE WERE WORKING ON A MIDDLE INCOME COUNTRY DEBT INITIATIVE, WHICH MIGHT OR MIGHT NOT BE DISCLOSED BEFORE THE TORONTO SUMMIT.

7. PLEASE ADVANCE BRAITWAITE, RICHARDSON ERD, BOTTRILL (TRY)

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.MONETARY ERD[-]

ADDITIONAL 1

MR WICKS NO 10 DOWNING ST

NNNN

CONFIDENTIAL

pyz

From: Sir G.Littler
Date: 8 June 1988

MR ALEX ALLAN

u
Earlier
pages with you
AA

c.c. Sir T.Burns
Mr Lankester
Mr Huw Evans

TORONTO SUMMIT: P.M.'s SPEAKING NOTES

Here are some immediate thoughts before I go off to Brussels.

General: This is going to come out far too long. Perhaps no harm in having an excess of material from which the P.M. can then select (in advance or at the time). But we might suggest that she could consider drastic cutting of paragraphs 3-10 for this opening informal talk, leaving some of that material for the further round of general comment at the Monday morning Plenary.

Agreed

Paragraph 5: I would like to add the thought that international cooperation fell apart in the 1970s and has been gradually rebuilt during the current series of Summits. The US want to emphasise the 'coordination' theme: what I am suggesting would lead to more general (and better) language for a Communique than the US ideas of rabbiting on about 'process' and 'indicators'.

Agreed

Paragraph 8: I don't much like the language of 'fragility' and 'unsustainability'. After the references to US, Japanese and German positions we might say: "But there is still a long way to go, and it will help confidence if we acknowledge the need for further and sustained action to get the imbalances under control".

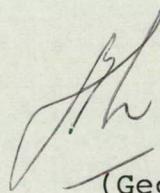
agreed

CONFIDENTIAL

Paragraph 9: I suggest amplifying in a general way: "It is vital that ~~their strong economies~~ ^{the surplus countries} play a full part in resolving the imbalances problem. But it is through structural reforms to open their markets and invigorate their ~~demand~~ ^{economic performance} - not through fiscal stimulus ~~or slack monetary policies~~ - that they must make their contribution".

Paragraph 12: I wonder whether the P.M. would like to work in a personal comment on the lines: "We all pay tribute to the firm resistance against protectionism which President Reagan has shown. I hope he will help us now to go as far as possible in our public *Agree* ~~communicate~~ to commit his successor to the same robust attitude."

I have talked with Mr Evans about the passage on agriculture, and he will suggest some factual and debating points on the lines we discussed yesterday with the Chancellor.



(Geoffrey Littler)

passed to ITPK

A number of
Comments
also in
below

CONFIDENTIAL

From: Sir G.Littler
Date: 8 June 1988

MR ALEX ALLAN

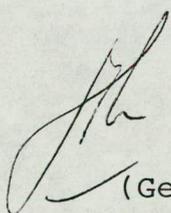
c.c. Sir T.Burns
Mr Lankester
Mr Huw Evans

TORONTO SUMMIT: P.M.'s SPEAKING NOTES

I thought it best to send you at once the attached copy of a letter from Nigel Wicks, enclosing his first shot at a draft of speaking notes for the Prime Minister to use in opening the first session among Heads of Government alone.

2. I shall work through this, leaving Mr Evans to collate my and other comments (including please any immediate reactions from the Chancellor) and put up a note to you to reach No 10 by late tomorrow afternoon as requested.

3. The separate note we are asked to produce, on the prospects for the world economy, is not needed until earlyish next week. I shall put something to you for the weekend.


(Geoffrey Littler)

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FROM: A C S ALLAN

DATE: 8 June 1988

SIR G LITTLER

cc Sir P Middleton
Sir T Burns
Mr Lankester
Mr H P Evans
Mr Mountfield
Mr Peretz
Mr Gieve
Mr Hudson

TORONTO SUMMIT

The Chancellor discussed with you and Mr Evans yesterday various issues relating to the Toronto Summit.

Sub-Saharan African Debt

2. The Chancellor thought a major objective for the Summit should be to get agreement on his Sub-Saharan initiative, and to get this presented as a significant UK success. It seemed that only modification necessary to his original proposals would be to relax the requirement that all countries must participate in the interest rate subsidy before it could get off the ground, in exchange for an arrangement that those who did not participate would have their claims subordinated, and have longer repayment periods. He would want to make this the subject of his pre-Summit press release this Friday, and it was agreed that Mr Hudson should co-ordinate a draft. It should include a comprehensive history of these proposals in the Notes for Editors.

Agriculture

3. The Chancellor would not now issue a press release on agriculture. But he would be grateful if a short note could be



worked up (about 2 pages), for use in Toronto. This should cover the following points:

- (i) Agriculture as an aspect of protectionism;
- (ii) the scale of the problem in the EC, Japan and North America (using the PSE figures which demonstrated that while subsidies were higher in the EC than in North America, they were growing less fast);
- (iii) some comments about the UK (the relative size of its farm sector and its subsidies);
- (iv) agricultural policies do not help the poorest farmers;
- (v) objectives for Toronto - which needed sharpening up.

Agricultural statistics

4. The Chancellor said he would be grateful for figures for both levels and changes of food exports by the US and the EC over the past 10 years or so; these should include both gross and net exports.

Countries in arrears to the Fund

5. The Chancellor did not at all like Camdessus' ideas about "mentor countries". If this came up, we should run our existing line on shadow programmes and ESAF.

International Monetary Reform

6. The Chancellor did not see any harm in the Summit endorsing the G7 work (which had not yet started!). Baker had told the Chancellor that he was perfectly happy for it to proceed so long as both Deputies and Central Bank Governors were involved; but Mulford seemed to be interpreting this as meaning that Deputies must be in the lead.



Commodity price indicator

7. The Chancellor was puzzled by the dip in the charts in the most recent periods: was this correct? In general, he was concerned about possible reactions if the Summit adopted a commodity indicator which suggested inflation could be about to pick up sharply. The US would undoubtedly make much of the adoption of the indicator, and even if the details were not published, others would be able to produce charts showing a sharp pick-up this year. We were concerned about inflationary pressures, but not to the extent implied by the recent rise in commodity prices. It would be important to work up a line on this before Toronto, explaining why we did not believe this presaged a new surge in inflation, since the old relationship between commodity prices and inflation had altered (and why, if that was true, we had chosen this moment to use a commodity indicator!). He would also wish to go to the Summit armed with additional charts of commodity prices, showing both levels and rates of change and for both commodities in aggregate and different commodity groups separately.

8. On the weighting given to oil, the Chancellor thought there was a case for having oil in a commodity indicator, but not exercising a dominant influence by having a very high weight. He would be grateful to see the charts re-done with oil at, say, a weight of 20 per cent.

Drugs

9. The Chancellor said he would need good briefing on how far we could go on exchanging information with other countries on laundering drug money.

ACSA

A C S ALLAN

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PPS

From: S D H SARGENT

Date: 9 June 1988

SIR G LITTLER

cc PPS ←
Mr Lankester
Mr H EvansTORONTO ECONOMIC SUMMIT - NEW ZEALAND VIEWS

... The New Zealand High Commissioner, Bryce Harland, called on Sir Peter Middleton yesterday and left with him the attached paper. He stressed New Zealand's concerns over agriculture, and said that he detected signs that the US were losing interest in the mid-term review. He felt that there should be serious difficulties if this opportunity were missed, and he wondered whether there was scope for using the Summit to breathe new life into the review. Sir Peter Middleton replied that we were also keen to take forward the mid-term review and he agreed to ensure that the possibility of using the Summit for this purpose was not overlooked.

*SDH*S D H SARGENT
Private Secretary

NEW ZEALAND VIEWS

1. Recent indicators of short-term global economic trends are quite favourable - OECD countries experienced increases in both aggregate demand and output in the last half of 1987: it is now evident that the October Stock Market crash has had a limited impact on economic activity: since last year's summit the majors have had some success in co-ordinating economic policies to improve trade balances and to keep exchange rates stable within an agreed range.

2. However this is not time for the Summit countries to become complacent. The US trade deficit still looms large as a potential threat to financial market stability and economic growth: the LDC debt problem has not gone away: and trade protectionism, and the resulting international tensions, continue to increase. While the measures already implemented by some of the Summit countries have had some effect on global imbalances, a concerted approach by all members is necessary to achieve a permanent reduction in imbalances between the major economies. Despite repeated statements of commitment to reform, the hard decisions on measures to achieve the necessary structural adjustment have not yet been taken. There has been no significant dismantling of policies which impede free trade. A co-ordinated approach to exchange rate management has been on achievement of recent Summits and has been useful in stabilizing economic conditions. But it is not enough. It needs to be underpinned by action on structural adjustment.

- 3: The political obstacles to and costs of structural adjustment are real. But so are the costs (inefficiency, stagnation, slow development) of persisting with policies which impede economic adaptation. All Governments recognise their role in facilitating and encouraging economic development. The responsibility for removing obstacles to structural change lies largely with them.

4. New Zealand recognised some years ago that the costs of attempting to bypass difficult choices and issues was too great. It has embarked on the most far-reaching structural reforms of any developed country. The domestic economy is undergoing a restructuring process which encompasses all sectors. It is being increasingly exposed to international competition, the removal of internal regulatory measures, and subjected much more to market signals. Positive returns are emerging to balance the considerable short-term cost associated with these reforms. But the degree of long-term success depends in part on the extent to which the rest of the world is willing to undertake the same sort of structural changes, especially as regards policies affecting international trade in agricultural products, on which New Zealand's livelihood still depends. It is regrettably all too easy for opponents of structural reforms in New Zealand to point to the protection of similar sectors in other countries when arguing their case for preferential treatment.

5. The Summit countries have great influence on international economic developments. Without their support little significant international reform can be achieved. The Toronto Summit is an opportunity to reaffirm their commitment to the necessary reform process. It is a chance for the Seven to show the way for other countries in accepting the need for reform and looking ahead to agreement on a substantial package of trade reforms at the Mid-Term Review of the GATT Uruguay Round negotiations. New Zealand, as a member of the Cairns Group, would like to see agreement at the Mid-Term Review on short term measures on agriculture linked to a commitment to longer term reform. The short-term measures, provided they are not market management policies, would provide concrete evidence of progress. The link with longer term measures, to be negotiated in detail over the following two years, would ensure that a programme to deal conclusively with the root causes of trade distortions in agriculture, high levels of aggregate support and border protection, was agreed and in place by the end of the round. New Zealand recognizes fully that progress in the Mid-Term Review cannot be limited to agriculture alone and supports early trade liberalisation measures being

undertaken wherever practicable. Willingness on the part of the Summit countries to commit themselves to early and decisive action will boost prospects for success in the Uruguay Round and world confidence in economic co-operation and the Global Economy.

6. New Zealand urges the Summit countries to demonstrate at Toronto their determination to tackle the hard questions facing the international economy. The outcome New Zealand should like to see from the Summit is a firm commitment by the Seven:

- to undertake concerted and substantial policy reforms designed to bring about the structural adjustment necessary to correct the current distortion and imbalances in the world economy; and
- to take steps towards the liberalisation of international trade, particularly in the context of the December Mid-Term Review of the Uruguay Round negotiations.

NEW ZEALAND HIGH COMMISSION

19th May 1988

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PS/CHANCELLOR OF THE EXCHEQUER
TREASURY

*OK X, with WH
Have review
to Toronto (x after)*

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ECONOMIC SUMMIT: THE JAPANESE ECONOMY

SUMMARY

1. STRONG GNP GROWTH LED BY DOMESTIC DEMAND LIKELY TO CONTINUE. IMPORTS STILL INCREASING RAPIDLY BUT REVIVAL OF EXPORTS THREATENS GOVERNMENT'S TARGET FOR REDUCTION IN TRADE SURPLUS. GOVERNMENT FORMULATING MEDIUM TERM OBJECTIVES FOR DOMESTIC DEMAND - LED GROWTH AND STRUCTURAL REFORMS. DESPITE PROGRESS MADE JAPAN'S PARTNERS SHOULD CONTINUE TO PRESS FOR MORE URGENT ACTION TO INCREASE IMPORTS.

DETAIL

THE DOMESTIC SECTOR

2. STRONG GROWTH CONTINUES, LED BY DOMESTIC DEMAND, AND SPREAD WIDELY ACROSS INDUSTRIES AND REGIONS. EPA QUARTERLY REPORT DUE OUT SHORTLY IS EXPECTED TO SHOW GNP GROWTH AT AN ANNUAL RATE OF 10 PERCENT OR OVER IN JANUARY-MARCH, WHICH MAY LIFT THE FINAL OUTTURN FOR FY 1987 TO BETWEEN 4.7 PERCENT AND 5 PERCENT. FURTHERMORE THIS LEVEL OF GROWTH IS EXPECTED TO CONTINUE AT LEAST THROUGH THE FIRST TWO QUARTERS OF FY 1988. ALTHOUGH HOUSING INVESTMENT , WHICH LED TO LAST YEAR'S EXPANSION, HAS PEAKED IN THE MAJOR CITIES, INDUSTRIAL CAPITAL INVESTMENT, IS EXPANDING RAPIDLY IN ANTICIPATION OF CONTINUED STRONG DEMAND, AND PERSONAL CONSUMPTION IS LIKELY TO REMAIN STRONG NOT LEAST BECAUSE OF THE LIKELYHOOD OF INCOME TAX CUTS IN THIS AND THE NEXT FINANCIAL YEAR. INDUSTRIAL PRODUCTION IN MARCH WAS UP 11 PERCENT OVER THE PREVIOUS YEAR. SINCE EMPLOYMENT INCREASED BY ONLY 2 PERCENT AND WAGES BY LESS THAN 4 PERCENT THIS GAVE MANUFACTURERS ADDED MARGINS WITHOUT RAISING PRICES. THE CPI REMAINS EXTREMELY STABLE, ASSISTED BY THE IMPACT ON DOMESTIC PRICES OF INCREASED IMPORTS, ESPECIALLY FROM THE NICS. THE BANK OF JAPAN REMAINS WARY OF INFLATIONARY

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DANGERS BECAUSE OF THE HIGH RATE OF GROWTH AND IS ANXIOUS ABOUT A POSSIBLE SLOW DOWN IN INDUSTRIAL PRODUCTION LATER IN THE YEAR, BUT THE GOVERNMENT SEES NO NEED AT PRESENT FOR ANY CHANGE IN MONETARY POLICY OR ADDITIONAL FISCAL MEASURES IN THE AUTUMN SUPPLEMENTARY BUDGET.

THE EXTERNAL SECTOR

3. IN VOLUME TERMS EXPORTS WHICH DECLINED BY 2 PERCENT IN CALENDAR 1987 HAVE STOPPED FALLING. AND SIGNIFICANTLY HAVE RISEN BY ABOUT 3 TO 4 PERCENT YEAR ON YEAR IN EACH OF THE LAST THREE MONTHS IMPORT VOLUMES WERE UP BY 20 PERCENT YEAR ON YEAR IN APRIL. ON A DOLLAR BASIS EXPORTS HAVE STARTED TO RISE MORE RAPIDLY SINCE THE END OF CALENDAR 1987 AND ARE 15 PERCENT ABOVE THE PREVIOUS YEAR'S LEVEL. THIS RISE IN EXPORT VALUES IS EXPLAINED BY A STRONG RISE IN THE EXPORT OF HIGH-VALUE ITEMS SUCH AS COMPUTERS, SEMI CONDUCTORS ETC, AND BY MANUFACTURERS TAKING THE OPPORTUNITIES TO RAISE EXPORT PRICES WHILE DOMESTIC CONDITIONS ARE STRONG. IMPORTS, THOUGH UP BY 38 PERCENT APPEAR NOW TO BE RISING MORE SLOWLY. THE SEASONALLY ADJUSTED TRADE SURPLUS (CUSTOMS CLEARANCE BASIS) IN Q4 OF FY 1987 WAS DOLLARS 20.8 BILLION, 2.5 BILLION HIGHER THAN IN THE PREVIOUS QUARTER.

4. THE TRADE WITH THE EC HAS BEEN STRONG IN BOTH DIRECTIONS. EC EXPORTS (EXCLUDING GOLD) ROSE BY 49 PERCENT TO DOLLAR 7.3 BILLION IN JANUARY-APRIL 1988, AND IMPORTS FROM JAPAN BY 25 PERCENT TO DOLLARS 15.4 BILLION (CUSTOMS CLEARANCE BASIS).

5. DIRECT OVERSEAS INVESTMENT BY JAPANESE FIRMS IS REFLECTED IN BOTH SIDES OF THE ACCOUNT. THE REVIVAL OF PLANT MACHINERY EXPORTS AND OF SHIPMENTS OF PARTS IS AT LEAST PARTLY DUE TO THE CONSTRUCTION OF OVERSEAS FACTORIES: WHILE REVERSE IMPORTS OF SEMI-FINISHED AND NOW FINISHED GOODS FROM JAPANESE COMPANIES ABROAD CONTRIBUTES TO THE RISE OF IMPORTS, ESPECIALLY FROM SOUTH EAST ASIA.

6. THE CURRENT ACCOUNT BALANCE OF DOLLAR 84.5 BILLION (ON AN IMF BASIS) IN FY 1987 WAS DOLLAR 2 BILLION ABOVE THE GOVERNMENT'S ESTIMATE, AND WHILE THE GOVERNMENT MAINTAINS THAT ITS TARGET OF A DOLLAR 10 BILLION REDUCTION IN THE CURRENT ACCOUNT SURPLUS IN FY 1988 IS STILL ACHIEVABLE, MANY OBSERVERS EXPECT A MODEST FALL IN THE REGION OF DOLLARS 3-5 BILLION. FOR THIS REASON THE AUTHORITIES ARE PUTTING MORE EMPHASIS ON THE REDUCTION OF THE RATIO OF THE CURRENT ACCOUNT SURPLUS TO GNP FROM ITS LEVEL OF 4.5 PERCENT IN FY 86, TO 3.3 PERCENT IN FY 1987,

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AND ITS TARGET OF 2.6 PERCENT IN 1988.

