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PREM 19/2091

Canadian Economic Summit -  
Toronto June 1988

ECONOMIC POLICY

PT1: May 1979

PT24: June 1987

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## Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

CANADIAN OUTLOOK. Economic Forecast, Spring 1988.

Volume 3, Number 3

Published by The Conference Board of Canada. ISSN 0829-8416

Signed

J. Gray

Date

27/2/2016

**PREM Records Team**



AUSTRALIAN HIGH COMMISSION

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THE HIGH COMMISSIONER

11th June, 1988

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

TORONTO SUMMIT

*My dear Prime Minister,*

I have much pleasure in attaching the text of a letter from the Australian Prime Minister, The Hon. R. J. Hawke outlining points of interest to Australia at the forthcoming Toronto Summit.

The Australian Prime Minister has asked me to ensure early delivery to you of his letter and to seek your sympathetic consideration of, and support for, the matters he has set out.

*Yours sincerely,*  
*Douglas McClelland*  
(Douglas McClelland)

CONFIDENTIAL



*me*

H M Treasury  
Parliament Street London SW1P 3AG

Switchboard 01-270 3000  
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10 June

Nigel Wicks Esq  
Principal Private Secretary  
10 Downing Street

*Dear Nigel,*

**TORONTO SUMMIT: PM'S SPEAKING NOTE FOR THE OPENING SESSION**

You asked Geoffrey Littler for comments on the attachment to your letter of 7 June to Rodric Braithwaite. Geoffrey, who is in Brussels today, has asked me to pass on to you consolidated Treasury comments, including those from the Chancellor, and these are attached.

I am copying this letter and attachments to Rodric Braithwaite and Tom Richardson.

*Yours  
Hew*

H P EVANS

COMMENTS ON DRAFT SPEAKING NOTES FOR PM

GENERAL

The draft provides more material than the PM is likely to want to use at this session. Cutting paragraphs 3 to 10 for this opening informal talk would leave some of that material for the further round of general comment at the Monday morning plenary.

Given the recent statements by both Baker and Mitterand, the question of international debt needs to be raised in these opening remarks, even if only as a trailer for a fuller statement the next day.

✓ Paragraph 2

"year" should be "years", to avoid the charge of short-termism.

Paragraph 3

✓ Add "European" before "Commission".

I suggest for some gloomy facts about the world economic situation in 1981-82 the following:-

- A
- 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.

Paragraph 4

I suggest this paragraph is reshaped, on the following lines:

13  
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.

high unemployment, especially in Europe;

But there remain serious problems: the fiscal deficit in the United States, and trade imbalances there and in Japan and Germany; the protectionist threat; the massive scale of agricultural protection and support; and the serious position in many developing countries, especially in Africa.

B

#### Paragraph 5

Can we add the thought that international co-operation fell apart in the 1970s and has been gradually re-built during the current series of summits. The US want to emphasise the "co-ordination" theme: our suggestion would lead to more general (and better) language for a communique than the US ideas about indicators. More specifically, in the third sentence, rephrase "..... a change in the approach to economic policy of historic proportions". And in the final sentence: "... privatisation and the need for freer world trade especially in agriculture, following our discussion at the Toyko Summit in 1986."

Paragraph 7

Fourth tieret. I wonder whether we couldn't use a better quotation, eg from the 1987 Venice Summit as follows:-

"... and here I use the words in the economic declaration issued in Venice in 1987 - "Allow market signals to influence .... agricultural production.""

Paragraph 8

I suggest we reserve what we have to say on the US budget and trade deficits and the German and Japanese positions for the Monday session. On the present text, I think we are in danger of overdoing the fragility and unsustainability. So I propose that the last three sentences are run together in the following way:-

"Despite the progress, more has to be done in the years ahead to reduce the imbalances."

Paragraph 9

Let us amplify in a general way:-

⌒  
⌒ 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.\* ⌒

Paragraph 10

The Chancellor thought this paragraph could be a candidate for deletion.

Paragraph 11

Penultimate sentence: "But we must give an impetus ..." and then delete the final sentence.



Paragraph 12

The PM might like to work in a personal comment on the following lines:-

"We all pay tribute to the firm resistance against protectionism which President Regan has shown. I hope he will help us to go as far as possible in our public communique to commit his successor to the same robust attitude."

Paragraph 13

This could be drastically shortened by eg omitting everything after the first sentence, with the exception of a slightly redrafted: "We must not hold up action until an agreement is reached on everything. In addition, the strengthening of the GATT itself must be a high priority".

Agriculture: Paragraph 15

I would delete the words "too often" from the second sentence, and finish the sentence with "... unfair burdens on the consumer and taxpayer."

Paragraphs 17 and 18

I wonder whether we could make this a little more pointed by first of all adding the words "far more needs to be done" to the end of paragraph 16 then recasting paragraphs 17 and 18 into the following form:-

See with  
F.C.D.

<sup>The</sup>  
Our aims are clear:-

W W

- 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."

Paragraph 19

On debt, I suggest: <sup>D</sup> ~~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. <sup>W</sup>

Paragraph 20

✓ Expand to include reference to co-operation eg: "Mr Chairman this summit gives us an opportunity to reinforce the close international co-operation of recent years and so to shape ....."

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FILE  
FCL

10 DOWNING STREET

LONDON SW1A 2AA

*From the Principal Private Secretary*

10 June 1988

*Dear Lynn,*

**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.

*Yours sincerely,  
Nigel Wicks*

(N.L. WICKS)

Lyn Parker, Esq.,  
Foreign and Commonwealth Office.

CONFIDENTIAL

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.

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.

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.

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

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. 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.

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.



10 DOWNING STREET

LONDON SW1A 2AA

10 June 1988

*From the Principal Private Secretary*

file LB  
a CDP  
PG

TORONTO ECONOMIC SUMMIT: DRAFT COMMUNIQUE

We agreed that it would be helpful if I put together the draft of the sort of economic declaration that we would like to emerge from the Economic Summit. The first draft is now attached and I should be grateful for your comments and those of Geoffrey Littler thereon. Please could I ask that you and Geoffrey and Tom Richardson, to whom I am copying this letter and enclosure, treat it on a personal basis and not show this material to anyone without talking to me first.

The draft is long - probably some 10 or 11 pages in normal type - but I would be surprised if the final version issued from the Summit was not of this length. On particular points, there are some square brackets on which my comments are:

1. Page 3: this material can be omitted in the interests of brevity;
2. Page 4: Geoffrey might confirm that the words "the growth of" need to be inserted in this sentence, the substance of which is otherwise drawn from the thematic paper;
3. Page 8: could you confirm that the square bracketed material at the end of the first full paragraph on this page represents our policy;
4. Page 12: could Geoffrey provide a passage, of six or so lines, on what we would like the communique to say about the various debt "initiatives".

Please could I have comments by close of play on Tuesday 14 June.

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

N. L. WICKS

Rodric Q. Braithwaite, Esq., C.M.G.,  
Foreign and Commonwealth Office.

LB

We, the Heads of State or Government of the seven major industrialised countries and the representatives of the European Community, meeting in Toronto at the invitation of the Canadian Prime Minister, have reviewed the economic policies which we have undertaken since the Versailles Summit in 1982, the first in this series of Summits.

We believe that the sustained application of these policies, applied in a spirit of co-operation between our countries, has helped to bring growth, greater prosperity and lower inflation to our countries and to the benefit of the world economy generally. We are resolved to extend and strengthen the application of these policies and to deepen the co-operation so as to carry forward this process of economic renewal, both in our countries and in the world economy generally, throughout the rest of this decade and into the next.

Since the meeting in Versailles in 1982, the Heads of State or Government have agreed, as successive Summit Declarations have witnessed, that the foundations for prosperity, more jobs and low inflation lie in the application of the following principles:

- the development and implementation of economic policies through a medium term strategy with the priority given to the conquest of inflation;

- the need for progress in correcting unsustainable budgetary and trade imbalances;
  
- reform of the structures of our economies, including greater reliance on competitive forces, so as to improve their efficiency and adaptability while acting to cushion the effects of change on those least able to protect themselves;
  
- recognition that stability of the world financial and economic system requires deep international economic co-operation;
  
- strengthening the multilateral trading system of the GATT and adjusting agricultural policies;
  
- supporting the developing countries in their efforts to implement effective programmes of structural reform and macroeconomic adjustment.

The wide acceptance of principles represents a fundamental and historic shift to a sounder basis for economic policy. Their application in our countries, and more generally, has helped bring about a substantial improvement in the world economy.



CAN BE OMITTED

[We noted in our discussions in particular the favourable developments in the world economy since our last meeting in Venice, notably:

- the sixth year of economic expansion of the industrialised countries, the restraint of inflation, and the progress made towards the moderation of the major trade imbalances;
- the strengthening of international economic co-operation and economic policy co-ordination which has helped to sustain the world financial system through the shocks brought about by the fall in security prices last autumn;
- the greatly welcomed improvement in the situation of some developing countries, as shown through the improvement in their terms of trade, the strong growth in world trade and the decline, on aggregate, for the first time since 198[2] of their debt export ratio].

While we note these hard-won developments with satisfaction, we are conscious of the challenges before us which need to be met if our countries, and the world in general, are to progress into a further era of prosperity. To that end, we are resolved to continue to apply in each of our economies the six principles of economic policy which are described above.

MACRO-ECONOMIC POLICY

We have developed and strengthened the co-ordination of our economic policies; and will continue to do so. Developments in the wake of the financial strains last October demonstrated the effectiveness and resilience of the arrangements that have emerged. We encourage the Group of Seven to pursue their regular reviews of countries policies and performance. We welcome the progress made in the Group in refining the analytical use of indicators. We will continue to pursue fiscal, monetary and structural policies which will forestall any resurgence of inflationary expectations, foster the adjustment of the international imbalances and so reinforce the conditions for greater exchange rate stability. We will follow, and where feasible strengthen, the agreed strategy of co-ordinated efforts to reduce [the growth of] spending in countries with large external deficits and sustain the momentum of domestic demand in countries with large external surpluses in order to manage the transition to more sustainable economic and financial positions in a way which sustains non-inflationary growth. As part of this process we attach importance to the reduction of unsustainable budgetary deficits; and look for early action on this front. We believe that the Newly Industrialising Economies with large external surpluses should play their part in reducing the international

imbalances. The Heads of State or Government reaffirm the Group of Seven's view that either excessive fluctuation of exchange rates, a further decline of the dollar, or a rise in the dollar to an extent that becomes destabilising to the adjustment process could be counter-productive by damaging growth prospects in the world economy.

#### STRUCTURAL REFORMS

We will continue to reform the structure of our economies, so as to make them more efficient, enhance the effectiveness of macro-economic policies and provide the basis for more robust growth. The programmes of reform will include measures to remove barriers, controls and regulations which inhibit enterprise; increase exposure to market competition, for example through privatisation; remove disincentives to work, save or invest, through tax and other reforms; and improve the potential of workers through better education and training. The Heads of State or Government welcome the further development of the OECD's surveillance of structural reform.

Agriculture remains one of the most serious structural problems in both developed and developing countries. We will take further positive action to encourage appropriate policy reform efforts while taking steps to maintain satisfactory levels of farm incomes, preserve rural communities and protect the environment, in ways which do not distort production or market decisions. We

welcome OECD's increased emphasis on structural adjustment and development in the rural economy.

THE MULTILATERAL TRADING SYSTEM, AGRICULTURE AND THE URUGUAY ROUND

An open international trading system is one of the foundations necessary for the the era of growth, lower inflation and higher employment which we all seek. Thus, a successful Uruguay Round is of critical importance. We call on all contracting parties to be ready to make the fullest contribution to the negotiations and be prepared to accept levels of obligation consistent with their degree of economic development.

We call for substantive progress at the Montreal Mid-Term Meeting in December in establishing negotiating frameworks, in particular in the areas we emphasised in Tokyo, namely trade in services, intellectual property rights and foreign direct investment. Full provision should be made of the early implementation provision in the Punta del Este Declaration. In this context, we attach a high priority to the strengthening of the GATT itself, through greater involvement of Ministers, intensification of surveillance of trade policies and greater effectiveness of dispute settlement procedures so disputes can be resolved speedily, conclusively and fairly. We believe that GATT discipline should be tightened so that members accept their obligations and

recommendations on dispute settlement are implemented.

We will be guided by these objectives in preparing for Montreal.

We welcome the Free Trade Agreement between Canada and the USA and the European Community's steady progress towards their target to complete the Single European Market by 1992. Such arrangements should be devised and operated in a way which extends, and does not detract from, the open international trading system. Recognising the critical and expanding role of international investment to the world economy, we express our resolve to maintain liberal international investment policies.

The Mid-Term Review should also make progress on the reform of agricultural policy, which the Tokyo and Venice Summits made a priority for our Governments. We recognise that important first steps have been taken to bring agricultural supply into better balance and to restrain the rising costs of agricultural support to taxpayers and consumers. But far more needs to be done to achieve our long-term objective of liberalising agricultural markets through progressive and sustained reductions in support of protection, while facilitating the development of a viable and dynamic agricultural sector in developed and developing countries. We acknowledge, therefore, the urgent need for early action on a concerted multilateral basis, consistent with our

long-term goals, to prevent the deterioration of market imbalances, the continuation of self-defeating export subsidy competition, and any increase in the isolation of our markets.

Recognising that agriculture is a key element in the success of the Uruguay Round, we endorse the view of the OECD Ministerial Communiqué that it is important for the Mid-Term Review to add impetus to the negotiating process. We give our full backing to the OECD commitment to seek to agree at the Mid-Term Review a framework approach for the long-term, with the objective of making the agricultural sector more responsive to market signals, and with short-term elements [which should include the immediate down-payment towards the long-term goal of liberalising agricultural markets, together with a commitment to freeze support at present levels].

We commit ourselves to seek results at the Mid-Term Review on this basis.

#### NEWLY INDUSTRIALISING ECONOMIES

Recognising the importance to the world economy of certain Newly Industrialising Economies in the Asia/Pacific region and our strong interest in enhanced co-operation, we call for an improved and constructive dialogue between the industrialised countries and the Newly Industrialising Economies, as well as other

outward-orientated countries in the region, with a view to early co-operative efforts to achieve the international adjustment necessary to sustained and balanced growth to the world economy.

#### DEVELOPING COUNTRIES AND DEBT

We believe that the prospects of successful performance of the developing countries depend crucially on strong and sustainable global growth, an open international trading system, adequate financial flows and, most importantly, a commitment by debtor countries to appropriate economic reform.

#### Middle Income Countries

The only viable strategy for dealing with the debt problems of the highly indebted middle income countries is the market-orientated, growth-led strategy based on the case by case approach. Although progress towards a lasting solution has been slower than hoped for, 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.

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 programmes;
- 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 programmes of external contingency mechanisms would assist countries to adhere to their adjustment programmes in the face of unexpected adverse external events.

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 mobilising additional financing from private (and official) sources in support of debtor countries' adjustment programmes.

In recent years there has been increasing recourse to innovative financing techniques. We believe that the flexibility of the present strategy would be enhanced by the encouragement of such techniques to improve the quality of new lending and by the further broadening of the "menu approach". We also attach importance to the role of international direct investment in spurring economic growth and alleviating the debt problems in developing countries.

#### Debt of the Poorest

The debt burden of the poorest developing countries,

especially in Sub-Sahara and Africa, requires the developing countries to persist with strong adjustment measures and developed countries to provide adequate concessional assistance. We note the encouraging progress in dealing with the debt burden 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 programme 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.

[Geoffrey Littler to provide a passage on what we would like the Economic Declaration to say about the various

"initiatives".]

\* \* \* \* \*

OTHER ISSUES

In addition to economic matters, we discussed other issues:

Environment

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. We endorse this concept of sustainable development.

Threats to the environment recognise no boundaries. Their urgent nature requires strengthened international co-operation, not merely among the industrialised 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.

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, we welcome the establishment of an intergovernmental panel on global climate change under the auspices of the UNEP and the WMO. We welcome, too, the Conference on the Changing Atmosphere to be held in Toronto.

#### Drugs

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 co-operation in all appropriate fora on programmes 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. We support the initiative.

We also support the 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 co-operation in all areas including national, bilateral and multilateral efforts.

#### Human Frontier Science Programme

We note the successful conclusion of Japan's feasibility study on the Human Frontier programme 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 programme in the near future.

#### Bioethics

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.

\* \* \* \* \*

Future Summits

We, the Heads of State or Government, and the representatives of the European Community, believe that the Economic Summits have strengthened the ties of solidarity, both political and economic, that exist between our countries and that thereby they have helped to sustain the values of democracy that underlie our economic and political systems. Our annual meetings have provided the principal opportunity each year for the Governments of the major industrialised countries to reflect, in an informal and flexible manner, upon their common responsibility for the progress of the world economy and to resolve how that responsibility should have practical manifestation in the year ahead. We believe that the mutual understanding engendered in our meetings has benefited both our own countries and the wider world community. We believe, too, that the opportunities afforded by our meetings are becoming even more valuable in today's world of increasing inter-dependence and increasing technological change. We have therefore agreed to institute a further cycle of Summits by accepting the invitation of the President of the French Republic to meet in France in 1989.

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NOTE FOR THE RECORD

c.c. R. Lavelle, Esq., Cabinet  
Office

J.O. Kerr, Esq., FCO  
Sir G. Littler, Treasury  
T. Lankester, Esq., Treasury  
D. Roberts, Esq., DTI  
N. Wicks, Esq., 10 Downing St.

Mr. Pakenham  
Mr. Madelin  
Mr. Bostick  
Mr. Plowman

*R. Powell*

*mt*

TORONTO; EUROPEAN COUNCIL

1. I finally managed to have a word with the President of the Commission's Chef de Cabinet in the interstices of yesterday's fourteen and a half hour Coreper.

Toronto Summit

2. Lamy said that he was worried, but not too worried, about the handling of agriculture at the Toronto Summit. The Commission would stand up robustly for the Community's negotiating position if it came under attack, but they were not looking to pick a fight and agreed that it was very possible that President Reagan would not yield to his more bellicose advisers. It was essential for the Commission to go on fighting the Community corner when necessary, otherwise the member states, and France in particular, would go off in their own separate directions and no-one but the Americans would benefit. The Commission was determined at some stage or another to get the Americans to acknowledge the validity of what had been done at the February European Council. But they knew very well, and they had no intention of implying otherwise, that the process of reform could not stop there. Lamy agreed that, in communique terms, the objective at Toronto must be to move the Uruguay Round process forward a modest step, avoiding the extremes of over-ambition and a totally defensive approach. He was extremely scathing about the Canadian performance so far.

3. I confirmed that all this fitted in very much with our own approach. British Ministers had consistently taken the line with their American opposite numbers that the February package was a major step forward for which credit must be given, both in public statements and in terms of PSEs, at the negotiating table. No doubt they would continue to do so at Toronto. But the Uruguay Round negotiation could not be propelled forward by that line. I had little doubt that the Prime Minister would repeat at Toronto the views she had expressed on a number of occasions before about the crucial importance of pursuing agricultural reform policies on a worldwide basis so as to bring about substantial results in the Uruguay Round. Lamy said that was well understood. The Commission both expected it and welcomed it.

/Lamy

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Lamy said that he would keep in close touch with us about  
communiqué language.

4. I expressed some disquiet about sounds coming out of Paris in favour of a "pause" in CAP reform. Lamy said this was complete nonsense and he had told Nallet, who was the main protagonist of it, that the Community could not afford such a pause. It was one thing to have a pause in major reform decisions. Apart from beef, there might indeed be a case for not trying to put major new proposals in place in the coming months. But the process of reform incorporated in the stabiliser regime and other measures such as milk quotas must be pursued vigorously if the whole effort was not to be wasted. Lamy said that he and Delors were taking this line with their contacts in Paris and believed that much of the talk about a pause was electorally motivated and would ~~be~~ abate once the new government took office and got into its stride.

European Council

5. We then had a brief talk about the European Council. I said that we found the process of discovering which particular monetary gimmick was the flavour of the week in Bonn both irritating and worrying. We were putting forward positive ideas of our own on the ecu, and certainly wanted to see further work done in this area, and some others in the monetary field, in order to move monetary cooperation in the Community forward in the years to come. But a number of the gimmicks being talked about in Bonn were likely to be both futile and time-consuming and to touch on matters that were distinctly sensitive in domestic politics in the UK. It would be absurd and rather sad if the Hanover summit, which had a real chance to be a harmonious one pointing the way ahead for the Community in the next year or two on the crucial issue of the Single Market, should run into serious trouble over monetary issues.

6. Lamy said that Delors completely agreed with this analysis. He was aware of, and welcomed, the UK ideas on the ecu. He was doing his best to get away from gimmicks. I suggested that contacts at both ministerial and official level between Delors and Lamy on the one hand, and our ministers and senior officials on the other, in the margins of the Toronto meeting, could be useful in paving the way to an outcome at Hanover that all could accept. Lamy took that on board.

7. I took the opportunity to warn Lamy pretty firmly about the "social dimension". I hoped that Delors was under no illusion about the acceptability to us of ideas on worker participation and social engineering. Lamy said that Delors was under no such illusion and was not going to press for any specific results in this area at Hanover. Kohl was the main proponent of a

/discussion

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discussion of this at Hanover, but he too was not interested in specifics. He was having trouble at home on the trade union front, and merely wanted to use some vague references in the communique to the "social dimension" to help him in handling these. Lamy did not take very seriously the Greek and Spanish espousal of this sector. Nor did he think the French would be pressing hard on specifics. As to the Commission, the main thrust would be to develop their own dialogue with the social partners (unions and employers) as provided for in the Single European Act.

*D.H.A. Hannay*

D.H.A. Hannay

9 June 1988

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Foreign and Commonwealth Office

London SW1A 2AH

9 June 1988

CD 9/6

Dear Charles

*file with CD*

Thank you for your letter of 7 June about the Italian Prime Minister's proposal to discuss environmental problems at the Toronto Economic Summit. We do not want to encourage the Italians to raise specific environmental issues at the Summit, still less to incorporate their lengthy text in the communique. So we do not consider it appropriate to send a formal reply. We shall, of course, brief the Prime Minister on this proposal, for her meeting with Signor de Mita in Toronto.

Yours ever

(R N Peirce)  
Private Secretary

C D Powell Esq  
10 Downing Street

Elton B. Canadian

Summit P. 24

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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

YYYY

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ECONOMIC SUMMIT

NNNN



# H. M. TREASURY

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10 June 1988

## CHANCELLOR SAYS AGREEMENT ON DEBT INITIATIVE CLOSE

"A major UK objective at the Toronto Summit will be to secure agreement on the initiative I launched in Washington in the Spring of last year, to relieve the debt burden on the poorest, most heavily indebted countries, mainly in sub-Saharan Africa", the Chancellor of the Exchequer, the Rt Hon Nigel Lawson MP, said yesterday.

"The recent statements by US Secretary James Baker, and by President Mitterrand, make it clear that a consensus is now emerging."

The full text of the Chancellor's statement is attached, together with Notes for Editors.

PRESS OFFICE  
HM TREASURY  
PARLIAMENT STREET  
LONDON SW1P 3AG

50/88

CHANCELLOR SAYS AGREEMENT ON DEBT INITIATIVE CLOSE

"A major UK objective at the Toronto Summit will be to secure agreement on the initiative I launched in Washington in the Spring of last year, to relieve the debt burden on the poorest, most heavily indebted countries, mainly in sub-Saharan Africa. The recent statements by US Treasury Secretary James Baker, and by President Mitterrand, make it clear that a consensus is now emerging.

The starting point of my initiative was to recognise that the problems of the poorest countries are of a different order from those of the middle income debtors of Latin America and elsewhere.

- The middle income debtors have the resources to get themselves on the road to recovery. And most of their debt is owed to the commercial banks. So it is primarily for the debtor countries and the banks to work out how to manage the debts.
- On the other hand, the poorest countries are not in a position to solve their debt problems themselves. And since most of the debt is owed



to governments, it is for governments to help these countries to work out a solution.

At last year's Economic Summit in Venice, we succeeded in getting this vital distinction accepted for the first time, although we were unable to secure final agreement on the nuts and bolts.

My initiative has three parts.

- First, writing off aid loans: the UK has written off nearly £1,000 million worth now, with nearly £300 million for sub-Saharan Africa.
- Second, longer repayment periods for other Government loans, such as loans made by export credit agencies.
- And third a reduction in interest rates on those loans.

These special concessions would apply only to those countries which are not only poor and heavily indebted, but - crucially - are pursuing proper economic recovery policies.

It is essential not merely to give the debtor countries more time to pay, but also actually to reduce the burden. The plain fact is that the poorest countries cannot even meet their interest payments at present. The unpaid interest is therefore added to the total debt burden, so that the payments due the following year are higher still. Until we can break this vicious circle, the problem can only get worse.

The other Summit countries have gradually come round to accepting this logic. The Italians joined in at the Venice Summit, and the Canadians at last Autumn's Commonwealth Heads of Government Meeting in Vancouver. Last week, the Americans indicated their willingness to make a move in this direction. And yesterday, the French accepted the proposals, with a partial write-off of debts as an alternative to the interest rate reduction.

The task at the Summit is finally to agree on a firm plan of action. Over the past 14 months, we have taken every opportunity to argue the case for this scheme. It is encouraging that these efforts are now bearing fruit. And it is vital that they should, to offer a clear way forward to some of the poorest countries in the world."

## NOTES FOR EDITORS

### Background to the Chancellor's proposals

The Chancellor first put forward his proposals for helping to reduce the debt burdens of the poorest countries in his speech to the Interim Committee at the IMF Spring Meeting in Washington in April 1987. It received a wide measure of - but not universal - support. At UK insistence, the argument that special action was needed to help these countries was subsequently agreed at the Venice Summit in June 1987; the Communique said "We recognise that the problems of some of the poorest countries, primarily in sub-Saharan Africa, are uniquely difficult and needs special treatment". It went on that "agreement should be reached, especially in the Paris Club, on longer repayments and grace periods". But, reflecting the reluctance on the part of some countries, to agree to interest subsidies, the Communique did not go further than saying that "consideration should be given to the possibility of applying lower interest rates".

The Chancellor's proposals were welcomed at the meeting of Commonwealth Finance Ministers in Barbados in September 1987, and fully endorsed at the Commonwealth Heads of Government Meeting in Vancouver in October 1987, when the Canadians threw their support behind the proposals. The Chancellor maintained the pressure in his speech to the Development Committee of the IMF and World Bank in Washington in April of this year.

Considerable progress has already been made on the first two of the Chancellor's proposals: many countries have now written off aid loans; and the Paris Club has agreed to extended reschedulings for 10 countries. But agreement on an interest rate subsidy has proved harder to secure. The Chancellor has continued to press hard for agreement on this, most recently at the IMF Spring Meeting in Washington in April, and at the OECD Ministerial Meeting in Paris in May.

### Action by IMF and World Bank

In Spring 1987, the Managing Director of the IMF, Michel Camdessus, launched a parallel proposal for an enlargement of the IMF's Structural Adjustment Facility, to provide additional concessionary lending to the poorest countries, providing they followed IMF-approved programmes. The UK was among the first to support this proposal, and has made the largest single contribution to the interest rate subsidy, enough to subsidise SDR 1 billion of ESAP lending, a sixth of the total.

The World Bank, too, has recognised the special problems of the poorest countries, with its Special Programme of Assistance for Africa.

### Recent developments

Last week, US Treasury Secretary James Baker moved towards accepting the Chancellor's proposals, saying that there were legal and policy difficulties for the US in giving interest rate subsidies, but they could agree to a scheme so that countries which were able to do so could provide concessional interest rate reschedulings for the poorest countries; other countries would consider a broader range of maturities for rescheduled debt.