GOVERNMENT POLICY

7. THE GOVERNMENT FORMALLY ADOPTED ON 27 MAY A NEW

5 - YEAR ECONOMIC PLAN WITH THE THREEFOLD OBJECTIVES OF:

A) CORRECTING EXTERNAL IMBALANCES AND CONTRIBUTING TO THE
WORLD ECONOMY

B) INCREASING THE LIVING STANDARDS AND SENSE OF AFFLUENCE OF
JAPANESE PEOPLE

C) FACILITATING FURTHER INDUSTRIAL RESTRUCTURING AND BALANCED
REGIONAL GROWTH.

THE PLAN POSTULATES REAL DOMESTIC GROWTH OF 4.25 PERCENT AND NET
EXTERNAL DEMAND (EXPORTS MINUS IMPORTS) OF MINUS 0.5 PERCENT
OF GNP IN EACH OF THE NEXT FIVE YEARS. THE CURRENT ACCOUNT SURPLUS
IS EXPECTED TO FALL TO AN INTERNATIONALLY TOLERABLE LEVEL
WHICH IS NOT PUBLICLY AVOWED BUT PRIVATELY DEFINED AS
AROUND 1.5 PERCENT OF GNP (DOLLAR 50-60 BILLION) IN 1992. IN
ADDITION THE GOVERNMENT/LDP COMMITTEE FOR THE PROMOTION OF
STRUCTURAL REFORM IS ABOUT TO PRODUCE AN OUTLINE CARRYING
FORWARD THE IDEAS IN THE 1986 MAEKAWA REPORT, AND CENTERING UPON
REFORMS OF AGRICULTURE, THE DISTRIBUTION SYSTEM AND REDUCTION
OF WORKING HOURS. BY FURTHER ENCOURAGING IMPORTS AND THE
REDUCTION OF DOMESTIC PRICES THE GOVERNMENT AIMS TO INCREASE
DISPOSABLE INCOMES AND GROWTH BASED ON PERSONAL
CONSUMPTION. AT THE SAME TIME IT INTENDS TO INCREASE ITS OFFICIAL
AID EXPENDITURE AND ENCOURAGE CONTINUED OVERSEAS DIRECT
INVESTMENT INCLUDING IN THE LDCS. TAKESHITA IS LIKELY TO
OUTLINE THESE IDEAS AT THE TORONTO SUMMIT. AT THIS STAGE
THEY ARE GENERAL OBJECTIVES RATHER THAN CONCRETE PLANS.

COMMENT

8. THE FLEXIBILITY AND RESPONSIVENESS OF THE ECONOMY - PRIMARILY
THE INDUSTRIAL SECTOR - HAS ENABLED JAPAN TO TURN YEN APPRECIATION
TO ITS ADVANTAGE. THE ADJUSTMENTS MADE DURING THE INITIAL DOWNTURN
IN 1986 CREATED THE CONDITIONS FOR CURRENT STRONG DOMESTIC GROWTH
WITHOUT OVERALL LOSS OF EXTERNAL COMPETITIVENESS. THE GOVERNMENT
POINTS TO THE RAPID GROWTH OF MANUFACTURED IMPORTS AS EVIDENCE THAT
ITS POLICIES TO REDUCE THE BALANCE OF PAYMENTS SURPLUS HAVE HAD
EFFECT. IT IS NOW TENTATIVELY TURNING ITS ATTENTION TO TWO AREAS OF
MUCH GREATER RIGIDITY - AGRICULTURE AND THE DISTRIBUTION SYSTEM,
WHOSE INEFFICIENCY AND HIGH PRICES ARE A FOCUS OF DOMESTIC AS WELL AS
FOREIGN CRITICISM. THE IMPACT OF THIS ON THE TRADE SURPLUS MAY
HOWEVER BE SMALL, OR AT LEAST SLOW IN COMING.

9. SOME ARGUE THAT THE BENEFITS FOR THE BALANCE OF PAYMENTS OF THE CURRENT HIGH LEVELS OF JAPANESE MANUFACTURING INVESTMENT IN THE U S AND EUROPE WILL BE FELT VERY STRONGLY IN TWO OR THREE YEARS' TIME. IN THE MEANTIME HOWEVER AS SHOWN BY THE RECENT RISE IN EXPORTS AND HIGH PROFITS OF THE MAJOR EXPORTING COMPANIES IT IS CLEAR BOTH THAT THE TRADE SURPLUS IS UNLIKELY TO BE SUBSTANTIALLY REDUCED, AND THAT THE MAJOR COMPANIES ARE MORE THAN COMFORTABLE AT CURRENT EXCHANGE RATES. THERE IS NO GUARANTEE THAT IF DOMESTIC GROWTH SLOWED DOWN EXPORT VOLUMES WOULD NOT RISE SHARPLY ONCE MORE. ALTHOUGH THE GOVERNMENT LINE REMAINS THAT THE CURRENT EXCHANGE RATE OF YEN 125 TO THE DOLLAR IS APPROPRIATE, THE PRIVATE SECTOR AT LEAST RECOGNISES THAT THE EXTERNAL IMBALANCE COULD, DEPENDING ON U S TRADE PERFORMANCE, CAUSE RENEWED INSTABILITY IN THE MARKETS, AND ARE ALREADY PREPARED FOR THE NECESSITY OF A FURTHER RISE IN THE YEN.

10. AGAINST THIS BACKGROUND, THE ASUMPTIONS APPARENTLY ACCEPTED AT THE OECD MINISTERIAL AND ELSEWHERE ABOUT THE RESULTS OF STRUCTURAL CHANGES IN JAPAN'S ECONOMY SEEM OVER-COMPLACENT. WE DO NOT WISH TO BE GRUDGING IN OUR RECOGNITION OF WHAT HAS BEEN DONE SO FAR, AND PUBLICLY IT WILL BE NECESSARY TO EMPHASISE THE PROGRESS BEING MADE. BUT IT IS STILL APPROPRIATE, AS SEEN FROM HERE, FOR JAPAN'S PARTNERS PRIVATELY TO EXPRESS CONCERN ABOUT THE RISK TO MARKET STABILITY FROM THE LIKELY LEVEL OF SURPLUS, AND URGE SPEEDIER ACTION TO LIBERALISE FINANCIAL AND AGRICULTURAL MARKETS AND TO INCREASE IMPORTS BY FURTHER TARIFF REDUCTIONS DEREGULATION OF CONTROLLED PRICES, MAJOR PURCHASES OF CAPITAL GOODS AND BY INTRODUCING GREATER COMPETITION INTO THE DISTRIBUTION SYSTEM. ALTHOUGH SHORT TERM FISCAL STIMULUS IS CLEARLY NOT REQUIRED, THE GOVERNMENT SHOULD ALSO BE ENCOURAGED TO RESPOND SWIFTLY IF NECESSARY LATER IN THIS OR THE NEXT FINANCIAL YEAR TO SUPPORT DOMESTIC DEMAND.

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ADDITIONAL 43

JAPAN POLITICAL AND ECONOMIC

NNNN

Mr. Allan

The Chancellor will be interested to see this - we will draw on it for Toronto briefing.

JLH 20/6

SIR G LITTLER

Which must also cover Revenue cooperation & exchange of information

FROM: RACHEL LOMAX

DATE: 9 June 1988

**cc. Sir P Middleton
Mr Lankester**

[weeded]

pp

TORONTO SUMMIT: DRUGS

Your note of 6 June mentioned that the G10 Group of Central Banks Supervisors have been discussing the subject of money laundering. As with the summit, the moving spirits have been the Americans, concerned with the escalation of their drugs problem. But the discussions have gone wider, to cover the whole subject of the criminal use of the banking system.

2. You ought to be aware that the committee is now close to agreeing the attached code of conduct on the prevention of the criminal use of the banking system for the purpose of money laundering. It may be that they will be ready to go public with the result after their next meeting, in a few weeks time. I understand that members of the Cooke Committee have been privately consulting their banks and other interested official bodies. In our case, the British Bankers Association have seen the code, and are apparently reasonably content. There also seems to be a gratifying degree of international agreement, which includes the Swiss, apparently much chastened by the Guinness/Bank Leu affair.

Rh.

RACHEL LOMAX

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Consultation Draft

Committee on Banking Regulations
and
Supervisory Practices

Code of Conduct

Prevention of criminal use of the banking system for the
purpose of money-laundering

Preamble

1. Banks and other financial institutions may be unwittingly used as intermediaries for the transfer or deposit of funds derived from criminal activity. Criminals and their associates use the financial system to make payments and transfers of funds from one account to another; to hide the source and beneficial ownership of money; and to provide storage for bank-notes through a safe-deposit facility. These activities are commonly referred to as money-laundering.

2. Efforts undertaken hitherto with the objective of preventing the banking system from being used in this way have largely been undertaken by judicial and regulatory agencies at national level. However, the increasing international dimension of organised criminal activity, notably in relation to the narcotics trade, has prompted collaborative initiatives at the international level. One of the earliest such initiatives was undertaken by the Committee of Ministers of the Council of Europe in June 1980. In its

report¹ the Committee of Ministers concluded that "... the banking system can play a highly effective preventive role while the co-operation of the banks also assists in the repression of such criminal acts by the judicial authorities and the police". In recent years the issue of how to prevent criminals laundering the proceeds of crime through the financial system has attracted increasing attention from legislative authorities, law enforcement agencies and banking supervisors in a number of countries.

3. The various national banking supervisory authorities represented on the Basle Committee on Banking Regulations and Supervisory Practices² do not have the same roles and responsibilities in relation to the suppression of money-laundering. In some countries supervisors have a specific responsibility in this field; in others they may have no direct responsibility. This reflects the role of banking supervision, the primary function of which is to maintain the overall financial stability and soundness of banks rather than to ensure that individual transactions conducted by bank customers are legitimate. Nevertheless, despite the limits in some countries on their specific responsibility, all members of the Committee firmly believe that supervisors cannot be indifferent to the use made of banks by criminals.

4. Public confidence in banks, and hence their stability, can be undermined by adverse publicity as a result of inadvertent association by banks with criminals. In addition, banks may lay themselves open to direct losses from fraud, either through negligence in screening undesirable customers or where the integrity of their own officers has been undermined through association with criminals. For these reasons the members of the Basle Committee consider that banking supervisors have a

1 Measures against the transfer and safeguarding of funds of criminal origin. Recommendation No. R(80)10 adopted by the Committee of Ministers of the Council of Europe on 27th June 1980.

2 The Committee comprises representatives of the central banks and supervisory authorities of the Group of Ten countries (Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, United Kingdom, United States) and Luxembourg.

general role to encourage ethical standards of professional conduct among banks and other financial institutions.

5. The Committee believes that one way to promote this objective, consistent with differences in national supervisory practice, is to obtain international agreement on a Code of Conduct to which financial institutions should be expected to adhere.

6. The attached Code is a general statement of ethical principles which encourages banks' management to put in place effective procedures to ensure that all persons conducting business with their institutions are properly identified; that transactions that do not appear legitimate are discouraged; and that co-operation with law enforcement agencies is achieved. The Code is not a legal document and its implementation will depend on national practice and law. In particular, it should be noted that in some countries banks may be subject to additional more stringent legal regulations in this field and the Code is not intended to replace or diminish those requirements. Whatever the legal position in different countries, the Committee considers that the first and most important safeguard against money-laundering is the integrity of banks' own managements and their vigilant determination to prevent their institutions becoming associated with criminals or being used as a channel for money-laundering. The Code is intended to reinforce those standards of conduct.

7. The supervisory authorities represented on the Committee support the principles set out in the Code. To the extent that these matters fall within the competence of supervisory authorities in different member countries, the authorities will recommend and encourage all banks to adopt policies and practices consistent with the Code. With a view to its acceptance worldwide, the Committee would also commend the Code to supervisory authorities in other countries.

Basle, 10th May 1988

The Code of Conduct

I. Purpose

Banks and other financial institutions may unwittingly be used as intermediaries for the transfer or deposit of money derived from criminal activity. The intention behind such transactions is often to hide the beneficial ownership of funds. The use of the financial system in this way is of direct concern to police and other law enforcement agencies; it is also a matter of concern to banking supervisors and banks' managements, since public confidence in banks may be undermined through their association with criminals.

This Code of Conduct is intended to outline some basic policies and procedures that banks' managements should ensure are in place within their institutions with a view to assisting in the suppression of money-laundering through the banking system, national and international. The Code thus sets out to reinforce existing best practices among banks and, specifically, to encourage vigilance against criminal use of the payments system, implementation by banks of effective preventive safeguards, and co-operation with law enforcement agencies.

II. Customer identification

With a view to ensuring that the financial system is used solely for the conduct of legitimate transactions, banks should make reasonable efforts to determine the true identity of all customers requesting the institution's services. Particular care should be taken to identify the beneficial ownership of all accounts and those using safe-custody facilities. All banks should institute effective procedures for obtaining identification from new customers. It should be an explicit policy that significant business transactions will not be conducted with customers who fail to provide evidence of their identity.

III. Compliance with laws

Banks should not knowingly engage or assist in any illegal transaction. Banks' management should ensure that business is conducted in conformity with high ethical standards and that laws and regulations pertaining to financial transactions are adhered to. While, in an international context it may be difficult to ensure that cross-border transactions on behalf of customers are in compliance with the regulations of another country, banks should not, as a planned and deliberate matter of internal policy, set out to offer services or provide active assistance in transactions which they have good reason to suppose are in violation of foreign laws.

IV. Co-operation with law enforcement authorities

Banks have an obligation to co-operate fully with law enforcement authorities to the extent permitted by specific local regulations relating to customer confidentiality. Care should be taken to avoid providing support or assistance to customers seeking to deceive law enforcement agencies through the provision of altered, incomplete or misleading information. Where banks have good reason to suppose that money held on deposit derives from criminal activity or that transactions entered into are themselves criminal in purpose, appropriate measures, consistent with the law, should be taken, for example, to deny assistance, sever relations with the customer and close or freeze accounts.

V. Adherence to the Code

All banks should formally adopt policies consistent with the principles set out in this Code and should ensure that each member of their staff is informed of the bank's policy in this regard. Attention should be given to staff training in matters covered by the Code. To promote adherence to the Code, banks should implement specific procedures for customer identification and for retaining internal records of transactions. Arrangements for internal audit may need to be extended in order to establish an effective means of testing for general compliance with the Code.

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PS/CHANCELLOR OF THE EXCHEQUER
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TO IMMEDIATE OTTAWA

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OF 101545Z JUNE 88

AND TO IMMEDIATE TOKYO

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

TORONTO ECONOMIC SUMMIT: SECRETARY OF STATE'S BILATERALS
FROM ERD

1. THE SECRETARY OF STATE WOULD LIKE A BILATERAL WITH UNO IN THE MARGINS OF THE SUMMIT. AS WITH THE ARRANGEMENTS FOR THE PRIME MINISTER'S BILATERALS, GRATEFUL IF YOU WOULD COORDINATE THIS ONE WITH THE JAPANESE AMBASSADOR IN OTTAWA. WE ASSUME THE JAPANESE WILL PROVIDE INTERPRETATION. WE SUGGEST IT WOULD BE CONVENIENT IF YOU COULD ARRANGE A MEETING ON THE MORNING OF 19 JUNE (OF ABOUT 30 MINUTES) PERHAPS AT THE SAME TIME AS THE PRIME MINISTER SEES DE MITA OR KOHL AND BEFORE THE FIRST SUMMIT SESSION BEGINS AT 1500.
2. FOR TOKYO. GRATEFUL IF YOU WOULD PUT THIS PROPOSAL FOR A MEETING TO UNO'S OFFICE. THE MEETING WILL FOLLOW UP THE SESSIONS IN TOKYO THIS JANUARY AND IN PARIS ON 18 MAY. PARTICULAR ITEMS THE SECRETARY OF STATE WOULD LIKE TO INCLUDE IN THESE TALKS ARE THE TOKYO STOCK EXCHANGE AND AIRFARES, WITH A WORD OF THANKS ON WHISKY.
3. FOR WASHINGTON. FOR INFORMATION ONLY. THE SECRETARY OF STATE WILL NO DOUBT WANT TO SEE SHULTZ TOO, BUT THIS WILL BE ARRANGED ON THE SPOT, ON AN AD HOC BASIS.
4. FOR OTHER SUMMIT CAPITALS. NO ARRANGEMENTS ARE BEING MADE FOR FURTHER FORMAL BILATERALS, BUT SECRETARY OF STATE WILL BE ARMED WITH CLUTCH CARDS FOR USE AS NECESSARY.

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TORONTO ECONOMIC SUMMIT: DANISH PROPOSAL ON UN FINANCE

1. AT A COMMUNITY PERMANENT REPRESENTATIVES MEETING ON 9 JUNE, THE DANES PROPOSED THAT WE SHOULD JOINTLY RECOMMEND TO CAPITALS THAT THOSE MEMBER STATES REPRESENTED AT TORONTO SHOULD TAKE THE OPPORTUNITY TO IMPRESS ON PRESIDENT REAGAN THE NEED FOR PAYMENT OF THE AMERICAN CONTRIBUTION TO THE UNITED NATIONS.

2. I SAID THAT I DID NOT THINK THAT THIS WAS QUITE THE RIGHT PROCEDURE. EACH HEAD OF STATE AND GOVERNMENT AT TORONTO WOULD HAVE A LIST OF PRIORITY POINTS TO PUT TO PRESIDENT REAGAN, AND SOME MIGHT HAVE THE U S ARREARS TO THE UN UPON IT. BUT HOWEVER WELL DISPOSED PRESIDENT REAGAN MIGHT BE, THERE WAS PROBABLY LITTLE THAT HE COULD NOW DO TO PAY AMERICAN ARREARS DURING THE LAST MONTHS OF HIS PRESIDENCY. WE AND OTHERS WERE ALREADY FULLY SEIZED OF THE PROBLEM. IN THE MEANTIME IF THE DANES SO WISHED THEY COULD RAISE IT WITH THE GERMAN PRESIDENCY AND IN CAPITALS. AFTER A BRIEF DEBATE IT WAS AGREED THAT THE GERMAN PERMANENT REPRESENTATIVE WOULD REPORT THE DISCUSSION WITHOUT ANY RECOMMENDATION.

TICKELL

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10 DOWNING STREET
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From the Principal Private Secretary

CH/EXCHEQUER	
REC.	13 JUN 1988 ✓
ACTION	SIR G. LITTLE ✓
COPIES TO	SIR P. MIDDLETON
	SIR T. EVANS
	MR EVANS
	MR MOUNTFRED

10 June 1988

Dear Hugh,

papers please

TORONTO ECONOMIC SUMMIT: THE PRIME MINISTER'S SPEAKING
NOTE FOR THE OPENING SESSION

As you know, the Prime Minister has agreed to Mr. Mulroney's request to open the discussion at the first session of the Economic Summit. The purpose of this initial discussion is for the Heads to describe their main priorities for the Summit.

Mr. Mulroney's hope is that she will speak without notes in order to encourage the informality of the occasion. Nevertheless, I think that it would help the Prime Minister if she had a speaking note on which she could base her intervention.

I attach a draft of such a note, which reflects Departmental comments. I should be glad to know whether the Foreign Secretary has any views on it. The speaking note is long and I doubt whether the Prime Minister will wish to use it all at the first session. But it could provide a quarry for use elsewhere during the Summit.

I am sending a copy of this letter to Alex Allan in the Treasury, and should be grateful to know whether the Chancellor of the Exchequer has any comments on the draft. A copy also goes to Trevor Woolley in Sir Robin Butler's office.

cl
A few comments. It is still v unbalanced.

AA

Yours sincerely
Nigel Wicks

(N.L. WICKS)

*sent to
PM's Council
Lynn for
Lynn's
advice*

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

DG2CSZ

DRAFT SPEAKING NOTE FOR THE PRIME MINISTER TO USE AT THE
OPENING SESSION OF THE ECONOMIC SUMMIT

1. Any initial courtesies which are necessary
e.g. welcoming Mr. De Mita and Mr. Takeshita
congratulating President Mitterrand
saying farewell to President Reagan
thanking Mr. Mulroney for the Summit
arrangements, etc.

2. The annual Economic Summits are a time for sharing, quite informally, experience on the economic situation and a time for resolution on the common economic action which we should follow in the years ahead. The Summit forum alone can see every dimension of the global issues before us. Summits have provided, in the past, opportunities for leaders to take charge of issues from the bureaucrats and give them a political push which can only come from the very top. This Summit should be no exception.

[Paragraphs 3-10 can be omitted in the interests of brevity.]

- [3. This is the last of this series of Summits which President Mitterrand initiated in Versailles in 1982. President Mitterrand, President Reagan and the President of the European Commission (who was present as the French

Minister of Finance) will remember the problems which faced us at that Summit.

(i) World recession in the period 1980-82: output growth averaged under 1 per cent over these three years, and output actually fell in 1982.

(ii) Inflation in the industrialised countries averaged about 10 per cent in 1981 and 1982.

(iii) Interest rates were very high: short term dollar rates averaged 16 per cent in 1981.

4. The problems of the world economy are not all solved. Far from it. But there has been an enormous improvement in the world economic situation in the last six or seven years. In particular:

(i) growth has averaged a good 3 per cent a year since 1982;

(ii) inflation has come down to and stayed at around 3 per cent;

(iii) interest rates have declined to around 7 per cent;

(iv) in many countries, unemployment is falling.

But there remain serious problems: the fiscal deficit in

the United States, and trade imbalances there and in Japan and Germany; the protectionist threat; high unemployment, especially in Europe; the massive scale of agricultural protection and support; and the serious position in many developing countries, especially in Africa.

ugly join

5. That improvement has not come about by accident. The seventies were a decade of financial irresponsibility, economic mis-management and economic opportunity foregone. But in the Eighties, the Summit countries have lead the way in implementing a change in the approach to economic policy of historic proportions. Successive Summit declarations bear witness to that change. And many other countries are now following our lead. International cooperation fell apart in the Seventies and has been gradually rebuilt during the current series of summits. Priority has been given to inflation and to prudent fiscal and monetary policies. But the real innovation has been the emphasis on "structural reform", tax reform, abolishing controls, introducing competition, privatisation and the need for freer world trade especially in agriculture, following our discussion at the Tokyo Summit 1986.
6. The recent record of economic history shows the rightness of these policies. The world economy could not have withstood so well the shock of last Autumn's fall in stock prices unless our policies had built sound

foundations.

7. I suggest that our task at this Summit is to consider how to carry these policies through the rest of the Eighties and into the Nineties, so that we can carry on the progress already made. That will require,

first, continuing action to reduce trade and budgetary imbalances;

second, progress with our national structural reform programmes;

third, a successful conclusion to the Uruguay Round; and as part of that,

fourth, continuing action to - and here I use the words in the Economic Declaration issued in Venice in 1987 - "... allow market signals to influence ... agricultural production ...",

fifth, supporting the developing countries in their efforts of economic reform; and I want to say something on the various debt initiatives in a moment.

The Imbalances

8. First on the imbalances. Despite the progress, more has to be done in the years ahead to reduce the imbalances, and I will want to say more about that in our session tomorrow.

got very short. Why not add back you & Keoff's books.
 People. MUST ^{be} ~~be~~ ^{made} ~~made~~ ^{US} ~~US~~ ^{offer} ~~offer~~ here.

Structural Reform

9. It is vital that the surplus countries too play a full part in resolving the imbalances problem. But it is through structural reforms to open their markets and invigorate their economic performance - not through fiscal stimulus - that they must make their contribution.

10. Education and training is a particular element of structural reform that I want to stress. We face a decade of technological change, fewer young people coming into the workforce, and the need for training and retraining, not just for the young people but right through the working life, so that people can be re-equipped with new skills. I look forward to discussing this important issue at our informal session tomorrow.]

Trade and agriculture

11. Agriculture and trade are, in my view, priority topics this Summit. Certainly, Summits are not negotiating bodies. We cannot get into the details which are under discussion in Geneva. But we must give an impetus to those discussions and map out some common directions so as to keep up the momentum.

Trade

12. To take trade first: too often in the last few years

there have been threats of trade wars. Protectionism has inched forward. And protectionism reduces growth in our countries, puts up inflation in the short term, increases unemployment in the long term and damages the developing countries. The GATT Round provides an opportunity to turn back protectionism to the benefit of both our own economies and to the developing countries. We must seize that opportunity and maintain and extend the open world trading system by multilateral reduction of trade barriers.

*No tribute
& Reagan*

13. I believe that the Mid Term Meeting (MTM), to be held in Montreal in December, offers a valuable opportunity to demonstrate that real progress can be made in all areas of the Uruguay Round. [This progress should cover the areas to which we gave special emphasis at our previous meeting at the Tokyo summit, namely trade in services, intellectual property rights and foreign direct investment. A significant step towards the Round's successful conclusion would be the establishment at an early date of an agreed negotiating framework. I believe, too, that we should use to the fullest extent possible at the mid term meeting the provision in the Punta Del Este Declaration which permits the implementation of agreements reached at an early stage in the negotiations.] We should not hold up action on any issue until agreement is reached on all issues. For example, tropical products are a high priority for the developing countries for whom there is unlikely to be

*You
deletions
not taken
on -*

much else on the table at Montreal. If we can by then agree on other issues too, so much the better. Above all the strengthening of GATT itself is a high priority. ^{must be} We should work for the earliest possible agreement on ways of reinforcing the GATT process: through greater involvement of political Ministers; through intensification of the surveillance of trade policies; and through greater effectiveness of dispute settlement procedures so that disagreements can be resolved speedily, conclusively and fairly.]

14. I suggest that these are the objectives which Summit countries should set themselves in making their contributions to the preparation for the Montreal meeting.

Agriculture

15. The Venice and Tokyo Summits made reform of agriculture policy a priority for our Governments. Present agricultural policies distort national economies by putting unfair burdens on the consumer.
16. In February the European Community took some important first steps to reform agricultural policy. We now have:
- a legally binding ceiling which will cut the growth of agricultural spending to less than 2 per cent a year in real terms, from around 10 per cent in

recent years,

- and automatic stabilisers for each individual commodity which will cut support levels if production exceeds pre-set levels, and thus discourage surplus production.

If production continues on current trends, the stabilisers will save some \$4 billion in the three years 1988/90. In cereals alone, if production continues to rise, support levels will fall by 15 per cent over the next four years. For oilseeds, where we already have a stabiliser in place, the new measures should save a further \$1 billion by 1990.

17. That agreement was a real achievement for the Community and for the world.

No-one should belittle what the Community has achieved. But far more needs to be done by all of us to achieve our agreed [i.e. in the OECD Communique] long term objective of reducing agricultural support and protection, while maintaining, at the same time, a dynamic and viable agricultural sector.

18. This Summit should make clear that the Montreal Mid-Term Review should give a good shove to the negotiating process. So far there has been a dialogue of the deaf between our officials. I believe it is for us here to

re-inject the sense of political urgency which we so successfully invoked at our Summits in Tokyo and Venice.

The aims are clear:-

- first, as our long term objective, to work for liberalisation of world agricultural markets, through major reductions in overall support and protection;
- second, to determine a framework for the GATT negotiations, that focuses specifically on an overall measure of support [such as the producer subsidy equivalent];
- third, to make operational the standstill commitments that were agreed at Punta Del Este;
- fourth, a multilateral commitment to specific early action that not only prevents the situation getting worse, but also makes real headway towards our long term objectives.

We should not try to negotiate the details now. But we should commit ourselves, here and now, to make concrete progress towards agreement on these matters at the Mid-Term Meeting in Montreal in December.

the A the poorest nations

19. Finally, a word on debt. I have been greatly encouraged in recent weeks by the willingness of the United States and France, in particular, to join in the search for concessional solutions. Let me urge as many as possible to do what we have advocated: cut interest rates on official debt, on the conditions we have laid down. For those unable to do this, then some other visible and additional move is vital: extending the rescheduling period to 25 or 30 years is one possibility. The important point is that all countries must take action that will bring a significant reduction in the interest burden over and above what has already been done. It is vital we now reach a conclusion on this issue.

20. There are many other issues we need to consider at the Summit - the Newly Industrialising Economies is an obvious example. But I will reserve my comments on this subject until later.

21. Mr. Chairman, this Summit gives us an opportunity to reinforce the close international cooperation of recent years and so to shape economic history for the rest of the century. Let us seize it.

*V compressed
- get in
sensible
economic
policies etc*

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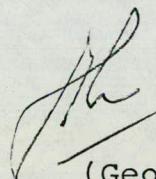
From: Sir G. Littler
Date: 10 June 1988

MR ALEX ALLAN

TORONTO SUMMIT: P.M. SPEAKING NOTES ON WORLD ECONOMY

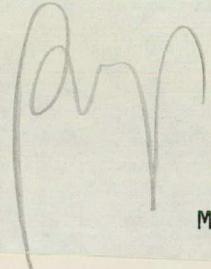
We have been asked to provide a draft of some speaking notes for the Prime Minister to use in the Plenary Session on the world economy. (This is separate from her opening notes for the first Heads of Government Session which you saw earlier this week and on which the Chancellor made comments).

2. Huw Evans has prepared the attached first draft. I shall work on this over the weekend, but I thought the Chancellor might like to see it himself over the weekend - he could perhaps let me know on Monday if there are major points he sees differently.



(Geoffrey Littler)

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PS/CHANCELLOR OF THE EXCHEQUER
TREASURY

MY TELNO 411: TORONTO ECONOMIC SUMMIT: PRIME MINISTER'S
BILATERALS WITH DE MITA AND KOHL

1. MY ITALIAN COLLEAGUE HAS NOW BEEN TOLD THAT ARRANGEMENTS FOR
THE MEETING BETWEEN THE PRIME MINISTER AND DE MITA ARE BEING
HANDLED DIRECTLY BETWEEN DE MITA'S STAFF AND NO 10.

2. PLEASE ADVISE IF THERE IS ANY ACTION YOU STILL WISH ME TO TAKE
HERE.

URWICK

YYYY

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pay

FROM: A C S ALLAN
DATE: 10 June 1988

SIR G LITTLER

cc Sir P Middleton
Sir T Burns
Mr H P Evans

TORONTO SUMMIT: DOMESTIC STRUCTURAL REFORMS

The Chancellor was grateful for your minute of 7 June. He would suggest amending the passage to read:

"In the United Kingdom, there has already been a substantial programme of tax reform, trade union law reform, deregulation, opening up of markets and privatisation of State industries. This will continue. We have also introduced new measures to improve both the quality of education and the flexibility of the housing market."

ACSA

A C S ALLAN

a
This is not
the same as what
Japanese saw.

CONFIDENTIAL

right.
Puy

From: Sir G.Littler
Date: 10 June 1988

MR ALEX ALLAN

TORONTO SUMMIT: THEMATIC PAPER

The Chancellor was prompted to enquire about this after seeing a (? Japanese) press report about it.

2. The attached draft arrived here late yesterday - I have not myself yet had time to go through it closely. The general shape is broadly as agreed but the text was not agreed at our last meeting and none of us know whether amendments at this late stage will be accepted by the Canadians (except on the country-passages in the Annex on which I have given Nigel Wicks the Chancellor's improved version).

3. As the Chancellor will remember, the thematic paper is for background, rather than on the table for discussion - although some of the paragraphs have in the past been worked over carefully by the sherpas as pieces of pre-drafting for the final Communique. In the past several years, a complete text has been agreed at the final sherpa meeting. My memory of this is shared by all others except the Canadian sherpa, who adopted a different approach. She refused to entertain what she called 'communique-drafting', simply taking note of comments and promising to reflect them in her final version of the paper. When it emerged that this final version would not be available until now, there was a near-riot: Nigel Wicks suggested that the Canadians could and should produce their version overnight for clearance on our final morning, but he was

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over-ruled from the Chair. In general, I think the sherpas felt that they had to accept the ruling of the host/chair: their main concern was that the lack of agreed prior text would be a nuisance - not for the Summit discussions themselves - but by leaving that much more work to be crammed into the short time available for Communique-drafting by sherpas in Toronto.

A handwritten signature in cursive script, appearing to read 'G. Littler', with a horizontal line underneath.

(Geoffrey Littler)



A handwritten signature in the top right corner of the page.

FROM: J M G TAYLOR

DATE: 10 June 1988

MR BUSH

cc PS/Economic Secretary
Sir G Littler
Mr Evans
Mr Peretz
Mrs Lomax
Mr R I G Allen
Mr Gieve
PS/C&E

NIHON KEIZAI SHIMBUN

The Chancellor has amended some of the draft replies attached to
... your minute of 7 June. I enclose a clean copy of the text, as
approved by him.

A handwritten signature in the bottom center of the page.

J M G TAYLOR

QUESTIONNAIRE TO THE CHANCELLOR OF THE EXCHEQUER ON THE OCCASION OF THE TORONTO ECONOMIC SUMMIT

QUESTION 1: We would like to have your evaluation of the present situation of the world economy, focusing on fears of inflation and recession?

ANSWER: Over the past year, since the last Economic Summit, the world economy has grown more strongly than most people expected. At the same time, inflation has remained low and trade imbalances have narrowed. There is now no likelihood at all of recession this year. Indeed, with world output growing strongly, some resurgence of inflation is the greater danger. There is little evidence of inflationary pressures, but we must remain on our guard.

QUESTION 2: What is your opinion on the introduction of a so called commodity price indicator in the surveillance system among G7 countries?

Do you think the indicators should include gold and oil?

What percentage would be desirable for such indicators?

ANSWER: It is important to have indicators which give early warning of inflationary (or deflationary) tendencies in the world economy. World commodity prices are one such indicator and work is in progress on the technical details, including the treatment of gold and oil. But the relationship between commodity and consumer prices is far too imperfect to rely on rigidly or exclusively. It would be foolish to specify a fixed percentage as the desirable rate of increase in such indicators: consideration needs to be given to the level and pattern as well as to the aggregate percentage change in commodity prices.

QUESTION 3: What do you think about the current levels of the pound sterling, US dollar, German mark and Japanese yen in the foreign exchange market?

To obtain more stability in the exchange market do you have any proposals you will be putting forward to the other G7 countries, notably the US and Japan?

ANSWER: Exchange rate movements since the Plaza Agreement in 1985 have clearly brought the major exchange rates back much more closely in line with economic fundamentals. All the major countries are agreed that the huge fluctuations in exchange rates during

the earlier 1980s, which inhibited investment and damaged world trade, must not be repeated. Exchange rate stability is not only desirable in itself but also acts as a powerful discipline on countries to make appropriate adjustments to their economic policies.

QUESTION 4: Improving the world trade imbalance. We cannot ignore the progress of the NIC countries in Asia; how do you consider the relationship between the Summit member countries and the NICs?

ANSWER: As their share of world manufacturing output and trade has grown, it has become increasingly important that the newly industrialised economies become more closely involved in efforts to promote freer trade and international adjustment. It is particularly important that Taiwan and Korea pursue adjustment policies, including the removal of barriers to imports.

QUESTION 5: UK-Japan relationship. There are two hot issues in the UK-Japan relationship at the moment: Tokyo Stock Exchange membership and Japanese tax on Scotch whisky. What action do you now demand from the Japanese Government?

If you are not satisfied with their response what kind of action are you thinking of adopting to push the Japanese authorities?

ANSWER: I welcome the fact that access for foreign firms to the Japanese market has greatly improved in recent years. Last year's expansion of Tokyo Stock Exchange membership was an important step forward. But we still look to Japan to eliminate the remaining sources of friction by offering the same access to their markets as we offer to ours. TSE membership is still too restrictive, and a number of qualified UK firms are being denied membership. We have made clear to the Japanese Government the importance we attach to opening TSE membership to all qualified firms. I find it difficult to accept that physical limitations on space are a genuine constraint for a sophisticated nation like Japan.

I was interested to hear the Japanese Government's latest proposals to reform the taxation of alcohol and hope that the measures will be implemented from 1 April next year.

QUESTION 6: Since last year the Japanese economy has begun the change to a more domestic growth-orientated economy ie high domestic growth and lower trade surpluses.

How do you appreciate the present situation and what kind of measures would you like to see taken concerning Japanese economic policies?

ANSWER: The recent performance of the Japanese economy has been very impressive. Domestic demand is growing at a satisfactory rate, and the current account surplus is now declining as a result. However, the pace of adjustment needs to be kept up. Macro policy should continue to contribute; but structural reforms also have a major part to play in encouraging growth of domestic demand and diverting more of it to imports. These include many of the recommendations of the Maekawa Reports, including land and agricultural reform and making Japanese markets more accessible to foreign firms.