This week, the Germans announced that they would write off further aid loans; while they too had difficulties over giving an interest rate subsidy, they would be prepared to consider the variant put forward by the US.

In a letter to his Summit colleagues this week, President Mitterrand proposed a further variant, under which creditor countries would have a choice of writing off a third of their rescheduled export credit claims, with a 10 year repayment period for the rest; or providing lower interest rates with a repayment period of about 15 years; or providing no interest rate subsidy, but accepting a repayment period of up to 25 years.

Eligibility

The countries which would be eligible for relief under the Chancellor's initiative would be those who are

- very poor, with income of less than \$425 a year;
- very heavily indebted, with high debt service ratios;
- implementing proper adjustment policies, in line with a programme agreed with the International Monetary Fund.



PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T90/88

Subject cc master

OPS.

10th June, 1988

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

My Dear Margaret,

On the eve of the Toronto Economic Summit, I wanted to emphasise to you the importance Australia attaches to this meeting, and in particular to its outcome on trade and agricultural reform.

Last year's Venice Summit, following on from the 1987 OECD Ministerial Meeting, achieved an historic breakthrough in recognising the serious nature of the world's agricultural problems and the key role that the Uruguay round of multilateral trade negotiations should play in maintaining and strengthening an open multilateral trading environment. Your personal contribution to the achievement of those positive results at the Venice Summit was much appreciated by Australia. I am also aware of the role you have continued to play by injecting these perspectives into the policy deliberations of the European community.

Despite the positive signals from last year's meetings, the recent OECD Ministerial Meeting in Paris brought to light sharp differences between Summit participants on Uruguay round issues, particularly agricultural reform and the nature and role of the Ministerial Mid-Term Review to be held in Montreal in December. I am moreover concerned by some reports that little progress can be expected on these issues at Toronto.

I see it as essential that Summit leaders re-emphasise the commitments they made last year to the urgent pursuit of agricultural reform and agree on the need for the Montreal Mid-Term Review to achieve substantive results where possible, and particularly in agriculture. A strong and

unified message from Summit leaders incorporating these elements would do a great deal to revitalise the negotiating environment in the lead up to Montreal and provide further impetus for the round as a whole.

Unless concerted leadership is shown, there is a very real danger that the momentum in Geneva will be lost and that protectionist pressures will intensify with resultant risks for world economic growth.

I wish you a successful and rewarding meeting in Toronto and look forward to discussing the outcome with you during your visit to Australia in August, a visit which my Government regards as one of the most important in our Bicentennial year.

Yours sincerely

R.J. Hawke

ECON POL: Summit pt 24.



06  
PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL NO. T908/88



CANADA

PRIME MINISTER · PREMIER MINISTRE

SUBJECT CE MASTER  
OPS.

cc/PL  
CDD  
B/6

OTTAWA K1A 0A2

June 10, 1988

Dear Margaret,

I look forward with great pleasure to welcoming you in Ottawa following the Summit. In anticipation of your visit, I am raising again your Government's proposed Fur Labelling Regulation. Concern over its impact on Canada's native communities and our fur industry is growing and spreading.

An extraordinary Emergency Debate on this subject was held in the Canadian Parliament on June 2; over 40 MPs from all parties voiced their opposition to the proposed British regulation and the Government was asked to convey to the British Government the unanimous views of the House of Commons. I have also received a resolution from the Ministers of Natural Resources of all 10 provinces conveying their negative reactions. Indigenous Survival International, a body which represents native people from Canada, the United States, Greenland and the Nordic countries, will shortly be holding a conference on this issue. It is a subject which has attracted considerable media attention and public debate and poses a real political challenge for both our Governments.

I appreciated your openness towards this matter when we met, May 23, and I was pleased to learn that it will be considered by your Cabinet shortly. Given the profile which it has assumed in Canada, you will appreciate that a decision to proceed with our

The Right Honourable Margaret Thatcher  
Prime Minister of the United Kingdom  
10 Downing Street  
London, England

alternate proposal (i.e. for a cooperative effort to establish international humane trapping standards), announced during your visit, would be enormously well received by the Government and people of Canada. I very much hope this will prove possible.

With best personal regards.

Yours sincerely,

*Justin Hurlburt*



Foreign and Commonwealth Office

London SW1A 2AH

9 June 1988

N Wicks Esq  
No 10 Downing Street  
LONDON SW1

Dear Nigel,

Thank you for your letter of 7 June. I have only a few  
comments on your Speaking Note, mostly on agriculture. They  
/ are attached below.

Yours ever,

Rodric

R Q Braithwaite

cc Sir Geoffrey Littler KCB  
HM Treasury



Paragraph 3: We are checking whether any other Summiteer was present in 1982 in one capacity or other.

Paragraph 4: I like the first line! You might consider adding "especially in Europe" after the reference to unemployment.

Paragraph 9: Subject to Geoffrey Littler's views, I think we might bring out the point that structural reform policies are not just matters of national concern: there is likely to be OECD surveillance of them, and this is good because it means, for example, that we and others shall have a chance to comment on, and encourage, German structural reform policies. I leave you to judge what to add.

Paragraph 13: Line 6 on p 5 should read "trade in services". The French will of course oppose early results, and we need to marshal all the arguments we can in their favour. You rightly mention the strengthening of GATT, but might consider expanding the first complete sentence on page 6 to read:

Q "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 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 .."

Paragraph 16: I think we could bang the EC drum a bit harder, and suggest the following expanded text:

R "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% a year in real terms, from around 10% 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% 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.

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

~~But for the world.~~  
KS R



is in the

Paragraph 17: I suggest that the second sentence might read:

S "But I ~~certainly agree that~~ far more needs to be done by all of us to achieve our agreed [OECD Communique] long term objective of reducing agricultural support and protection, while maintaining, at the same time, a dynamic and viable agricultural sector." S

TT Paragraph 18: I suggest the following revision to replace everything except the first sentence:

"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. We need - as the OECD recently agreed - a device to measure progress in reducing levels of assistance, and an overall framework to govern our actions for the future. We need a clear link between short term measures and the achievement of our long term goal of liberalising agricultural markets. 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."

Paragraph 19: I would add "and African debt" after "developing countries", to put down a firm marker.

ECON POL. Summary pr 24



CDP  
9/6

From: T L Richardson

Date: 9 June 1988

Private Secretary

cc: Mr Braithwaite  
Mr Dalton, MAED

TORONTO ECONOMIC SUMMIT: LETTER FROM ITALIAN PRIME MINISTER

- A 1. Mr Powell asked for a draft reply to Signor de Mita's
- B letter to the Prime Minister, if you considered it necessary and appropriate.
- 2. I submit a draft reply to PS/No 10, suggesting that it should be sufficient to brief the Prime Minister for her bilateral with Signor de Mita on 19 June. MAED concur.

T. L. Richardson  
Economic Relations Department  
WH 413 270 2670

bcc Mr ~~Krick~~  
No 10

DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM: PS

Reference  
NICACP

DEPARTMENT:

TEL. NO:

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..... In Confidence

CAVEAT .....

SUBJECT:

Thank you for your letter of 7 June about the Italian Prime Minister's proposal to discuss environmental problems at the Toronto Economic Summit. We do not want to encourage the Italians to raise specific environmental issues at the Summit, still less to incorporate their lengthy text in the communique. So we do not consider it appropriate to send a formal reply. We shall, of course, brief the Prime Minister to respond to this proposal when she sees Signor de Mita in Toronto.

Enclosures flag(s) .....





*for advice / draft  
if this is  
necessary, in  
due course.*

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

*Mr Brown  
enclosure*

7 June 1988

*PS/mrs Walker*

*WED*

*MAED*

*ECCE*

*Russell Dixon*

*AK*

*7/6*

*Dear Lyn.*

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).

*Yours sincerely  
Charles Powell*

Charles Powell

Lyn Parker Esq  
Foreign and Commonwealth Office.

*Miss Abbott with  
MAED  
Gratefully you would  
consult DoE, but I would  
have thought just a letter  
- better to bring the PM  
to the bilateral with De Mita.  
WED on copies the  
PTO*

Unofficial Translation

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

## 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.

Elect Pol: Summary P. 24.





PRIME MINISTER · PREMIER MINISTRE

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T89A/82

OTTAWA K1A 0A2

June 9, 1988

*Subject re Matter  
Ops.*

Dear Margaret,

As Summit host, I met on May 31 with a delegation of labour leaders representing international trade union organizations to receive their views on economic issues facing our countries.

I am forwarding to you a copy of the document prepared by the Trade Union Advisory Committee of the OECD which served as the delegation's formal presentation. I promised I would convey these views to my Summit colleagues.

With warmest regards,

Yours sincerely,

*Boris Yeltsin*

The Right Honourable Margaret Thatcher  
Prime Minister of the United Kingdom  
10 Downing Street  
London, England

Re:

TRADE UNION STATEMENT TO THE  
OECD MINISTERIAL COUNCIL AND TORONTO SUMMIT  
May-June, 1988

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Adopted by the 80th TUAC Plenary Session  
Paris, 29 April, 1988

Introduction

1. In the past year OECD countries have moved further away from attaining what should be the fundamental objectives of economic policy : the return to full employment; the eradication of poverty; and the improvement in the quality of life both at the work place and in general. Registered unemployment in OECD countries has remained at 31 million and is forecast to rise to above 32 million in 1989. Those people with jobs are under more pressure and feel less secure. The gaps between affluent groups and regions and the poorest have begun to widen after many years of slow convergence. The trend towards a society where 2/3rds of the population have remunerative work but 1/3rd are unemployed or are trapped as "working poor" in low income and low quality jobs has dire economic as well as social and political consequences. The poverty and indebtedness of developing countries has increased.

2. These developments are the direct result of government policies, or else the result of the failure of governments to develop an adequate policy response to the changes the world economy is undergoing. In those countries where growth and employment has fared better in the past year this has been the result of changes in government economic policies.

3. A delinking has taken place between financial and productive sectors of OECD economies. The stock market crash showed the frailty and volatility of international financial markets and the irresponsibility of government policies of deregulation of these markets. The fact that equity markets could collapse on such a scale and yet apparently have limited immediate impact on the real economy raises the question of what economic role the financial markets really play. Deregulated financial markets do not represent a desirable model for the rest of the economy to follow.

4. The internationalisation of economies has continued apace, but government policies have remained disturbingly uncoordinated despite the series of communiqués issued over the last three years. European economies have most to gain from coordination, but some of the major governments have indicated their intention to introduce even more restrictive fiscal policies at the very time that they should be compensating for a slow-down in growth and further rises in unemployment. The world trade imbalances have not been substantially reduced. Workers fear that their position is being undermined by international pressures. Against this background OECD prescriptions for structural adjustment have for many workers become synonymous with further job losses and adjustment to deteriorating economic and social conditions.

5. The development of real economic cooperation is a precondition for moving OECD economies back onto a path which would bring down unemployment. Coordinated measures would substantially increase the benefits of actions taken by individual countries; but the absence of coordinated measures is no excuse for inaction. Coordination should not be a matter of making concessions to other countries, but acting because it is in the participating countries' own interest. Over the past three years the repeated statements of intent by Ministerial Council, G 7 and Summit meetings have spoken much of coordination but have not resulted in the necessary changes in the direction of economic policy.

6. Many OECD countries' governments and some employers are either unwilling to engage in genuine dialogue and negotiation with trade unions or else are using the process of social dialogue to shift from them the responsibility for taking action. Managing the structural and technological changes taking place in OECD countries in an economically desirable and socially acceptable way necessitates a genuine initiative to inform, consult and negotiate with trade unions.

#### Programme of Action

7. Government initiatives can be taken both at a national level and internationally. The policies which are urgently required to bring down unemployment include:

- the use of both general economic policy, interest rate reductions and selective investment policies to raise productive, job creating investment and to stimulate regional development in the hardest hit parts of the OECD area. This should be coupled with OECD-wide investment and restructuring programmes for major industrial sectors;
- a major programme of infrastructure investment to respond to needs which exist in areas such as: energy; transport; housing; inner cities; the environment; and telecommunications. This would in addition improve the structure of OECD economies and raise the quality of life;



- the reform of the international monetary system to stabilise currency movements, reduce persistent trade and payments surpluses, hinder speculation, and regulate international financial markets;
- the guarantee of an employment or training place for all young people based on opportunity not compulsion; targeted active employment policies for older workers and the long term unemployed; further reductions in working time and overtime;
- action to remove growing poverty and polarisation in industrialised countries by: - raising minimum incomes; providing increased rights and protections for unprotected groups; strengthening social security systems; and tax policy. This would also raise purchasing power;
- the provisions for partial debt write-offs by private sector banks must be translated into reduced repayments for the debtor countries. The IMF and World Bank must reorientate their development policies towards meeting the needs of the poorest. Industrialised countries must increase their aid flows and concessionary export credit and financing arrangements should be expanded;
- the trend to bilateralism and regionalism of trade policy needs to be countered. The multilateral trading system should be underpinned by a Social Clause in GATT and the harmonisation of working standards between countries of comparable levels of development and strength. Good practice obligations on multinational enterprises have to be enforced.

#### Investment Policies

8. Profits have risen spectacularly since 1980, but the share of fixed investment in GDP has fallen from 19.1% to 16.1% in the United States, from 22.7% to 19.3% in Germany, from 21.9% to 18.8% in France, from 31.6% to 27.7% in Japan, and from 23.5% to 19.6% in Canada. OECD estimates have shown that the growth in the total productivity of production factors has slowed. Governments have failed to assume their responsibility for the process of investment and re-investment. Deregulation and generalised tax cuts, and cuts in corporate taxation, have not induced profits to be invested productively. As a result, almost every use of capital has become more profitable than productive investment and increased profits have fuelled speculative activities. Much deregulation only serves to degrade working conditions in a downward competitive spiral, not to raise investment. Companies are using profits from production for investment in purely financial assets. The focus of their attention has shifted to short-term returns. This damaging trend is being aggravated by the flurry of predatory

take-overs and threat of take-over which diverts management from its proper role in corporate development and undermines the structure of the economy. Much of the fixed investment that has taken place has been devoted to reducing employment, rather than to widening the capital base and to using the stock-pile of technological opportunities to expand production of goods and services to increase employment opportunities.

9. In order to increase productive and job creating investment governments should use general economic policy to expand output, reduce levels of unused capacity, lower interest rates and stabilise exchange rates. In addition, selective investment policies including public investment are needed to channel profits into productive uses. Specific measures, including taxation, should be introduced to control and discourage speculative activity in order to make it less profitable than real investment. Government legislation and regulations on institutional investors should be revised. Systems of investment and depreciation allowances should be applied with greater selectivity. Good-practice environmental norms and health and safety standards should be incorporated into investment projects and policies should be targeted to ensure rational use of energy (where 30% savings in energy use could be made).

10. Sectoral trends of production, investment and employment should be monitored by the OECD and programmes for restructuring and productivity improvements in those industries which face severe crises should be developed so as to allow subsidies to be reorientated towards long-term employment creation. A distinction must be drawn between sectors facing long-term problems of excess capacity and those where capacity needs to be modernised and expanded.

11. Job-creating investment in the hardest-hit regions and areas of OECD countries needs to be raised. Cooperation and coordination between public authorities and the private sector is needed. In several OECD countries cooperation agreements between central, local and regional government and the private sector have shown a practical way how public and private sector cooperation can be improved. In Japan such arrangements are an important element in regional restructuring.

#### Infrastructure Investment

12. Governments must fulfill their responsibilities in matters of investment if they expect companies to invest. They have a particular responsibility for infrastructure investment. This is because the time-scale involved over which infrastructure investment must be judged is often very long. Rates of return are therefore low in the short and medium term and may be misleading. Public investment and infrastructure investment have dropped by a third in some of the major OECD countries over the last fifteen years. For example, in the

early 1970s the main European countries devoted 4.0% of GDP to public investment, this fell to 3.5% in the late 1970's and since 1981 the European average is 2.8%, with 1.9% in the U.K. and 2.6% in Germany both below the average. In Canada, public investment as a share of GDP has fallen from 4% in the early 1970's to an average of only 2.6% since 1981 and by 1987 had dropped even further to 2.4 per cent. This decline runs counter to all efforts to improve the structure of OECD economies and involves considerable costs to the economy and society. The 1987 public works programme in Japan has shown the positive effects which can be achieved and now needs to be complemented by action to raise domestic consumer demand and purchasing power.

13. Infrastructure investment is an essential way of meeting economic, environmental and social objectives. Substantial increases in infrastructure investment are needed in the following areas:

- transport, including major regional links in OECD countries, the integration of road, rail and water transport networks, by-passes for towns and villages to avoid urban congestion;
- energy, including increased investment in new and renewable energy sources, and more rational use of energy through other infrastructure programmes e.g. insulation in buildings;
- the basic telecommunications infrastructure, including investment in the provision of integrated systems networks which would assist expansion of new activities;
- housing, which needs to be linked to land reform in some areas, and which could ease mobility and must be linked to inner city redevelopment programmes;
- the environment, both to encourage the private sector and individuals to reduce pollution and waste through regulations and incentives, and to invest in better sewage, waste disposal and water supply systems.

14. Many of these areas involve joint public and private sector activity, but all require government initiatives in order to stimulate activity. There exists a range of options concerning financing: using fiscal room for manoeuvre that governments have and coordinating action internationally to increase this; in some areas the adoption of user fees for assets created; the provision of guaranteed returns; the creation of earmarked funds with low interest and guaranteed subsidised loans for desirable projects. The goal should be to produce the maximum activity using government finance and policy. The tremendous costs and consequences of delaying vital infrastructure investments must not be overlooked.

15. The domestic job-creation multiplier is substantially higher for public investment than for comparable fiscal measures, producing jobs in the construction industry, the supplying industries, the activities using the assets and more general induced employment gains in the economy as a whole. When coordinated internationally the job-creation gains are that much greater and in turn bring in more tax revenues.

16. The OECD should carry out a study of the needs, financing, supply and effects of a comprehensive programme of infrastructure investment.

#### The international monetary system and financial markets

17. It is both alarming and bizarre that in their recommendations and on the reform of microeconomic policies the OECD appears to be suggesting that the functioning of financial markets should be some set of model to be followed by the real economy. The deregulation and internationalisation of financial markets and the integration of currency markets has produced an untenable situation. For some years progressive delinking has been taking place between the financial and real economies of OECD countries. 95% of international financial transactions are unrelated to trade in goods and services or to productive investment flows. Multinational corporations and banks have become major players in this speculative system. The stock market crash, in which the capital worth of companies dropped by 20% in one week in October 1987, underlines the chaotic functioning of capital markets, their volatility and frailty. It has also shown that the markets no longer believe that governments are facing up to the policy implications of unbalanced growth which has been developing over the last five years. Yet it is governments who have given the markets a pivotal role by considering their behaviour as the criteria by which economic strategies must be judged. The fact that equity markets could collapse on such a scale and yet apparently have limited immediate impact on the real economy raises the question of what economic role financial markets really play.

18. An international system for the regulation and control of financial markets must be developed. The deregulation of financial markets is irresponsible. It disregards the basic fact that the whole economy has to come to the rescue when a major set of financial institutions, let alone the financial system as a whole, is running the risk of bankruptcy. Regulations must ensure a proper functioning of financial markets; namely, to supply the productive economy with capital. The evaluation of the long-term capital wealth of companies must reflect their real investment performance and should not be subject to large, economically unjustified upward or downward movements. A range of measures needs to be examined such as: disclosure requirements on financial holdings and transactions, the reform of rules applied to institutional investors; taxation to restrain speculative gains; the

elimination of tax havens; cooperation between countries to prevent capital flight; and the internationalisation of rules covering competition policy and restrictive business practices.

19. Action by government to reform the international monetary system must go beyond issuing communiqués and sporadic intervention in exchange markets. Two measures are particularly urgent:

- the development of a more stable international exchange rate regime, reinforced by the pursuit of compatible economic policies by the major countries. This would in turn facilitate coordination;
- the establishment of an international mechanism whereby countries with persistent surpluses would have the obligation to increase resources to development assistance and adjust their economic policies.

#### Active Employment Policies

20. The employment situation in the OECD area is alarming. In many OECD countries net new employment creation has mostly reflected a growth of precarious, inadequately protected jobs. As was to be expected, low wages, reduced social provision, the reduction of restrictions on firing, and the plethora of temporary and insecure employment contracts have not reduced unemployment. The number of people who are unemployed is still growing, long-term and youth unemployment remains a critical problem, and insufficiently paid or protected part-time work is expanding, especially for women. This situation is having a corrosive effect on the whole of the labourforce. More of the same policies will not solve these problems, let alone assist the development of employment relationships which encourage the skills necessary for productivity growth and economic efficiency.

21. Workers exposed to constant pressures and threats are not an efficient labour force. A climate of confidence in expanded job opportunities at a decent wage and with good working conditions has to be created. The ability to handle technological and structural change in a desirable way requires a framework of programmes and opportunities which provide people with the necessary security and enable them to adjust to new situations. Government measures must: develop information, consultation and negotiation rights for workers' representatives on changes; expand social protection for the hardest-hit sectors of the labourforce; fully integrate part-time workers into mainstream labour legislation and working conditions; invest in education; provide training and re-training opportunities to all; and facilitate the transition of young people from school to active working life.

22. In the OECD area 16% of young people are unemployed, and many of these have never worked in their lives. A comprehensive approach to youth unemployment must integrate education, training and active employment policies. This must cover young adults, as well as teenagers, to form a continuum of policies. Governments have to play a catalytic role with employers and trade unions so that young people are guaranteed an acceptable alternative to unemployment: further education, high quality training, a job, or some acceptable combination of these. Governments have the tool of public sector employment at their disposal. Because the young unemployed are not a homogenous group these measures, although integrated and forming a comprehensive guarantee, must be carefully targeted and applied through a network of individual counselling services. A significant investment is required so that vocational education and training leads to good jobs, instead of being a substitute for employment. Business will have to make greater efforts to provide comprehensive training and re-training if it expects properly qualified and competent employees in the future.

23. The problem of unemployment amongst older workers and people who are unemployed for long periods of time is growing. Long-term unemployment now amounts to between one third and one half of all unemployed in many OECD countries and constitutes a situation of being terminally unemployed, especially for people with many years of work experience. The age-limit for hiring workers has in practice become lower, yet this is not necessarily due to inadequate or inappropriate skills - even though skills do deteriorate during long periods of unemployment. There is discrimination by employers against the long-term unemployed, compounded by the exhaustion of unemployment benefit entitlement and the damaging psychological effects of joblessness. A much more sophisticated policy response is required by governments to solve the problem of long-term unemployment. The public sector should give a high priority to hiring the long-term unemployed for positions which become available. A combination of public and community employment programmes will have to be provided and firms should be encouraged to employ them through subsidy and other schemes. Re-training is appropriate in a number of cases. Government policies can be decisive in removing the discrimination facing the long-term unemployed.

24. Further reductions in working time, including overtime, are essential. Systematic overtime working should be eliminated at the same time that inadequate basic wages, which make overtime working an important source of income for some, are raised. In Japan, reductions in working time to 1800 hours per year and beyond must be accelerated so as to spread the benefits arising from technological change and to improve employment. In Europe, some reductions of working time have been achieved, saving many jobs which otherwise would have been lost during the last few years, and creating new jobs. Changes in working time arrangements must be negotiated so that they are accompanied by suitable safeguards to protect and improve

working conditions and by visible success in creating more employment. Governments should encourage and not hinder negotiations to achieve reduced working time and maximise the positive employment effects.

#### Removing Poverty

25. Governments have presided over an unparalleled increase in poverty and deprivation in many OECD countries. Policies have deliberately favoured those on higher incomes. The growth in hardship has been significantly, although not entirely linked to the growth of unemployment, particularly long-term and recurrent unemployment. In many OECD countries unemployment benefit schemes are of inadequate duration, only compensate workers for a relatively small part of former earnings and cover a limited number of those seeking work.

26. Governments have to remove the underlying causes of poverty. Social policy cannot be based on the pretence that 31 million people registered as unemployed are responding to inadequate "incentives" and that people choose poverty. Action is needed to provide a guaranteed minimum income and improve, not undermine, social security systems. This would ensure the distribution of the benefits of economic growth throughout society and be a major stimulus to growth by raising the purchasing power of those with the greatest needs. In the first place, this could be achieved by strengthening the areas of protection of people on low incomes: improved minimum wage provisions; social benefit systems; pensions; unemployment benefits; improved and extended health care; extended protection for groups of workers not covered by social security, e.g. part-time workers and workers with precarious employment status. Governments should examine the relation between taxation and social security entitlements so as to remove hardship created by the system. The financing of such improvements requires the development of the tax base of OECD countries, and the raising of the level of social security benefits in order to eliminate poverty and deprivation. This is in contrast to some of the "tax reforms" underway in OECD countries which have reduced taxes for well-off groups, leaving the poor worse-off.

#### Debt and development

27. The loss of stock market values following the October 19 crash was greater than the total indebtedness of developing countries, yet the stock losses have been absorbed with little complaint, while proposals for debt write-offs or interest relief are dismissed. It has become accepted wisdom to talk of the need to increase the flow of resources, both public and private, to developing countries, yet in 1986, total resource flows from the OECD to developing countries dropped by 15%. A large number of OECD countries fall way below the UN target for

development aid equivalent to 0.7% of GNP. Reversing this situation is not an altruistic goal but would be in the OECD countries' own interest in order to develop growth and markets.

28. Different groups of developing countries have different priorities and must be handled with different approaches: the Newly Industrialised Countries, the major oil exporters, the middle income indebted countries and the poorest countries. Overall, however, a range of measures are necessary: faster growth in the OECD area; the translation of partial debt write-offs by the banks into lower debt servicing payments by the indebted countries on a case by case basis; debts of the poorest countries should be completely written-off; reduction in interest rates; major increases in official development assistance by all OECD countries, but particularly those with large surpluses; the expansion of concessionary export credits and guarantees; and the establishment of remunerative and stable commodity prices.

29. The International Monetary Fund (IMF) and World Bank are operating as if debt repayment takes priority over development. Real wages and working conditions have been in decline for many years without any fundamental improvement in the debt crisis. Debt servicing payments must be set at realistic levels so as not to jeopardise economic and social progress. These international organisations have a role to play in using partial debt write-offs by banks in such a way as to reduce the payments due from indebted countries. A Special Facility needs to be developed to this end. In many countries, soundly based development requires international competitiveness but this cannot be achieved through suppression of consumption and shifting resources towards purely export orientated industries. The IMF and World Bank should evaluate the social impact of their respective short and long-term strategies, as recommended by the ILO High-Level Meeting on Employment and Structural Adjustment in November 1987, and should re-define them in consultation and discussion with trade unions so as to ensure that working people have a say in their formulation. This is necessary to ensure both efficiency and fairness.

#### The Multilateral Trading and Investment System

30. The GATT Treaty stated that GATT was founded with a view to "raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand". Yet the multilateral trading and investment system is under increasing pressure as it was never intended to cope with unemployment and trade imbalances of current magnitudes. Exchange rate changes and in particular a massive decline in the dollar cannot remove imbalances on this scale. Coordinated economic policy changes are necessary. In addition, one factor behind the pressure could be eased if it were fully recognized in practical terms that the goal of international trade as recognised by GATT must be to increase living standards, not to



reduce them. Governments should ensure that international competitive pressures do not undermine social progress.

31. Within the OECD area trade tensions arise amongst countries of comparable economic development and strength when the benefits of increased productivity are not translated into improvements in living standards. OECD countries should seek to harmonise upwards wages, working time standards, pensions, social security benefits, working conditions, health and safety, and general social provision and living standards.