QUESTION 7: UK economy and EC single market. The British pound sterling has risen sharply in the foreign exchange market since the beginning of March. Does this mean the British Government has given up trying to keep the pound below a certain level or given up the so called 'shadow EMS system'?

ANSWER: As the events of recent days have shown, sterling can fall as well as rise. We wish to see the maximum possible exchange rate stability within the context of a sound anti-inflationary policy.

QUESTION 8: There are strong arguments in favour of the UK joining the EMS to strengthen the stability of the pound in the foreign currency market. We would like to have your comment on the matter.

ANSWER: I think our position is very well understood. The UK will join the mechanism when the Government considers the time is right.

QUESTION 9: With the creation of the European single market in 1992 there are some proposals to establish a European central bank and single currency in the major EC countries. What do you think about those proposals?

ANSWER: Even their proponents recognise that the proposals for a European central bank or single European currency are for a long time in the future. They raise considerable problems over sovereignty, and the implications have not yet been thought through. What is more important is the practical steps on which early progress can be made, such as the abolition of remaining exchange controls with the Community, and the promotion of a greater role for the ecu.

QUESTION 10: Do you think the introduction of the European single market will mean the role of the City will change by 1992? If major EC countries liberalise their financial markets as the UK did, won't the advantage of the City be substantially reduced?

ANSWER: 1992 offers major opportunities for the City of London. The removal of barriers to selling financial services throughout Europe, notably in banking and insurance, will open up a market of 320 million people for UK firms which are highly competitive in this area.

It is true that London may have benefitted from restrictions in other financial markets. But that is by no means the only reason for London's success. It has also benefitted simply from the fact that it is a large efficient open, liberalised market. I welcome the process of deregulation in other markets in the EC, which will increase the overall efficiency with which capital can be raised and assets traded in the Community. London is well placed to handle the competitive pressures of deregulation elsewhere and to benefit from the general liberalisation, and I am sure that we will maintain our pre-eminent position as an international financial centre in this time zone. The task of Government is to make sure that the regulatory environment reinforces high standards of conduct without imposing unnecessary burdens.

QUESTION 11: Harmonising their domestic tax systems is one of the most difficult tasks for EC countries ahead of the single market and to equalise VAT is very tough. How do you evaluate the present proposal by the EC Committee and how would the UK Government respond to the equalisation of VAT?

ANSWER: The Government shares the Commission's ultimate objective of creating a single internal market by removing unnecessary obstacles to trade. But we do not believe that this requires the harmonisation of indirect tax rates. Differences in VAT and excise duties do not, in principle, distort competition.

QUESTION 12: We appreciated your move to simplify the domestic income tax systems. Could we expect additional improvement such as a single income tax rate?

Please suggest your ideal income tax system and schedule towards that goal?

ANSWER: The 1988 Budget made the rate structure of the British income tax one of the simplest in the world; we now have just two rates, 25 per cent and 40 per

cent (which also apply to indexed capital gains) in place of the eleven rates running up to 83 per cent (and up to 98 per cent on investment income) when the Government came to office in 1979. The Government's objective is to reduce the starting rate to 20 per cent when prudent to do so.

C.

I think the points we want to get across are:

FROM: HUW EVANS
DATE: 10 June 1988

CHANCELLOR

(a) the figures in paras 4-7 of HPE's draft, plus for exports;

- cc Economic Secretary
- Sir G Littler
- Mr Byatt
- Mr Lankester
- Mr R Allen
- Mr Bonney
- Mr Gieve
- Mr Matthews
- Mr Meyrick
- Ms Symes
- Mr Edmonds
- Mr Hudson

(b) our objectives (HPE's para 12), which could still be put in ~~more~~ more in layman's terms. Once that's done, do you want these points on a postcard?

AAA

I agree that the draft is a bit more in layman's terms. I do not see the need for SA - the point is to have a 3-yr avg 1984-86, not 1985-87. We should replace with 1979-81.

1980 or 1981.

To compare a sample of 3-yr avg looks v. fishy.

Rick. It must be high with average or yr high yr. R.

AGRICULTURE AND THE SUMMIT

I attach a draft, on the lines we discussed on Tuesday, of a note which could be used as a press release next week or could be drawn on in pre-summit briefings.

2. The table in paragraph 4 shows PSEs by country and draws conclusions. On reflection, I am sure we should use 1986 (and not the average 1984-86) because:-

- a. it is more up-to-date, and so a much better indication of the recent position;
- b. the figures for 1987 are expected to be higher than for 1986, so 1986 may well turn out reasonably close to a 1985-87 average;
- c. we can still draw the same conclusions with the 1986 figures, especially that the rise in EC support is smaller than for other countries.

3. You asked for statistics relevant to the scale of subsidies by different countries and we considered using exports (gross or net). But this would take no account of the scale of domestic production, and lets the Japanese - who export very little - off

We clearly do need these export figures, at ^{least} ~~any~~ for background, & possibly for use against the USA. The PSE figures are sufficient ammunition against the Japanese. I have asked Huw Evans to provide them ASAP.

Good

far too lightly (indeed it is their main argument for refusing to budge on agricultural support). A better comparison uses PSEs again, not percentages, but monetary amounts. I have included, in paragraph 5A in square brackets, figures which show that the EC heads the list. This would be a way of balancing the more favourable reference to the EC in paragraph 5(iii).

4. The conclusion in paragraph 11 is a restatement of your OECD Ministerial speech, which was only weakly reflected in the communique. In Toronto, we want to point both the EC and the United States towards a Cairns Group compromise.

5. I am clearing this draft with officials in MAFF, DTI and FCO on the basis that it will be used, or drawn upon, in press contacts next week.

HPE.

H P EVANS

AGRICULTURE

1. We have seen in recent years a switch in the emphasis of economic policy toward improving the supply-side by deregulating markets and increasing competition. This approach has played a vital role in improving the UK's economic performance. It has also been a major theme of successive Economic Summits.

2. Much progress has been made. But there is still a formidable agenda, headed by agriculture. Worldwide, agricultural policies distort trade, divert resources from more productive uses, and undermine the efforts of many developing countries. In industrialised countries, consumers pay too much for food and taxpayers bear a heavy burden.

3. The United Kingdom government will continue to press for freer agricultural markets: the way forward is through substantial and sustained multilateral reductions of agricultural subsidies and trade barriers.

4. Industrial countries provide support for agriculture in many different ways: price fixing, trade barriers, income and research support and so on. The OECD has given us a tool for measuring the combined effect of these various forms of support. This is the Producer Subsidy Equivalent (PSE): broadly, the percentage PSE measures the proportion of farming income that comes from Government support. The table below shows the extent of support:

	PSE	
	per cent	
	1979-81	1986
United States	16	35
Canada	24	46
European Community	37	49
Japan	57	75
OECD average	29	47

Source: OECD

5. This table highlights the following points:

- i. the high level of support in all countries, the highest of all being Japan;
- ii. the big increase in support in all countries during the 1980s;
- iii. the biggest increases in support are in the US, Canada and Japan; the rise in the Community is the lowest.

[5a. But it is not only proportional support - as measured by the percentage PSE - that matters. Total support is a combination of proportional support and the scale of agricultural output. The following table shows the large amounts of total support, as measured by the value of producers' subsidy equivalents:-

billion \$, 1986

United States	38
EC	55
Japan	34

Source: OECD

]

6. Subsidies in agriculture have multiplied as the proportion of people employed in that sector has fallen dramatically: in the United States, from 6 per cent in 1966 to 3 per cent in 1986; in Japan from 22 per cent to 8 per cent; and in the UK from 3¼ per cent in 1966 to 2½ per cent in 1986.

7. Worse, much of the assistance does not benefit the poorest farmers. Often, the main gainers are land owners because of higher land prices. Japan is an obvious example: some land that is badly needed for housing and other purposes is used instead to grow heavily subsidised rice.

8. Another consequence of high producer prices is the excessive level of incentives for the use of fertilisers and pesticides, for

factory farming methods, and so on. Many of these have adverse effects on the environment.

9. We, the industrialised countries, impose enormous costs on ourselves. But we also damage developing countries: their exports have been cut back because we have reduced access to our markets. In addition, the surpluses dumped by the industrial countries depress prices on world markets. So many developing countries are unable to exploit their natural advantages.

10. Fortunately, there is now widespread recognition of the costs of the present systems of support, and of the need to reduce support on a multilateral basis, through the machinery of the GATT.

11. Ministers meet in Montreal in December to review progress. The UK wants to see specific progress at that meeting on reducing protection of agriculture. The Summit is a vital opportunity for specific progress, building on considerable common ground already established at OECD.

12. Our aims are clear:

- first, as our long term objective, to work for liberalisation of world agricultural markets, through major reductions in overall support and protection;

- second, to determine a framework for the GATT negotiations, that focuses specifically on an overall measure of support, such as the Producer Subsidy Equivalent;

- third, to make operational the commitments that were agreed at Punta del Este on standstill and roll back;

- and fourth, a multilateral commitment to specific early action that not only prevents the situation getting worse, but makes real headway towards our long-term objective.

13. We look to the Summit in Toronto to point the way forward.

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After comment Pass.

*Ch
Seems broadly OK
AA*

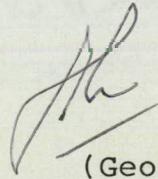
From: Sir G.Littler
Date: 10 June 1988

MR ALEX ALLAN

TORONTO SUMMIT: P.M. SPEAKING NOTES ON WORLD ECONOMY

We have been asked to provide a draft of some speaking notes for the Prime Minister to use in the Plenary Session on the world economy. (This is separate from her opening notes for the first Heads of Government Session which you saw earlier this week and on which the Chancellor made comments).

2. Huw Evans has prepared the attached first draft. I shall work on this over the weekend, but I thought the Chancellor might like to see it himself over the weekend - he could perhaps let me know on Monday if there are major points he sees differently.



(Geoffrey Littler)

DRAFT SPEAKING NOTE ON WORLD ECONOMY FOR PM

Recent developments

When we met in Venice a year ago, we looked forward to ~~fairly~~ ^(steady) ~~modest~~ ^{unspectacular} progress in the world economy: keeping inflation under control, of course; the likelihood of a ~~moderate~~ ^{continued} growth in output and some limited improvement in the payments imbalances.

2. Much to be pleased with in performance of world economy. Growth last year averaged 3 per cent on average in our economies, and in some, including the United Kingdom, well above 3 per cent. This year, despite the worldwide fall in stock markets last October, we expect another year of substantial growth. Indeed, the period of more rapid growth - at an annual rate of at least 4 per cent - that ~~we can now see~~ ^{has} began last autumn ^{continued} into the early part of this year. Furthermore Inflation remains low.

3. We are now seeing, as we could not see at this time last year, firm evidence that fiscal and trade imbalances in the world economy are being reduced: the US fiscal deficit fell by more than a quarter in the latest year, and the large trade deficit of the US, together with the large surpluses of Japan and Germany, are now falling.

4. Substantial risks and uncertainties remain: but our achievements so far give us confidence to persevere. We know what needs to be done. In the United States, the economic priorities

are to put in place a firm programme over the medium term for reducing the fiscal deficit and to ensure that monetary policy is directed against inflation. In Japan and Germany, a further shift away from ^{excessive} dependence on exporting; and in all our countries, further structural reforms, encouraging markets to work better and more freely.

5. We must never take for granted our success in controlling inflation. We have seen in recent months sharp rises in some commodity prices, although from very low levels; and there are other signs, including the fast growth of output in recent months, that suggests that ~~on balance~~^{a)} resurgence of world inflation is more of a danger than world recession. We have the means at hand to ensure that inflation does not become a problem again: let us resolve to use them ^{promptly} as necessary.

A longer perspective

6. This year's summit finds the world economy far better placed than in 1981 when we began this round of summits. Inflation is down from 10 per cent to 3 per cent; ~~interest rates from 16 per cent to 7 per cent;~~ and we are now in the sixth year of expansion with growth averaging a good 3 per cent a year.

7. An important reason for the better performance of recent years has been a switch in the emphasis of economic policy, away from the interventionism of the 1970s. Our approach has two aspects. The first is to direct macroeconomic policy to the control of inflation. The second is to use microeconomic measures

The proper functioning of markets
to tackle the structural rigidities in our economies which impede
and thus frustrate
healthy growth and the creation of more jobs.

8. The essential point is that the performance of our economies in the medium term depends mainly on the supply side of the economy: on efficient, open, markets, and on competition and the ~~climate~~ ^{spirit} of enterprise.

Trade and agriculture

9. Opening up markets is a crucial element in our structural reforms: we have seen in recent years the gradual accumulation of barriers, not mainly in the form of tariffs but in other less transparent ways. The effect has been to inhibit the growth of trade and to reduce the amount of competition. We look to the GATT round to extend the open world trading system by getting agreement on lower trade barriers of all kinds.

[As I said yesterday]

[Section on agriculture]

International debt

10. Reform of world agriculture would also benefit many developing countries, including those with large debts.

11. At Venice last year, we recognised that the problems of the poorest countries, especially those in Sub-Saharan Africa, needed

special treatment. Their grinding poverty and unmanageable debt burdens put a particular responsibility on us because the majority of the debt is owed to ^{the public sector - either to nations} governments or to the international financial institutions.

12. Over the past year we have seen the establishment of a large, highly concessional facility at the IMF (the Enhanced Structural Adjustment Facility). That was a strong and prompt response, for which the Managing Director of the IMF can take much of the credit.

13. But we have still to reach to agreement on a more concessional approach to official (Paris Club) debts, as the UK proposed over a year ago. This would apply to the poorest countries which had serious debt problems, and which followed adjustment programmes agreed with the Fund or World Bank. We all know ^{that} ~~the arguments~~: concessions are needed if the debt is not to spiral ~~out of control~~. ^{no to stagnation.}

14. I have been greatly encouraged in recent weeks by the willingness of ^{a number of other countries, major creditor countries} ~~the United States and France~~, in particular, to join in the search for concessional solutions. Let me urge as many as possible to do what we have advocated: cut interest rates on official debt, on the conditions we have laid down. For those ^{genuinely} unable to do this, then some other visible and additional move is vital: ^(and accept the seniors of the claims of those who have) extending the rescheduling period to 25 or 30 years, is one possibility. The important thing is that all countries must take action that will bring a significant reduction in the ^{debt servicing} ~~interest~~ burden over and above what has already been done.

gvt
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terms,

15. I referred earlier to the favourable developments in the world economy. Developing countries are sharing in these benefits: with our output and trade expanding at a substantial rate, we are providing larger markets for exports from developing countries. Moreover, the rise in many commodity prices over the last eighteen months is adding to export earnings and so enabling imports and living standards to rise.

[Peroration]

RESTRICTED



FROM: J M G TAYLOR

DATE: 10 June 1988

JMG

MR BOTTRILL

cc PS/Economic Secretary
Sir P Middleton
Sir G Littler
Sir T Burns
Mr Lankester
Mr Mountfield
Mr H P Evans

The Chancellor has seen Mr Michael Wilson's letter of 8 June (copied to you separately). He has noted the Canadian suggestion that "the Paris Club give official creditors the option of rescheduling on commercial terms over the standard 20 year grace and repayment period or on concessional terms over a shorter time frame." He wonders whether 20 years is enough.

JMG

J M G TAYLOR

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ECONOMIC SUMMIT: ITALIAN VIEWS

SUMMARY:

1. ITALIAN THINKING HAS NOT YET RECEIVED ANY PERSONAL INPUT FROM DE MITA. ITALIANS SOMEWHAT UNHAPPY ABOUT CANADIAN HANDLING OF PREPARATIONS AND CONCERNED THAT US AND CANADA MAY SEEK TO PUSH FOR MORE THAN CAN BE OBTAINED ON GATT SUBJECTS.

2. ON ENVIRONMENT, ITALIANS SEEM LIKELY TO BACK AWAY FROM THE EMPHASIS THEY SOUGHT TO GIVE AT THE SHERPAS MEETING ON DEGRADATION OF CITIES.

DETAIL:

3. I HAD A LONG TALK WITH SARCIANELLI (DE MITA'S PERSONAL ADVISER) TODAY IN THE COURSE OF WHICH HE MADE A NUMBER OF POINTS ABOUT THE PREPARATIONS FOR THE TORONTO SUMMIT. HE WOULD BE SEEING DE MITA FOR THE FIRST TIME ON 11 JUNE TO DISCUSS THIS SUBJECT. UP TO THIS POINT, SARCIANELLI HAS LITTLE IDEA OF DE MITA'S OWN THINKING ON SUMMIT ISSUES. EVERYTHING HE SAID, THEREFORE, SHOULD BE REGARDED AS REFLECTING HIS OWN VIEWS IN THE LIGHT OF DISCUSSIONS WITH HIS MINISTER (AMATO - TREASURY) AND CONTACTS WITH DE MITA'S OFFICE.

MACROECONOMIC ISSUES:

4. SARCIANELLI HAD LITTLE TO SAY ON THE SUBSTANCE BUT A GOOD DEAL OF CRITICISM ABOUT THE STATE OF CANADIAN PREPARATIONS. WHAT IT BOILED DOWN TO WAS THAT THERE WAS STILL NO AGREEMENT ON ELEMENTS FOR INCLUSION IN COMMUNIQUE' LANGUAGE. THIS WOULD, IN HIS VIEW, MAKE DISCUSSION AT THE SUMMIT MORE DIFFICULT THAN IT NEED BE. HE ALSO THOUGHT THE CANADIANS HAD MADE AN ERROR IN TRYING TO LIMIT DISCUSSION OF POLITICAL ISSUES. NOW THAT THE TRADITION WAS FIRMLY ESTABLISHED, THE PRESS AND PUBLIC WOULD BE CRITICAL OF THE WORLD'S LEADERS IF THEY MET AT TORONTO AND DID NOT DISCUSS THE MAJOR POLITICAL ISSUES OF THE DAY.

AGRICULTURE AND TRADE:

5. SARCINELLI WAS WORRIED THAT THE AMERICANS AND CANADIANS WOULD PRESS TOO HARD FOR PROGRESS GOING BEYOND THE OECD COMPROMISE. IN HIS OWN VIEW, IT WAS A MATTER OF LANGUAGE RATHER THAN SUBSTANCE ON THIS OCCASION. HE HAD ALWAYS FELT, IN ANY CASE, THAT THE TIMING OF THE MTM WAS MISJUDGED. SINCE IT WOULD FALL BETWEEN THE AMERICAN ELECTIONS AND THE INSTALLATION OF A NEW US PRESIDENT, NO US REPRESENTATIVES WOULD BE ABLE TO SPEAK WITH ANY DEGREE OF AUTHORITY. DISCUSSION AT TORONTO WOULD BE FURTHER COMPLICATED BY THE RELATIVE NEWNESS OF THE FRENCH GOVERNMENT. HE DID NOT SEE THE SLIGHTEST HOPE OF GETTING FRENCH AGREEMENT TO GOING BEYOND WHAT THEIR PREDECESSORS HAD COMMITTED THEMSELVES TO IN THE OECD LANGUAGE.

ENVIRONMENT:

6. SARCINELLI EXPLAINED THAT HE HAD BEEN UNDER PRESSURE FROM DE MITA'S OFFICE TO ARGUE THE CASE FOR INCLUDING 'DEGRADATION OF THE CITIES' UNDER THE ENVIRONMENT HEADING AT TORONTO. ACCORDING TO HIS ADVISERS, DE MITA HAD FELT UNDER PRESSURE FROM THE ITALIAN PARLIAMENT TO SEEK A GENERAL RECOGNITION OF THIS PROBLEM AT TORONTO. SARCINELLI HAD UNDERSTOOD VERY CLEARLY THE OBJECTIONS OF OURSELVES AND OTHERS TO APPEARING TO ASSUME RESPONSIBILITY AT TORONTO FOR WHAT WAS ESSENTIALLY A MATTER FOR INDIVIDUAL GOVERNMENTS. HE HAD THOUGHT THERE MIGHT BE SCOPE FOR MEETING DE MITA'S POINT BY TILTING THE DISCUSSION IN THE DIRECTION OF 'HISTORIC CITIES' (SUCH AS VENICE OR ROME) WHICH WERE IN SOME SENSE THE PATRIMONY OF ALL. HE WOULD NOT KNOW UNTIL HE SAW DE MITA ON 11 JUNE HOW MUCH IMPORTANCE HE PERSONALLY ATTACHED TO THIS ISSUE.

DRUGS:

7. SARCINELLI WAS NOT MUCH IN FAVOUR OF THE US PROPOSAL FOR AN EXPERT GROUP ON DRUGS CONSISTING OF OFFICIALS FROM SPECIFIC DEPARTMENTS. RESPONSIBILITY FOR THIS PROBLEM WAS ALLOCATED DIFFERENTLY IN EACH GOVERNMENT. IN ANY CASE, SO MUCH ATTENTION HAD ALREADY BEEN GIVEN TO THE SUPPLY AND TRANSPORT ASPECTS OF THE DRUGS PROBLEM THAT HE WAS NOT SURE WHAT MORE WOULD BE ACHIEVED UNDER THOSE HEADINGS. HE SAW MORE MERIT IN A DISCUSSION OF HOW TO TACKLE THE DEMAND SIDE AND WHETHER THE TIME HAD COME FOR ACCEPTING FURTHER LIMITATIONS ON INDIVIDUAL FREEDOM IN ORDER TO IMPOSE MORE EFFECTIVE CONTROL ON DRUG ABUSERS. I DID NOT SENSE ANY EMERGING ITALIAN PROPOSAL ON DRUGS.

AFRICAN DEBT:

8. THERE WAS NO SIGN OF ANY PROBLEMS FROM THE ITALIANS ON THIS

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FRONT. SARCINELLI DID NOT MENTION MITTERRAND'S PROPOSAL. NEITHER DID I.

COMMENT:

9. I HAD HOPED TO SEE DE MITA MYSELF BEFORE HE LEAVES ROME ON 14 JUNE. THIS NOW LOOKS INCREASINGLY UNLIKELY. SARCINELLI'S VIEWS MAY THEREFORE BE THE MOST AUTHORITATIVE PICTURE WE CAN GET IN ADVANCE OF THE PRIME MINISTER' MEETING WITH DE MITA ON 18 JUNE.

THOMAS

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FROM: A C S ALLAN
DATE: 13 June 1988

SIR G LITTLER

cc Mr H P Evans

TORONTO SUMMIT: PM SPEAKING NOTES ON WORLD ECONOMY

... The Chancellor was grateful for your minute of 10 June. I attach a copy of the text with his comments marked.

ACS

A C S ALLAN

DRAFT SPEAKING NOTE ON WORLD ECONOMY FOR PM

Recent developments

When we met in Venice a year ago, we looked forward to ^{steady but unspectacular} ~~fairly~~ ~~modest~~ progress in the world economy: keeping inflation under control, of course; the likelihood of a ^{continued} ~~moderate~~ growth in output and some limited improvement in the payments imbalances.

2. Much to be pleased with in performance of world economy. Growth last year averaged 3 per cent on average in our economies, and in some, including the United Kingdom, well above 3 per cent. This year, despite the worldwide fall in stock markets last October, we expect another year of substantial growth. Indeed, the period of more rapid growth - at an annual rate of at least 4 per cent - that ~~we can now see~~ began last autumn ^{has} continued into the early part of this year. Furthermore Inflation remains low.

3. We are now seeing, as we could not see at this time last year, firm evidence that fiscal and trade imbalances in the world economy are being reduced: the US fiscal deficit fell by more than a quarter in the latest year, and the large trade deficit of the US, together with the large surpluses of Japan and Germany, are now falling.

4. Substantial risks and uncertainties remain: but our achievements so far give us confidence to persevere. We know what needs to be done. In the United States, the economic priorities

are to put in place a firm programme over the medium term for reducing the fiscal deficit and to ensure that monetary policy is directed against inflation. In Japan and Germany, a further shift away from ^{excessive} dependence on exporting; and in all our countries, further structural reforms, encouraging markets to work better and more freely.

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A longer perspective

6. This year's summit finds the world economy far better placed than in 1981 when we began this round of summits. Inflation is down from 10 per cent to 3 per cent; [~~interest rates from 16 per cent to 7 per cent;~~] and we are now in the sixth year of expansion with growth averaging a good 3 per cent a year.

7. An important reason for the better performance of recent years has been a switch in the emphasis of economic policy, away from the interventionism of the 1970s. Our approach has two aspects. The first is to direct macroeconomic policy to the control of inflation. The second is to use microeconomic measures

the proper functioning of markets

to tackle the structural rigidities in our economies which impede

and thus frustrate healthy growth and the creation of more jobs.

8. The essential point is that the performance of our economies in the medium term depends mainly on the supply side of the economy: on efficient, open, markets, and on competition and the ^{spirit} ~~climate~~ of enterprise.

Trade and agriculture

9. Opening up markets is a crucial element in our structural reforms: we have seen in recent years the gradual accumulation of barriers, not mainly in the form of tariffs but in other less transparent ways. The effect has been to inhibit the growth of trade and to reduce the amount of competition. We look to the GATT round to extend the open world trading system by getting agreement on lower trade barriers of all kinds.

[As I said yesterday]

[Section on agriculture]

International debt

10. Reform of world agriculture would also benefit many developing countries, including those with large debts.

11. At Venice last year, we recognised that the problems of the poorest countries, especially those in Sub-Saharan Africa, needed

special treatment. Their grinding poverty and unmanageable debt burdens put a particular responsibility on us because the majority of the debt is owed to ^{the public sector - either to national} governments or to the international financial institutions.

12. Over the past year we have seen the establishment of a large, highly concessional facility at the IMF (the Enhanced Structural Adjustment Facility). That was a strong and prompt response, for which the Managing Director of the IMF can take much of the credit.

13. But we have still to reach to agreement on a more concessional approach to official (Paris Club) debts, as the UK proposed over a year ago. This would apply to the poorest countries which had serious debt problems, and which followed adjustment programmes agreed with the Fund or World Bank. We all know ^{that} ~~the arguments~~ concessions are needed if the debt is not to spiral ~~out of control~~ into the stratosphere.

14. I have been greatly encouraged in recent weeks by the willingness of ^{a number of major creditor countries to} ~~the United States and France, in particular,~~ to join in the search for concessional solutions. Let me urge as many as possible to do what we have advocated: cut interest rates on official debt, on the conditions we have laid down. For those ^{genuinely} unable to do this, then some other visible and additional move is vital: ^{and accepting the seniority of the claims of those who have given concessional terms} extending the rescheduling period to 25 or 30 years is one possibility. The important thing is that all countries must take action that will bring a significant reduction in the ^{debt servicing} interest burden over and above what has already been done.

15. I referred earlier to the favourable developments in the world economy. Developing countries are sharing in these benefits: with our output and trade expanding at a substantial rate, we are providing larger markets for exports from developing countries. Moreover, the rise in many commodity prices over the last eighteen months is adding to export earnings and so enabling imports and living standards to rise.

[Peroration]

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TORONTO ECONOMIC SUMMIT: JAPANESE APPROACH TO POLITICAL DISCUSSIONS

SUMMARY

1. THE JAPANESE REGARD THE SUMMIT AS AN OPPORTUNITY TO DEMONSTRATE JAPAN'S ACTIVE SUPPORT FOR WESTERN POLITICAL INTERESTS.

DETAIL

2. THE PRINCIPAL JAPANESE OBJECTIVE IN THE POLITICAL DISCUSSIONS AT TORONTO WILL BE TO DEMONSTRATE THAT JAPAN IS NOW WILLING TO ACCEPT INTERNATIONAL POLITICAL RESPONSIBILITIES MORE IN KEEPING WITH HER ECONOMIC STRENGTH. THIS WAS THE THEME OF PRIME MINISTER TAKESHITA'S SPEECH AT THE MANSION HOUSE ON 1 MAY. AT THE UNITED NATIONS SESSION ON DISARMAMENT ON 1 JUNE HE ELABORATED FURTHER ON JAPAN'S POLITICAL CONTRIBUTION, PARTICULARLY TO SUPPORT UN AND OTHER INTERNATIONAL PEACE KEEPING ACTIVITIES. THE JAPANESE INITIATIVE TO COORDINATE WESTERN POLICY ON AID FOR AFGHANISTAN IS INDICATIVE OF THIS MORE ACTIVE POLICY.

3. AT TORONTO, TAKESHITA EXPECTS TO ANNOUNCE QUALITATIVE AND QUANTITATIVE IMPROVEMENTS IN JAPAN'S ODA. THE MINISTRY OF FOREIGN AFFAIRS LOOKS LIKELY TO LOSE ITS BATTLE WITH THE MINISTRY OF FINANCE TO SECURE A COMMITMENT TO RAISE JAPAN'S ODA AS A PROPORTION OF GNP TO THE AVERAGE OF OTHER OECD DEVELOPMENT ASSISTANCE COMMITTEE MEMBERS. BUT A NEW TARGET FOR AID DISBURSEMENTS SHOULD CONSOLIDATE JAPAN'S POSITION AS THE WORLD'S LARGEST AID DONOR. AT THE SUMMIT THE JAPANESE WILL INDICATE THEIR WILLINGNESS TO CONTINUE TO USE THEIR AID PROGRAMME TO BOLSTER MRS AQUINO'S GOVERNMENT IN THE PHILIPPINES. THEY MAY ALSO EXPRESS THEIR READINESS TO CONTRIBUTE TO THE REHABILITATION OF CAMBODIA ONCE A POLITICAL SETTLEMENT HAS BEEN REACHED.

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separate*

4. THE JAPANESE SEE THE DISCUSSION OF EAST/WEST RELATIONS AS AN OPPORTUNITY FOR THE WEST TO REAFFIRM ITS SOLIDARITY. THE JAPANESE REGARD THE SUCCESSFUL CONCLUSION OF AN INF AGREEMENT AS PRIMARILY ATTRIBUTABLE TO WESTERN UNITY. MR TAKESHITA WILL USE THE SUMMIT TO RESTATE JAPAN'S POLITICAL ORIENTATION AS A MEMBER OF THE WEST AND

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THE INDIVISIBILITY OF WESTERN SECURITY, INCLUDING THAT OF JAPAN. HE WILL URGE THAT, JUST AS IN THE INF NEGOTIATIONS, THE WEST SHOULD CONTINUE TO ADOPT A GLOBAL APPROACH TO ARMS CONTROL AND DISARMAMENT. IN EVALUATING GORBACHEV'S POLICIES, THE JAPANESE WILL EMPHASISE THAT SOVIET FOREIGN POLICY IN THE FAR EAST SHOWS LITTLE SIGN OF MOVEMENT, ESPECIALLY TOWARDS JAPAN, WHERE THE RUSSIANS REMAIN INFLEXIBLE IN THEIR INSISTENCE THAT THE RETURN OF THE OCCUPIED NORTHERN TERRITORIES IS NOT, AS THE JAPANESE CLAIM, AN UNRESOLVED BILATERAL ISSUE. THE JAPANESE WILL ARGUE THAT SOVIET ASIAN POLICY REQUIRES CONTINUED WESTERN VIGILANCE AND REALISM.

5. THE JAPANESE DO NOT EXPECT OTHER REGIONAL ISSUES TO TAKE UP MUCH OF THE TIME OF HEADS OF GOVERNMENT. BUT THEY WILL BE LOOKING FOR THE SUMMIT TO EXPRESS SUPPORT FOR SIHANOUK IN CAMBODIA AND TO BACK THE SUCCESS OF THE SEOUL OLYMPICS. IN ANY DISCUSSION OF THE MIDDLE EAST, THE JAPANESE CONSIDER THAT IN THIS REGION TOO THEY CAN SHOW THAT JAPAN HAS A ROLE TO PLAY AS IS INDICATED BY THE VISIT AFTER THE SUMMIT OF FOREIGN MINISTER UNO TO SYRIA, JORDAN, EGYPT AND ISRAEL (IN THE CASE OF ISRAEL THIS WILL BE THE FIRST VISIT BY A JAPANESE FOREIGN MINISTER).

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TORONTO ECONOMIC SUMMIT: TORONTO STAR INTERVIEW WITH THE PRIME
MINISTER

1. THE PRIME MINISTER HAS GIVEN A WRITTEN INTERVIEW TO A
CANADIAN NEWSPAPER, THE TORONTO STAR. THE TEXT OF THIS
INTERVIEW, WHICH WE ARE FAXING TO YOU, WILL BE PUBLISHED ON
13 JUNE.
2. YOU WILL FIND THIS INTERVIEW HELPFUL AS BACKGROUND AND MAY
DRAW ON IT IF ASKED FOR UK VIEWS ON PROSPECTS FOR THE TORONTO
SUMMIT. YOU SHOULD KEEP CLOSELY TO THE WORDING APPROVED BY
NO 10.
3. FOR OTTAWA: IN TEXT AS FAXED TO YOU ON 8 JUNE,
'MACROECONOMIC' IN FIRST LINE OF THE ANSWER TO QUESTION 4 SHOULD
OF COUSE READ 'MICROECONOMIC'.

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YOUR TELNOS 411 AND 417: TORONTO ECONOMIC SUMMIT: PRIME MINISTER'S BILATERAL WITH DE MITA AND KOHL

1. WE HAVE CONSULTED NO 10. YOU SHOULD TELL YOUR ITALIAN COLLEAGUE THAT WE SUGGEST THAT THE BILATERAL WITH DE MITA SHOULD TAKE PLACE AT 0900 HRS OR 0915 HRS ON SUNDAY 19 JUNE AT THE PRIME MINISTER'S HOTEL. CONTRARY TO THE SUGGESTION MADE BY YOUR ITALIAN COLLEAGUE, THERE HAS BEEN NO CONTACT BETWEEN DE MITA'S STAFF AND NO 10. GRATEFUL TO KNOW AS SOON AS POSSIBLE IF THIS TIMING IS CONVENIENT.
2. THE GERMANS DID HOWEVER CONTACT NO 10 DIRECTLY ABOUT THE BILATERAL WITH KOHL. IT IS NOW AGREED THAT THIS SHOULD TAKE PLACE AT 1200 HRS AT THE PRIME MINISTER'S HOTEL. PLEASE CONFIRM THIS TO YOUR GERMAN COLLEAGUE. THE PRIME MINISTER WILL USE KOHL'S INTERPRETER.
3. WE EXPECT BOTH MEETINGS TO LAST ABOUT HALF AN HOUR. THE PRIME MINISTER WILL HAVE JUST ONE NOTE-TAKER WITH HER (MR POWELL).

HOWE

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15/6



FROM: MRS JULIE THORPE

DATE: 13 June 1988

SIR G LITTLER

cc PS/Economic Secretary
Sir P Middleton
Mr Lankester
Mr H P Evans
Mr Mountfield
Mr Gieve

BRIEFING FOR ECONOMIC SUMMIT

As you know the Chancellor will be attending a meeting at No.10 at 9.45am on Wednesday, 15 June, to discuss the briefing for the Economic Summit.

2. Also attending will be the Foreign Secretary, Sir John Fretwell, Mr R Q Braithwaite and yourself.

Julie Thorpe

MRS JULIE THORPE
Diary Secretary

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MY TELNO 518 : GERMAN VIEWS ON TORONTO SUMMIT

SUMMIT

1. NO SURPRISES EXPECTED AT TORONTO. ON DEBT, ONLY GENERAL GUIDELINES EXPECTED: A POSSIBILITY OF GERMAN MOVEMENT ON COMMERCIAL DEBT. NO WILLINGNESS TO SEE THE COMMUNITY GO FURTHER AT PRESENT ON AGRICULTURE AND VIEW TAKEN THAT ATTACKS ON WHAT WAS ACHIEVED ON CAP REFORM IN BRUSSELS SHOULD BE FIRMLY RESISTED. PARTNERS WELCOME TO LEAD ON POLITICAL SUBJECTS

DETAIL

2. SINCE MY TUR I HAVE BEEN ABLE TO DISCUSS GERMAN VIEWS ON DEBT, AGRICULTURE AND THE POLITICAL SUBJECTS SUGGESTED FOR THE TORONTO SUMMIT.