32. OECD countries must improve access to exports from developing countries and remove discrepancies which exist among themselves in this respect. However, no government should be allowed to violate internationally agreed worker and trade union rights and minimum labour standards in order to capture export markets and to attract foreign investment. The benefits of greater participation in international trade must contribute to the social and economic progress of developing countries' populations. OECD governments should ensure that international support is built up for the inclusion of a Social Clause embodying this in the GATT.

33. The failure to recognize the importance of the social aspects of international trade and to develop practical multilateral responses contributes to the spread of unilateral and bilateral actions and to the tendency to form trading blocs. These trends limit the possibility for smaller or weaker countries to participate fully in world trade. The OECD has a role to play in creating the conditions for a better functioning multilateral system and avoiding the break-up of the world economy into aggressive trade blocs.

34. Opportunities for increased direct foreign investment must go together with more serious application of internationally recognised obligations on multinational enterprises to conduct their affairs in a manner which contributes to the economic and social development of both home and host countries. This is not the case at present. Decisions on company restructuring are being taken with little opportunity for employees to affect the outcome through negotiation and with no right of access to decision-makers for trade unions from different entities. The increasingly international repercussions of investment and takeover decisions, and their competitive impact require a greater commitment from governments to enforce the OECD Guidelines on Multinational Enterprises.



10 DOWNING STREET

PRIME MINISTER

I attach a copy of President Mitterrand's letter to Heads of Government at the Summit countries on debt. He will no doubt raise this with you tomorrow.

C D P

(C. D. POWELL)  
9 June 1988



Foreign and Commonwealth Office

London SW1A 2AH

8 June 1988

N Wicks Esq CBE  
No 10

*Dear Nigel,*

THE NEWLY INDUSTRIALISING ECONOMIES (NIEs)

1. You asked me to let you have a short note on recent international discussion of the NIEs, and especially the four Asian "dragons" (Korea, Taiwan, Singapore and Hong Kong), as part of our preparations for the Toronto Summit.

2. There are four main issues:-

(a) the NIEs' GNP and share of world trade are growing. Two of them - Korea and Taiwan - not only run large current account surpluses with the help of undervalued currencies, but maintain trade and investment barriers against industrialised countries. (The brief for Toronto will give some figures.) The US has argued in the past that all four NIEs should liberalise their economies and allow their currencies to appreciate against the dollar. We agree that Korea and Taiwan should do so. Their policies are inciting protectionist pressures. But we see no reason to penalise free-trading Hong Kong and Singapore (see also (d) below).

(b) our trade objectives (integration) can be pursued in the GATT negotiations (though Taiwan is not formally party to these). But precisely because the NIEs are increasingly important players (with other ASEAN countries not far behind), we need to give them some sense of responsibility for the management of the world economy, and that goes beyond GATT. At the recent OECD Council, Ministers agreed to open informal discussion with the four "dragons" around the central theme of structural adjustment of their economies. We support this because multilateral pressure is more effective than bilateral, because we want the OECD to remain relevant, and because we want to avoid the building up of a Japanese-led "Pacific OECD" (which despite disclaimers may be the long term Japanese aim) In any such discussions the NIEs will have their own requests to make (for example, on VRAs and our barriers to their textile exports), and we should be ready to discuss these while pressing hard for our own shopping list of macroeconomic and trade reforms.

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(c) we shall need to be careful about OECD contacts with Taiwan (because of both Chinese and Hong Kong sensitivities). Other OECD members are alert to this problem; the Japanese have proposed an informal seminar, with no formal government-to-government links; something on those lines may prove acceptable.

(d) we must also defend Hong Kong's interests. The Treasury Secretary, Mr Baker, wants the Hong Kong dollar revalued against the US dollar. But the fixed link is important for maintaining confidence in the Hong Kong economy; and in any case Hong Kong's overall trade (as distinct from its trade with the US) is in rough balance. It is wrong to tar Hong Kong with the Korea/Taiwan brush. The Chancellor has made the point to Mr Baker on several occasions: but the Americans revert to it.

/ 3. I attach the relevant extracts from the OECD communique and ~~the revised draft~~ of the Canadian thematic paper for Toronto. The Americans may want more aggressive language. We agree with them about the need to bring pressure to bear on Korea and Taiwan (not Hong Kong, for the reasons given above). But, like other OECD members, we distinguish between public statements and private pressure. Our first task is to entice these suspicious NIEs into discussion with the OECD. We also want recognition (as at the OECD Ministerial) that each of these four countries - and by extension other NIEs, in ASEAN or elsewhere - has different economic policies and poses different threats or opportunities.

4. In the long run, the object of the exercise is to detach these countries from the increasingly divided G77; to persuade them to become open trading, liberal economies like our own; and so to reinforce the attractiveness of western solutions against the stagnant state economies of the Soviet bloc. Commercially, we want the chance to trade and invest more in the most dynamic region of the world economy.

Yours ever,

Rodric

R Q Braithwaite

cc. Sir G Littler, HMT

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appropriate answer to their differing problems. All parties involved must therefore continue efforts, on a case by case basis, to deal efficiently with debt problems and new financing needs, including a broad "menu" of market-oriented options for commercial bank debt. Such approaches should take due account of the adjustment efforts of the developing countries concerned. To support these directions for the debt strategy, it is important that the IMF, the World Bank and other international financial institutions be equipped with adequate facilities and resources. In this regard, Ministers welcome the recent agreement on a General Capital Increase for the World Bank and the ongoing adaptation of the IMF's policies and instruments aimed at strengthening its central role in the debt strategy. They also welcome the efforts made in the Paris Club.

17. The important contribution that international direct investment, too, can make to adjustment and growth is now gaining wider recognition in developing countries. However, significant obstacles to the flow of direct investment remain and should be addressed by both host and home countries, and through cooperative action. The welcome new activities of the Multilateral Investment Guarantee Agency and the International Finance Corporation will help stimulate international investment in developing countries.

18. For the poorer developing countries the IDA replenishment, World Bank co-financing arrangements with bilateral donors and the Enhanced Structural Adjustment Facility of the IMF will help alleviate their situation. Improved terms for consolidating the debt of the poorest developing countries notably in Sub-Saharan Africa are also making a contribution. Nevertheless, debt burdens continue to mount. Proposals to ease these burdens for the poorest countries undertaking structural adjustment efforts therefore merit careful consideration, including, where possible, interest rate reduction in official reschedulings or alternative measures having a similar impact. Improved official development assistance, in quality and in quantity, is essential.

#### Relations with Newly Industrialising Economies

19. Important actors in the world economy are emerging from among the newly industrialising economies. This is a welcome development. It provides these economies with the opportunity to play an increased role in the cooperative effort to manage the open world economy and confers upon them a greater responsibility in the international adjustment process commensurate with their capacity. Discussions involving these actors -- recognising mutual interests and taking into account the diversity of the economies concerned -- could contribute to better understanding and the convergence of views on policy cooperation for the continued growth and development of the world economy.

#### Trade

20. The world trade picture shows a number of contrasts. Trade is growing robustly. However, protectionist pressures and trade tensions remain strong. While OECD Governments have generally

EXTRACT FROM CANADIAN THEMATIC PAPER

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.

JK  
cc NW10 DOWNING STREET  
LONDON SW1A 2AA*From the Private Secretary*

8 June 1988

## FRENCH INITIATIVE ON DEBT

I enclose a copy of a letter to the Prime Minister from President Mitterrand putting forward a French initiative on debt which he hopes will be discussed at the Economic Summit in Toronto. I should be grateful if the Foreign Office, to whom I am also copying this letter and the message, could arrange for an urgent translation.

The subject will also come up at the Prime Minister's meeting in Paris with President Mitterrand on Friday and you will want to cover it in the briefing.

It would be helpful to have advice in due course on whether the Prime Minister needs to reply in writing to the message ahead of the Summit.

I am copying this letter and enclosure to Lyn Parker (Foreign and Commonwealth Office) and Myles Wickstead (Overseas Development Administration).

(C. D. POWELL)

Alex Allan, Esq.,  
HM Treasury.

RESTRICTED

HAUT-COMMISSARIAT DU CANADA,  
DIVISION COMMERCIALE/ECONOMIQUE  
MACDONALD HOUSE,  
1 GROSVENOR SQUARE,  
LONDON, W1X 0AB



CAP  
CANADIAN HIGH COMMISSION,  
COMMERCIAL/ECONOMIC DIVISION,  
MACDONALD HOUSE,  
1 GROSVENOR SQUARE,  
LONDON, W1X 0AB.

Telephone: 01-629 9492 Ext.  
Telex No.: 261592 (COALDN G)

Mr Nigel Wicks, CBE  
Principal Private Secretary  
to the Prime Minister  
Prime Minister's Office  
10 Downing Street  
LONDON  
SW1

8 June 1988

Dear Nigel

I am enclosing the revised thematic paper following your meeting last weekend in Toronto. As agreed, this will be the final version, as the draft communique will be presented to Sherpas only after lunch on June 20.

Also enclosed is the draft political declaration. The US State Department (Charles Thomas) has advised that the USA delegation intended the words "inherent limitations" in paragraph 2 to be footnoted to indicate their reserve on these words. They would prefer to use "failings" instead.

I am meeting with Sir Geoffrey Littler and Rodric Braithwaite on Friday and will be in touch with you sometime next week to review any last minute matters. Glen Bailey, you will be aware, will be in Toronto and will again be the Liaison Officer for Prime Minister Thatcher.

Regards

A handwritten signature in dark ink, appearing to be 'L.J. Taylor'.

L J TAYLOR  
Minister (Commercial/Economic)

PS I have sent copies to Messrs Braithwaite, Littler and Fretwell.



Canadian High Commission



Haut Commissariat du Canada

Macdonald House  
1 Grosvenor Square  
London, W1X 0AB

June 8, 1988

② LCPK

R. Anisic

CR  
9/6

nr

Dear Prime Minister,

Prime Minister Mulroney has now returned from his tour of European capitals and has asked me to transmit the attached letter of appreciation for your reception and counsel during your meeting on May 23.

I will be returning to Canada for your visit and look forward to seeing you in Ottawa.

Yours very truly,

R. Roy McMurtry  
High Commissioner

The Rt. Hon. Margaret Thatcher, M.P.  
Prime Minister  
10 Downing Street  
London, SW1A 2AA

MESSAGE FROM MONSIEUR FRANCOIS MITTERAND  
PRESIDENT OF THE REPUBLIC

TO

THE RT. HON. MARGARET THATCHER, M.P.  
PRIME MINISTER

SUBJECT cc MASTER  
OPS

Paris, 7 June 1988

**PRIME MINISTER'S**  
**PERSONAL MESSAGE**  
**SERIAL No. T87C/88**

Dear Prime Minister,

It has never been so urgent and necessary to act to assist third world countries, as the gap between rich and poor countries continues to widen.

While their resources are diminishing, particularly as a result of the fall in prices of raw materials, while they have to cope with famines, epidemics and natural calamities and while extreme poverty is on the increase in Africa, Latin America and many parts of Asia, the poorest developing countries are not, and will not be, in a position to repay their debt to the developed countries in full on the conditions at present imposed on them.

We can no longer accept a situation where financial transfers from South to North exceed transfers in the opposite direction by almost 30 thousand million dollars and the burden of repayment outweighs new credits.

At the Venice Summit, we recognised the need for a special programme for the poorest countries which have made efforts to "adjust". We decided to seek agreement on extending repayment periods and that was done. On the other hand, we have made no progress in applying lower interest rates when rescheduling debts.

To escape from the present stalemate, I propose therefore that the repayment conditions for the poorest countries, defined according to criteria we drew up at the Venice Summit, be relaxed, leaving it open to creditor countries to propose one of the following three options :

- one third of the debt to be written off immediately within the framework of agreements for rescheduling over a period of the order of 10 years ;

- the debt to be rescheduled at market rates but with a maximum duration of 25 years (instead of the present maximum of 20 years);
- the debt to be rescheduled at a preferential rate, reduced by at least half over a repayment period of the order of 15 years.

I hope that this proposal may meet with your approval and that of all the other Heads of State and Government participating in the forthcoming Toronto Summit.

I can tell you now that France, for its part, intends in any case to offer to write off one third of the debt of all debtor countries who so wish; that option, which has the advantage of entailing an immediate reduction in the outstanding debt, seems to me the one best adapted to the situation of the poorest countries.

Of course, increasing action for the benefit of the most destitute countries does not however mean that we should relax our efforts for the so-called "medium-income" countries which are often heavily in debt.

We must show imagination and realism, for example by widening the scope for rescheduling official debts, extending it if necessary to include due dates for payment of interest. Mobilisation of new resources and recourse to new financial instruments based on market techniques must be encouraged in the case of bank debts. Finally, it is essential that recent multilateral decisions on official development assistance be implemented more quickly, I am thinking for example of the increase in World Bank capital.

I look forward, Prime Minister, to discussing all these questions with you in Toronto.

[complimentary close]

[signed] François Mitterand

CONFIDENTIAL



*Me Pmm  
cc CAP*

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.

*BF //* 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 shorter 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).

*Yours truly  
Nigel Wicks*  
N. L. WICKS

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

CONFIDENTIAL

*Pmm*

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 ahead.
  
  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 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 ]

4. The problems of the world economy are all solved. Far from it. There is still a grievous situation in some of the developing countries, especially in Africa. And unemployment is still too high in many countries. But there has been an enormous improvement in the world economic situation in the last six or seven years.

[ 3 or 4 facts to demonstrate that point.]

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 economic policy of historic proportions. Successive Summit declarations bear witness to that change. And many other countries are now following our lead.

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, latterly, the reform of the world trading system and of 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 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

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.

#### 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?]
  
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 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.
  
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

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 until an agreement is reached on everything. The strengthening of GATT itself 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

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 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.

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.



10 DOWNING STREET  
LONDON SW1A 2AA

file MJ  
①  
cc NLW

*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.

BF ||

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.

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cc JK

*Italian Embassy,  
11, Three Kings Yard,  
London, W.1.*

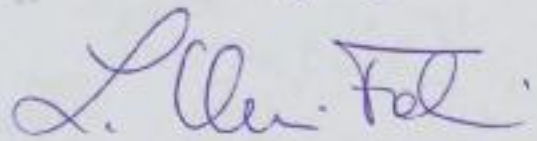
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7th June, 1988

*Dear Charles,*

I take pleasure in enclosing an envelope containing the copy of a message addressed to the Prime Minister, The Rt. Hon. Margaret Thatcher, MP from the President of the Council of Ministers, Onorevole Ciriaco De Mita.

*Sincerely yours*



Livio Muzi Falconi  
(Chargé d'Affaires a.i.)

Encs.

Mr. Charles Powell  
Private Secretary to the Prime Minister  
10 Downing Street  
London SW1





*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.

*5*  
*interceda*

---

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.

Canadian High Commission



Haut Commissariat du Canada

PRIME MINISTER'S

OTTAWA K1A 0A2

PERSONAL MESSAGE

June 6, 1988

SERIAL No. T87 AA/88

*Subject cc message  
of PS*

Dear Margaret

On my return to Ottawa, I am writing to express my gratitude for your kindness in taking time to receive me, on May 23, to discuss preparations for the Toronto Economic Summit.

Your extensive international experience, particularly in relation to Summitry, was of great value to me at this stage of our preparations as it will be during our discussions in Toronto. I deeply appreciated receiving your sound advice and wise counsel as the Summit approaches.

I am looking forward to working closely with you in Toronto and to your official visit to Ottawa on June 22. Your speech to a Joint Session of Parliament will certainly be one of the highlights of this Parliamentary session.

With warmest regards,

Yours sincerely,

COPY OF  
ORIGINAL SIGNED BY  
BRIAN MULRONEY

The Right Honourable Margaret Thatcher, MP  
No 10 Downing Street  
LONDON  
SW1A 2AA



CANADA

PRIME MINISTER - PREMIER MINISTRE

OTTAWA K1A 0A2

June 6, 1988

②  
CPC

Re Mission

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Dear Margaret,

On my return to Ottawa, I am writing to express my gratitude for your kindness in taking time to receive me, on May 23, to discuss preparations for the Toronto Economic Summit.

Your extensive international experience, particularly in relation to Summitry, was of great value to me at this stage of our preparations as it will be during our discussions in Toronto. I deeply appreciated receiving your sound advice and wise counsel as the Summit approaches.

I am looking forward to working closely with you in Toronto and to your official visit to Ottawa on June 22. Your speech to a Joint Session of Parliament will certainly be one of the highlights of this Parliamentary session.

With warmest regards,

Yours sincerely,

*Justin Trudeau*

The Right Honourable Margaret Thatcher  
Prime Minister of the United Kingdom  
10 Downing Street  
London, England



The Rt. Hon. Margaret Thatcher - M.P.  
Prime Minister

MFE 091/20		
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16 JUN 1988		
		MSD 16/6

LE PRÉSIDENT

KGR/BV/nm/14.C.1

3 June 1988

Dear Prime Minister,

European industry attaches the highest importance to the forthcoming meeting of Heads of States and of Governments of the seven western countries which will take place in Toronto from 19 to 21 June 1988.

I have pleasure in sending you herewith a declaration adopted unanimously by UNICE which includes in its membership all the industrial and employers federations of the countries of western Europe.

I thank you in advance for the consideration you may wish to give to this paper.

Yours faithfully,

K. G. Ratjen

## DECLARATION FOR THE WESTERN ECONOMIC SUMMIT IN TORONTO

### SUMMARY

3.06.1988

In Toronto, western economic leaders should give a clear indication of their commitment to adopt credible policies to redress the current large and unsustainable imbalances in the world economy, in order to restore market confidence and reduce the uncertainty affecting decision-makers in the real economy.

The economic outlook for the medium term does not warrant any complacency about the fundamental financial and trade imbalances at the root of the loss of confidence that precipitated the crisis of October 1987. Their persistence will continue to undermine confidence in the stability of international monetary relations, increase trade frictions and protectionist tensions, and limit growth prospects worldwide.

Given the consequences for the world economy and the effect on world trade trade, the twin U.S. deficits should be corrected by redressing the balance of internal demand towards increased savings and investment.

The implications for the other industrial economies are symmetric adjustments of their consumption and savings patterns :

- Japan, in particular, should continue the process of opening up its internal market to foreign production and services as part of an international effort to restore trade balance.
- The European Community should achieve higher growth through improved and reliable coordination of economic, fiscal and monetary policies geared to stability, within the framework of stable exchange rates provided by the European Monetary System, so as to strengthen the internal convergence of the European economies. Higher growth should be reinforced by the implementation of the Internal Market, increased flexibility and openness of European markets, and lower taxation on European enterprises.

The newly industrialised countries should face up to their role and responsibilities in the international economic scene to reflect the relative development of their economies.

In view of the GATT mid-term review, the greatest possible advance should be made in the months to come so that a new impetus can be given to the subsequent phase of the negotiations in order to achieve the aims set out at Punta del Este. The negotiations should also aim at getting the full participation of the developing countries and, certainly, firm commitments from the newly industrialised countries.

The high level of indebtedness of the developing countries remains a source of concern for the stability of the international financial system. The industrialised countries can contribute to create favourable growth prospects for LDCs, by fostering higher internal growth and maintaining a steady flow of international and bilateral financial assistance. Economic policies in the LDCs should, however, be oriented towards improving credit-worthiness and create favourable conditions for international investment.

\* \* \*

3.06.1988

DECLARATION FOR THE WESTERN ECONOMIC SUMMIT IN TORONTO

The Toronto summit will take place amid conflicting signals in the world economy. While adequate short-term policy reactions may have contained the economic repercussions of the stockmarkets' crisis of October 1987, the economic outlook for the medium term does not warrant any complacency about the fundamental financial and trade imbalances which were at the root of the loss of confidence that precipitated the crisis. Their persistence will continue to undermine confidence in the stability of international monetary relations, increase trade frictions and protectionist tensions, and limit growth prospects worldwide.

In Toronto, western economic leaders should give a clear indication of their commitment to adopt credible policies to redress the current large and unsustainable imbalances in the world economy. The positive, yet precarious, achievements of international cooperation in the management of exchange rates reinforce the need for improved coordination of economic and trade policies to restore market confidence and reduce the uncertainty affecting decision-makers in the real economy.

Given the consequences for the world economy and the effect on world trade, the twin U.S. deficits should be corrected by redressing the balance of internal demand towards increased savings and more investment to support industrial output. Their persistence will put inevitable upward pressure on American interest rates, increase the inflationary pressure on the U.S. economy and thereby threaten the prospects for higher, non-inflationary economic growth worldwide.

The implications for the other industrial economies are, in effect, symmetric adjustments of their consumption and saving patterns. Japan, in particular, should continue the process of opening up its internal market to foreign production and services as part of an international effort to restore trade balance.

The European Community, which already accounts for the largest contribution to world trade, should achieve higher internal growth in order to tackle the problem of high levels of unemployment and to create, with Japan, the positive growth differential vis-à-vis the U.S. necessary to absorb the present international imbalances. Higher growth should be achieved through improved and reliable coordination of economic, fiscal and monetary policies geared to stability, within the framework of stable exchange rates provided by the European Monetary System, so as to strengthen the internal convergence of the European economies. In addition, the European Community must pursue the implementation of the Internal Market liberalisation programme which will bolster investors' confidence and enhance the growth potential of the EC. Increased openness and flexibility of European markets should contribute to a significant improvement in the allocation of economic and financial resources and in particular, to an increase in productive investment. The completion of the Internal Market should be paralleled by measures to reduce the burden of taxation on European enterprises which limits their ability to invest and improve competitiveness.

The objective of stability of monetary relations should be pursued through a strengthening of effective coordination of economic, fiscal and monetary policies besides concerted management of exchange rates. Policy coordination based on exclusive reliance on exchange rate management cannot alone reduce the present fundamental imbalances.

However, other factors aggravate the stability of the international financial and trading system. Thus, the trade and currency policies of certain newly industrialised countries are a serious source of tension in trade relations. These countries should face up to their role and responsibilities in the international economic scene by entering more fully within the scope of the GATT and by unpegging exchange rates from the U.S. dollar to reflect the relative development of their economies.

The Uruguay Round negotiations have opened up positive and significant prospects for further consolidation and widening of the scope of a free world trading system by including such fundamental sectors as agriculture, services, intellectual property and investment, on the agenda.

As they enter their more concrete phase, it is vital to ensure the momentum of these negotiations. The greatest possible advance should be made in the months to come so that, at the mid-term review, new impetus can be given to the subsequent phase of the negotiations in view of achieving the aims set out at Punta del Este. Substantial progress in the negotiations is also necessary to signal a halt to protectionist pressures. To this end, a special emphasis should be put on the following objectives :

- Strengthening the GATT system through establishing an improved trade dispute settlement process, trade policy reviews under GATT auspices and stronger ties between the GATT and international financial and monetary institutions.
- A common commitment to strengthen GATT authority governing safeguards, subsidies and market access.
- Long term, as well as short term, measures to allow market signals to influence increasingly the orientation of agricultural production, by way of a progressive and concerted reduction of agricultural support as well as by other appropriate means.
- The elements of a comprehensive agreement on trade-related intellectual property rights based upon the recognition of fundamental principles on intellectual property protection and their enforcement.
- A framework of principles for services as well as procedures for defining and applying these principles to various services industries.
- A commitment by all contracting Parties to abide by standstill undertakings as agreed at Punta del Este.

On no account should the objectives themselves and the global approach agreed on at Punta del Este be called into question. The negotiations should also aim at getting the full participation of the developing countries and, certainly, firm commitments from the newly industrialised countries.

The high level of indebtedness of the developing countries remains a source of concern for the stability of the international financial system. The industrialised countries can contribute to create favourable growth prospects for LDCs by fostering higher internal growth, reduce subsidies and maintain a steady flow of international and bilateral financial assistance. Economic policies in the LDCs should, however, be oriented towards improving creditworthiness and create favourable conditions for international investment. The financing of productive investment through private capital from the developed countries should be encouraged.

These are the main concerns of the European business community in the international context. Credible policies are needed to promote higher growth, contribute to exchange rate stability and preserve a free and open trading system. UNICE calls on the Heads of State and Governments meeting in Toronto to reaffirm their engagement to pursue and consolidate these policy objectives and thus reduce the uncertainty which clouds the economic outlook for the medium term.

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10 DOWNING STREET  
LONDON SW1A 2AA

*Ann  
Friday*  
N  
  
From the Press Secretary

3 June 1988

cc Sir Geoffrey Littler, Treasury  
Sir John Fretwell, FCO  
Roderic Braithwaite, FCO  
Chris Meyer, FCO  
John Gieve, Treasury

*Dear Sir*

This is to confirm that we have made arrangements for you to give a background briefing (unattributable) to British and resident foreign correspondents in the main Treasury conference room at noon on Wednesday June 15. You will be supported by Sir Geoffrey Littler and Sir John Fretwell. Roderic Braithwaite cannot be present but may wish to be represented.

I will preside and call the Questions and I am inviting Messrs Meyer and John Gieve also to be present.

I will give you a brief on Monday, June 13.

Copies go to those named above.

*John Ingham*  
*Ingham*

BERNARD INGHAM

Nigel Wicks Esq

Toronto  
brief -

1911

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Foreign and Commonwealth Office

London SW1A 2AH

2 June 1988

*OP*

*Dear Charles,*

Economic Summit: 1989

Thank you for your letter of 1 June. I can confirm that the Foreign Secretary has no objection to the dates proposed by the French.

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

*Yours ever,*

*L Parker*

(L Parker)  
Private Secretary

C D Powell Esq  
10 Downing Street

Sir G. WILKINS  
22/6



file  
11

1)28/6

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

2 June, 1988.

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

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

(C.D. Powell)

Bob Peirce, Esq.,  
Foreign and Commonwealth Office.

SP



file  
to

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

2 June, 1988.

The Prime Minister has asked me to thank you for your letter and enclosure of 31 May.

Your letter is receiving attention, and a reply will be sent to you in due course.

(C.D. Powell)

Sir Graham Wilkins



Foreign and Commonwealth Office

London SW1A 2AH

N Wicks Esq CBE  
No 10 Downing Street

2 June 1988

*Jean Nigam*

**DRUGS: US PAPER**

1. We have looked quickly within the FCO at the paper which the U S Embassy circulated yesterday. In view of the time available, we have not cleared our comments with the Treasury and Home Office (to whom, and other interested departments you agreed we could copy the U S paper). We shall do so before Toronto itself: what follows is a brief checklist of points which I do not think are controversial within Whitehall.

2. Page 1, first half:

These are U S suggestions for communique language. We have no problem with (a), though the second half (after "illicit drug problem") is a rather lengthy shopping list and could be omitted if necessary. In (b) we prefer "national" to "unilateral"; the latter word has extraterritorial connotations. We are content with (c), with the caveats described on the last page of your brief for the 4th Sherpas' meeting.

3. "Our Objectives"

No problems.

4. "Follow-up Actions"

First tirit. As the brief says, we have already expanded our support of both bilateral and multilateral programmes. We cannot make commitments at this stage about a further increase in our support of the UN Fund. But a general reference to "expanded support" presents no problems.

Second tirit. Yes. It should be adopted at a conference planned for November/December.

Third tirit. Yes. We have enacted the Drug Trafficking Offences Act (1986).

Fourth tirit. Imprecise but acceptable.

Fifth tirit. The brief explains why we are against using aid funds as a sanctions weapon. We could go halfway towards meeting the U S point if it talked about



conditioning funds specifically provided for drug control/eradication on narcotics performance. It is only reasonable that if we give money for this purpose the country concerned should play its part too (the "no poppy" clause in drug-related assistance projects). But using IMF or World Bank money, or general bilateral aid, as a weapon is out.

Last tirect. Sounds acceptable, though I would like to know more about the reference to "defence", and what is meant by "collateral".

#### Foreign Ministers

First tirect. Same point as first tirect of preceding section. We have already increased our assistance, and will do more if funds permit. We are also stepping up our technical assistance in this field, via UN agencies.

Second tirect. The UK drafted and sponsored a resolution to this effect in this year's Commission on Narcotic Drugs, itself a follow up to the 1987 International Conference on Drug Abuse and Illicit Trafficking. So no problem.

Third tirect. Yes.

Fourth tirect. No: see above.

#### Finance Ministers

First tirect. Most of this is covered by the DTOA. The Act permits the tracing, freezing and confiscation of assets where grounds exist to suspect that the assets are drugs-related. In that sense, our commercial and financial secrecy laws have been overridden (rather than liberalised) by the Act; but subject to Treasury views we would not want to take any general "liberalising" powers in this area.

Second tirect. The Americans may have in mind their own procedures whereby U S citizens bringing more than \$10,000 into the U S are required to notify the source of these funds. I am not clear that we could follow the U S down this path (even if we wanted to) in the absence of U K exchange controls. This seems to me a point that could be remitted to the expert group.

Third tirect. Already done, but note that in the UK the Home Office, not the Treasury, have responsibility in this matter.

Fourth tirect. This is the DTOA again. On the use of asset forfeiture funds to support anti-drug efforts, correspondence rests, I believe, with Bearpark's letter of



26 May to Lyn Parker recording the Prime Minister's support for such an approach.

Last tirect. Meaning?

I will not comment on the final section that the US proposes should be remitted to experts, much of which duplicates the previous points, save to note (as our brief does) that we do not believe that central banks should have a policing role in connection with money laundering and money flows.

3. As I told you yesterday, my view remains that it is senseless and time-consuming to remit different parts of the drugs dossier to Foreign and Finance Ministers at the Summit. Far better to have the matter discussed in plenary, agree on communique language, and then remit the rest to the proposed expert group. I think many Finance Ministers would have great difficulty in discussing issues which are often the responsibility of Ministries of Justice and the Interior; and extraterritoriality, of course, is of concern to all departments, not just Finance Ministries.

4. I enclose a copy of our Act in case you want to take it to Toronto; and an explanatory memorandum.

*Yours ever,*  
*Tom*

T L Richardson  
Economic Relations Department

cc Mr Braithwaite (with spare copy for Sir G Littler)



270 2670

Foreign and Commonwealth Office

London SW1A 2AH

2 June 1988

Nigel Wicks Esq  
No 10

*Jean N. Wicks*

TORONTO SUMMIT: AID TARGETS

1. I am sending separately to you our brief No 2 on the revised Canadian Thematic paper. It incorporates comments from other Departments concerned. We have kept an eye out for awkward wording, as you requested, but one or two unacceptable sentences may have slipped through our net.

2. We have not briefed you on aid targetry because the present Canadian wording is uncontentious:

"Developed countries to provide adequate concessional assistance" in paragraph 41, and in the following paragraph:

"An increase in concessional resource flows will be necessary to help those (poor) countries resume sustained growth"

which is acceptable in the context of this paragraph on interest rate relief. But I can already foresee a re-run of Venice. The Japanese will make great play with their new 0.35% target (as a percentage of GNP); the French will get irritable and say they already reached the UN target of 0.7% in 1986; and there will be a last minute scramble to find acceptable language on aid targetry.

3. In the time available, I have not been able to comb through all recent references to aid targetry in international economic communiques. We got off lightly at Venice, which in paragraph 21 "recalled" the 0.7% target and at the end of that paragraph mentioned "the different contributions of our countries to official development assistance", without saying what should be done about this. We were pushed further at UNCTAD VII last summer:

"Developed countries should renew and make more effective their efforts to achieve, as quickly as possible, the internationally agreed target ...", and

"Developed countries are requested to attain the internationally agreed targets ... as soon as possible".

/4.



4. There is no reason to acquiesce - except as a last resort - in the "as early/soon as possible" formula at Toronto, where unlike UNCTAD VII developing country pressures are absent. And it is not easy to defend this wording, because UK aid as a proportion of GNP declined in 1986 and again in 1987. By way of .. background I attach draft ODA briefing for a PQ from Lord Hatch. There may be some slight tinkering with the text. But the general message is clear.

5. Silence is clearly the best policy. If the French press for the inclusion of wording on aid targetry at this weekend's meeting, I think we should reserve our position until the Summit itself - unless the proposed language is so anodyne ("when circumstances permit") as not to cause us any serious difficulty.

*Yours ever,*

*Tom*

T L Richardson  
Economic Relations Department

cc Mr Braithwaite  
(with spare copy for Sir G Littler)  
Mr Ireton ODA



FROM: C P RALEIGH  
X0182

DATE: 31 MAY 1988

cc: PS/Mr Caines  
Mr Ainscow  
Mr Richardson  
FRD/FCO  
Miss O'Connor,  
Stats  
Mr David, APD

1. Mr Ireton
2. PS/Mr Patten

PQ FROM THE LORD HATCH OF LUSBY: AID AS A PROPORTION OF GNP

I submit a draft answer, supplementaries and background note for this PQ. I shall be in Washington for most of the week, but Mr David will be available to brief Lord Glenarthur.

*C. P. Raleigh*

*for* C P Raleigh  
Aid Policy Department

O.D.A.

File No. ....

	<h2 style="margin: 0;">PARLIAMENTARY QUESTION</h2>	<p>Notes for Further Action</p>
<p>Minister</p>	<p>Oral <del>Written</del> For Answer on <u>THURS 9 JUNE</u></p> <p><u>LABOUR</u> member for _____</p> <p>House of Lords _____</p> <p>House of Commons _____</p>	<p>Copies of Question and Answer (and Supplementaries) to be placed on files:</p>

†\*The Lord Hatch of Lusby—To ask Her Majesty's Government what proportion of the Gross National Product of each Member State in the European Community is devoted to official overseas aid.

The draft reply is required to reach E928 not later than 11.00am Friday 3 June but it should be sent forward as quickly as possible at every stage no matter how long the notice given.

**NOTES FOR SUPPLEMENTARIES SHOULD BE PROVIDED FOR ALL ORAL QUESTIONS**

### DRAFT ANSWER

My Lords

Precise figures are only available for the eight European Community countries that belong to the OECD Development Assistance Committee. The most recent year for which figures for all eight are available is 1986. I shall arrange for a list to be published in the Official Report.

Net official development assistance (oda) 1986  
As percentage of GNP

Belgium	0.49
Denmark	0.89
France	0.72
Germany	0.43
Ireland	0.28
Italy	0.40
Netherlands	1.01
United Kingdom	0.31

RESTRICTED

NOTES FOR SUPPLEMENTARIES  
UN TARGET FOR AID AS A PROPORTION OF GNP

- Q.1 What are the comparative figures for aid as a proportion of GNP in 1987 likely to be?

Figures for the other European Community member countries of DAC will be available about the end of June. Net British official development assistance in 1987 as defined internationally, was estimated to be £1151 million, equivalent to 0.28% of GNP.

- Q.2 Is not the UK figure shamefully low?

The net official development assistance figure for the calendar year 1987 compares with a net public expenditure provision for overseas aid of £1247 million in the financial year 1987-88. The figure of net official development assistance as a proportion of GNP for 1987 reflects the strong growth in the United Kingdom economy last year and the fact that expenditure in the calendar year 1987 was lower than expected as a result of an unusually high proportion of financial year 1987-88 expenditure falling in the quarter ending 31 March 1988.

- Q.3 Are not these figures misleading as indicators of aid performance?

They can be. There is official development assistance and there is the net aid programme; there are calendar years and financial years; there are different UN targets for different categories of assistance. Together with exogenous factors, all this can make it difficult to draw meaningful comparisons from year to year.

- Q.4 Aid falling as percentage of GNP (0.52 per cent in 1979 to 0.32 per cent in 1986). Not consistent with commitment to UN target?

We have a substantial and effective aid programme - in 1986 it was the sixth largest amongst Western donors - and one geared to the needs of the poorest countries. The aid programme is now planned to grow in real terms - in 1990/91 it will be some £115 million larger than in the current financial year.

*five* In 1986, the last year for which we have finalised figures, ~~four~~ countries had achieved the 0.7 per cent target - and only one of these had an aid programme larger than ours.

RESTRICTED

- Q.5 What is the Government's policy towards the UN target for aid of U.7% of GNP-?

The Government accepts the target in principle but, like previous administrations, is not able to set a date for achieving it. But the aid programme is now growing in real terms and its quality is high.

- Q.6. What percentage of GNP will aid be in 1991?

I leave economic forecasting to my right honourable and learned Friend the Chancellor. My concern is to ensure that a growing aid programme is used to greatest effect.

- Q.7 How has UK economic growth affected the GNP target?

Since 1980 the UK has grown by more than any other major EC country. Over the previous two decades the UK was bottom of the growth league. In 1987 it is provisionally estimated to have grown by nearly 4½ per cent - faster than any other major industrial country.

We are about to enter our eighth successive year of steady growth at an annual average rate of 3 per cent. This would be the longest period of steady growth at a satisfactory/healthy rate for half a century.

AID VOLUME

- Q.8 Size of the aid programme?

We have a substantial aid programme, amounting to £1305 million in the current financial year. It is planned to grow by £70 million in 1989/90 and £115 million in 1990/91, an increase of 1% in real terms over the figure for 1987/88.

- Q.9 Do not OECD figures show that UK aid fell by 32 per cent in real terms in 1979-86?

Aid programme spending, which is what counts, fell by only 15 per cent. Since 1982/83 its real value has been more than maintained. It is now planned to grow in real terms.

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AID SHARE OF TOTAL PUBLIC EXPENDITURE

- Q.10 Restore aid share of total public expenditure to 1979/80 level of 1.1 per cent?

There is no merit in fixing aid in terms of a particular share of total public expenditure. We now have an aid programme that is growing in real terms. We must ensure that it is as effective as possible.

- Q.11 Why has aid share of public expenditure fallen?

When the Government took office in 1979 priority was to control public expenditure. Other commitments and demand-led programmes meant some programmes had to be cut more than average. Since 1982/83 aid share of total public expenditure has remained broadly consistent. It is now planned to grow.

EFFECTIVENESS/QUALITY

- Q.12 What grounds do you have for satisfaction over effectiveness?

The quality of our aid programme was recognised by the OECD at the 1986 British Aid Review - and also by the Foreign Affairs Committee's Report last year on Bilateral Aid. We support sound projects and programmes geared to the real needs of developing countries. Some 80 per cent of British aid goes to low-income countries: a higher proportion than for OECD donors generally. Aid to the poorest countries is given on grant terms.

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INTERNATIONAL INITIATIVES

Q.13 Chancellor's Debt Initiative

A three point plan. First, conversion of aid loans to grants; second, extension of repayment and grace periods; and third, lower interest rates on official debt rescheduled through the Paris Club. The UK has already written off £263 million of aid loans for 14 African countries. More creditors are now following our example. Ten debtor countries have also negotiated rescheduling of official debt over periods of 15 to 20 years in the Paris Club. Discussions with other creditors on interest rate reductions continue. We continue to take every opportunity to press other creditors to accept interest-rate concessions, as specifically recommended by the Wass report.

Q.14 IMF's Enhanced Structural Adjustment Facility?

We are making the largest single contribution to the subsidy account for the IMF's Enhanced Structural Adjustment Facility, by providing an interest subsidy sufficient - at present interest and exchange rates - to subsidise new lending of up to about £750 million.

Q.15 What has the Government done to help the poorest and most heavily indebted countries?

A great deal. The Chancellor's initiative launched in April 1987, and commended by the Wass report, is directly aimed at relieving the debt burden of the poorest, most heavily indebted countries in sub-Saharan Africa, which are pursuing sound economic policies. His proposals have attracted considerable support. The Government is making a very substantial contribution to the IMF's Enhanced Structural Adjustment Facility. It has also committed resources to the World Bank's special programme of assistance for low income debt distressed countries in sub-Saharan Africa following agreed adjustment programmes.

## PQ FROM THE LORD HATCH OF LUSBY: AID AS A PROPORTION OF GNP

Background Note

Aid as a percentage of GNP is a standard yardstick for measuring the size of an aid programme against a country's economic strength. The 1970 UN General Assembly adopted a Development Strategy for the Second UN Development Decade (1971-80) which inter alia called for aid flows, classified as net official development assistance, to be at least 0.7% of the gross national product (GNP) at market prices of the donor country. Britain accepted the UN target in principle but has never set a timetable for achieving it.

2. Lord Hatch probably intends to draw public attention to Britain's aid/GNP figure for 1987 and to compare it unfavourably with those of European Community countries. The Minister for Overseas Development announced the former in the House of Commons on 23 May in a written reply to a Question from Ms Lestor. It was strikingly low, comparing with 0.31% in 1986, 0.35% in 1980 and 0.52% in 1979. However, as Mr Patten explained, it reflected the strong growth in the UK economy last year and the fact that expenditure in the calendar year 1987 was lower than expected as a result of an unusually high proportion of financial year 1987-88 expenditure falling in the quarter ending 31 March 1988.

3. Exact aid/GNP figures for all EC countries are not available. Those EC members which belong to the OECD's DAC are responsible for the annual submission of such figures for subsequent publication by the DAC. We have just informed the DAC of our aid/GNP figure for 1987. Other DAC members are doing the same, but DAC will not publish a complete set, including those for EC members, until the end of June. The most recent year for which aid/GNP figures for all eight EC members of DAC are available is therefore 1986.

4. Dr Thomas, MP tabled a similar Question in the Commons on 9 May, but also asked for the aid/GNP average for EC countries as a whole. Since then, Britain's aid/GNP figure for 1986 has been revised downwards from 0.32% to 0.31% following an upward revision of that year's GNP (and the House of Commons has been informed). This does not however affect the answer that Mr Patten gave Dr Thomas on this point.

5. The run of aid/GNP figures since 1979 shows a marked decline. But it is in one sense misleading. The aid/GNP figure for 1979 took account of much higher than usual deposits of promissory notes. In terms of expenditure, aid in 1979 represented only 0.42% of GNP. British aid expenditure did, it is true, fall by some 17% in real terms between 1978-79 and 1982-83, when the priority was to control public expenditure, get inflation down and put the economy on the road to recovery. But between 1982-83 and 1987-88 our aid more than maintained its real value and it is now planned to grow in real terms.

	1979	1987	1982	1983	1984	1985	1986
Malawi	1,470	2,050	2,600	2,100	2,800	2,300	—
Malawi sugar	1,100	1,500	770	770	1,200	1,940	—
Swaziland	1,300	1,800	380	840	1,200	900	—
Tanzania	4,240	5,980	5,640	4,070	6,320	5,420	—
Zambia	3,410	4,060	3,200	1,340	2,740	3,630	—
Zimbabwe	1,560	510	1,340	1,900	5,120	760	—
Total	17,200	17,040	18,390	14,910	29,090	23,050	21,000

Note: Figures for 1979 are not available; 1986 figures are not yet available in detail.  
Source: ODA estimates based on OECD statistics using 1987 GDP deflator.

Miss Lester: To ask the Secretary of State for Foreign and Commonwealth Affairs what was the level of official development assistance in 1987.

Mr. Chris Patten: We have today informed the development assistance committee of the Organisation for Economic Co-operation and Development that in 1987 net official development assistance as defined internationally was estimated to be £1,151 million. As a proportion of GNP it was equivalent to 0.28 per cent.

The net official development assistance figure for the calendar year 1987 compares with a net public expenditure provision for overseas aid of £1,247 million in the financial year 1987-88. The figure of net official development assistance as a proportion of GNP for 1987 reflects the strong growth in the United Kingdom economy last year and the fact that expenditure in the calendar year 1987 was lower than expected as a result of an unusually high proportion of financial year 1987-88 expenditure falling in the quarter ending 31 March 1988.

Increases in the aid programme announced in this year's public expenditure White Paper mean that aid is now planned to grow in real terms. The aid budget for this financial year is £70 million higher than for last year—an increase of 5.7 per cent, which is considerably in excess of the expected rate of inflation. The planned aid budgets for 1989-90 and 1990-91 provide for increases of £140 million and £185 million respectively over the budget for last year.

## ENERGY

### Nuclear Power

Dr. Thomas: To ask the Secretary of State for Energy if he will make a statement on his policy towards the development of nuclear power in the light of the report and recommendations of the Trades Union Congress review committee on nuclear power, published on 3 May, a copy of which has been sent to him.

Mr. Michael Spicer: The Government's policy on the development of nuclear power is as stated in the reply given by my right hon. Friend to the hon. Member for Wells (Mr. Heathcoat-Amory) on 17 December 1987 and in the White Paper "Privatising Electricity" (Cm. 122). I welcome the recognition given by the Trades Union Congress review committee to the importance of nuclear power.

### Uranium

Dr. Thomas: To ask the Secretary of State for Energy if he has given permission for the United Kingdom Atomic Energy Authority for the import of Namibian uranium since May 1979.

Mr. Michael Spicer: The United Kingdom Atomic Energy Authority has imported no uranium from Namibia during this period.

Dr. Thomas: To ask the Secretary of State for Energy whether (a) the Central Electricity Generating Board, (b) the South of Scotland Electricity Board, (c) British Nuclear Fuels Ltd. or (d) the United Kingdom Atomic Energy Authority has sought permission and safeguards arrangements for the import of uranium from (i) Namibia and (ii) the Republic of South Africa, either directly or through a second or third country, since May 1979.

Mr. Michael Spicer: Uranium for the United Kingdom's civil nuclear programme has not been imported from South Africa since 1973 or from Namibia since 1984. British Nuclear Fuels plc receives uranium ore concentrate from overseas customers for processing and re-export. The origin of such uranium is a matter for its customers who remain the owners of the material.

All uranium imported into the United Kingdom for these purposes is subject to Euratom safeguards and to the terms of the UK/Euratom/IAEA safeguards agreement.

### Mersey Barrage Co. Ltd.

Mr. Wareing: To ask the Secretary of State for Energy if he will make a statement on the visit by the Parliamentary Under-Secretary of State, the hon. Member for Worcestershire, South (Mr. Spicer), to Liverpool to hold talks with the Mersey Barrage Co. Ltd.

Mr. Michael Spicer: I visited Liverpool on Tuesday, 17 May, to make a joint announcement with the Mersey Barrage Company of a £1.3 million extension to studies of a possible Mersey barrage. The money will be used to finance further work on the engineering, economic and environmental aspects of the proposed barrage. Funding will be on a 50/50 basis between the Government and the Mersey Barrage Company.

Whilst in Liverpool I also took the opportunity to meet members of the Mersey Enterprise Forum and representatives of the shipping and environmental groups whose interests are likely to be affected by a barrage construction.

### Advanced Gas-cooled Reactors

Mr. Jack: To ask the Secretary of State for Energy if he will list in the *Official Report* the designed generating capacity for each advanced gas-cooled reactor, the actual outputs currently being achieved, the reasons for any differences and details of the tinetables and actions planned to rectify current operating difficulties.

Mr. Michael Spicer: These are operational matters for the Central Electricity Generating Board, and I have asked the chairman to write to my hon. Friend.



(3) what representations he made to the United States, South African, Angolan and Cuban Governments before or during the recently concluded meeting in London about the situation in Angola;

(4) what assessment he has made of the implications for United Kingdom policy on the maintenance of stability in southern Africa of the South African Government's reaction to the recently concluded meeting in London about the situation in Angola;

(5) what is Her Majesty's Government's policy on proposals to link the search for a solution in Angola with an internal settlement in Namibia;

(6) what assessment he has made of the implications for United Kingdom policy on the maintenance of stability in southern Africa of the non-involvement of SWAPO in the recently concluded meeting in London about the situation in Angola; and if he will make a statement;

(7) what is Her Majesty's Government's policy towards the revival at the recent London meeting of the 1978 United Nations' plan for a solution in Angola; and if he will make a statement;

(8) what assessment he has made of the implications for United Kingdom policy on the maintenance of stability in southern Africa of the differing timetables for Cuban withdrawal from Angola envisaged by the South African and Cuban Governments;

(9) what representations he proposes to make to the Governments of the United States, South Africa, Cuba and Angola before their next meeting about the situation in Angola.

Mrs. Chalker: We were not directly involved in the talks held in London on 3-4 May, and it is not for us to comment on the details of them. However, we are encouraged by the progress made and the agreement by all parties on a further meeting in Africa. My right hon. and learned Friend, my hon. Friend the Parliamentary Under-Secretary and senior officials held bilateral meetings with members of all delegations. We support the US-led process designed to secure the withdrawal of Cuban troops from Angola and the implementation of the UN plan for Namibian independence. Withdrawal of all foreign troops from Angola, together with implementation of UN Security Council resolution 435, would contribute substantially to the stability of the region. We encourage all those involved in the search for peace to continue their efforts.

Mr. Hunter: To ask the Secretary of State for Foreign and Commonwealth Affairs what representations he has made, or proposes to make, to the Soviet Union following the recently concluded meeting in London about the situation in Angola.

Mrs. Chalker: We would expect the subject to arise in our regular contacts with the Soviet Union.

#### PRIME MINISTER

Michael Tigue

Mr. Dulyell: To ask the Prime Minister what steps she has taken to satisfy herself of the existence and validity of the legal authority under which a bug was placed in the bay where Michael Tigue was killed, and if she will make a statement.

The Prime Minister: It is not the practice to comment on security matters.

## OVERSEAS DEVELOPMENT

### Overseas Development (GDP)

Dr. Thomas: To ask the Secretary of State for Foreign and Commonwealth Affairs what information he has as to what proportion of gross domestic product each of the member countries of the European Community devotes to overseas development; and what is the average for the European Community Countries as a whole.

Mr. Chris Patten: Precise figures are only available for the eight European Community countries which belong to the OECD development assistance committee (DAC) and in respect to gross national product (GNP). According to the DAC chairman's 1987 report "Development Cooperation" the figures for 1986 are as follows:

#### Net official development assistance (oda)

	As percentage of GNP
Belgium	0.49
Denmark	0.39
France	0.72
Germany	0.43
Ireland	0.23
Italy	0.40
Netherlands	1.01
United Kingdom	0.32

The net overseas development assistance of these eight countries represents 0.51 per cent. of their combined GNP.

### Southern Africa (Aid)

Mr. Anderson: To ask the Secretary of State for Foreign and Commonwealth Affairs what were the levels of United Kingdom aid to (a) Mozambique and (b) Angola in the last year.

Mr. Chris Patten: Figures for 1987 are still provisional, but gross British bilateral aid to Mozambique was about £23 million and to Angola about £250,000.

### Ethiopia

Mr. Barry Field: To ask the Secretary of State for Foreign and Commonwealth Affairs if he has any current plans to visit Ethiopia.

Mr. Chris Patten: I have no current plans to make a further visit to Ethiopia. I had hoped to do so last month, but the Ethiopian Government told me that this would not be convenient at present. They expressed the hope, which I share, that I would be able to visit at a mutually convenient time in the future.

### Mozambique

Mr. John Evans: To ask the Secretary of State for Foreign and Commonwealth Affairs if he will make a statement on the effectiveness of Britain's aid allocation to Mozambique.

Mr. Chris Patten: Our aid programme is welcomed and highly regarded by the Government of Mozambique. Aid from Britain and other donors in support of the Government's economic reform programme has been a factor in Mozambique's estimated 4 per cent. growth in GDP in 1987 and in helping Mozambique to limit the worst effects of the emergency.

have also decided, subject to the satisfactory completion of the improvements to the Tate's archive storage accommodation, to allocate the archives of the late Lord Clark to the Tate gallery.

Finally, 10 portrait miniatures accepted from the estate of the late right hon. Viscount Harcourt have been allocated; nine to the Victoria and Albert museum and one, a portrait of Mary Sidney, Countess of Pembroke, to the National portrait gallery.

## OVERSEAS DEVELOPMENT

### Fiji

Miss Lestor: To ask the Secretary of State for Foreign and Commonwealth Affairs what projects are run in Fiji by the Commonwealth Development Corporation, what money is involved in each of them, and what periods the commitments cover.

Mr. Mellor: The Commonwealth Development Corporation is now involved in seven projects in Fiji. It has either provided loan money or taken up equities in each project. The companies or institutions involved, with the amounts, are as follows:

Position at 31 December 1987

	Equity Fiji \$ million	Loan £ million
Fiji Citrus Products	0.23	0.32
Fiji Development Co Ltd	0.55	0.94
Fiji Electricity Authority	—	13.15
Fiji Pine Commission	—	3.61
Fiji Sugar Corporation	—	4.02
Tropic Wood Industries Ltd	1.00	4.15
Fiji Forest Industries Ltd	—	1.35
<b>Total</b>	<b>1.78</b>	<b>27.54</b>

The equities are not held for any set term. The loans have agreed terms for payment of capital and interest to CDC over varying periods up to the year 2000. The CDC is also negotiating a loan of £5 million to the Fiji Development bank, for on-lending to small farmers and fishermen, to be disbursed by CDC between 1988 and 1991.

Miss Lestor: To ask the Secretary of State for Foreign and Commonwealth Affairs if there has been any new technical co-operation with Fiji since May 1987.

Mr. Mellor: Technical co-operation with Fiji concentrates on manpower support and training. Since May 1987, 17 new awards for training in the United Kingdom have been made and the following new appointments in Fiji have been financed or supplemented from the bilateral country programme:

Financial Adviser to Posts and Telecommunications  
Director, Roads and Airfields  
Principal Utilisation Officer, Forestry  
Director, Water and Sewage.

Miss Lestor: To ask the Secretary of State for Foreign and Commonwealth Affairs what has been the level of United Kingdom aid to Fiji since May 1987; and if he will give figures for the equivalent period for 1986-87.

Mr. Mellor: Assistance to Fiji from the Overseas Development Administration from May 1987 to the end of March 1988 totalled £971,938. The amount for the

equivalent period in 1986-87 was £1,003,972. This excludes expenditure by the Commonwealth Development Corporation.

### Ethiopia

Miss Lestor: To ask the Secretary of State for Foreign and Commonwealth Affairs what development aid has been given to Ethiopia by the European Community in the last year; and what has been the United Kingdom contribution.

Mr. Mellor: In 1987 the European Community approved three development projects for Ethiopia under the third Lomé convention, namely:

	£ million
<i>Grant funding</i>	
—Integrated training programme linked to the development of the rural sector	4.9
—North Shewa rural development and land reclamation programme	15.6
<i>Risk capital (managed by the European Investment Bank)</i>	
—Development of an opencast gold mine and or treatment plant at Northern Lega Dambi, Sidamo Province	14.5
<b>Total</b>	<b>36.0</b>

The United Kingdom share of the total funding is about £6 million.

Miss Lestor: To ask the Secretary of State for Foreign and Commonwealth Affairs if he will list any new aid projects, and any new programme aid agreements for Fiji approved since May 1987.

Mr. Mellor: There have been no financial aid projects or programme aid commitments either from the bilateral country programme or by the Commonwealth Development Corporation. Our bilateral country programme now consists of technical co-operation alone.

### UN Aid Target

Mr. Tom Clarke: To ask the Secretary of State for Foreign and Commonwealth Affairs if, pursuant to the answer of 6 May, *Official Report*, column 639, to the hon. Member for Epping Forest (Sir J. Biggs-Davison); he will tabulate progress made in 1979 in reaching the United Nations aid target of 0.7 per cent. of gross national product.

Mr. Mellor: The information is as follows:

	Percentage of gross national product (GNP)
1979	0.52
1980	0.55
1981	0.43
1982	0.37
1983	0.35
1984	0.33
1985	0.33
1986	0.31

\* Revised from 0.12 per cent.