DEBT

3. THIS HAVING BEEN DISCUSSED BETWEEN KOHL AND MITTERRAND AT EVIAN, I ASKED TELTSCHIK (CHANCELLERY) HOW THE GERMAN APPROACH TO TORONTO WAS AFFECTED. HE SAID THAT THE GERMANS EXPECTED THAT ONLY GENERAL GUIDELINES WOULD BE AGREED, WITH DECISIONS ON SPECIFIC MEASURES BEING LEFT TO NATIONAL GOVERNMENTS. THE FEDERAL GOVERNMENT HAD ALREADY WRITTEN OFF AID LOANS TO 24 LLDCS THROUGH RETROSPECTIVE TERMS ADJUSTMENT. AND THE FEDERAL CABINET HAD DECIDED ON 8 JULY TO WAIVE REPAYMENT OF OFFICIAL DEBT FOR A FURTHER FIVE SUB-SAHARAN AFRICAN COUNTRIES. BUT THERE HAD BEEN NO CHANGE SO FAR IN THE FEDERAL GOVERNMENT'S POSITION ON RESCHEDULING OF COMMERCIAL DEBT. JELONEK (AUSWAERTIGES AMT) COMMENTED TO ME THAT THE MITTERRAND INITIATIVE, BEING CONFINED TO THE DEBTS OF THE POOREST COUNTRIES, WAS HARDLY CONCERNED WITH COMMERCIAL DEBT: BUT HE CONFIRMED THAT STOLTENBERG AND KLEIN (FINANCE AND ECONOMIC COOPERATION MINISTERS) HAD HAD A REMIT FROM THE CABINET ON 8 JUNE TO LOOK AGAIN AT GERMAN POLICY ON DEBT RELIEF. IT WAS POSSIBLE THAT THE GERMANS WOULD BE WILLING AT TORONTO TO AGREE TO RECONSIDER THE QUESTION OF

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CONCESSIONS ON COMMERCIAL DEBT. ECONOMICS MINISTRY CONTACTS THINK DECISIONS BEFORE TORONTO ARE UNLIKELY.

AGRICULTURE

4. KITTEL (STATE SECRETARY, AGRICULTURE MINISTRY) IN CONVERSATIONS WITH ME HELD FAST TO THE LINE THAT THE COMMUNITY HAD DONE A GREAT DEAL SINCE 1984 TO PUT ITS HOUSE IN ORDER AND SHOULD INSIST ON RECOGNITION FOR THIS. HE SAID KOHL WAS NOT KEEN TO SEE AGRICULTURE HIGH ON THE AGENDA AT TORONTO BUT IF THE CANADIANS OR OTHERS INSISTED COMMUNITY LEADERS HAD A GOOD STORY TO TELL. PRESSURE SHOULD BE PUT ON THE AMERICANS TO EXPLAIN WHY, HAVING BROUGHT PROGRESS TO A HALT WITH THEIR INSISTENCE ON A LONG-TERM ZERO SOLUTION, THEY WERE REDUCING SET ASIDE AND THREATENING FURTHER UNHELPFUL MEASURES. KITTEL SAW NO LIKELIHOOD OF A CHANGE OF APPROACH BY THE OUTGOING U S ADMINISTRATION. ON SHORT-TERM MEASURES HE WAS CLEAR THAT THE COMMUNITY COULD NOT GO FURTHER THAN THE BRUSSELS PACKAGE, THE IMPLICATIONS OF WHICH HAD NOT YET EVEN SUNK IN WITH THE FARMERS. JELONEK SAID WHILE HE PERSONALLY WOULD WELCOME FURTHER SHORT-TERM STEPS BY THE COMMUNITY ON AGRICULTURE, HE COULD NOT SEE THE FEDERAL GOVERNMENT AGREEING TO THEM.

POLITICAL SUBJECTS

5. I SPOKE TO SUDHOFF (STATE SECRETARY, AUSWAERTIGES AMT) ABOUT THESE. HE SAID THAT THE FRG WAS HAPPY WITH THE DRAFT POLITICAL DECLARATION AS IT STOOD AND DID NOT WANT TO RAISE ANY PARTICULAR SUBJECT. THEY DID NOT WANT TO DISCUSS SOUTH AFRICA BUT WOULD NOT OPPOSE DISCUSSION IF THE HOSTS INSISTED. SEE MY TELNO 564 FOR SUDHOFF'S COMMENTS ON TERRORISM. HE THOUGHT THAT EAST-WEST WOULD DOMINATE FOREIGN MINISTERS' DISCUSSIONS.

COMMENT

6. THE GERMANS ARE NOT EXPECTING SURPRISES AT TRORONTO, AND BELIEVE THE COMMUNITY SHOULD STAND FIRM AGAINST ATTACKS ON WHAT WAS ACHIEVED ON CAP REFORM AT THE BRUSSELS COUNCIL.

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ECONOMIC SUMMIT

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PWP

1. ~~MR EVANS~~

HPE 13/6

2. **CHANCELLOR**FROM: P EDMONDS
DATE: 13 June 1988cc: *Economic Secretary*
Sir G Littler
Mr Byatt
Mr Lankester
Mr R I G Allen
Mr Mountfield
Mr Bonney ← *Mr Cieve*
Mr Matthews
Mr Meyrick
Mr Molan
Mr Hudson
Ms Symes**AGRICULTURE AND THE SUMMIT**Exports

You asked for values of the gross and net exports of agricultural products from the EC and US. These are given below for 1978 and 1985.

EC12 Agricultural Products Trade, \$ billion

	Exports	Imports	Net exports
1978	17.6	43.1	-25.5
1985	25.6	41.5	-15.9

US Agricultural Products Trade, \$ billion

	Exports	Imports	Net exports
1978	31.0	18.6	+12.4
1985	31.2	26.7	+4.5

Source: The Agricultural Situations in the Community. (European Commission, 1988)

2. These figures add up trade in food products and live animals, beverages and tobacco, hides, oilseeds, natural textile fibres, agricultural raw materials, and oils and fats. We don't have Japanese figures on a comparable basis: they export very little and are net importers to the extent of some \$20 billion.

3. Although the figures were constructed from published data, we would need to clear them with MAFF before publication. They may not wish public discussion to be based on this particular definition of agricultural trade: there are a wide range of possible definitions.

4. The EC has large net imports of agricultural products. This does not show that the EC gives less support to agriculture than other countries, or that it does not restrict imports of food by tariffs and quotas. Net agricultural imports would be larger if the EC subsidised farming less and had lower trade barriers against agricultural imports. Japan argues that because it is a net importer of food its agricultural policies are not a problem. But Japan has very high levels of domestic support which distort resource use, and tariffs and quotas that distort trade patterns.

5. We have tried all along, with increasing success, to focus on the total amount of domestic support and protection. We have strongly resisted the arguments, from Japan and from some in the EC, that the current levels of net imports are evidence of a satisfactory position. MAFF, and we in IF, would not want to go back on this by including figures for exports in this context. Using export figures may encourage those who are seeking interventionist market-sharing arrangements.

PSEs

6. I attach a table, showing individual years. The comparison between 1980 and 1986 is almost identical with the comparison in the attachment to Mr Evans' minute of 10 June, and enables the same points to be made.

P. Edmonds

P EDMONDS

NET PERCENTAGE PSES

	PSEs			per cent		
	1979	1980	1981	1984	1985	1986
United States	15	15	18	23	26	35
EEC-10	44	36	32	31	40	49
Canada	24	24	24	32	40	46
Japan	64	54	53	65	67	75
OECD Average	33	28	27	31	36	47

	PSEs	per cent
	1979-81 Average	1984-86 Average
United States	16	28
EEC-10	37	40
Canada	24	39
Japan	57	69
OECD-Average	29	47

Source : OECD Monitoring and Outlook of Agricultural Policies, Markets and Trade.

AGRICULTURE

1. We have seen in recent years a switch in the emphasis of economic policy toward improving the supply-side by deregulating markets and increasing competition. This approach has played a vital role in improving the UK's economic performance. It has also been a major theme of successive Economic Summits.

2. Much progress has been made. But there is still a formidable agenda, headed by agriculture. Worldwide, agricultural policies distort trade, divert resources from more productive uses, and undermine the efforts of many developing countries. In industrialised countries, consumers pay too much for food and taxpayers bear a heavy burden.

3. The United Kingdom government will continue to press for freer agricultural markets: the way forward is through substantial and sustained multilateral reductions of agricultural subsidies and trade barriers.

4. Industrial countries provide support for agriculture in many different ways: price fixing, trade barriers, income and research support and so on. The OECD has given us a tool for measuring the combined effect of these various forms of support. This is the Producer Subsidy Equivalent (PSE): broadly, the percentage PSE measures the proportion of farming income that comes from Government support. The table below shows the extent of support:

	PSE	
	per cent	
	1979-81	1986
United States	16	35
Canada	24	46
European Community	37	49
Japan	57	75
OECD average	29	47

Source: OECD

5. This table highlights the following points:

- i. the high level of support in all countries, the highest of all being Japan;
- ii. the big increase in support in all countries during the 1980s;
- iii. the biggest increases in support are in the US, Canada and Japan; the rise in the Community is the lowest.

[5a. But it is not only proportional support - as measured by the percentage PSE - that matters. Total support is a combination of proportional support and the scale of agricultural output. The following table shows the large amounts of total support, as measured by the value of producers' subsidy equivalents:-

billion \$, 1986

United States	38
EC	55
Japan	34

Source: OECD

]

6. Subsidies in agriculture have multiplied as the proportion of people employed in that sector has fallen dramatically: in the United States, from 6 per cent in 1966 to 3 per cent in 1986; in Japan from 22 per cent to 8 per cent; and in the UK from 3½ per cent in 1966 to 2½ per cent in 1986.

7. Worse, much of the assistance does not benefit the poorest farmers. Often, the main gainers are land owners because of higher land prices. Japan is an obvious example: some land that is badly needed for housing and other purposes is used instead to grow heavily subsidised rice.

8. Another consequence of high producer prices is the excessive level of incentives for the use of fertilisers and pesticides, for

factory farming methods, and so on. Many of these have adverse effects on the environment.

9. We, the industrialised countries, impose enormous costs on ourselves. But we also damage developing countries: their exports have been cut back because we have reduced access to our markets. In addition, the surpluses dumped by the industrial countries depress prices on world markets. So many developing countries are unable to exploit their natural advantages.

10. Fortunately, there is now widespread recognition of the costs of the present systems of support, and of the need to reduce support on a multilateral basis, through the machinery of the GATT.

11. Ministers meet in Montreal in December to review progress. The UK wants to see specific progress at that meeting on reducing protection of agriculture. The Summit is a vital opportunity for specific progress, building on considerable common ground already established at OECD.

12. Our aims are clear:

- first, as our long term objective, to work for liberalisation of world agricultural markets, through major reductions in overall support and protection;

- second, to determine a framework for the GATT negotiations, that focuses specifically on an overall measure of support, such as the Producer Subsidy Equivalent;

- third, to make operational the commitments that were agreed at Punta del Este on standstill and roll back;

- and fourth, a multilateral commitment to specific early action that not only prevents the situation getting worse, but makes real headway towards our long-term objective.

13. We look to the Summit in Toronto to point the way forward.



10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

CH/EXCHEQUER	
REC.	13 JUN 1988 ✓ 13/6
ACTION	MR. H. P. EVANS
COPIES TO	SIR P. Middleton SIR G. LITTLE SIR T. BURNS MR Mountfield
13 June 1988	

Dear Tony,

*prop
place
the name*

ECONOMIC SUMMIT: ORDER OF THE AGENDA

The Canadian High Commission telephoned me this morning to say that Mr Mulroney would like to alter slightly the order of agenda prepared by the Sherpas, and which I circulated under cover of my minute of 6 June.

The discussion on newly industrialising economies, originally planned for the afternoon of Monday 20 June should take place in the morning session. The aim is to leave the afternoon session for a full discussion on trade and agriculture.

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

*To my
Nigel Wicks*

N. L. WICKS

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

The Royal Institute of International Affairs

Chatham House 10 St James's Square London SW1Y 4LE
Telephone 01 930 2233 Fax 01 839 3593

Patron Her Majesty the Queen
Chairman Christopher Tugendhat
Director Admiral Sir James Eberle GCB

Ref:WW/CH

13th June 1988

Mr A.C.S. Allan,
Principal Private Secretary
to the Chancellor of the Exchequer,
Departmental Treasury,
Parliament Street,
LONDON SW1P 3AG

Dear Mr Allan,

I attach at the request of Christopher Tugendhat, a copy of the Tokyo Club proposals as presented to Mr Takeshita this morning. It is being released to the press in Tokyo today, and we are releasing it to the Financial Times at their request in London this evening.

You may know a little about the "Tokyo Club", which was an initiative of the Nomura Research Institute two years ago to set up a "G-5 of the Think-Tanks" alongside the intergovernmental G-5. The economists of the five institutes meet twice a year to compare perspectives and review their research work; at the June meeting they placed this in the context of the forthcoming G-7 Summit, and brief the Japanese Prime Minister on their recommendations. At their winter meeting they participated in a major conference in Tokyo (which appeared in full on Japanese television, a briefer version of this year's conference was broadcast on Channel 4).

We have also forwarded copies at Christopher Tugendhat's request to Charles Powell at Number 10 and to the Private Office of Sir Geoffrey Howe.

Yours sincerely,
William Wallace

William Wallace
Deputy Director

Enc.

PROPOSALS FOR THE TORONTO SUMMIT

June 13, 1988

Tokyo Club Foundation for Global Studies

Brookings Institution (U.S.A.)

IFO-Institut für Wirtschaftsforschung (F.R.G.)

Institut Français des Relations Internationales (France)

The Royal Institute of International Affairs (U.K.)

Nomura Research Institute and Nomura Computer Systems (Japan)

Proposals

Overview

- I. Macroeconomic Imbalances
 - 1. United States
 - 2. Japan
 - 3. Europe
 - 4. Newly Industrialized Countries (NICs)

- II. International Systemic Problems
 - 1. The World Trading System
 - 2. The International Monetary System
 - 3. Debt and Aid Problems

The world economy has absorbed the shock of the decline in stock markets in October 1987 far better than was anticipated immediately after the declines occurred. The risks of recession during the year 1988 now appear to be small, while the risks of renewed inflation have somewhat increased.

The problems to which the turbulence in financial markets called attention remain unresolved. For example, although the huge current account imbalances among the major developed countries have begun to decline, the pace of reduction is still too slow. More progress is necessary to assure healthy, noninflationary growth in the world economy.

The role of the United States in promoting the needed adjustments is central. Japan and West Germany, with their large surpluses and economic power, bear the next heaviest responsibility for reducing the imbalances.

In addition to macroeconomic imbalances, the world economy is plagued by other systemic problems. These include the lack of progress in the current round of GATT negotiations, the fragility of the international monetary system, and the continuing seriousness of the debt problems of developing countries.

I. Macroeconomic Imbalances

The imbalances in current accounts are still enormous, casting dark shadows over the stable growth of the world economy. During the past 12 months, since the Venice Summit in May 1987, the need for international cooperation to curb the current account imbalances has been stressed a number of times. Apart from measures in Japan to stimulate domestic demand, little has been done to modify economic policies. The current approach to the problem seems to be to wait for the next U.S. president to take some drastic action to cut the U.S. fiscal deficit, in the meantime trying to buy time through rhetorical support for improved international cooperation.

1. The United States

The urgent task for the United States is to reduce the still swollen deficit of the federal government. Past agreements between the President and the Congress to deal with the budget deficit have been timid and inadequate. Regrettably, effective action is likely to be postponed until after the November 1988 elections. As their highest economic priority, early in 1989 the new President and the new Congress should act decisively to adopt a multi-year program for reducing the structural budget deficit. A credible budget compromise must include both expenditure cuts and tax increases.

The failure of the United States to adopt adequate changes in fiscal policy is rekindling inflation. In the absence of such changes, increases in the rate of capacity utilization, reductions in the unemployment rate, and the 1987-88 depreciation in the

exchange value of the dollar are threatening to put upward pressure on wages.

Based on the current economic conditions, the recent actions of the Federal Reserve to tighten credit slightly seem appropriate. More tightening in the future may be necessary if domestic demand threatens to grow too rapidly. However, this monetary tightening will be costly to domestic investment in the United States and to successful servicing of the debts of the developing countries. It would be much better, for the United States and for other countries, to resist inflation pressures through U.S. fiscal rather than monetary restraint.

2. Japan

Important progress has been made in shifting the sources of expansion in the Japanese economy to domestic demand away from exports, while maintaining a high rate of growth. However, this progress is primarily due to the income effects of higher growth and the price effects of yen appreciation. Market opening measures that entail real pain have only been taken slowly. To sustain progress in reducing its external surplus, Japan must be more decisive in pursuing structural policies that open its markets further and alter regulations that inhibit adjustment. The Japanese government must be more courageous in adopting such measures even if they are painful and politically difficult. In particular, further deregulation and market opening in the fields of agriculture, distribution, telecommunications, construction, and transportation should result in improved efficiency in those industries and lead to a better life for the Japanese people.

While opening its markets, Japan must be careful to follow macroeconomic policies that sustain the noninflationary expansion of the domestic economy.

3. Europe

The macroeconomic situation in European countries exhibits significant diversity. The extent of the external imbalance varies widely among individual economies, with current account surpluses excessively concentrated in Germany and to a lesser extent Switzerland, the Netherlands, and Belgium. Some countries, notably the United Kingdom, Italy and Spain, have achieved relatively high growth, while others like France and Germany seem trapped in a slow growth future. Accordingly, macroeconomic constraints differ widely. Everywhere, however, unemployment remains a paramount concern.

Within the current EMS-exchange rate environment, appropriate stimulus to growth coming from Europe requires Germany to take the lead. In effect, France is constrained by the need to capitalize on the progress toward disinflation and structural adjustment; Britain and Italy are confronted with a delicate weighing of their internal and external objectives for growth, inflation, and the exchange rate. Germany, with its high unemployment and huge current account surplus, has the margin of maneuver to provide the needed stimulus with a clearly expansionary fiscal policy. That could be achieved by moving forward the tax reduction scheduled for 1990 and foregoing the consumption tax increase proposed for 1989. If it fails to do so, a significant realignment of EMS currencies and appreciation of the Deutsche Mark will be

necessary, although it may carry some destabilizing effects, notably on inflation in devaluating countries.