RESTRICTED



Foreign and Commonwealth Office

London SW1A 2AH

2 June 1988

Nigel Wicks Esq CBE  
No 10

*Dear Nigel.*

DRUGS

I shall be sending you later today a quick commentary on the US paper for the Summit which arrived yesterday. Meanwhile I thought you might like a pirate copy of a Private Secretary letter to No 10 that the Secretary of State has seen and approved, and which will issue today. It responds to Charles Powell's queries in his note recording Mulroney's meeting with the Prime Minister.

*Yours ever.*

*Tom*

T L Richardson  
Economic Relations Department  
270 2670

Att

RESTRICTED

From: T L Richardson

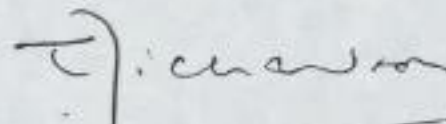
Date: 31 May 1988

PS

cc: NCAD  
Mr Braithwaite

PRIME MINISTER/MULRONEY MEETING. DRUGS AND MONEY LAUNDERING

1. On page 3 of his letter of 23 May recording this meeting, Mr Powell said he would be grateful if the Treasury could provide a note on UK powers to prevent the laundering of drug money.
2. This is very much a FCO subject on which ERD leads. We have agreed with the Treasury that we should provide the note, which Sir Geoffrey Littler has seen and approved in draft. It has also been cleared with the Home Office, who have a major interest in these subjects.
3. I submit a draft reply to No 10.



T L Richardson  
Economic Relations Department  
WH 417 270 2682

RSIAMV

## RESTRICTED

DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:

Reference

DEPARTMENT: Private Secretary, FCO  
TEL. NO:

RS1AMU

BUILDING:

ROOM NO:

Your Reference

## SECURITY CLASSIFICATION

TO:

Copies to:

Top Secret

C Powell

Secret

No 10

Confidential

Restricted

Unclassified

SUBJECT:

## PRIVACY MARKING

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

..... In Confidence

## CAVEAT .....

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

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

3. The DTOA allows these powers to be made available to other countries once they have been designated under the Act by Order in Council. Our policy is to designate countries with which we have negotiated reciprocal agreements that enable

Enclosures (tag(s)) .....

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UK court orders and requests for assistance to be put into effect overseas. It is also our aim, by having such agreements in place, to avoid any potential extraterritorial problems; in particular with the Americans.

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

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

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laundering. Consultations on a draft are currently in progress with banks and official bodies.

6. I am copying this letter to Alex Allen (HM Treasury), and to Sir Robin Butler.



*With the compliments of*

1 CP  
2 pm

**ECONOMIC RELATIONS  
DEPARTMENT**

**FOREIGN AND COMMONWEALTH OFFICE  
LONDON SW1A 2AH**





f)C

PRE-TORONTO SUMMIT CONSULTATIONS

REMARKS

BY

THE RIGHT HONOURABLE BRIAN MULRONEY

PRIME MINISTER OF CANADA

TO

CANADIAN BUSINESS LEADERS

OTTAWA

1. cc ~~to [redacted]~~  
No 10

(in case he  
hasn't seen)

JUNE 1, 1988

for R. [redacted]

for J. [redacted]

2. to Bremer

14/6

## Introduction

I would like to thank you for taking the time to come to Ottawa for these consultations. They follow on my consultations last week with European leaders and a meeting I had yesterday with labour leaders from all seven Summit countries. Next week, I will be meeting with representatives of the Canadian agricultural sector.

The views of the business community are important to me. It is you who are most immediately affected by the economic decisions of the Summit. The continuing objective of economic Summits is to strengthen market forces and economic growth, not only in our own countries, but on a global basis. We do not expect spectacular results from the Toronto Summit, but rather a continuing commitment to policies favouring sustained non-inflationary growth, while international trade and current account imbalances unwind.

## European Consultations

During my meetings last week with five Summit leaders, the changes I suggested in Summit format were enthusiastically endorsed:

- A return to the origins of Summits, with more spontaneity,
- Focus primarily on economic issues, specifically:
- A first Summit session for leaders to set the economic priorities for the Summit.
- A session among leaders alone on the second Summit day to discuss long-term issues.

Our agenda for the meeting has also been endorsed.

We have registered important messages on: the Uruguay Round and its mid-term review in Montreal later this year; agriculture; the FTA; and debt, particularly African debt.

I cannot forecast what will emerge on the issues at the Summit. But I can now assure you that these are likely to be the main themes at Toronto.

Our objective will be to return to fundamentals, conveying signals of confidence to the markets and to restore credibility to the Summit process. During the new session among leaders on long-term issues, I will raise education, in relation to productivity, product training research and development and science and technology. Although the focus of the Summit will be squarely on economic issues, political issues will be discussed: clearly, the overarching theme will be East-West relations.

#### International Economic Situation

The Canadian economy continues to grow at a strong rate, and prospects are bright. My government has introduced a number of key reforms which will support our dynamic private sector. The Free Trade Agreement with the United States will provide major opportunities for Canadian businesses and investors. And our other policies, such as tax reform, privatization and deregulation, will also help to make the Canadian economy more competitive.

Structural reform is the principal economic policy theme of the Summit. I told European leaders the FTA will be a major catalyst for structural adaptation in Canada. As the second cycle of these Summits comes to a close, the world economy is in its sixth year of growth. The major trade imbalances are starting to be corrected. Inflation remains low. The economic Summits have worked well. They have produced cooperative economic policies supportive of non-inflationary growth.

In Toronto, we will be discussing the international economic situation. I am, on balance, optimistic about the international economic outlook. Certainly, prospects are much better than they appeared six months ago. However, while the short-term outlook looks

quite encouraging, the medium term is more worrying. The large trade and current account imbalances are starting to unwind, but this process will be slow.

In Europe, I stressed the need for the Summit countries to continue to improve economic policy cooperation. Important progress has been made on this front during the past year. We managed the fall-out of the October stock market upheaval through impressive coordination by our G-7 Finance Ministers and central banks, with satisfactory results. Our challenge in Toronto will be to build on that progress to restore market confidence.

At present, it may be difficult Summit-wide to achieve more progress on the fiscal front. The United States government in particular is unlikely to act further in view of the forthcoming election. Thus, as I have mentioned, structural reform will assume an increasingly important role. Canada's record here is very strong, as Mrs. Thatcher has said. But, as I told labour leaders yesterday, we must continue to remove obstacles to market forces and to stimulate the private sector.

#### Trade and Agriculture

Despite the encouraging global economic situation, protectionist pressures remain strong. Movement on trade matters, especially on agriculture, is critically important, and is a major Canadian priority for the Toronto Summit. Following the OECD Ministerial, we want the Summit to give impetus to a mid-term review conference of the Uruguay Round, to be held in Montreal next December. This will give a signal to governments and to the business community of a real commitment to trade liberalization by Summit leaders.

Agriculture will be a key issue. Urgent action is needed on agricultural trade. We are working together with the Cairns Group of agricultural exporting nations to achieve an agricultural cease-fire and real disarmament in this field. The Summit must provide further impetus to this process. However, my discussions last week with European leaders have shown this will not be easy.

Canada is interested in solutions. In some cases, the European attitudes are less committed to reform. In the MTN, we also need to make progress on enhancing market access, strengthening the GATT and on trade in services, a new and very important component of this round. I would be interested in your views on this.

#### The International Debt Situation

We hope to make progress on the international debt situation. A lot has been done because of the Venice Summit for the poorest, especially in Africa. More is needed. We thus support concessional interest rates in the Paris Club for rescheduled official export credits. Unfortunately, for the moment, there is a deadlock on this question. However, we have proposed a compromise solution and I am hopeful of progress soon.

The debt issue is one on which I placed emphasis in Europe. It is also a priority for several other Summit leaders, such as Mrs. Thatcher and Mr. Mitterrand. Mr. De Mita is highly sympathetic too. We are also encouraging our Summit partners to improve their aid performance in these countries. For the middle-income debtors, we'll be looking to strengthen the implementation of our current case-by-case strategy. Support for the U.S. Administration's effort to get the World Bank general capital increase through Congress will be important. We will also encourage indebted countries to persevere in their economic reform programs. And we will pledge our support to the growing list of financial options available to banks in the "menu" we endorsed at Venice.

Considerable effort is going into seeking new approaches to the debt problem. While we understand the phenomenon of "debt fatigue" on the part of debtor countries and creditor banks, we do not see any viable alternative for the major debtor countries and commercial banks to an incremental approach which builds on the existing case-by-case strategy through the addition of market-based solutions.

Office of the  
Prime Minister



Cabinet du  
Premier ministre

4C

NOTES FOR AN ADDRESS

BY

THE RIGHT HONOURABLE BRIAN MULRONEY

PRIME MINISTER OF CANADA

BEFORE THE CANADIAN MANUFACTURERS ASSOCIATION

QUEBEC, QUEBEC

JUNE 2, 1988

Check Against Delivery

I was delighted to accept your gracious invitation to participate in the 117th annual meeting of the Canadian Manufacturers Association. The CMA is nearly as old as Confederation itself, and it has grown with the country. Your 3,000 members represent some 75% of the manufacturing output in Canada, and provide jobs for nearly two million Canadians.

Manufacturing is now, and has always been, the motor of our economic growth. Canada's manufacturing sector accounts for fully one-fifth of our national output, some \$100 billion a year. Manufacturing is far and away the largest sector in the country, and its importance has increased, rather than diminished, over the years.

And so I am honoured to be with you today, though I am not the first Prime Minister who has met with the CMA. More than a century ago, as Michael Bliss tells it in northern enterprise, his epic history of Canadian business: "Sir John A. used to meet with members of the Canadian Manufacturers Association in the billiard room of the Queen's hotel in Toronto to exchange mutual promises of support." I have not been in a pool room since my youth in Baie Comeau, and then only for educational purposes. But I did receive a warm invitation from your Chairman, reminding me that "the CMA has consistently supported your position, because we believe that your basic policy agenda is right." So while the surroundings and the issues may have changed, the Prime Minister still enjoys the support of the CMA, and I must say that Sir John A. would have approved.

I wanted to talk to you today about the performance of the Canadian economy, the record of the present government, the prospects for future prosperity under the Free Trade Agreement, and the agenda for this month's Economic Summit in Toronto.

It is not before this audience that I need to dwell on the difficult financial situation we inherited from our predecessors. Our challenge was to get the nation's finances under control, and get the country moving in the

right economic direction. By any objective measure, we are doing that. We have reduced the deficit from more than \$38 billion when we took office, to less than \$29 billion today. As a consequence, interest rates have fallen. Lower interest rates are one of the reasons Canada's consumer spending is up sharply -- up 36% since the election. With lower interest rates and a hospitable investment regime, we've attracted \$21 billion in new investment to Canada. Unemployment was 11.7% when we formed a government and today it stands at 7.7%, its lowest level in seven years.

Since we came to office, Canadians such as yourselves have created nearly a million and a quarter new jobs, the strongest employment growth rate in the western world. In the manufacturing sector the performance has been equally remarkable:

- output in manufacturing is up 13 per cent in past 3½ years.
- employment in manufacturing is up by over 150,000 (nearly 8 per cent) over the same period.
- capacity utilization in manufacturing stood at an estimated 81.7 per cent in the 4th quarter of 1987 -- the highest level of capacity utilization since 1979.
- the rate of return on equity in the fourth quarter of 1987 was 12.7 per cent, the highest rate of return since 1981.
- 1988 intended capital expenditures in manufacturing is estimated at \$18.4 billion - up 23 per cent from 1987, more than double 1984 capital spending in manufacturing.

Canadian manufacturing has come back from the 1981-82 downturn and it has learned something from the experience, that is not enough to have protected markets at home, we need to be competitive in world markets. One third of Canadian manufactured goods are exported, and fully 80% of our manufactured exports go to the United States. So the timing of the Canada U.S.-Free Trade Agreement could not have been more propitious for Canadian manufacturing. And



clearly the manufacturing sector had been thinking about its possibilities and implications from the time we launched the initiative in September of 1985.

I am gratified by the support of the CMA for the Free Trade Agreement. It is an expression of confidence not just in the manner the government concluded the negotiations, but in the future of the manufacturing sector, and in the future of the country itself. As Mr. Thibault wrote to me on November 11: "We believe the improved and secure access to the U.S. market is a critical, necessary building block to achieve our long term objective of becoming internationally competitive." There will be the challenges of adjustment in some sectors, to be sure, but there will also be the opportunities of new markets. The Canadian economy, and the manufacturing sector stand to be major winners in free trade.

The Economic Council of Canada, the nation's leading independent body of economic experts, recently published an impact study on the Agreement. The Council forecasts that 250,000 additional jobs will be created during the first 10 years of the Agreement. It also forecasts additional economic growth of 2.5%, over and above the growth expected in the economy, or \$11 billion of additional economic growth. That means new jobs for Canadians, and new prosperity for Canadian industry. And it means that Canadian manufacturing is going to be a winner.

In the manufacturing sector, Judith Maxwell and her colleagues forecast 1% additional output growth, or about \$1 billion of growth in the manufacturing sector over and above growth in the current economic framework. And the Council forecasts additional employment growth of about 1%, or about 20,000 additional jobs in the manufacturing sector. The Council believes there are significant new opportunities for printing and publishing, for primary metals such as steel and aluminium, for the wood industries, and for the food and beverage industry.

I note that in your endorsement of the Agreement, you stated that your members were "overwhelmingly in favor of the Agreement", and that this was particularly true of manufacturers in Ontario. I am delighted to hear it, but not surprised.

It is appropriate that Canada should be hosting the Economic Summit in Toronto this month. Toronto is a showcase of our economy. It is a full employment city -- unemployment in Toronto stands at 3.2%, the lowest in nearly 14 years. I believe a good and appropriate signal this year from Summit leaders will be that they are committed -- committed to the task of managing the international economy. Canada will speak with a strong voice and with conviction in Toronto. Our voice will be heard on the issues that affect us as a trading nation, but also the ones that touch our conscience. Allow me to expand for a few moments on each.

Compared to the situation we faced only three years ago, Summit countries have made good progress in coming to grips with the large external imbalances that have developed. The U.S., Japan and West Germany have, with some success, taken important policy steps to address those imbalances. Our government gained admission for Canada to the G-7, and the group of Seven Ministers have been doing important work. Fiscal and monetary policies of the leading industrial nations are more compatible than they have been for some time.

One of the important areas for particular attention this year is the pursuit of structural reform. In this regard Canada's record is strong. Tax reform, privatization, deregulation, and free trade are examples of initiatives that provide Canadian business with a better framework to compete, at home but in tough world markets as well.

Summits play a vital role in leading the international fight against protectionism. The Uruguay Round, launched following the Tokyo Summit of 1986, is the most ambitious since the GATT was formed. The task for the Summit this year is to move the Uruguay Round ahead, and specifically to give momentum to the mid-term review conference which we will host in Montreal next December.

One of the most important items on the MTN agenda is agricultural trade. In recent years, we have made agricultural reform a top priority in summits, in the OECD

and elsewhere. I first introduced the subject in the Summit forum at Tokyo in 1986, and I raised it last week in pre-Summit consultations with my European colleagues.

The debt burden of many developing countries, now totalling more than \$1 trillion, greatly preoccupies Canada. Most debtors and creditors, including Canada, continue to work within the framework of a cooperative, multilateral strategy which has evolved since the onset of these problems in 1982. Utilizing a case by case approach to each country's situation, the strategy combines economic reforms by indebted countries with financial support from external creditors and donors. If the strategy is to work, however, attention must be focussed on further improving its implementation. Commercial banks need more encouragement - and confidence - to continue providing financing to debtor countries which implement appropriate adjustment programs.

The Venice Summit last year called for the expansion of the structural adjustment facility of the IMF to provide concessional financing. Since last year's Summit, the World Bank has been able to marshall commitments of U.S. \$6.7 billion for co-financing of adjustment programs in the poorest countries of Sub-Saharan Africa. Adding to this momentum, Canada announced at the Francophone and Commonwealth Summits last fall that it would forgive debts associated with development assistance loans for 13 countries in Sub-Saharan Africa. If the other Summit countries took similar measures, the ODA debt of the poorest of the poor African nations would be reduced by 15%. We will strive for more in Toronto and I am encouraged by the response I received last week from my European colleagues on this topic.

I want, finally, to say a word about environment and education, two international issues of great moment which will tell us a lot about the kind of world we're going to have, and Canada's place in it in a new decade and a new century. We can no more examine these issues in isolation

than we can our economic concerns; indeed our approach to both issues is crucial to our economic development. Acid rain is a transboundary problem in Europe, just as it is in North America. The deterioration of the ozone layer is an issue for the entire world. Environmental protection and economic development are mutually reinforcing, not mutually exclusive.

In this regard, I count on the manufacturing sector to be increasingly conscientious users of our environment. The environment, and environmental research, are also growth sectors of our economy, in consulting, design and manufacturing. It's a well kept secret, but there are over 100,000 jobs and at least \$7 billion of economic activity, in the environmental sector of our economy. That's not a bad thought for Environment Week -- the environment is not only good for you, it is a growth area of our economy.

As for the imperatives of education, they are compelling and clear, and will raise the issue of education with my colleagues at the Toronto Summit. A nation's productivity may end on the assembly line, but it begins in the classroom. If we are to remain competitive, if we are to meet the Pacific challenge and that of the European Community, we will need higher math scores, greater language proficiency, and higher reading and reasoning skills. And we must urgently address the issue of literacy, if we are to meet the international competitive challenge. Adult illiteracy is one of the silent tragedies of our age. One in four Canadian adults is functionally illiterate. It means millions of Canadians have difficulty in reading to their children, and difficulty in reading training manuals.

Consider the sadness of that in human terms, and the loss of productivity. The sadness is immeasurable, the productivity loss is measured in the billions of dollars. A study by the Business Task Force on literacy published in February of this year concluded that illiteracy has direct and indirect business costs estimated at \$4.5 billion. It further concluded that illiteracy leads to increased accidents, lost productivity, increased unemployment and more extensive training costing Canada \$10 billion a year.

You know the problems, you see them in your workplaces every day. In the federal government, we have funded a literacy secretariat, and we will be doing more. That is part of our goal of building a Canada that is prepared to meet the competitive challenges of a new decade and a new century. That's the essence of the free trade debate. I urge you all to get involved. Help us win a more prosperous future for our youth. Help us create employment opportunities for our people. Help us achieve equality and dignity for working women. Help us obtain justice for Canadian consumers. Help us win markets for Canadian producers. Help us build a Canada celebrated for its competitive excellence.

Help us build a Canada that is open to the world. Help us, in every corner of the land, to take this cause to the Canadian people.

I ask for your help, I need your help, and the help of Canadians everywhere, as we turn another page in our history, and move on to a new decade and a new century.

Canadian High Commission



Haut Commissariat du Canada

Macdonald House  
1 Grosvenor Square  
LONDON W1X 0AB

June 1, 1988

Dear Charles

Further to our telephone conversation, I am enclosing some material on the Canadian economy for use in preparing Mrs Thatcher's speech to Parliament on June 22. We will also chase up Derek Burney in case he has any other material that may be helpful.

Yours very truly

  
R Roy McMurtry  
High Commissioner

Mr Charles Powell  
Private Secretary to the  
Prime Minister  
Prime Minister's Office  
10 Downing Street  
LONDON SW1A 2AA

# The Economy in Brief

A Quarterly Publication of the Department of Finance

March 1988

## Highlights of the Fourth Quarter

- *Real gross domestic product (GDP) rose at an annual rate of 6.3% in the fourth quarter. Final domestic demand expanded by over 7%, outpacing real GDP for the sixth consecutive quarter. For 1987 as a whole, real output grew by 3.9% - substantially faster than was anticipated by most forecasters last year.*
- *Business non-residential investment spending in real terms was the most buoyant component of final domestic demand during the quarter, increasing by 30%. For the year, business investment rose 9.2% and is expected to grow even more rapidly in 1988, according to the Private and Public Investment Intentions (PPI) Survey just released.*
- *Consumer price inflation slowed throughout the second half of 1987. Inflation in the fourth quarter was lower in Canada than in the United States. Labour cost increases remained moderate in 1987.*
- *Employment surged 4.2%, or by 486,000 jobs, in 1987 and the unemployment rate declined 1.6 percentage points during the year to 8.1%. Another 95,000 jobs were created in January and February and the unemployment rate fell to 7.8%.*
- *The Canadian dollar has gained steadily against the U.S. dollar over the last year, reaching above U.S. \$0.79 in February. On a trade-weighted basis, the dollar has also appreciated, although less so. By early March, the dollar had moved above U.S. \$0.795.*

## Summary

The Canadian economy performed very well in 1987. Growth in real output (GDP) was 6.3% at annual rates in the fourth quarter, bringing real GDP to a level 5.7% higher than a year earlier. On average for the year, real GDP expanded by 3.9%. The strength in 1987 was clearly reflected in labour markets as employment posted another sharp increase. The unemployment rate dropped from 9.7% at the beginning of 1987 to 8.1% by year-end.

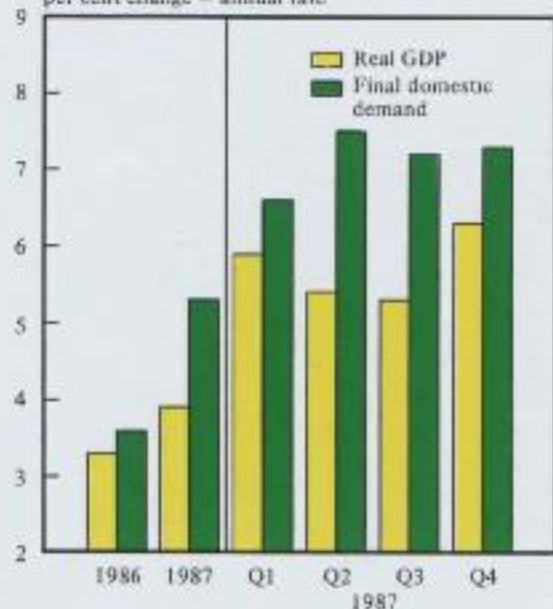
The strength of the Canadian economy in 1987 was domestically based, and this trend continued in the fourth quarter (Chart 1). Neither consumption nor investment showed any evidence of a negative effect from the October stock market decline. Consumer spending was up sharply in the fourth quarter, and real business non-residential investment soared 30%.

Over the last four quarters, real business investment has risen 19%. According to the March 1988 PPI survey by Statistics Canada, business investment spending in real terms is expected to register a double-digit increase on average in 1988.

Chart 1

### Real Gross Domestic Product and Final Domestic Demand

per cent change - annual rate



Canada

Chart 2  
Nominal Business Non-Residential Investment Intentions (March PPI)

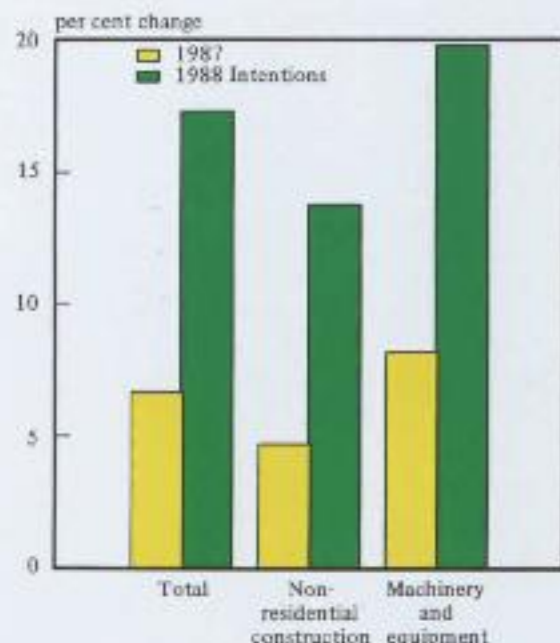
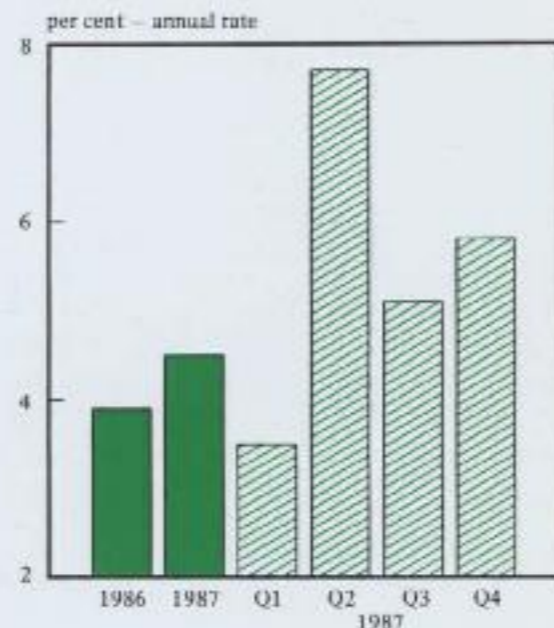


Chart 3  
Change in Real Consumer Expenditure



Residential investment decreased during the quarter as housing starts were down from the very strong pace of the previous two quarters. A significant part of the previous pent-up demand that has driven housing starts to record levels has now been satisfied in some parts of the country.

The continued strength of final domestic demand, particularly business investment spending, was reflected in a significant decrease in the merchandise trade surplus as growth in imports outstripped strongly increasing exports. While a strong terms of trade improvement dampened the impact on the current account, the current account deficit, nevertheless, increased to a record level in the fourth quarter.

Business non-farm inventory investment increased \$4.5 billion in the final quarter of last year, but the inventory-to-sales ratio remained at its trend level. Farm inventory investment, on the other hand, fell \$0.7 billion to \$0.5 billion.

In 1987, consumer prices increased 4.4%, a rate of growth only slightly higher than in the previous three years. After rising sharply to 4.8% in June, consumer price increases moderated throughout the second half of last year to 4.1% in January of 1988. Moderate labour cost increases, slower energy and food price increases and the strength of the Canadian dollar all served to contain and lessen inflationary pressures.

### Robust Business Investment

Business non-residential investment spending in real terms continued to rise at double-digit rates in the fourth quarter, with both non-residential construction and machinery and equipment investment climbing 30%. The current rapid growth in investment is being fueled by a sharp turnaround in corporate profits. Indeed, the share of profits in total GDP rose to its highest level since before the recession. Investment growth is expected to increase in 1988, according to the March PPI Survey by Statistics Canada (Chart 2). Nominal investment expenditures are expected to grow 17.3% in 1988, after a 6.7% increase in 1987, with a strong pick-up in growth in both the resource and non-resource sectors. The broadening of investment growth among sectors and regions is expected to continue in 1988. Indeed, for the first time since 1981, all major sectors and regions are expected to increase nominal investment spending in 1988.

### Consumption Remains Strong

Real consumer expenditure growth continued to contribute very strongly to growth in final domestic demand during the fourth quarter, dispelling fears that the stock market decline would lead to a severe retrenchment of spending (Chart 3). Durable goods spending growth slowed somewhat from an over 10% increase in the previous quarter, but there was a strong pick-up in non-durable goods spending. Nevertheless, growth of personal disposable income exceeded consumer expenditure growth for the first time in four quarters, leading to a rise in the personal savings rate to 8.9% in the fourth quarter from 8.5% in the previous quarter.

### Deterioration of the Current Account

The substantial increase in final domestic demand in 1987, particularly the boom in business investment spending, resulted in a further deterioration of the current account balance. The merchandise trade surplus in real terms decreased \$1.5 billion to \$17.2 billion as a result of very strong growth of imports of finished products, especially motor vehicles, and machinery and equipment. However, Canada's terms of trade improved by 2% during the year, the first yearly increase since 1982. Even though the rise in the terms of trade dampened the effect of the lower trade volume, the current account deficit still averaged \$9.6 billion, slightly larger than in 1986. While the trade balance with the United States worsened in 1987, the deficits with the European Economic Community and Japan improved markedly.

### Dollar Strengthens

The Canadian dollar appreciated against the U.S. dollar throughout 1987, closing the year at U.S. \$0.77, a gain of 4 1/2 cents U.S. The dollar rose a further 2 cents in January and February, bringing the Canadian dollar to over U.S. \$0.79 and, by early March, the dollar was consistently above U.S. \$0.795. This strong increase in the dollar reflects increased confidence in Canada's economic prospects as well as attractive yields on investment. Since the beginning of 1987, the Canadian dollar has appreciated 8.8% against the U.S. dollar and 5.2% against a trade-weighted (G-10) currency basket (Chart 4).

### Main Economic Indicators

(per cent changes at annual rates or per cent levels, unless otherwise indicated)

	1986		1987		1987		1987	
	1986	1987	Q3	Q4	Q1	Q2	Q3	Q4
Real gross domestic product	3.3	3.9	0.4	0.0	5.9	5.4	5.3	6.3
Final domestic demand	3.6	5.3	4.7	1.4	6.6	7.5	7.2	7.3
Consumption	3.9	4.5	7.1	0.3	3.5	7.7	5.1	5.8
Residential construction	14.9	14.9	13.6	12.3	23.1	17.9	15.6	-4.5
Business fixed investment	2.2	9.2	-3.1	3.3	13.8	10.7	22.0	30.0
Non-residential construction	-8.2	1.6	-22.0	-1.2	10.5	9.4	12.8	30.4
Machinery and equipment	11.5	14.8	13.2	6.5	16.0	11.6	28.3	29.7
Business inventory investment (\$b, a.r.)	3.6	1.9	3.1	1.3	1.1	0.2	1.1	5.0
Non-farm (\$b, a.r.)	1.7	1.8	0.9	0.1	0.8	-0.0	1.0	5.5
Trade balance (\$b, a.r.)	16.6	13.6	16.2	16.4	17.2	16.1	13.1	8.0
Current account balance (\$b, current, a.r.)	-9.3	-9.6	-8.4	-11.7	-6.4	-7.8	-10.3	-14.0
Incomes								
Real personal disposable income	1.1	2.1	-4.1	2.7	3.3	3.0	1.5	8.1
Profits before taxes	-4.8	25.3	5.9	38.0	26.7	35.8	20.2	22.7
Costs and prices (% Y/Y)								
GDP price deflator	3.0	4.6	2.5	3.2	4.2	4.8	4.7	4.6
Consumer price index	4.1	4.4	4.2	4.3	4.0	4.6	4.6	4.2
CPI - energy	-7.1	2.6	-9.7	-13.0	-9.8	4.1	8.1	9.9
CPI - excluding food and energy	5.3	4.6	5.4	5.6	5.1	4.4	4.4	4.3
Unit labour costs	3.0	2.8	2.3	3.7	3.1	3.4	2.8	1.7
Labour market								
Unemployment rate	9.6	8.9	9.6	9.5	9.6	9.1	8.7	8.2
Employment	2.9	2.8	-0.3	2.2	3.3	4.5	2.9	4.9
Financial developments								
Exchange rate - closing (U.S. cents)	72.44	76.96	72.07	72.44	76.60	75.08	76.26	76.96
Prime interest rate (end of period)	9.75	9.75	9.75	9.75	8.75	9.50	10.00	9.75

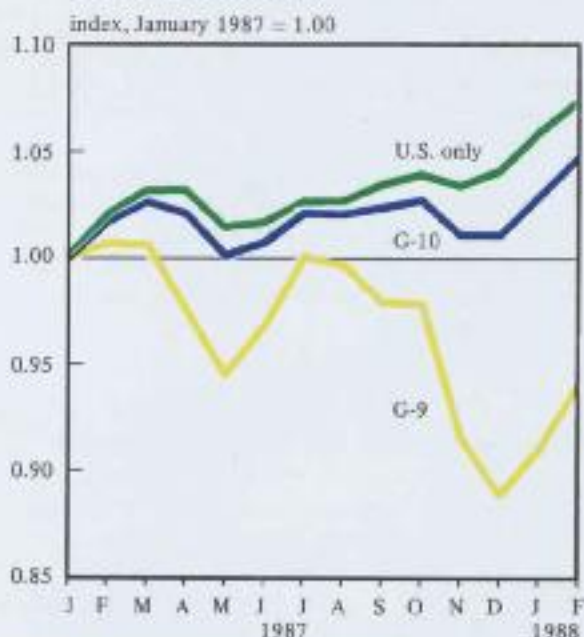
Sources: Statistics Canada and the Bank of Canada.



# The Economy in Brief

Chart 4

## Canadian Dollar Exchange Rate Against the U.S. and Overseas Currencies



## Inflation Continues to Decline

The consumer price index (CPI) advanced 4.1% on a year-over-year basis in January, down slightly from 4.2% in December and well below the 1987 peak of 4.8% posted in June. For the year as a whole, CPI inflation averaged 4.4%. Unit labour cost increases remained moderate throughout 1987, in part as a result of healthy (1.1%) productivity gains. Year-over-year increases in unit labour costs have fallen sharply in the past three quarters to a three-year low of 1.7%. Increased costs of raw materials, especially non-ferrous metals and wood, put some upward pressures on producer prices during the year. At the same time, the appreciation of the Canadian dollar against the U.S. dollar has contained inflationary pressures.

## Further Decline in the Unemployment Rate

Employment increased by a substantial 486,000 jobs in 1987, the best year of job creation

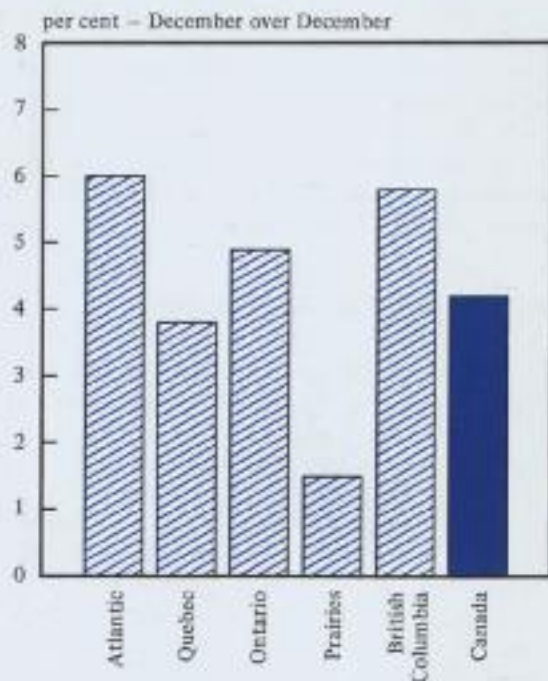
in the 1980s. In spite of a marked increase in labour force growth during the year – the participation rate reached record levels – the unemployment rate dropped 1.6 percentage points over the year to 8.1% in December. Employment gains in 1987 were spread more evenly among industries and regions compared to 1986, with the largest increases in British Columbia and the Atlantic region (Chart 5). In the first two months of 1988, an additional 95,000 jobs were created and the unemployment rate fell to 7.8% in February.

## Stock Prices Firming

In the four months following the stock market downturn, stock prices have firmed in both Canada and the United States. The firming of stock prices reflects lower interest rates, renewed institutional purchases and dwindling concerns in the market about a possible recession.

Chart 5

## Employment Growth in 1987



This publication summarizes the *Quarterly Economic Review* available from the Canadian Government Publishing Centre, Supply and Services Canada, Ottawa, K1A 0S9 (819-997-2560) at an annual subscription rate of \$20.00. The main source of data used in this publication is Statistics Canada. For inquiries on information in this publication, contact M. Kennedy (613-996-0336). Cet imprimé est également offert en français.



# The Fiscal Monitor

A Publication of the Department of Finance

March 1988

## Highlights of Financial Results for April - December 1987

- In the first nine months of fiscal year 1987-88, the federal deficit, at \$17.7 billion, was \$2.9 billion lower than in the corresponding period in 1986-87.
- Accompanying the strong economic performance in 1987, particularly the robust advances in employment and profits, revenues increased by 10.5 per cent on a year-over-year basis.
- Total spending was up 4.4 per cent on a year-over-year basis, with program spending increasing 4.3 per cent and public debt charges increasing 4.8 per cent.
- The increase in program spending continued to be influenced by large increases in spending under various agricultural assistance programs, particularly the Special Canadian Grains Program and the Western Grain Stabilization Program.

### Summary

In the first nine months of fiscal year 1987-88 (April to December), the budgetary deficit was \$17.7 billion, down \$2.9 billion from the level registered in the first three quarters of 1986-87. This year-over-year improvement in the deficit reflects the strength in the Canadian economy in 1987, which has resulted in increased budgetary revenues and has continued to moderate the growth in budgetary expenditures. As well, the deficit, on a year-over-year basis, continued to be influenced by the timing of various receipts and payments, especially in the areas of public debt charges and major transfer payments, and the ongoing impacts of actions taken to control expenditures.

Non-budgetary transactions, in the first three quarters of 1987-88, provided the government with a net source of funds amounting to \$1.3 billion, compared to \$2.9 billion in the same period of 1986-1987. Financial requirements, excluding foreign exchange transactions, were \$16.4 billion, down \$1.3 billion on a year-over-year basis. Foreign exchange transactions gave rise to a net source of funds amounting to \$0.5 billion in the first nine months of 1987-88, whereas in the comparable period in 1986-87 there was a net

requirement of \$0.6 billion. Thus, total financial requirements, including foreign exchange requirements, stood at \$15.9 billion, down \$2.3 billion from the level recorded in the same period of 1986-87.

**Federal Deficit  
1986-87 and 1987-88  
Year to Date**

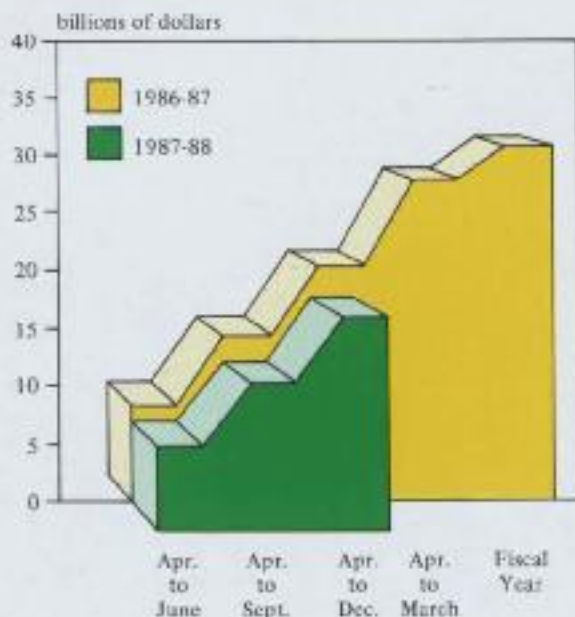


Table 1

Summary Statement of Transactions

	April to December		Per cent change
	1986-87	1987-88	
	(millions of dollars)		
<b>A. Budgetary transactions</b>			
1. Revenues	62,095	68,641	10.5
2. Expenditures	82,677	86,309	4.4
3. Deficit	-20,582	-17,668	-14.2
<b>B. Non-budgetary transactions</b>			
4. Loans, investments and advances	630	174	
5. Specified purpose accounts	4,945	5,577	
6. Other transactions	-2,667	-4,494	
7. Net source (+) or requirement (-)	2,908	1,257	
<b>C. Financial requirements (excluding foreign exchange transactions)</b>	-17,674	-16,411	
<b>D. Foreign exchange transactions: net source (+) or requirement (-)</b>	-553	471	
<b>E. Total financial requirements</b>	-18,227	-15,940	
<b>F. Unmatured debt transactions</b>	16,994	14,466	
<b>G. Cash balance at end of period</b>	3,511	3,145	

Table 2

Budgetary Revenues and Expenditures

	April to December		Per cent change
	1986-87	1987-88	
	(millions of dollars)		
<b>A. Budgetary revenues</b>			
1. Personal income tax	28,121	31,917	13.5
2. Corporate income tax	5,837	6,921	18.6
3. Unemployment insurance contributions	7,190	7,623	6.0
4. Sales and excise taxes/duties	15,743	16,744	6.4
5. Other revenues	5,204	5,436	4.5
6. Total budgetary revenues	62,095	68,641	10.5
<b>B. Budgetary expenditures</b>			
1. Statutory programs			
- Old age security benefits	10,047	10,680	6.3
- Unemployment insurance benefits	7,339	7,190	-2.0
- Established Programs Financing*	6,708	6,560	-2.2
- Fiscal transfers	4,736	5,265	11.2
- Canada Assistance Plan	3,044	3,269	7.4
- Family allowances	1,895	1,916	1.1
- Other	4,156	5,031	21.1
- Total statutory programs	37,925	39,911	5.2
2. Non-statutory programs			
- Defence	6,555	6,606	0.8
- Other	17,780	18,403	3.5
- Total non-statutory programs	24,335	25,009	2.8
3. Total program expenditures	62,260	64,920	4.3
4. Public debt charges	20,417	21,389	4.8
5. Total budgetary expenditures	82,677	86,309	4.4

\* Cash portion only. Including the tax portion, total entitlements are expected to grow by 5 per cent.

Budgetary Revenues

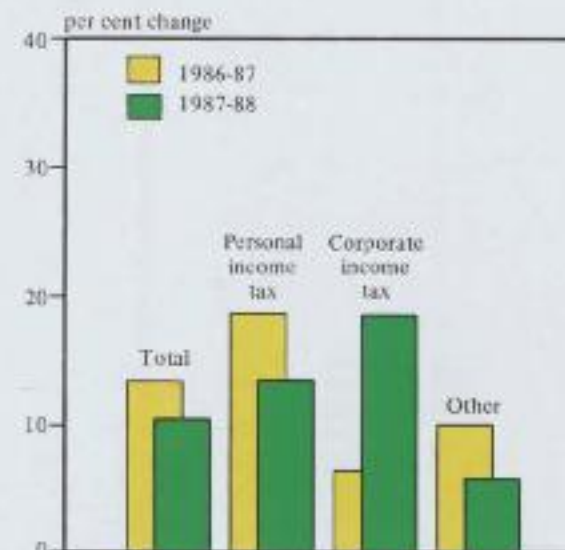
Strong advances in personal and corporate income tax receipts, along with the inclusion of the proceeds from the sale of Teleglobe Canada, underlie the growth in budgetary revenues during the first nine months of 1987-88. The robust year-over-year increases in personal and corporate income tax collections reflect, in large measure, the strength in economic activity in 1987, particularly the significantly higher levels of employment and corporate profits. The year-over-year growth in personal income tax collections was also affected by the first prepayment of a portion of the refundable child tax credit in November 1986, which had dampened collections in 1986-87. Significantly higher employment levels, coupled with an increase in maximum insurable earnings, underlie the strength in unemployment insurance contributions.

Sales and excise tax receipts were up 6.4 per cent over the same period in 1986-87. The impact of strong growth in consumer and business expenditures on sales and excise tax collections was dampened, to a certain extent, by a number of discretionary actions. These actions included the final round of tariff rate reductions as specified under the 1979 Multilateral Trade Negotiations Agreement, the reductions in the quarterly indexation factor on the sales tax rate for gasoline and diesel fuel as well as the elimination of the Petroleum and Gas Revenue Tax, effective October 1986. The sale of Teleglobe Canada accounts for all of the year-over-year increase in the other revenue component, as the other elements within this component recorded a decline.

Budgetary revenues collected over the April to December period are consistent with the February 1988 budget projection for the fiscal year as a whole. Differences in growth rates between the current year-to-date results and those for the year as a whole largely relate to timing considerations. For example, the April to December increase in personal income tax collections is somewhat less than that projected in the February 1988 budget for the fiscal year as a whole. This difference is due to the impact of accelerating the receipt of personal income tax deductions at source from large employers in the final quarter of 1987-88, which is expected to result in a one-time increase in revenues of \$1.2 billion. This acceleration of source

Budgetary Revenues: 1986-87 and 1987-88

April to December Year-Over-Year Growth



deductions impacts on large employers only and has no effect on an individual's personal income tax liability.

Budgetary Expenditures

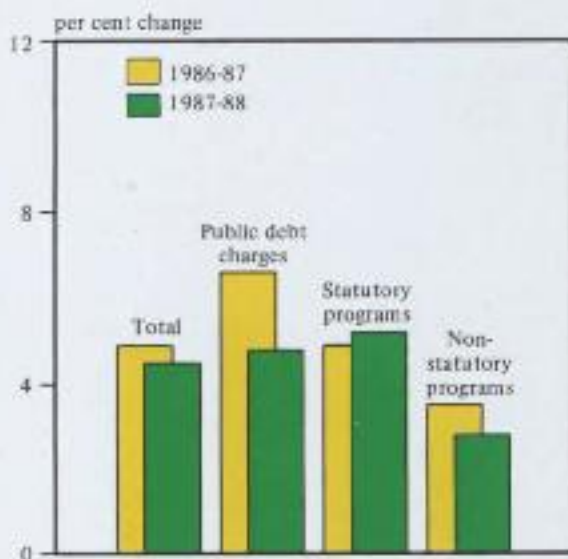
On a year-over-year basis, budgetary expenditures increased by 4.4 per cent over the first nine months of fiscal year 1987-88. Public debt charges increased by 4.8 per cent while program spending was up by 4.3 per cent, or \$2.7 billion. Of the increase in program expenditures, nearly \$1.6 billion was due to higher expenditures under the various agricultural assistance programs.

Statutory programs are largely demand-driven, or formula-funded, with changes reflecting developments in economic activity and the underlying population bases. This component of government spending, which accounts for about two-thirds of total program spending, increased by 5.2 per cent in the first nine months of 1987-88 compared to the same period in 1986-87. The increase in old age security payments was due to increases in both the eligible population base and in the level of benefits, which are indexed to quarterly changes in the consumer price index. The impact on the equalization formula of strong increases in overall provincial revenues accounted for most of the increase in fiscal transfer payments. Final payments to farmers under the Western Grain

# The Fiscal Monitor

## Budgetary Expenditures: 1986-87 and 1987-88

April to December Year-Over-Year Growth



Stabilization Act with respect to the 1986 crop year and increased payments to railways under the Western Grain Transportation Act account for the large advance in the "other" statutory program spending category. Unemployment insurance benefit payments were below those recorded in the previous fiscal year, reflecting the lower levels of unemployment. Although the total federal contribution to provinces under Established Programs Financing arrangements is up by about 5 per cent, direct cash payments to provinces declined on a year-over-year basis, as the impact of strong growth in income tax revenues resulted in higher transfers through the tax system.

The payment to farmers in the first quarter of 1987-88 under the Special Canadian Grains Program accounted for virtually all of the increase in non-statutory program spending in the first nine months of 1987-88. Spending on the remaining components of this category remained restrained largely due to the phasing-out of the Petroleum Incentive Program and the actions that the government has undertaken to control direct operating costs.

Timing considerations account for the difference in growth rates between the year-to-date increase in budgetary expenditures and that projected for the fiscal year as a whole, as set out in the February 1988 budget. Payments of \$1.1 billion under the second Special Canadian Grains Program were announced in December 1987, of which \$800 million is to be paid in the final quarter of 1987-88. In addition, as announced in the February 1988 budget, approximately \$250 million of expenditures originally targeted for 1988-89 will be brought forward into 1987-88. Higher interest rates in the last half of 1987 will continue to exert upward pressure on public debt charges. Payments under various native programs and foreign aid are also expected to pick up in the last quarter of the fiscal year.

## Financial Requirements

Non-budgetary transactions in the first nine months of 1987-88 resulted in a net source of funds amounting to \$1.3 billion, compared to \$2.9 billion in the comparable period of 1986-87. This lower source of funds was due to a number of factors, including lower loan repayments by the Farm Credit Corporation and the impact of lower interest rates on the interest and unmaturing debt accounts.

On a year-over-year basis, financial requirements, excluding foreign exchange transactions, declined by \$1.3 billion to \$16.4 billion during the first nine months of 1987-88, as the improvement in the budgetary deficit of \$2.9 billion more than offset the reduction in net funds from non-budgetary transactions. Foreign exchange transactions provided a net source of funds of \$0.5 billion, compared to a net requirement of \$0.6 billion in the first nine months of 1986-87. As a result, total financial requirements in the first nine months of 1987-88 stood at \$15.9 billion, down \$2.3 billion from that reported during the comparable period in fiscal year 1986-87. This was financed by net borrowing, primarily in the form of Canada Savings Bonds and other marketable bonds, of \$14.5 billion and a \$1.5 billion drawdown in cash balances.

The information in this Monitor is based on preliminary financial statements for the month ending December 31, 1987. For further information contact: L.A. Langlois 996-7397 or P. DeVries 996-7380. Cet imprimé est également offert en français.



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ECONOMIC SUMMIT : JAPANESE VIEWS

SUMMARY

1. TAKESHITA LIKELY TO EMPHASISE EFFECTIVENESS OF EXISTING JAPANESE POLICIES IN REDUCING TRADE SURPLUS, AND OFFICIAL PROJECTIONS OF PROGRESSIVE REDUCTION TO BELOW 2 PERCENT OF GNP IN NEW 5-YEAR PLAN. MAY MAKE NEW COMMITMENT TO EXPAND AND IMPROVE QUALITY OF JAPANESE AID. BUT JAPAN DOES NOT WISH TO SEE AGRICULTURE DOMINATE THE MEETING.

DETAIL

2. I SPOKE TO KITAMURA, TAKESHITA'S PERSONAL REPRESENTATIVE, ON 30 MAY ABOUT JAPANESE PRIORITIES FOR THE SUMMIT. WE HAVE ALSO SPOKEN TO HIS DEPUTIES IN THE MFA AND TI MITI, MOF AND EPA. FOLLOWING IS SUMMARY. MORE DETAIL FOLLOWS ON SOME ASPECTS.

MACRO-ECONOMIC ISSUES

3. JAPAN BELIEVES THE SUMMIT SHOULD GIVE A MESSAGE OF CONFIDENCE TO THE MARKETS THAT ECONOMIC POLICY COORDINATION IS WORKING WELL AND THAT PROGRESS IS BEING MADE TOWARDS THE GOALS OF SUSTAINED NON-INFLATIONARY GROWTH AND REDUCTION OF IMBALANCES. THOUGH THIS YEAR'S ECONOMIC PICTURE IS BRIGHTER THAN IT WAS AT VENICE, CREDIBILITY WITH THE MARKETS SHOULD BE MAINTAINED BY DUE REFERENCE TO THE LESSONS OF BLACK MONDAY. THE JAPANESE BELIEVE THEIR OWN PERFORMANCE OUGHT TO EARN CREDIT AGAIN (MFA COMMENTED THAT IT WAS IMPORTANT THAT TAKESHITA BE REASSURED THAT CURRENT POLICIES WERE APPRECIATED) AND THAT THERE SHOULD BE A SPOTLIGHT UPON THE U'S TWIN DEFICITS. DESPITE THE LIMITATIONS WHICH AN ELECTION YEAR IMPLIED THE DEFICITS SHOULD NOT BE ALLOWED TO BE THE DOG WHICH DID NOT BARK. THE DIVERGING TRADE BALANCES OF THE EC COUNTRIES, ESPECIALLY THE FRG'S GROWING SURPLUS, SHOULD ALSO BE HIGHLIGHTED. MEASURES WERE NOW NEEDED TO INCREASE SAVINGS IN THE US AND PROMOTE STRUCTURAL ADJUSTMENT IN EUROPE. THE LINK BETWEEN MACROECONOMIC COORDINATION AND MICROECONOMIC DOMESTIC STRUCTURAL POLICY SHOULD BE MADE EXPLICIT.

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4. WE SAID THAT JAPANESE POLICIES WERE INDEED APPRECIATED, BUT THERE WAS STILL A RISK THAT THE MARKETS WOULD FIND IN A FEW MONTHS TIME THAT PROGRESS HAD BEEN TOO SLOW. BOTH MFA AND MITI DISPUTED THIS, MAINTAINING THAT THE SURPLUS WOULD CONTINUE TO FALL. ECONOMIC POLICY WOULD BE APPLIED FLEXIBLY TO SUSTAIN DOMESTIC GROWTH AND KEEP TO THE MINUS 0.5 PERCENT PER ANNUM TARGET FOR GROWTH IN THE EXTERNAL SECTOR IN THE FIVE-YEAR PLAN FORMALLY ADOPTED ON 27 MAY; BUT NO FURTHER MEASURES WERE CONTEMPLATED AT THE MOMENT. KITAMURA ACCEPTED HOWEVER THAT IN THE BROADEST SENSE JAPAN WOULD HAVE TO CONTINUE ITS EFFORTS TO BRING ABOUT PERMANENT STRUCTURAL CHANGE, AND THAT MUCH OF THE BOOST IN IMPORTS WOULD COME NOT SO MUCH FROM THE US OR EUROPE, BUT FROM THE ASIAN NICs.

#### DEBT AND AID

5. MFA THOUGHT IT SHOULD BE POSSIBLE TO SAY THAT SOLID PROGRESS HAD BEEN MADE ON THE DEBT PROBLEMS OF MIDDLE INCOME COUNTRIES. THERE WAS NOT MUCH NEW FOR GOVERNMENTS TO DO, SINCE MOST OF THE DEBT WAS PRIVATE, OTHER THAN ENCOURAGE CASE-BY-CASE PROPOSALS. IT WAS NOW IMPORTANT TO ESTABLISH GOOD INVESTMENT CLIMATES IN INDEBTED COUNTRIES TO ENCOURAGE THE EXPANSION OF CAPITAL FLOWS. IN THIS, ODA WAS VITAL, AND TAKESHITA IS LIKELY TO MAKE A NEW COMMITMENT TO INCREASE THE QUANTITY AND/OR QUALITY OF JAPANESE ODA. MFA HAVE BEEN MEETING RESISTANCE FROM THE MOF FOR THEIR PROPOSAL THAT JAPAN SHOULD PLEDGE TO ACHIEVE THE DAC AVERAGE OF 0.35 PERCENT OR SOMETHING ABOVE IT WITHIN A DEFINITE TIMETABLE. TAKESHITA IS LIKELY TO BROKE A COMPROMISE BETWEEN MINISTRIES ON HIS RETURN FROM EUROPE NEXT WEEK, BUT EXACT DETAILS MAY BE LEFT UNTIL AFTER THE SUMMIT, AND MFA MAY WISH TO BE ABLE TO POINT TO INTERNATIONAL EXPECTATIONS OF JAPAN EXPRESSED AT THE TORONTO MEETING. WE STRESSED THE IMPORTANCE OF MAKING PROGRESS AT THIS SUMMIT ON THE SUB-SAHARAN DEBT INITIATIVE, SAYING THAT, IF NECESSARY, WE WERE PREPARED TO BE SOMEWHAT FLEXIBLE IN ORDER TO ACHIEVE THIS. WHILE NOTING THAT THE US STILL SEEMED OPPOSED, MFA SAID THAT, ALTHOUGH IT MIGHT LEGALLY BE DIFFICULT FOR JAPAN TO REDUCE INTEREST RATES ON RESCHEDULED DEBT, WORDING WHICH ALLOWED COUNTRIES TO CONTRIBUTE BY ALTERNATIVE EQUIVALENT MEASURES WOULD HAVE JAPANESE SUPPORT: JAPAN WOULD THEN BE ABLE TO POINT TO ITS DOLLARS 400 MILLION UNTIED GRANT AID TO SUB-SAHARAN AFRICA ANNOUNCED AT VENICE LAST YEAR, AND POSSIBLY TO AN EXPANDED GRANT ELEMENT IN ANY NEW AID PACKAGE.