In the longer term, however, Europe can deal with its unemployment problem and reach a sustainable, higher rate of growth, only if supply conditions improve. Liberalization and deregulation have been helpful in reducing impediments to growth in some countries, but more is required, especially in Germany. In this respect, completion of the internal market provides a welcome opportunity and a worthwhile challenge.

4. Newly Industrialized Countries (NICs) of Asia

The Asian NICs, Korea, Taiwan, Hong Kong and Singapore, have achieved high rates of economic growth, and they have become important players in the world economy, providing an example to developing countries in other parts of the world. At the same time, they have developed substantial trade surpluses. It is desirable that Asian NICs contribute over time to the reduction of world trade imbalances. Since their individual circumstances vary, they should develop their own policies to achieve that goal, while continuing their progress in modernization and industrialization.

II. International Systemic Problems

1. The World Trading System

The Punta del Este agreement to launch a new round of trade negotiations was an important and positive step. Including the large area of services for the first time in multilateral trade

discussions and covering both direct and indirect support to agriculture set an ambitious agenda for the talks. Now, however, the talks appear to be stalled in several key areas. This lack of progress encourages protectionist sentiment in the United States, causes the European Community to focus more on its internal reform effort and less on its multilateral context, and encourages efforts to reduce bilateral trade imbalances through circumvention of GATT rules.

The most important area of GATT stalemate is agriculture. The U.S. insistence on full liberalization as the negotiating goal has met firm rejection from the EC. Meanwhile, the Japanese proposal has little common ground with either of the others. The U.S. and the EC negotiators should begin to seriously explore the room for a compromise agreement on the negotiating framework (such as a target of 50% reduction in subsidies over 5 years) so that real progress can be demonstrated at the December mid-term review. The Japanese government should be willing to liberalize agricultural imports and reduce subsidies in concert with the other countries.

Economic integration of a huge area like the 12 members of the EC and the U.S.-Canada free-trade block will enhance their economies by expanding the size of some markets. However, these arrangements should provide free access and opportunities to third parties, which reinforces the need for continuing market opening in other parts of the world.

2. The International Monetary System

The demand of private investors for U.S. dollar assets declined sharply in 1987. The American current-account deficit was

financed, indirectly, by heavy support of the dollar in exchange markets by central banks. This exchange-market intervention was extraordinary and cannot be indefinitely sustained. Since the beginning of 1988, the foreign exchange markets have remained relatively tranquil. But exchange and other financial markets remain vulnerable to adverse changes in expectations about economic policies.

In this situation, the governments of the major countries seem likely to continue supporting the "invisible reference zone" approach, which they have de facto been pursuing since early 1987. This approach, however, is at best fragile. Stabilization of exchange rates around the levels current in June 1988 cannot be viable without changes in domestic macroeconomic and structural policies that foster adjustment of existing payments imbalances.

For the longer run, governments should continue to explore ways to improve the international monetary system. These improvements might include cooperative guidelines and institutional arrangements for the management of exchange rates and the coordination of macroeconomic policies.

3. Debt and Aid Problems

There still is a debt crisis. The current debt rescheduling process is becoming less effective, while smaller banks increasingly seek to get disentangled from this process. In addition, the Baker plan has succeeded in mobilizing only very limited new resources from the commercial banks to support LDC adjustment. We are "muddling on" rather than "muddling through."

A number of new initiatives has been proposed. These include forgiveness of debt for some of the lowest income countries. In other cases, a partial reduction of principal and long term restructuring can be effective. The implementation of these options will need the active encouragement of governments. In any event, several countries are on the brink of serious social/political disruption. The situation is so serious that it behooves the summit leaders to give a higher priority to the resolution of this problem.

Besides considerations of debt forgiveness for the poorest countries, the quantity, structure and quality of foreign aid must be reviewed. The industrialized countries should increase their foreign aid, which is currently far below the benchmark of 0.7% of GNP postulated by the OECD. The quality of official development aid would improve if the grant element were raised and the loan element untied. Japan, in particular, could provide more official development aid by substantially increasing its contribution to the capital of the major international institutions, including the IMF and the World Bank. If the United States is unwilling to contribute as large a share of new capital contributions as in the past, it should agree to reduce its voting share in the institutions as a means of allowing others to raise their contributions.

These measures on the part of the industrialized countries must be matched by a willingness on the part of the developing countries to undertake structural reforms, and to open their economies to alternative financial instruments including equity and direct investment.

UNCLASSIFIED



FROM: A P HUDSON
DATE: 13 June 1988

A handwritten signature in black ink, appearing to be "A.P.H." or similar.

MR H P EVANS

cc Economic Secretary
Sir G Littler
Mr Byatt
Mr Lankester
Mr R I G Allen
Mr Bonney
Mr Gieve
Mr S W Matthews
Mr Meyrick
Ms Symes
Mr Edmonds

AGRICULTURE AND THE SUMMIT

The Chancellor has seen your 10 June minute.

2. He has commented that the points he wishes to get across are:
- (a) the figures in paragraphs 4-7 of your draft, but with the export figures which you agreed to provide rather than those for total support in paragraph 5(a);
 - (b) the objectives in paragraph 12.

2. For the comparison of PSEs over time, he has commented that, if we are ^{to} use 1986, we should replace the average for 1979-81 with the figure for 1979, 1980, or 1981. It would look very fishy to compare a single year with a three-year average. Please could you let the Chancellor have the available figures, so that he can decide which comparison to use?

A handwritten signature in black ink, appearing to be "A.P.H." or similar.

A P HUDSON

CC - SIR G. H. MITCHELL
 SIR P. MIDDLETON
 SIR T. BURNS
 MR EVANS
 MR MOUNTFIELD.



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

14 June 1988

Nigel Wicks Esq
 10 Downing Street
 LONDON SW1

Dear Nigel,

**TORONTO ECONOMIC SUMMIT: THE PRIME MINISTER'S SPEAKING NOTE
 FOR THE OPENING SESSION**

You sent me a copy of your letter of 10 June to Lyn Parker, with the draft of the Prime Minister's speaking note. The Chancellor had the following comments:

- (i) he feels you should delete the references to interest rates in paragraph 3(iii) and 4(iii). Alternative statistics you could use are: either that investment in industrial countries had fallen by $2\frac{1}{4}$ per cent a year over the period 1980-82, but has risen continuously since then at an average of $4\frac{1}{2}$ per cent a year; or that employment in industrialised countries had shown little change in 1981 and had fallen by $\frac{3}{4}$ per cent in 1982, but has grown steadily since then at over $1\frac{1}{2}$ per cent a year;
- (ii) he feels that some mention of the US Budget deficit must be made in paragraph 8. He suggests:
 "First on the imbalances. There has certainly been some progress. The US budget deficit is now on the way down, and the trade imbalances are at last beginning to decline. But there is still a long way to go, and it will help confidence if we acknowledge the need for further and sustained action to get the imbalances under control. I shall want to say more about that in our session tomorrow";
- (iii) the Chancellor felt that paragraph 13 might be shortened. He would also suggest that the fifth sentence should start: "We must not hold up action ..."; and that the eighth sentence should read: "Above all the strengthening of GATT itself must be a high priority";
- (iv) he would prefer a slight redraft of the first part of paragraph 19, on debt. I attach a revised version.

...

CONFIDENTIAL



I am copying this letter to Lyn Parker (FCO) and to Trevor Woolley (Cabinet Office).

*Yours
Alex*

A C S ALLAN

REVISED DRAFT OF PARAGRAPH 19

Finally, a word on the debt of the poorest countries. I have been greatly encouraged in recent weeks by with willingness of the United States and France, in particular, to join in the search for solutions which will reduce the debt burden faced by these countries. In Venice last year, we recognised that their problems were "uniquely difficult" and needed "special treatment". And we agreed that consideration should be given to interest rate reductions for those countries which were following sensible adjustment policies. Let me again urge as many as possible to accept interest rate reductions, as the UK has been advocating for some time. For those unable to do this [continue as before].

UNCLASSIFIED

Handwritten initials

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MDHIAN 3287

PS/CHANCELLOR OF THE EXCHEQUER
TREASURY

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FM BONN
TO IMMEDIATE FCO
TELNO 577
OF 140945Z JUNE 88
AND TO IMMEDIATE UKREP BRUSSELS

YOUR TELNO 345 TORONTO STAR INTERVIEW

AS INTERVIEW HAS ALREADY BEEN PUBLISHED, GRATEFUL TO KNOW WHETHER WE
MAY ISSUE TRANSLATED EXTRACTS FROM IT IN OUR "BRITISCHE
DOCUMENTATION" SERIES WITH ATTRIBUTION TO THE TORONTO STAR IF
NECESSARY. TEXT WOULD BE CIRCULATED TO GERMAN OFFICIALS AND OPINION
FORMERS AS WELL AS TO JOURNALISTS.

MALLABY

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AND TO IMMEDIATE TOKYO
INFO PRIORITY WASHINGTON, PARIS, BONN, ROME, UKREP BRUSSELS

YOUR TELNO 272: TORONTO ECONOMIC SUMMIT: SECRETARY OF STATE'S
BILATERALS

1. WE PUT THE PROPOSAL FOR A MEETING WITH UNO AT 0900 HOURS ON
SUNDAY 19 JUNE TO THE JAPANESE EMBASSY, OFFERING AN ALTERNATIVE
TIME OF 1200 HOURS. THEY HAVE NOW INFORMED US THAT JAPANESE
EMBASSY IN LONDON HAVE BEEN INSTRUCTED TO CONFIRM THEIR AGREEMENT
FOR A MEETING FROM 0915 HOURS TO 0945 HOURS ON SUNDAY 19 JUNE
AT THE HARBOUR CASTLE WESTIN HOTEL, WHERE UNO IS STAYING.

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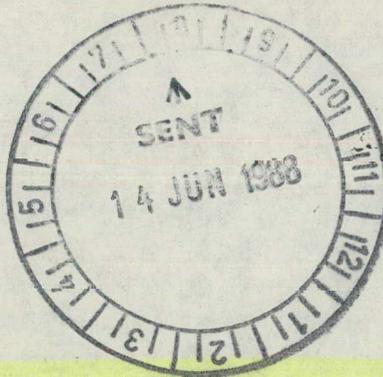
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Chandler ✓

WHITE HOUSE PRESS BRIEFING ON ECONOMIC ISSUES AT TORONTO SUMMIT
SUMMARY

1. WALLIS AND MULFORD BRIEFED US PRESS ON LIKELY TOPICS AT TORONTO. POLICY CO-ORDINATION, TRADE ISSUES AND INTERNATIONAL DEBT SAID TO BE MAIN ECONOMIC TOPICS. LESS CERTAINTY ABOUT NON-ECONOMIC ISSUES BUT WALLIS EXPECTED DISCUSSIONS TO COVER EAST-WEST RELATIONS, MOSCOW SUMMIT, PHILIPPINES, TERRORISM, DRUGS AND ENVIRONMENT.

DETAIL

2. AT A WHITE HOUSE PRESS BRIEFING, MULFORD (TREASURY), AND WALLIS (STATE) DISCUSSED THE TOPICS THAT THEY THOUGHT WOULD BE DISCUSSED AT THE SUMMIT. THE BRIEFING WAS SUPPOSED TO CONCENTRATE ON ECONOMIC ISSUES BUT WALLIS WAS ASKED A FEW QUESTIONS ON OTHER ISSUES.

POLICY CO-ORDINATION AND THE COMMODITY PRICE INDEX

3. MULFORD SAID THE US WOULD REAFFIRM ITS COMMITMENT TO CLOSE COOPERATION TO HELP CO-ORDINATION AND QUOTE TO FOSTER EXCHANGE RATE STABILITY UNQUOTE. HE HOPED THE SUMMIT WOULD STRENGTHEN CO-ORDINATION EFFORTS BY, FIRST, OBTAINING AGREEMENT AND IMPLEMENTING A NEW COMMODITY PRICE INDICATOR AND, SECOND, BY AGREEING QUOTE TO COOPERATE MORE CLOSELY AND MORE EFFECTIVELY TO PURSUE STRUCTURAL POLICY CHANGES IN THE VARIOUS ECONOMIES WHICH WE HOPE CAN BE INTEGRATED IN SOME WAY MORE CLOSELY INTO THE CO-ORDINATION PROCESS UNQUOTE. MULFORD DESCRIBED THE COMMODITY PRICE INDEX AS A QUOTE USEFUL ADDITIONAL TOOL THAT WILL HELP EVALUATE WHAT IS GOING ON ACROSS THE BOARD IN THE WORLD ECONOMY UNQUOTE. HE REFUSED TO BE DRAWN ON THE PRECISE WEIGHT TO BE GIVEN TO GOLD, BUT SAID HIS GUESS WAS THAT IT WOULD BE INCLUDED ALTHOUGH THE WEIGHTINGS FOR THE INDEX WOULD PROBABLY REMAIN CONFIDENTIAL.

4. MULFORD WAS ASKED WHETHER THERE WOULD BE PROGRESS ON MONITORING ZONES OR OTHER INDICATORS AS MENTIONED BY SECRETARY BAKER IN HIS RECENT PARIS SPEECH. HE REPLIED THAT THIS SUBJECT REQUIRED MORE STUDY AND WOULD PROBABLY NOT BE DISCUSSED UNTIL THE NEXT G7 MINISTERIAL MEETING.

DEBT

5. MULFORD THOUGHT THAT FOR LARGE, MIDDLE INCOME DEBTORS THERE WOULD BE QUOTE A STRONG REAFFIRMATION OF THE PRESENT STRATEGY

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UNQUOTE. FOR POORER COUNTRIES THERE COULD BE CHANGES OF QUOTE CONSIDERABLE SIGNIFICANCE UNQUOTE. HE SAID PARIS CLUB RESCHEDULINGS THAT INVOLVED QUOTE A DEGREE OF RELIEF BY EXTENDING MATURITIES OR BY REDUCING COSTS UNQUOTE WERE ALREADY AGREED. THE OUTSTANDING QUESTION WAS QUOTE WHETHER THERE CAN BE FURTHER RELIEF PROVIDED TO THESE COUNTRIES THROUGH THE PARIS CLUB PRIMARILY BY FINDING A WAY TO ALLOW CONCESSIONARY RATES TO BE GRANTED IN THOSE CASES WHERE IT IS JUSTIFIED UNQUOTE. MULFORD SAID THE DISCUSSION, FROM THE US STAND-POINT, WOULD BE ALONG THE LINES OF SECRETARY BAKER'S RECENT SPEECH IN AFRICA. THE FIRST IMPORTANT POINT WAS THAT THERE SHOULD BE DIFFERENTIATION BETWEEN CREDITORS THAT WOULD QUOTE ALLOW THOSE WHO WISH TO GIVE CONCESSIONAL RATES TO GO AHEAD AND GIVE THEM. AND THAT WOULD NOT, IN OUR CASE, NECESSARILY INCLUDE US BUT IT WOULD ALLOW RELIEF TO BE GRANTED BY THE GROUP TO SOME EXTENT UNQUOTE. THE SECOND REQUIREMENT WAS THAT ANY SCHEME BE IMPLEMENTED ON A FLEXIBLE QUOTE CASE BY CASE UNQUOTE APPROACH.

OTHER ECONOMIC AND NON-ECONOMIC ISSUES

6. WALLIS SAID THAT THE BIG ECONOMIC PROBLEMS THAT WOULD BE THE FOCUS OF THE SUMMIT WERE QUOTE TRADE AND LIBERALIZATION OF TRADE WITH A SPECIAL EMPHASIS ON AGRICULTURE UNQUOTE. ON NON-ECONOMIC TOPICS HE MENTIONED EAST-WEST RELATIONS, THE MOSCOW SUMMIT, DRUGS (AND POSSIBLY MONEY LAUNDERING), TERRORISM AND THE ENVIRONMENT. HE WOULD NOT GET DRAWN ON DETAILS. IN RESPONSE TO A QUESTION ABOUT THE PRESIDENT'S RECENT REMARKS ABOUT A PLAN TO HELP THE PHILIPPINES AND AFGHANISTAN, WALLIS SAID THAT THERE MIGHT BE TALK QUOTE ABOUT WHAT THEY CAN DO CO-OPERATIVELY THAT WILL IMPROVE THE SITUATION IN THE PHILIPPINES UNQUOTE.

COMMENT

7. THE BRIEFING CONTAINED FEW SURPRISES. MULFORD'S COMMENTS SUGGEST THAT HE EXPECTS PROGRESS IN OBTAINING AGREEMENT ON A COMMODITY PRICE INDICATOR, INCLUDING GOLD, AND SOME KIND OF DEAL FOR SUB-SAHARAN AFRICAN DEBT.

8. FCO PLEASE ADVANCE TO RICHARDSON AND SIR G LITTLER, LANKESTER AND EVANS (TREASURY) AND WARE (BANK).

ACLAND

ADVANCE

12

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MR N WICKS, NO 10 D.S.
HD/ERD
HD/PLANNING STAFF

SIR G LITTLER, HM TRSY
RICHARDSON, HM TRSY
LANKESTER, HM TRSY
EVANS, HM TRSY
WARE, BANK OF ENGLAND
RESIDENT CLERK

FROM: H C WALSH
DATE: 14 June 1988

PS/CHANCELLOR

cc: Sir Geoffrey Littler
Mr Lankester
Mr Evans
Mrs Lomax
Mr Mountfield
Mr Bottrill
Mr Matthews
Ms Life o/r
Mr Kilpatrick
Mr Kroll

JAPANESE DEBT PROPOSAL

The Chancellor asked about the attached Reuters report about a new Japanese scheme to set up an IMF Trustee Fund to collateralise LDC debt exchange schemes.

2. Telno 600 (also attached) from Tokyo confirms that Miyazawa may float such a scheme informally at the Summit. The Japanese have long been in favour of providing some assistance to middle income debtors through the provision of World Bank guarantees, etc. It sounds entirely consistent that they should be willing to make contributions to a new fund at the IMF to facilitate debt relief by commercial banks, but a bit odd that they should wish to do so at the Summit without any official preparation. The proposal has not yet been agreed with IMF management. The Japanese have often made noises before international meetings and then failed to come up with anything substantial. So nothing may come of this proposal.