#### TRADE

6. JAPAN WILL STRESS PROGRESS IN THE URUGUAY ROUND AS THE BEST MEANS OF WARDING OFF PROTECTIONISM. OFFICIALS BELIEVE IT WAS AGREED AMONG

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THE SHERPAS THAT PROTECTIONIST MEASURES AGAINST INVESTMENT WERE EQUALLY TO BE RESISTED. JAPAN TLOOKED FOR COMMITMENTS THAT THE US/CANADA FREE TRADE AGREEMENT AND THE UNIFCATION OF THE EC MARKET WOULD BE CARRIED OUT WITH RESPECT FOR THE PRINCIPLES OF THE OPEN WORLD ECONOMY AND NOT BE A STEP TOWARDS REGIONALISM. BECAUSE OF THE SENSITIVITIES OF NON G7 COUNTRIES, JAPAN THOUGHT THE SUMMIT WAS NOT THE PLACE IN WHICH TO PRESCRIBE SPECIFIC IDEAS FOR AGREEMENT IN THE GATT MID-TERM REVIEW, THOUGH INFORMAL DISCUSSIONS MIGHT WELL TAKE PLACE.

#### NICS

7. ON THE NICS, JAPAN AGREED WITH THE UK THAT ONE NEEDED TO TAKE ACCOUNT OF DIFFERENCES BETWEEN THE ASIAN NICS, ESPECIALLY HONG KONG. THE APPROACH OF QUOTE SOME AMERICANS UNQUOTE WAS PREMATURE: THE IMMEDIATE OBJECTIVE SHOULD BE TO MAKE THE NICS SEE SOME ATTRACTION IN A DIALOGUE.

#### AGRICULTURE

8. WE EMPHASIZED THE NEED TO GIVE MOMENTUM TO AGRICULTURAL NEGOTIATIONS IN THE URUGUAY ROUND, NOT ONLY FOR SUBSTANTIVE REASONS, BUT ALSO BECAUSE OF THEIR INFLUENCE ON PROTECTIONISM AND OTHER AREAS OF NEGOTIATION IMPORTANT TO JAPAN. THE JAPANESE ARE PUTTING IT ABOUT THAT THIS IS A DIFFICULT ISSUE BECAUSE OF THE LIKELIHOOD OF AN EC/US CLASH AND IT SHOULD NOT BE ALLOWED TO DOMINATE THE SUMMIT MEETING. THEY ARE SCEPTICAL OF THE VALUE OF THE COMPROMISE LANGUAGE AGREED AT THE OECD MINISTERIAL, ALTHOUGH MFA SAID THAT IT WAS A BASIS ON WHICH DISCUSSION COULD BEGIN. AT TORONTO JAPAN WOULD NOT TRY TO POUR COLD WATER ON THE IDEA OF PROGRESS IN THE URUGUAY ROUND: BUT THERE SHOULD BE A BALANCE IN THE ROUND BETWEEN THIS AND OTHER ISSUES. THE MFA ACCEPTED THAT JAPAN SHOULD, IN DUE COURSE, MAKE ITS OWN CONTRIBUTION TO IMPROVING THE CLIMATE OF NEGOTIATIONS BEYOND ABSTAINING FROM EXPORT SUBSIDIES (WHICH JAPANESE FARMERS REGARDED AS A SUFFICIENT CONTIBUTION), BUT AGRICULTURE SHOULD NOT BE SINGLED OUT FOR PRIORITY TREATMENT.

#### POLITICAL AND OTHER ISSUES

9. KITAMURA WAS CONSCIOUS OF CRITICISM THAT LAST YEAR'S SUMMIT WAS OVERSHADOWED BY POLITICAL STATEMENTS AND EXPECTS TORONTO TO PRODUCE PERHAPS ONLY ONE, ALBEIT FAIRLY COMPREHENSIVE, FOCUSSING ON EAST/WEST RELATIONS. AS PART OF DISCUSSIONS ON THIS, JAPAN WOULD SEE VALUE IN AN EXCHANGE ON SINO/SOVIET RELATIONS AND A COMPARISON OF SOVIET GLASNOST AND CHINESE OPEN DOOR POLICIES. LEADERS MIGHT NOT HAVE TIME TO DISCUSS POLITICAL ISSUES MUCH BEYOND THIS, BUT JAPAN ACCEPTING OUR INTEREST IN TERRORISM, WOULD LIKE THE SUMMIT TO GIVE

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SOME MORAL SUPPORT TO THE KOREANS BY MAKING A COMMITMENT, EVEN IF NOT AN EXPLICIT PUBLIC ONE, TO PREVENTING ACTS OF TERRORISM AT THE OLYMPIC GAMES. KITAMURA SUSPECTED THAT THE US PLAN FOR A JOINT ASSISTANCE PROGRAMME TO THE PHILIPPINES WOULD BE RAISED, THOUGH THE MFA SEEMED CONCERNED THAT THE AMERICANS MIGHT PLACE TOO MUCH EMPHASIS ON THE STRATEGIC IMPORTANCE OF THE PACIFIC IN AN ATTEMPT TO PUT PRESSURE ON ALLIES. SUCH PRESSURE MIGHT BE COUNTER-PRODUCTIVE IN JAPAN TO THEIR EFFORTS TO INCREASE AID TO THE PHILIPPINES. UNO WOULD PROBABLY WELCOME A DISCUSSION OF THE MIDDLE EAST, WHICH HE WOULD BE VISITING IMMEDIATELY AFTER TORONTO, AND CAMBODIA ALTHOUGH KITAMURA ACCEPTED THAT THE AGENDA WAS ALREADY FAIRLY FULL. FINALLY, MFA SAID THEY WERE NOT KEEN TO DEVOTE TOO MUCH TIME TO DISCUSSION OF DRUGS OR ENVIRONMENTAL ISSUES. THEY SAW SOME VALUE IN THE PRIME MINISTER'S PROPOSAL FOR AN INFORMAL DISCUSSION OF THE PROBLEMS FOR GOVERNMENTS OF MEETING THE REQUIREMENTS OF AN AGEING SOCIETY. KITAMURA DID NOT MENTION THE HUMAN SCIENCE FRONTIER PROJECT (BUT SEEM MY TELNO EJECT D5 COPIED TO FCO.)

COMMENT

10. THE JAPANESE BELIEVE, AND HOPE, THAT THIS IS NOT SHAPING UP TO BE A PARTICULARLY DRAMATIC SUMMIT. THEY WILL PUT THEIR BEST FEET FORWARD BY PUBLICISING THE PERFORMANCE OF THEIR OWN ECONOMY AND THEIR NEW ODA PROPOSALS. BUT THEY WILL RESIST ATTEMPTS TO FOCUS ATTENTION ON AGRICULTURE, PREFERRING TO SUBSUME THE ISSUE IN GENERAL DISCUSSION OF THE URUGUAY ROUND. THEIR GENERAL ASSESSMENT IS THAT THERE WILL BE LESS PRESSURE ON JAPAN TO DO ANYTHING FURTHER TO REDUCE THEIR OWN TRADE IMBALANCE.

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31 May 1988

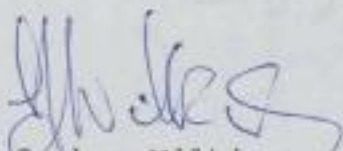
*Dear Prime Minister*

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

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

We would greatly appreciate your comments at your convenience.

Yours sincerely

  
Sir Graham Wilkins



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Secretary General's Office

24.V.1988

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**S T A T E M E N T**

for

submission to the Heads of State and Government

attending

the Toronto Summit

19-21 June 1988

## S U M M A R Y

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

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

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

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

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

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

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

### The Need for Strong Political Leadership

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

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

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

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

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

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

#### Policy Coordination and Structural Adjustment

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

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

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

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

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

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

#### The Uruguay Round

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

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

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

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

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

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

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

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

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

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

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

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

#### Third World Indebtedness

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

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

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



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

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

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

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TORONTO ECONOMIC SUMMIT: FRENCH VIEWS.

SUMMARY

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

DETAIL

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

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

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

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

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GERMAN VIEWS ON TORONTO ECONOMIC SUMMIT

SUMMARY

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

DETAIL.

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

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

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

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

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

FOR TORONTO.

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

MALLABY

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MS2CJR

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

31 May 1988

ECONOMIC SUMMIT: MESSAGE FROM THE UNITED NATIONS  
SECRETARY GENERAL

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

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

Charles Powell

Lyn Parker, Esq.,  
Foreign and Commonwealth Office.

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TORONTO ECONOMIC SUMMIT: FRENCH DEBT INITIATIVE.

SUMMARY

1. TRESOR CONFIRM THAT A FRENCH DEBT INITIATIVE WILL BE ANNOUNCED AT OR BEFORE TORONTO. DETAILS NOT YET DECIDED, BUT LIKELY TO BE COMPATIBLE WITH CHANCELLOR'S SUB-SAHARAN AFRICA INITIATIVE. PARTNERS TO BE CONSULTED IN ADVANCE.

DETAIL

2. SAMUEL-LAJEUNESSE (TRESOR) CONFIRMED TODAY THAT THE TRESOR ARE WORKING ON A FRENCH INITIATIVE TO RELIEVE THE DEBT OF QUOTE THE POOREST AND MOST INDEBTED COUNTRIES, ESPECIALLY IN AFRICA UNQUOTE. THE DETAILS HAD NOT YET BEEN SETTLED BUT THE INITIATIVE WAS LIKELY TO COVER THE CANCELLATION OF SOME AID DEBTS AND REDUCTION OF INTEREST RATES ON OTHER DEBTS. IT WOULD THUS BE CONSISTENT WITH THE CHANCELLOR'S SUB-SAHARAN AFRICAN INITIATIVE, COVERING ITS FIRST (CONVERSION OF AID LOANS TO GRANTS) AND THIRD (INTEREST RELIEF ON RESCHEDULED PARIS CLUB DEBT) VOLETS. THE FRENCH WOULD WANT TO SOUND OUT CERTAIN PARTNERS, INCLUDING US, BEFORE THE INITIATIVE WAS ANNOUNCED, BUT IT WAS NOT YET CLEAR WHETHER THEY WOULD BE IN A POSITION TO DO SO AT THIS WEEK'S FINAL SHERPAS MEETING.

3. WE WELCOMED THE PROSPECT OF PRIOR CONSULTATION ON THE FRENCH INITIATIVE AND STRESSED THE IMPORTANCE OF COMPATIBILITY WITH THE CHANCELLOR'S IDEAS.

4. SAMUEL-LAJEUNESSE SAID HE WOULD BE ATTENDING THE AFRICAN DEVELOPMENT BANK MEETING IN ABIDJAN THIS WEEK, AT WHICH THE CURRENT FRENCH IDEAS MIGHT BE DISCUSSED FURTHER.

5. FCO PLEASE ADVANCE TO BRAITHWAITE, RICHARDSON (ERD), LITTLER, MOUNTFIELD (TREASURY).

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FOR PRIVATE SECRETARY

SUMMIT SEVEN TORONTO ECONOMIC SUMMIT: TERRORISM

1. THE SUMMIT SEVEN COUNTER TERRORISM EXPERT GROUP IS MEETING IN OTTAWA ON 2 JUNE IN ADVANCE OF THE MEETING OF POLITICAL DIRECTORS AND SHERPAS IN TORONTO. THE GROUP WILL PREPARE A PASSAGE ON TERRORISM FOR INCLUSION IN THE POLITICAL STATEMENT SHOULD SHERPAS DECIDE THAT ONE IS REQUIRED. MR WICKS WOULD LIKE A TEXT, CLEARED WITH MINISTERS, IN TIME FOR HIS DISCUSSION WITH THE PRIME MINISTER ON 1 JUNE. WE SHOULD THEREFORE BE GRATEFUL FOR A TELEGRAPHIC REPLY DESKBY 010900Z.

2. THE CANADIANS ARE WORKING ON A DRAFT TEXT BUT THEY HAVE NOT SO FAR BEEN ABLE TO LET US HAVE A SIGHT OF IT. THE FOLLOWING IS THEREFORE OUR OWN DRAFT WHICH COMPRISES THE ELEMENTS WHICH WE WISH TO SEE INCLUDED. BUT BILATERAL CONTACTS WHICH WE HAVE HAD INDICATE THAT IT IS ALSO CLOSE TO CANADIAN AND US THINKING. THE 'WORK CURRENTLY UNDER WAY IN ICAO' (FOURTH PARAGRAPH) IS OF COURSE A REFERENCE TO THE SECRETARY OF STATE'S FIVE POINT PLAN. THE CANADIANS FEEL THAT IT IS NOT NECESSARY IN A TEXT OF THIS NATURE TO SPELL OUT THE POINTS IN DETAIL.

3. TEXT BEGINS.

- HEADS OF STATE AND GOVERNMENT STRONGLY REAFFIRMED THEIR CONDEMNATION OF INTERNATIONAL TERRORISM IN ALL ITS FORMS AND THEIR COMMITMENT TO STATEMENTS ON TERRORISM MADE AT PREVIOUS SUMMITS.

- THEY DEPLORED RECENT THREATS TO AIR SECURITY, IN PARTICULAR THE HIJACKING OF THE KUWAITI AIRCRAFT AND THE LOSS OF LIFE INVOLVED. THEY EXPRESSED REGRET AND SERIOUS CONCERN THAT THE HIJACKERS AND THE MURDERERS HAD BEEN ALLOWED TO GO FREE.

*Coat of arms not*

- THEY REITERATED THEIR DETERMINATION TO DETER AND COMBAT THREATS TO THE SAFETY OF ALL TRAVELLERS BY EVERY MEANS POSSIBLE. IN THIS CONTEXT, THEY REVIEWED AND ENDORSED THE POSITIVE CONTRIBUTIONS WHICH HAD BEEN MADE TO TRAVELLERS' SAFETY IN THE LAST YEAR, IN PARTICULAR THE MONTREAL PROTOCOL FOR THE SUPPRESSION OF UNLAWFUL ACTS OF VIOLENCE AT AIRPORTS SERVING INTERNATIONAL CIVIL AVIATION SIGNED

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AT MONTREAL ON 24 FEBRUARY 1988, AND THE IMO CONVENTION AND ON THE SUPPRESSION OF UNLAWFUL ACTS AGAINST THE SAFETY OF MARITIME NAVIGATION SIGNED AT ROME ON 10 MARCH 1988.

- THEY ALSO ENDORSED WORK CURRENTLY UNDERWAY IN THE INTERNATIONAL CIVIL AVIATION ORGANISATION, IN DIRECT RESPONSE TO THE RECENT KUWAITI AIRLINE HIJACKING, AIMED AT STRENGTHENING INTERNATIONAL PROTECTION AGAINST SUCH HIJACKINGS. THEY UNDERTOOK TO CO-OPERATE AT ICAO AND TO GIVE THEIR FULL SUPPORT TO THE ADOPTION OF SUCH MEASURES.

- THEY REAFFIRMED THEIR COMMITMENT TO CO-OPERATE TO APPREHEND AND PROSECUTE TERRORISTS. THEY URGED OTHER GOVERNMENTS TO JOIN THEM IN THIS COMMITMENT AND CONDEMNED GOVERNMENTS WHO IN ANY WAY ASSISTED OR TOLERATED TERRORISM. IN THIS CONTEXT, THEY APPEALED TO ALL COUNTRIES WHO WERE NOT PARTY TO THE INTERNATIONAL CONVENTIONS ON TERRORISM TO ACCEDE AS A MATTER OF PRIORITY. TEXT ENDS.

4. THE AMERICANS HAVE TWO FURTHER SUGGESTIONS IN MIND WHICH THEY MAY PUT FORWARD: THAT WE SHOULD NOTE AGREEMENT TO CO-ORDINATE OUR AVIATION SECURITY TRAINING (WAS WE, THE US AND THE CANADIANS ALREADY DO), AND THAT THE SUMMIT SHOULD MANDATE EXPERTS TO EXAMINE THE EVIDENCE OF

WE WOULD HAVE NO DIFFICULTY WITH EITHER OF THESE TWO COMPONENTS IN A TEXT, BUT WOULD EXPECT OTHER PARTNERS TO OPPOSE THE SECOND QUITE STRONGLY.

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YOUR TELEGRAM NUMBER 898: TORONTO ECONOMIC SUMMIT: TOPICS FOR THE INFORMAL DISCUSSION.

1. MINISTER (COMMERCIAL) PUT THIS QUESTION TO BOTH DANZANSKY (WHITE HOUSE) AND WALLIS (STATE).
2. DANZANSKY FORESAW NO PARTICULAR US SENSITIVITIES, SINCE IT WOULD NOT BE THE PRESIDENT WHO WOULD BE RAISING THE COSTS OF HEALTH AND SOCIAL SECURITY PROVISIONS AND CARE BUT RATHER MRS THATCHER IN THE CONTEXT OF AGING POPULATIONS IN EUROPE AND JAPAN. US OFFICIALS WOULD BE HAPPY TO PREPARE THE PRESIDENT FOR A DISCUSSION IF WE DECIDED TO RAISE IT.
3. WALLIS' LINE WAS SIMILAR. THE DISCUSSION WOULD BE INFORMAL AND OFF THE RECORD, AND NOT FOR THE COMMUNIQUE. THERE WERE OTHER SUBJECTS RELATED TO DEMOGRAPHIC CHANGE (EG EDUCATION). OFFICIALS WOULD BE TALKING TO THE PRESIDENT AFTER HIS RETURN FROM MOSCOW AND WOULD THEN HAVE A BETTER IDEA OF HIS OWN INTEREST IN THIS SUBJECT. BUT WALLIS SAW NO PARTICULAR PROBLEMS OR SENSITIVITIES FROM A US VIEWPOINT.

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FCO TELNO 880: TORONTO ECONOMIC SUMMIT: US INITIATIVE ON DRUGS

1. THE BUREAU FOR INTERNATIONAL NARCOTICS MATTERS (INM) IN STATE DEPARTMENT CONFIRM THAT THEY ARE CURRENTLY WORKING ON DRUGS BRIEFING FOR THE PRESIDENT WHICH WILL FOCUS ON THE FOLLOWING THREE POINTS:-

- (A) INCREASING ANTI-NARCOTICS ASSISTANCE TO SOURCE COUNTRIES AS WELL AS MAKING LEVELS OF DEVELOPMENT ASSISTANCE DEPENDENT UPON THEIR PERFORMANCE IN CROP ERADICATION AND REDUCING THE OUTFLOW OF DRUGS:
- (B) ASKING CENTRAL BANKERS TO RE-THINK PRESENT CONTROLS NOT ONLY ON MONEY LAUNDERING BUT ALSO ON INTERNATIONAL MONEY FLOWS:
- (C) REQUESTING THAT THE EXPERT WORKING GROUP ON DRUGS BE RE-CONVENED. THE US WOULD LIKE TO SEE THE GROUP INVESTIGATE THE POSSIBILITY OF CONCERTED ACTION IN THE FOLLOWING AREAS:-
  - (I) UNIFORM EXPORT CONTROL MEASURES ON PRECURSOR CHEMICALS:
  - (II) CO-ORDINATION OF ANTI-NARCOTICS ASSISTANCE AND TRAINING PROGRAMMES,
  - (III) ANTI-NARCOTICS RESEARCH AND DEVELOPMENT.

2. INM UNDERSTAND THAT THE WHITE HOUSE HOPES THAT SOME OF THE ABOVE POINTS WILL BE INCLUDED IN THE FINAL COMMUNIQUE.

3. INM HAVE NO INTENTION OF RAISING THE QUESTION OF APPLYING CONOMIC SANCTIONS IN THE BRIEFING.

4. BRIEFS WILL BE FINALISED IN THE NEXT 24 HOURS AND AMERICAN EMBASSIES IN SUMMIT CAPITALS WILL THEN BE ASKED TO PASS DETAILS TO HOST GOVERNMENTS.

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PRIME MINISTER

TORONTO ECONOMIC SUMMIT

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

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

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

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

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

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

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

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

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The next round of Summits have to continue this work.

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

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

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

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

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

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

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

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



so.

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

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

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

*Suzanne*

PP (N. L. WICKS)

22 May 1988

TORONTO ECONOMIC SUMMIT: FORMAT

LEADERS

COMMUNICATIONS

DAY 1

1500-1700

SEPARATE SESSION  
- SUMMIT ECONOMIC  
PRIORITIES AND OUTLOOK

LATE P.M.

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

1900-2100

SEPARATE WORKING DINNER  
-POLITICAL

DAY 2

1000-1015

ADOPTION BY LEADERS OF  
POLITICAL TEXT

1015-1200

PLENARY SESSION  
-DISCUSSION OF ECONOMIC  
SUMMIT PRIORITIES

1230-1400

WORKING LUNCH  
(WITH FOREIGN MINISTERS)  
-OTHER POLITICAL ISSUES

1400

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

1430-1600

PLENARY SESSION  
-CONTINUATION OF  
ECONOMIC DISCUSSION

1830-2000

SEPARATE INFORMAL SESSION  
-LONG-TERM ISSUES

2000-2130

SEPARATE DINNER

DAY 3

0930-1130

PLENARY SESSION  
-ADOPTION OF ECONOMIC DECLARATION  
-FINAL DISCUSSIONS

1230-1430

GOVERNOR GENERAL'S LUNCH

1530-1600

PRIME MINISTER'S READING  
OF ECONOMIC DECLARATION



THE SECRETARY-GENERAL

20 May 1988

Dear Prime Minister,

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

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

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

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

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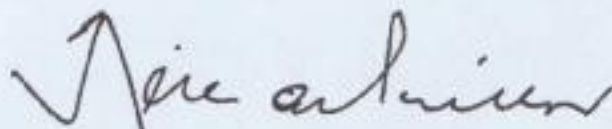
However, the proposal of the Chancellor of the Exchequer of the United Kingdom that African debts should be rescheduled at lower interest rates has so far found little support. I share the view that realism dictates a need for debt relief in those countries which will patently not be able to pay their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

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

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

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

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



Javier Pérez de Cuéllar

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TORONTO ECONOMIC SUMMIT: CANADIAN VIEWS ON THE PROSPERITY

SUMMARY

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

DETAIL

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

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

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

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

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

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

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

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

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

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

URWICK

YYYY

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FRAME AGRICULTURE  
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MR GILLMORE

ADDITIONAL 1

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*see from  
see PC  
AS*

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

6 May 1988

MEETING WITH THE ITALIAN PRIME MINISTER

I have seen a copy of Rome Telno 261 proposing that the Prime Minister should have a meeting with De Mita in the margins of the Toronto Economic Summit. I am sure the Prime Minister will be willing to do this, and 18 June is likely to be the best day. But we can finalise details when we know exactly when we arrive in Toronto. I should be grateful if you could so inform the Italians.

C. D. Powell

Lyn Parker, Esq.,  
Foreign and Commonwealth Office.

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*l*



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FM ROME

TO DESKBY 050830Z FCO

TELNO 261

OF 050740Z MAY 88

AND TO IMMEDIATE EC POSTS, WASHINGTON, OTTAWA, TOKYO  
AND TO IMMEDIATE UKDEL NATO

FCO PLEASE PASS TO MR POWELL NO 10 DOWNING STREET.

ANGLO-ITALIAN SUMMIT MEETING

SUMMARY

1. DE MITA PROPOSES BRIEF FIRST MEETING WITH PRIME MINISTER IN TORONTO.

DETAIL

2. UMBERTO VATTANI, DIPLOMATIC ADVISER TO THE NEW PRESIDENT OF THE COUNCIL, TELEPHONED ME YESTERDAY EVENING ON INSTRUCTIONS TO SAY THAT DE MITA'S PROGRAMME MADE IT IMPOSSIBLE YET FOR HIM TO PLAN A TOUR OF COMMUNITY CAPITALS, BUT HE WOULD VERY MUCH LIKE TO BE ABLE TO MEET THE PRIME MINISTER BEFORE THE TORONTO SUMMIT STARTS. HE PLANS TO ARRIVE THERE ON SATURDAY 18 JUNE AND WOULD LIKE TO SEE WHETHER THE PRIME MINISTER COULD FIT IN A MEETING WITH HIM IN TORONTO BEFORE THE ECONOMIC SUMMIT OPENS. I UNDERTOOK TO EXPLORE.

3. VATTANI ADDED TWO POINTS. FIRST, DE MITA HAD ASKED HIM TO SAY THAT HE HAD COME UNDER A LOT OF PARLIAMENTARY PRESSURE TO RAISE THE PROBLEM OF PROTECTION OF THE ENVIRONMENT AT THE ECONOMIC SUMMIT. HE HAD MENTIONED THIS TO THE CANADIANS AND WOULD DO SO ALSO TO KOHL WHOM HE WOULD SEE HERE ON 12 MAY FOR A BILATERAL SUMMIT. HE WOULD BE GLAD TO KNOW THE PRIME MINISTER'S THINKING ON THIS. SECOND, DE MITA HOPED TO RESPOND WITHIN THE NEXT COUPLE OF WEEKS TO MY LONG OUTSTANDING REQUEST FOR A CALL ON HIM. THIS WOULD BE AN OPPORTUNITY TO LEARN WHAT WAS IN THE PRIME MINISTER'S MIND ON OTHER MAIN QUESTIONS ON THE SUMMIT AGENDA.

4. I HOPE IT WILL BE POSSIBLE TO GIVE A QUICK RESPONSE TO DE MITA'S PROPOSAL FOR A BILATERAL MEETING AT TORONTO. IF IT CANNOT BE FITTED IN BEFORE THE SUMMIT BEGINS, THERE WOULD BE OBVIOUS MERIT IN ARRANGING A BILATERAL IN THE COURSE OF THE TWO

Ria Minister

asked to

see de

Mita in

Toronto?

000

Yes

DAYS THERE. DE MITA WILL HAVE RECENTLY MET KOHL ( ON 12 MAY ),  
MORONY ( ON 27 MAY ) AND TAKESHITA (WHO HAS JUST BEEN HERE).  
REAGAN HE SAW IN WASHINGTON IN 1986 BUT WILL NO DOUBT AIM TO MEET  
HIM AGAIN BILATERALLY IN THE CONTEXT OF THE ECONOMIC SUMMIT.  
A BILATERAL WITH THE FRENCH MUST REMAIN IN BAULK UNTIL 8 MAY BUT  
WILL BE A PRIORITY THEREAFTER. WE DO NOT NEED TO LEAN OVER  
BACKWARDS, BUT THE SOONER WE ARE ABLE TO ARRANGE A MEETING AT  
THIS LEVEL THE BETTER CHANCE THERE IS OF MAKING A BRITISH IMPRINT OF  
DE MITA'S THINKING IN THE EARLY STAGES OF HIS GOVERNMENT.