3. The proposal is not entirely clear but seems to relate to LDC debtors who may wish to securitise their debt by issuing bonds in exchange for existing bank debt. This is of course what was involved in the recent Mexico exchange scheme. The Japanese idea is apparently that:-

- i. The IMF should set up a special Trustee Fund financed with money provided by Japan and debtor countries.

- ii. The Fund would be used as collateral to back the principal value of bonds issued by debtor LDCs in exchange for their existing debt at the commercial banks, which latter would be swapped at a discount to their face value. This would benefit LDCs in terms of reduced debt service.
- iii. Commercial banks would therefore be assured that the principal of the new bonds would be repaid on maturity.
- iv. The security would almost certainly be provided by zero coupon bonds denominated in the currency of the debt and purchased by the Trustee Fund from an issuing source, eg the US Treasury or World Bank.
- v. The responsibility for maintaining interest repayments would apparently remain with the debtor country, although there is no reason in principle why this should not be collateralised as well.
- vi. It is not clear but it could be that the Trustee Fund would also be used straightforwardly to finance the repurchase of debt from the banks for cash by means of a simple buy-back scheme such as was organised successfully for Bolivia.

UK Line

4. If the Japanese should float such a scheme at the Summit, the question arises of the appropriate UK attitude. An actual financial contribution to a Trustee Fund at the IMF for collateral for a debt exchange scheme amounts to, albeit indirectly, helping bail out the banks on their past loan commitments. This is something that in the past we have unwilling to do, and it seems clear therefore that we would not wish to contribute to such a scheme. There are of course countervailing arguments that would be made by the Japanese: under the scheme the commercial banks would be taking a loss, and the LDC involved would be receiving a

benefit in the form of reduced debt service payments. The scheme could therefore be interpreted mainly as a facilitating mechanism for the menu approach rather than a mechanism for the provision of direct finance.

5. If the Japanese should want to help LDCs collateralise their debt exchange schemes, we would probably not object but we should have to examine very carefully the proposed involvement of the IMF to make sure no IMF financial contribution or guarantee was made. The proposal could also of course create pressures on us to make a contribution and we should have to resist these.

6. There is a further regulatory point on debt exchange schemes. In the case of the Mexican bonds, despite the interest repayment uncertainty, banks that purchased the bonds for long term investment became exempt for the time being from making a provision because of the discount that they had to absorb on their existing debt. The Bank of England allowed this on an ad hoc basis, and did not concede any precedent for the future. Mexico of course now rates as a "good" adjuster (which is why the Americans agreed to issue the collateral ZCBs). No doubt the Bank of England would want to consider their line on provisioning if debt exchange schemes were to spread to other countries.

H.W.

H G WALSH

Chf, Sr G. Little, Mr Evans, Mr Smith Hill
Mr Lamberter

cc Mr ~~Wright~~
Mr Kilpatrick
Mr Batt

107/3

JAPAN SAID LIKELY TO MAKE DEBT PROPOSAL AT SUMMIT
BY KUNIO INOUE

NRNW

TOKYO, JUNE 8, REUTER - JAPAN LOOKS SET TO UNVEIL A PLAN TO HELP DEBT-RIDDEN THIRD WORLD NATIONS AT THE ECONOMIC SUMMIT OF MAJOR NATIONS LATER THIS MONTH, BANKING SOURCES SAID.

THE PROPOSAL WOULD SEEK AN ENHANCED ROLE FOR THE INTERNATIONAL MONETARY FUND UNDER A PLAN MODELLED PARTLY ON THE DEBT-FOR-BOND SWAP DEAL CONDUCTED BY MEXICO EARLIER THIS YEAR, THEY SAID.

THE PLAN IS DESIGNED TO HELP REDUCE THE DEBT BURDEN OF MIDDLE INCOME NATIONS SUCH AS BRAZIL, MEXICO AND ARGENTINA.

08-JUN-1012. MON511 MONQ

CONTINUED ON - NRNX

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REUTER MONITOR 0834

JAPAN SAID LIKELY =2 TOKYO

NRNX

UNDER THE PROPOSED PLAN, THE IMF WOULD SET UP A SPECIAL TRUSTEE FUND, WITH THE MONEY PROVIDED BY JAPAN AND DEBTOR COUNTRIES, THE BANKING SOURCES SAID.

THE FUND WOULD BE USED AS COLLATERAL TO BACK BONDS TO BE ISSUED BY DEBTOR NATIONS. THOSE BONDS WOULD THEN BE SWAPPED FOR DEBTS THE COUNTRIES OWE TO COMMERCIAL BANKS. THE DEBTS WOULD BE SWAPPED AT A DISCOUNT TO THEIR FACE VALUE.

UNDER MEXICO'S DEBT-FOR-BOND SWAP DEAL, CREDITOR BANKS WERE INVITED TO SWAP PART OF THEIR MEXICAN LOANS, AT A DISCOUNT, FOR NEW MEXICAN BONDS BACKED BY ZERO COUPON 20-YEAR U.S. TREASURY SECURITIES.

08-JUN-1013. MON513 MONQ

CONTINUED ON - NRNY

CONTINUED FROM - NRNW

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REUTER MONITOR 0834

JAPAN SAID LIKELY =3 TOKYO

NRNY

BANKERS SAID JAPAN HAD COME UP WITH THE PLAN TO FEND OFF CRITICISM THAT IT WAS NOT DOING ENOUGH TO USE ITS MASSIVE TRADE SURPLUS TO HELP THE THIRD WORLD.

TOKYO HAS BEEN FORCED TO PUT FORWARD THE COMPLICATED TRUSTEE PLAN BECAUSE OF LEGAL AND POLITICAL CONSTRAINTS ON BOTH IT AND THE IMF, THEY SAID.

UNDER JAPANESE LAW, THE GOVERNMENT CANNOT DIRECTLY GUARANTEE SECURITIES ISSUED BY FOREIGN GOVERNMENTS.

JAPANESE TAXPAYERS ALSO ARE RELUCTANT TO SHELL OUT MONEY FOR THE THIRD WORLD, BUT MIGHT BE PERSUADED TO DO SO IF THE PLAN HAD THE IMPRIMATUR OF THE IMF.

08-JUN-1013. MON515 MONQ

CONTINUED ON - NRNZ

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REUTER MONITOR 0834

JAPAN SAID LIKELY =4 TOKYO

NRNZ

THE BANKING SOURCES SAID THE JAPANESE SCHEME HAD ALREADY WON THE APPROVAL OF THE IMF.

THE IMF ITSELF CANNOT GUARANTEE THE PAYMENT OF THIRD WORLD DEBT, BUT AS OVERSEER OF THE TRUSTEE FUND IT COULD CLOSELY POLICE THE ECONOMIES OF THE DEBTOR NATIONS TO HELP ENSURE THAT THE BONDS WERE REPAID, THEY SAID.

THE IMF ALREADY SET UP ONE TRUSTEE FUND LAST YEAR, TO HELP OUT BOLIVIA, ONE THE WORLD'S POOREST DEBTOR NATIONS.

UNDER THAT AGREEMENT, BOLIVIA REPURCHASED PART OF ITS BANK LOANS AT A SUBSTANTIAL DISCOUNT.

08-JUN-1014. MON519 MONG
CONTINUED FROM - NRYN
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CONTINUED ON - NRAA

REUTER MONITOR 0834

JAPAN SAID LIKELY =5 TOKYO

NRAA

THE REPURCHASE WAS FINANCED EXCLUSIVELY WITH FUNDS PROVIDED BY DONOR COUNTRIES AND ADMINISTERED BY AN IMF TRUSTEESHIP.

THE SOURCES SAID THE JAPANESE DEBT INITIATIVE COULD OFFER A WORKABLE, LONG-TERM SOLUTION TO THE DEBT PROBLEM.

THE U.S. GOVERNMENT, WHICH HAS GROWN INCREASINGLY RELUCTANT TO GIVE MONEY TO MULTILATERAL INSTITUTIONS AND HAS BECOME MORE INTERESTED IN DEALING WITH THE DEBT ISSUE ON A BILATERAL BASIS, WOULD NOT NECESSARILY JOIN THE SCHEME.

BUT IT IS UNLIKELY TO OPPOSE THE PLAN SINCE IT WOULD NOT HAVE TO PUT UP ANY OF ITS OWN MONEY, THE SOURCES SAID.

08-JUN-1015. MON524 MONG
CONTINUED FROM - NRNZ
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CONTINUED ON - NRAA

REUTER MONITOR 0834

JAPAN SAID LIKELY =6 TOKYO

NRAA

FINANCE MINISTER KIICHI MIYAZAWA FIRST RAISED THE POSSIBILITY OF SOME SORT OF IMF GUARANTEE TO HELP THIRD WORLD NATIONS RETIRE DEBT AT THE ANNUAL MEETING OF THE FUND AND THE WORLD BANK LAST SEPTEMBER.

THE BANKING SOURCES SAID THAT BECAUSE OF THE TECHNICAL NATURE OF THE PLAN, MIYAZAWA MIGHT PRESENT IT DURING A MEETING OF FINANCE MINISTERS AT THE SUMMIT, RATHER THAN HAVING IT INTRODUCED BY PRIME MINISTER NOBORU TAKESHITA DIRECTLY TO THE SUMMIT LEADERS.

08-JUN-1017. MON528 MONG
CONTINUED FROM - NRAA
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REUTER MONITOR 0834

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FM TOKYO
TO IMMEDIATE FCO
TELNO 600
OF 140720Z JUN 88

YOUR TELNO 487: JAPANESE IDEAS ON DEBT

1. KASHIWAYA (DEPTUY DIRECTOR GENERAL, INTERNATIONAL FINANCE BUREAU, MINISTRY OF FINANCE) ADMITTED THAT THE MOF HAD OUTLINE PLAN ALONG THE LINES DESCRIBED IN TUR, BUT WAS MOST CONCERNED TO HEAR THAT IT HAD LEAKED IN A REUTERS REPORT. HE STRESSED THAT THINKING WAS STILL AT A VERY PRELIMINARY STAGE, AND THAT, IN PARTICULAR, THE MOF HAD NOT YET DISCUSSED THE IDEA WITH THE IMF, WHICH WOULD OF COURSE HAVE A KEY ROLE IN THE PLAN.

2. KASHIWAYA WAS RELUCTANT TO SAY WHETHER THE PLAN WOULD BE UNVEILED AT THE SUMMIT. OUR IMPRESSION IS THAT THEY MIGHT FLOAT THE IDEA ON AN INFORMAL BASIS AMONGST FINANCE MINISTERS AND, IF REACTIONS WERE FAVOURABLE, PRODUCE MORE SUBSTANTIVE PROPOSALS AT THE IMF ANNUAL MEETINGS IN SEPTEMBER. MIYAZAWA MAY BE KEEN TO ENSURE THAT HE RATHER THAN TAKESHITA, GETS THE CREDIT FOR THE INITIATIVE.

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AND TO PRIORITY ODA

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PS/CHANCELLOR OF THE EXCHEQUER
TREASURY

OUR TELNO 560: TORONTO SUMMIT

JAPAN'S OVERSEAS DEVELOPMENT ASSISTANCE

SUMMARY

1. JAPAN PLANS TO INCREASE HER ODA DURING THE PERIOD 1988-1992 TO MORE THAN DOLLARS 50 BILLION. THE QUALITY OF ODA WILL ALSO BE IMPROVED.

DETAIL

2. THE MINISTRY OF FOREIGN AFFAIRS ANNOUNCED ON 14 JUNE THAT JAPAN WOULD AIM TO INCREASE HER TOTAL ODA SPENDING DURING THE PERIOD 1988-1992 TO MORE THAN DOLLARS 50 BILLION. THIS WOULD BE TWICE THE SUME DISBURSED IN THE PERIOD 1983-87 AND WOULD RAISE THE SHARE OF JAPAN'S ODA IN THE TOTAL ODA OF DAC MEMBERS TO A LEVEL COMMENSURATE WITH THE SHARE OF JAPAN'S GNP IN THAT OF DAC MEMBERS. JAPAN WOULD CONTINUE HER EFFORTS TO RAISE ODA AS A PROPORTION OF GNP.

3. JAPAN WOULD ALSO ENDEAVOUR TO IMPROVE THE QUALITY OF ODA, BY
A) EXPANDING THE GRANT ELEMENT, ESPECIALLY TO THE LEAST DEVELOPED COUNTRIES. DEBT RELIEF TO LLDCS WOULD ALSO BE EXPANDED.
B) ENHANCING HER TECHNICAL COOPERATION, INCLUDING INCREASING THE NUMBER OF FOREIGN STUDENTS AND TRAINEES STUDYING IN JAPAN AND THE DESPATCH OF JAPANESE TECHNICAL EXPERTS. JAPAN WOULD ALSO STRENGTHEN HER COOPERATION WITH NGOS AND PROMOTE CULTURAL EXCHANGES WITH THE DEVELOPING COUNTRIES.
C) RAISING HER CONTRIBUTION TO INTERNATIONAL ORGANISATIONS ENGAGED IN DEVELOPMENT, ESPECIALLY THOSE CONCERNED WITH THE TRANSFER OF TECHNOLOGY.
D) INTRODUCING GREATER FLEXIBILITY INTO THE PROVISION OF LOANS TO DEVELOPING COUNTRIES UNDERGOING STRUCTURAL ADJUSTMENT AND FACING A LARGE DEBT BRUDEN. MORE LOANS WOULD BE MADE GENERAL UNTIED (IE AVAILABLE FOR PURCHASES FROM ANY COUNTRY)

PAGE 1
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BACKGROUND

4. AT VENICE EX-PRIME MINISTER NAKASONE ANNOUNCED A THREE YEAR TWENTY BILLION DOLLAR FUND RECYCLING PACKAGE, ABOUT 70 PERCENT OF THAT HAS NOW EITHER BEEN COMMITTED OR DISBURSED. HE ALSO ANNOUNCED AT 500 MILLION DOLLAR PROGRAMME OF UNTIED GRANT AID FOR LLDCS (MAINLY SUB-SAHARAN AFRICA) OVER THE SAME PERIOD, AND THE FIRST 170 MILLION DOLLAR TRANCHE WAS COMMITTED, WITH THE HELP OF THE UK CROWN AGE

170 MILLION DOLLAR TRANCHE WAS COMMITTED, PARTLY WITH THE HELP OF THE UK CROWN AGENTS, DURING FY 1987. FINALLY, HE ANNOUNCED THAT JAPAN'S 1986-92 DOLLOR - DENOMINATED ODA DOUBLING PLAN WOULD BE BROUGHT FORWARD BY TWO YEARS. JAPAN'S ODA BUDGET, EXPRESSED IN DOLLARS, WILL ALMOST HAVE DOUBLED IN FY 1988 COMPARED WITH FY 1986.

5. NEVERTHELESS AS A PROPORTION OF GNP, JAPAN'S ODA AT 0.29% IN 1986 AND 0.31% IN 1987 (PROVISIONAL ESTIMATE) REMAINS CURRENTLY WELL BELOW THE DAC AVERAGE. IT IS GEOGRAPHICALLY LIMITED: 65% TO THE MAINLY MIDDLE INCOME ASIAN NATIONS AND ONLY 10% TO AFRICA, AND JAPAN'S GRANT RATIO IS THE LOWEST AMONG ALL DAC COUNTRIES.

COMMENT

6. TODAY'S ANNOUNCMENT IS THE RESULT OF DIFFICULT NEGOTIATIONS BETWEEN THE MINISTRIES OF FINANCE AND FOREIGN AFFAIRS SINCE PRIME MINISTER TAKESHITA ANNOUNCED IN HIS MANSION HOUSE SPEECH ON 4 MAY HIS INTENTION TO MAKE QUANTITATIVE AND QUALITATIVE IMPROVEMENTS IN JAPAN'S ODA PROGRAMME.

7. THE NEW AID TARGET REPRESENTS A SIGNIFICANT INCREASE IN JAPAN'S ODA AND WE SHOULD WELCOME IT AT TORONTO. WE MIGHT ALSO CONGRATULATE TJE JAPANESE ON THE SUCCESS RATE OF THEIR 20 BILLION FUND RECYCLING PLAN. BUT TWO NOTES OF CAUTION SHOULD ALSO BE SOUNDED. ONE OF THE MAIN TARGETS OF THE FUND RECYCLING PLAN WAS TO ENCOURAGE PRIVATE INVESTORS TO LOOK TOWARDS DEVELOPING COUNTRIES. THERE ARE OBSERVERS IN TOKYO WHO BELIEVE THAT THOUGH THE PLAN ITSELF MAY BE REACHING ITS VOLUME TARGETS EFFECTIVELY IT HAS DONE LITTLE TO PERSUADE PRIVATE INVESTORS TO PAY MORE ATTENTION TO DEVELOPING COUNTRIES. THIS IS ONE REASON WHY ON DEBT THE JAPANESE ARE LAYING SUCH EMPHASIS NOW ON THE CREATION BY RECIPIENTS OF A GOOD CLIMATE FOR INVESTMENT. THE SECOND NOTE IS THE NEED TO KEEP BOOSTING AID QUALITY AS WELL AS WELL AS QUANTITY.

8. THERE MAY ALSO BE THE CHANCE, PERHAPS IN BILATERAL MEETINGS,

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TO WELCOME THE DECISION BY THE JAPANESE GOVERNMENT TO EMPLOY THE CROWN AGENTS TO ADMINISTER PART OF THEIR 500 MILLION DOLLAR UNTIED GRANT AID PROGRAMME IN AFRICA. FOREIGN MINISTER UNO IN HIS LETTER TO YOU FOLLOWING YOUR JANUARY VISIT, REFERRED TO THIS AS AN EXAMPLE OF UK/JAPAN COOPERATION, AND IT WOULD BE EXCELLENT TO SEE THE CROWN AGENTS BEING GIVEN SIMILAR WORK ON THE SAME PROGRAMME OVER THE NEXT TWO YEARS. MR PATTEN WILL VISIT JAPAN 5-8 JULY AND IS LIKELY TO DISCUSS THE ISSUE THEN.

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