THOMAS

YYYY

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MR POWELL NO 10 DOWNING ST

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MEETING RECORD:

Subject  
cc master

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bc; PC

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

4 May 1988

Dear Tony,

ECONOMIC SUMMIT

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

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

Yours sincerely,  
Charles Powell

Charles Powell

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

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TO PRIORITY FCO

TELNO 523

OF 011450Z MAY 88

INFO PRIORITY OTTAWA, PARIS, ROME, TOKYO, WASHINGTON, UKMIS GENEVA  
INFO PRIORITY UKREP BRUSSELS, CAPE TOWN

MY TELNO 518 (NOT TO ALL) : TORONTO SUMMIT

SUMMARY

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

DETAIL

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

MALLABY

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Foreign and Commonwealth Office

London SW1A 2AH

18 April 1988

Christopher Roberts Esq CB  
Deputy Secretary  
Department of Trade & Industry  
1 Victoria Street  
LONDON SW1

*pa*

*Ally*

Dear Christopher,

1. Mr Sezaki, the Minister at the Japanese Embassy, called on me this morning to ask where we now stood on the 'T8' meeting of Trade Ministers. He was clearly trying to get a cross-reference on MITI's activities.
2. I went through the history up to and including the informal meeting of Trade Ministers in Konstanz. I said that I knew of no significant new developments since then. Our position had been regularly explained (though I went through the explanations again) and had not changed.
3. Mr Sezaki said that Trade Ministers had seemed somewhat more receptive to Mr Tamura's ideas. Some people in Tokyo found the British position slightly ambiguous. What would we do if there were a proposal for a dinner of the 'T8' in the margins of the OECD Ministerial meeting next month?
4. I said that we all had a great respect for Mr Tamura and, especially in the DTI, we wished to treat his ideas with courtesy. But even an informal meeting of the 'T8' in Paris next month risked being regarded as part of the preparation for the Summit four weeks later. It would be bound to give rise to difficulties within the Community. We were against it. I refused to be drawn on whether a British Minister might attend an informal dinner at which both 'T8' and 'non T8' Ministers were present.
5. Sezaki asked me about the position of the Americans. I said that I had heard that Mr Yeutter had said that he would not go to any 'T8' meal. But I could not of course speak with any authority.
6. Mr Sezaki said that he hoped to keep in touch. I said that I would welcome that. I assumed, and he agreed, that he would also remain in touch with you.

/7.

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7. I took the opportunity to underline once again that we did not accept the criticism of the Community's rollback offer in the GATT which was made last week by Murata, the Japanese Vice-Minister for Foreign Affairs, when he called on Patrick Wright.

*Yours truly,*  
*Rodric*

R Q Braithwaite

cc:

N Wicks Esq CBE, 10 Downing St  
Sir Geoffrey Littler, HM Treasury  
Ms Rosemary Spencer, EID(E)  
R Cooper Esq MVO, FED

- 2 -

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010



Your Ref

*Handwritten signature or initials*

**with compliments**

**SIR GEOFFREY LITTLER**

Treasury Chambers

Parliament Street

London SW1P 3AG

Tel: Direct Line 01-270

Switchboard 01-270-3000



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From: Sir G. Littler  
Date: 18 April 1988

MR ALEX ALLAN

c.c. Sir P Middleton  
Mr Lankester  
Mr Huw Evans

MEETING OF G7 DEPUTIES

On Friday morning in Washington we held a meeting of G7 Deputies to organise our work to follow up the G7 Ministerial meeting. No problems on that to trouble the Chancellor but I should mention two other points which did come up.

G7 Report to Summit

2. Our Canadian colleague suggested we should meet soon to prepare a draft G7 report to the Toronto Summit. Mulford and I took the lead, quickly followed by Tietmeyer and Gyohten, and with Trichet and Sarcinelli acquiescing, to reject this idea. We argued that no such report should be made, because:

- none had been requested (unlike last year when arguably there was a remit from the previous year's meeting);
- we should not fall into an institutional procedure of regular reports - contrary to spirit of Summit;
- there would be a risk of provoking yet another row with the Commission over their locus in relation to 'Summit-related G7 work'.

3. Our Canadian colleague accepted - indeed apologised for not having thought this through, and said he thought Wilson would be happy to be relieved of the burden of reporting, provided we were all of the same mind. So we shall not prepare a report.

4. I am copying this page to Nigel Wicks as UK sherpa.

*✓CF*  
*Could I pl have*

*M. H. a.*

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MDHIAN 2275

*NCU.*

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FM TOKYO  
TO IMMEDIATE FCO  
TELNO 306  
OF 161230Z MAR 88  
AND TO IMMEDIATE UKMIS GENEVA,  
AND TO PRIORITY UKREP BRUSSELS  
AND TO ROUTINE ROME, PARIS, BONN, WASHINGTON

MIPT: JAPANESE PROPOSAL FOR A MEETING OF TRADE MINISTERS.

1. FOLLOWING IS TEXT:

TRADE ISSUES INCLUDING THE REDRESS OF IMBALANCES ARE OF INCREASING IMPORTANCE ON THE CURRENT INTERNATIONAL ECONOMIC MANAGEMENT. WE THINK THE TIME HAS NOW COME FOR THE TRADE MINISTERS OF THE MAJOR NATIONS, BEARING THE RESPONSIBILITY FOR INTERNATIONAL ECONOMIC MANAGEMENT, TO MEET AND CANDIDLY EXCHANGE THEIR OWN POINT OF VIEW ABOUT WORLD TRADE-RELATED ISSUES. IT IS IN THIS VEIN THAT WE HAVE PROPOSED THE TRADE MINISTERS MEETING OF THE MAJOR COUNTRIES. WE HAVE CONSULTED ALL THE TRADE MINISTERS CONCERNED AND SOME GOVERNMENT OFFICIALS ABOUT THE PROPOSED MEETING.

WE FEEL THAT THE FOLLOWING SUMMARY EXPRESSES THE OVERALL FEELING OF THE MEMBERS:

1. EACH MEMBER HAS STATED HIS UNDERSTANDING THAT THERE IS A NECESSITY TO HOLD SUCH A MEETING.
2. HOWEVER WE HAVE TO RECOGNISE THAT THE PROPOSED MEETING SHOULD NOT HAVE A LINK WITH THE ECONOMIC SUMMIT AND THAT THE MEETING SHOULD NOT GIVE ANY WRONG IMPRESSION OF A POSSIBLE CONNECTION WITH THE SUMMIT.

TAKING INTO CONSIDERATION THESE POINTS, WE HOPE THAT, WITHOUT WORKING OUT DETAILS SUCH AS THE TIME AND THE SHAPE OF THE MEETING WE CAN AT CONSTANCE COME TO THE FOLLOWING COMMON UNDERSTANDING AMONG THE TRADE MINISTERS ABOUT HOLDING THE TRADE MINISTERS MEETING. ON THIS OCCASSION, WE WANT TO FOSTER AN ATMOSPHERE WHERE IMPROMPTU DISCUSSIONS WILL TAKE PLACE:

1. THE MEETING WILL BE CONVENED WHEN APPROPRIATE AND WILL NOT BE DONE IN A FORMAL FASHION.
2. THE MEETING WILL NOT HAVE AN INSTITUTIONAL LINK WITH THE ECONOMIC SUMMIT.
3. AT THE MEETING, THE MINISTERS SHOULD BE ABLE TO CANDIDLY EXCHANGE THEIR VIEWS ON TRADE-RELATED INTERNATIONAL ECONOMIC

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MDHIAN 2275

ISSUES. THE MEETING SHOULD PARTICULARLY INCLUDE DISCUSSIONS  
ON POSSIBLE SOLUTIONS OF THE TRADE IMBALANCES, THE MOUNTING  
PROTECTIONISM IN EACH COUNTRY, ETC.

ENDS

ADVANCE AS MIPT.

WHITEHEAD

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MR MCLAREN

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AND TO ROUTINE ROME, PARIS, BONN, WASHINGTON

*pls copy to AS/*  
*10 Downing St.*  
*16/3*

MY TELNO 291: JAPANESE PROPOSAL FOR A MEETING OF TRADE MINISTERS

1. AT DINNER ON 15 MARCH KURODA (MITI) GAVE LORD YOUNG IN CONFIDENCE  
THE TEXT OF A CIRCULAR COMMUNICATION (TEXT IN MIFT) TO BE  
DISTRIBUTED TO TRADE MINISTERS AT KONSTANZ.

*L78*

2. LORD YOUNG MADE NO RESPONSE BEYOND REPEATING THE POINTS IN  
PARAGRAPH 2 OF MY TUR.

3. SEE MIFT.

ADVANCE:

FCO: MISS SPENCER, FITTON

DTI: ROBERTS, HUTTON, LOVE, JOHNSON, HALL OT2

WHITEHEAD

YYYY

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MR MCLAREN

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cc Mr N. Wicks, No 10  
Sir G. Lither Hunt

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*Mr Powell,*

165030  
MDADAN 8535

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FM TOKYO  
TO IMMEDIATE FCO  
TELNO 264  
OF 080035Z MAR 88  
INFO IMMEDIATE UKREP BRUSSELS, WASHINGTON, BANN

*AD [unclear]*

*The FCO will  
send a telegram to Tokyo  
saying that one informal  
copy meeting is enough,  
only thereafter, and  
they are sure the PM would  
oppose any move to make*

YOUR TELNO 204 AND WASHINGTON TELNO 579: REVISED JAPANESE PROPOSALS  
FOR A MEETING OF TRADE MINISTERS  
*Meeting of Trade Ministers part of  
associated with Summit!*

1. WE NOTE THE LINE TAKEN BY ROBERTS WITH KITAMURA. YOU SHOULD  
BE AWARE HOWEVER THAT MITI'S BRIEFING OF THE JAPANESE PRESS  
CONTINUES TO GIVE THE IMPRESSION THAT MOMENTUM IS BUILDING  
TOWARDS ACCEPTANCE OF TAMURA'S IDEAS FOR REGULARISED MEETINGS OF  
TRADE MINISTERS OF THE EIGHT. AN ARTICLE IN THE SANKEI OF 26  
FEBRUARY, FOR EXAMPLE, SAID THAT THE MEETING WHICH NOW LOOKED  
LIKELY TO MATERIALISE AT KONSTANZ COULD BE AN IMPORTANT  
PREPARATORY MEETING FOR THE TORONTO SUMMIT. NOTING THAT THE NUMBERS  
OF PARTICIPANTS EITHER IN THE QUADRILATERAL OR OECD MINISTERIAL  
FORUMS WAS NOT IDEAL FOR AN IN-DEPTH DISCUSSION OF TRADE AND RELATED  
ISSUES, IT QUOTES MITI OFFICIALS AS SAYING THAT THE ESTABLISHMENT  
OF A REGULAR MEETING OF TRADE MINISTERS OF THE MAJOR DEVELOPED  
NATIONS WAS IMPORTANT.

*N.L.U.  
8.3*

2. THERE SEEMS TO BELITTLE DOUBT THAT, IF A MEETING TAKES PLACE,  
ALBEIT IN THE MARGINS OF ANOTHER MEETING, JAPANESE WILL TRY TO  
PORTRAY THIS AS CONTRIBUTING IN SOME WAY TO DISCUSSION AT THE  
SUMMIT. AS SEEN FROM HERE, A RATHER FIRMER MESSAGE IS NEEDED TO  
MAKE THE PENNY DROP, IF WE WISH TO STOP TAMURA'S CAMPAIGN. WE  
SUGGEST THAT YOU MAY WISH TO CONSIDER INSTRUCTING US TO SPEAK  
TO MITI IN ADVANCE OF LORD YOUNG'S VISIT, RECALLING THE LINE TAKEN  
WITH KITAMURA, AND SAYING THAT IN VIEW OF THIS, IT MIGHT BE BETTER  
FOR TAMURA NOT TO PURSUE HIS IDEAS WITH LORD YOUNG. ALTERNATIVELY,  
LORD YOUNG SHOULD BE BRIEFED TO SPEAK FAIRLY STRAIGHT-FORWARDLY TO  
TAMURA, IN THE KNOWLEDGE THAT TAMURA IS LIKELY TO PUT THE MOST  
POSITIVE POSSIBLE GLOSS ON HIS REMARKS.

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FRAME EXTERNAL  
PS *Mrs CHALLEN*  
MR BRAITHWAITE  
MR KERR  
RESIDENT CLERK  
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HD/ERD  
MISS N BREWER ERD  
MR R LAVELLE CAB OFFICE  
MR J H HOLROYD CAB OFFICE

MR C R BUDD CAB OFFICE  
MR J HM ALTY CAB OFFICE  
MR M. MERCER, H M TREASURY  
MR C W ROBERTS DTI VIC ST  
MR A C HUTTON ITP DTI VIC ST  
MR HOSKER OT2/1 DTI VIC ST  
MR D. JONES DTI VIC ST  
MR HAGESTADT DTI VIC ST  
MR HALL DETI VIC ST  
PERMANENT SECRETARY M A F F  
MR P FREEMAN O D A

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pa (Invaders file)

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TO PRIORITY FCO  
TELNO 579

OF 042010Z MARCH 88  
INFO PRIORITY TOKYO, UKREP BRUSSELS, PARIS, ROME, BONN,  
INFO PRIORITY OTTAWA, UKDEL OECD, UKMIS GENEVA

(FRAME EXTERNAL)

YOUR TELNO 204 TO TOKYO: REVISED JAPANESE PROPOSALS FOR A  
MEETING OF TRADE MINISTERS  
SUMMARY

1. USTR AGAINST A MEETING AT CONSTANZ BUT PREPARED TO ACCEPT  
SHORT MEETING IN MARGINS OF OECD MINISTERIAL.

DETAIL

2. WE MENTIONED THE EXCHANGE THE JAPANESE EMBASSY DESCRIBED  
IN YOUR TUR TO USTR IN THE COURSE OF CONVERSATION ABOUT  
ANOTHER MATTER.

3. THEY SAID THEY HAD HAD A SIMILAR APPROACH FROM THE JAPANESE  
HERE. ON YEUTTER'S INSTRUCTIONS, THE JAPANESE HAD BEEN TOLD  
THAT THE US WERE OPPOSED TO AN INFORMAL GATHERING IN THE MARGINS  
OF THE CONSTANZ MEETING, BUT WOULD BE WILLING TO TAKE PART IN A  
SHORT INFORMAL MEETING, LASTING NO MORE THAN TWO HOURS, IN THE  
MARGINS OF THE OECD MINISTERIAL IN MAY. YEUTTER WAS AGAINST AN  
INFORMAL GATHERING AT CONSTANZ PARTLY BECAUSE HIS SCHEDULE WAS  
VERY TIGHT BUT MAINLY BECAUSE THE JAPANESE HAD PRESENTED THAT  
MEETING AS A PREPARATORY SESSION FOR THE MEETING IN PARIS IN MAY.  
YEUTTER WAS PREPARED TO CONCEDE ONE MEETING BUT NO MORE AND  
THOUGHT THAT IF HE AGREED TO A MEETING IN MARCH IT WOULD BE MORE  
DIFFICULT TO RESIST ONE IN MAY. YEUTTER WAS OPPOSED TO ANY  
CONTINUING SERIES OF MEETINGS AND REMAINED OPPOSED TO A MEETING  
IN THE MARGINS OF THE SUMMIT ITSELF.

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1 Mr. Lyttle  
2 pa (Invaders at the Summit)  
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INFO PRIORITY OTTAWA, UKDEL OECD, UKMIS GENEVA

REVISED JAPANESE PROPOSALS FOR A MEETING OF TRADE MINISTERS

SUMMARY

1. OUR RESPONSE TO THE LATEST JAPANESE PROPOSALS, ON WHICH YOU AND OTHER POSTS SHOULD DRAW IF ASKED BUT NEED NOT TAKE THE INITIATIVE.

DETAIL

2. LAST WEEK THE JAPANESE EMBASSY HERE PUT TO ROBERTS (DTI) REVISED PROPOSALS FROM THE MITI MINISTER (TAMURA) AS FOLLOWS:-

(I) THERE SHOULD BE AN INFORMAL GATHERING OF TRADE MINISTERS FROM THE G7 COUNTRIES AND THE COMMISSION IN THE MARGINS OF THE WIDER MEETING OF TRADE MINISTERS TO BE HELD AT KONSTANZ FROM 18-20 MARCH.

(II) THERE SHOULD BE A SIMILAR GATHERING IN PARIS AT THE TIME OF THE OECD MINISTERIAL IN MID-MAY.

3. OUR RESPONSE TO THESE NEW PROPOSALS REFLECTS BOTH A DESIRE TO LET TAMURA DOWN LIGHTLY ON A MATTER TO WHICH HE APPEARS TO ATTACH IMPORTANCE AND OUR FIRM POLICY NOT TO EXTEND THE MACHINERY OF THE ECONOMIC SUMMIT. AFTER CONSULTATION WITH NO TO AND WITH DTI MINISTERS, ROBERTS TOLD THE JAPANESE EMBASSY (KITAMURA) ON 2 MARCH THAT HMG WOULD BE HAPPY TO PARTICIPATE IN ANY INFORMAL GATHERING OF TRADE MINISTERS FROM G7 COUNTRIES AND THE COMMISSION WHICH MIGHT BE ARRANGED IN THE MARGINS OF THE KONSTANZ CONFERENCE. MR CLARK WOULD BE IN KONSTANZ. BUT HMG SAW SOME DIFFICULTY ABOUT THE PROPOSAL FOR A SIMILAR GATHERING IN THE MARGINS OF THE OECD MINISTERIAL, SINCE THIS WOULD RISK BEING SEEN AS AN EXTENSION OF THE MACHINERY OF THE ECONOMIC SUMMIT. WHEN KITAMURA ARGUED THAT THE JAPANESE HAD NO WISH TO CREATE AN INSTITUTIONAL LINK WITH THE SUMMIT, ROBERTS REPLIED THAT THE CHOICE OF THESE EIGHT PARTICIPANTS WOULD BE SEEN IMMEDIATELY AS REFLECTING THE SUMMIT ORGANISATION.

4. KITAMURA UNDERTOOK TO REPORT. HE GAVE ROBERTS A PAPER SETTING OUT A FRAMEWORK FOR THE TRADE MINISTERS' MEETING, WHICH

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INCLUDES TRADE IMBALANCES, PRESSURES FOR PROTECTION AND THEIR CAUSES, AND THE SCOPE FOR STRUCTURAL ADJUSTMENTS. IT ENVISAGES AN INFORMAL EXCHANGE AT KONSTANZ, FOLLOWED BY AT LEAST ONE FURTHER MEETING LASTING A DAY, AND PROBABLY A SERIES OF SUCH MEETINGS. ROBERTS REMINDED KITAMURA THAT WE HAD AGREED TO NOTHING MORE THAN AN INFORMAL EXCHANGE AT KONSTANZ. WE REMAINED RELUCTANT (A VIEW NO DOUBT SHARED BY SOME OTHER SUMMIT COUNTRIES) TO INSTITUTIONALISE THESE GATHERINGS.

5. THE JAPANESE PROPOSAL WAS DISCUSSED BRIEFLY AT THE SHERPAS' MEETING IN CANADA LAST WEEKEND. WITH THE COMMISSION SHERPA (LAMY) DISSENTING, THERE WAS GENERAL AGREEMENT THAT THE KONSTANZ ARRANGEMENTS WERE A MATTER FOR THE GERMAN HOST (DR BANGEMANN, THE FEDERAL ECONOMICS MINISTER) AND NOTHING TO DO WITH THE SUMMIT ITSELF. THERE WAS, HOWEVER, SOME RELUCTANCE TO HOLD MORE THAN ONE SUCH MEETING.

6. THE DTI WILL BRIEF LORD YOUNG ACCORDINGLY FOR HIS DISCUSSIONS WITH TAMURA IN TOKYO IN MID-MARCH.

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Foreign and Commonwealth Office

London SW1A 2AH

24 February 1988

N Wicks Esq  
No 10

*Dear Nigel,*

SIR R ARMSTRONG: UNIVERSITY OF TORONTO LECTURE PROGRAMME

1. The University of Toronto is hosting a lecture programme in connection with the 1988 Economic Summit. Sir Robert Armstrong has agreed to represent the UK, and give a talk on 2 March on "The British perspective on the Seven-Power Summit". The other Summit countries will also be fielding speakers during the course of lectures.

/ 2. I attach a copy of Sir Robert's draft text (he is currently in Tokyo) for your information. It was passed to us for onward transmission to Toronto, in advance of Sir Robert's arrival.

*Yours ever,*

R Q Braithwaite

## UNIVERSITY OF TORONTO

### Economic Summits: A British perspective

1. The Economic Summit meeting to be hosted in this city by the Prime Minister of Canada will be the fourteenth in the series since they began in 1975. Since seven countries make up the Economic Summit grouping, and each country hosts a meeting in turn, this year's Toronto Summit will complete a second full cycle of such meetings. That makes this an appropriate time, before it has to be decided whether to embark upon a third cycle, to take stock of what they have achieved, whether they have fulfilled and continue to fulfil a purpose, and what are their prospects for the future.
2. The genesis of these meetings of the heads of state or government of seven major industrialised countries lies in the informal meetings of the so-called "Library Group" of Finance Ministers held before 1975. Valéry Giscard d'Estaing and Helmut Schmidt had valued these meetings when they were Finance Ministers, and after each of them became the executive head of the government in his own country, they believed that it would be useful that they should continue to meet for similar informal and unstructured discussions with their counterparts from the United States, Japan and the United Kingdom. The first meeting was convened by President Giscard d'Estaing at Rambouillet in 1975. The Prime Ministers of Italy and Canada were quickly added to the group, to make up the Summit of Seven; and it was not long before the other member countries of the European Community not themselves included in the Summit Seven came to be represented at Economic Summit meetings by the Presidents of the European Council and of the Commission of the European Communities.
3. From the outset the Economic Summit meetings were seen by their founders and by those who attended them, not as an international decision-making body nor as the apex of an international decision-making process in the field of financial and economic management, but as an opportunity for the heads of state or government concerned to exchange impressions, views and ideas, and to come to an

understanding among themselves, about the needs, problems and opportunities of world economic developments, and the means by which the economic welfare of their own and other countries could be enhanced by greater mutual understanding and harmonisation of economic and financial policies.

4. It was from the outset, and has by and large remained, a cardinal point that within this framework the Economic Summit was not to be institutionalised. It was not to become a formal alliance or organisation, with its own treaty and machinery, or an executive international institution like those created by the Bretton Woods Agreement. It was to be different and separate from the day-to-day or week-by-week processes of diplomatic activity and from the detailed processes of consultation and management by Ministers of Finance and central bankers. It was to be informal and deliberative, and above all an opportunity for personal and political contacts and meetings of mind at the highest political level.

5. It was in order to emphasise and preserve this quality of Economic Summits that the process of preparing for the meetings was reduced to the unavoidable minimum and was entrusted not to Foreign or Finance Ministries or to the usual diplomatic channels but to a group of Personal Representatives, each chosen and appointed by and directly answerable to his (and in Canada I must happily add her) own head of state or government. Here I must speak with less than total objectivity, having served for eight years as the British Prime Minister's Personal Representative; but I can speak from first-hand experience of the high degree of direct and open exchange of news, of the personal understanding, respect and friendship, and of the sense of what I can best call collegiality which has developed among the Personal Representatives. This together with their direct responsibility to, and in many cases personal association with, their heads of state or government, has given their gatherings and their work an extra dimension which has contributed not a little depth to the clearly much more important dimension of personal contact and collegiality among the heads of state or government themselves.

6. This collegiality among heads of state or government is a real phenomenon, and an important ingredient in the value and success of Economic Summits. There is no doubt that the view is different from the top. Each of the heads of state or government is in charge of the government in his or her own country, and has his or her own personal overview of domestic and international issues and of how they interact. Each can talk to other heads of state or government at a level and in ways which are different in important respects from the levels at which and the ways in which they do business with their ministerial colleagues at home. It is not a matter of better or worse: just different, arising out of the particular positions they hold and the special relationship which the sense of community of interests and responsibilities creates.

7. There are two other elements which are special to Economic Summits and give them, as I believe, a particular value in international affairs.

8. First, although the countries represented are diverse in size, and in national structures and traditions, all are advanced industrial countries. Though these countries are in many respects in competition with each other, their leaders all confront the same sorts of economic problems at home and in international affairs, and to that extent bring to their meetings a community of interests which gives coherence to their discussions and strength to their conclusions.

9. The Summit runs the danger, of course, of being regarded as a club of the "haves"; but I believe that it has over the years proved its capacity to contribute to the improvement and strengthening of the responses of the industrialised countries to the needs of the developing countries.

10. And secondly, the gatherings at Economic Summits are sufficiently small in number for the proceedings to be true discussions, rather than a series of prepared statements of negotiating positions. Their meetings can be conducted quite informally; and their conclusions are achieved by discussion leading

to consensus and not by debates leading to counting of votes or voices.

11. Thus the Economic Summits provide opportunities for personal, face-to-face and informal contacts and exchanges of view among the participating heads of state or government, and for identifying and articulating the politico-economic themes which set the framework for international economic and financial management. It is these qualities of Economic Summits which appeal with especial force to the British Prime Minister. Indeed, I believe that the same would be true for any of her colleagues at the Economic Summit. They aspire to recapture the informality and flexibility of the "Library Group".

12. In two respects it is impossible for them fully to realise that aspiration.

13. The first respect derives from the high level and the size of the gatherings, and the concentration of public and media attention and expectations upon them. There are seven heads of state or government: two of them Presidents of their countries, and five of them Prime Ministers. Each is accompanied by a Foreign and a Finance Minister. The European Community is represented by the Presidents of the European Council and of the Commission of the European Communities. They come together from the four corners of the world, and are inevitably encompassed about by sizeable delegations of senior officials as well as by those whose duty is to assume security and communications with the home base. The total number of people involved in a Summit meeting thus runs into several hundreds.

14. And these gatherings have come to attract huge attention from the media. At recent Summits the numbers of journalists in attendance has been in the order of 3,000, of whom some 1,000 or more are American and not too far short of that number Japanese.

15. Thus the organisation of an Economic Summit meeting entails a considerable feat of preparation, planning and expense for the host government; and the necessary degree of orderliness and formality

which the arrangements require makes it more difficult to preserve the degree of informality and flexibility of discussion which it remains the aspiration of the main participants to achieve. And the journalists are all, naturally enough, looking for stories to send back to their viewers, listeners and readers; it is hardly surprising that they are not content to wait for the final declaration and press conference, but look to be supplied - on or off the record - during the meetings with material about the subjects being discussed, the progress of the discussion, and - inevitably - any emerging differences of view or conflicts of interest.

16. It was considerations of this kind which led some seasoned Summit observers to look back with special nostalgia to the first Summit under Canadian auspices, which was held at Montebello. The nature and size of the "largest log cabin in the world" enabled all the principals and their delegations to be accommodated under one roof, and eliminated much time and hassle of travelling between one location and another. At the same time it ensured that the numbers in each national delegation had to be strictly limited; and the representatives of the media remained in Ottawa, so that spokesmen had to use the telephone or make a forty-mile journey to brief the press. As one cynical press officer was heard to remark at the time: "Peace, perfect peace, with loved ones far away".

17. Another main respect in which the Economic Summit differs from the Library Group is the intrusion of high political issues into the agenda for discussion. I use the word "intrusion" only because the time taken up in discussion of political issues reduces the amount of time available for discussion of the economic issues which it is the primary purpose of these Summits to consider. But of course the political issues are of the highest importance in their own right; and of course it is both inevitable and right that heads of state or government who are much preoccupied with these issues in their day-to-day business at home should use opportunities of this kind to exchange views with each other about them. Indeed, they would be failing in their responsibilities if they did not.



18. Despite all these pressures, there has been a considerable, perhaps surprisingly considerable, degree of success in preserving both the primarily economic purpose and the informal character of discussions by heads of state or government at the Economic Summit. Discussions of more detailed and technical financial and economic matters are delegated to Finance Ministers who keep in regular contact during the year through their G7 and other processes. Discussions of regional foreign policy issues at the Summit can be delegated to Foreign Ministers, enabling heads of state or government to concentrate their political discussions on the major international issues, and particularly those of East-West relations. Their political discussions tend to be conducted outside the regular sessions, at mealtimes for instance, enabling the regular sessions to focus on economic issues. The fact that the draft of the economic declaration or communiqué is not available for consideration until relatively late in the meeting serves both to limit the amount of time that heads of state or government need to spend on detailed drafting points and to enable the preparation of the draft to reflect the points of view that emerge from the earlier part of the discussion.

19. And heads of state or government have on the whole resisted the temptation to institutionalise the process of preparation beyond the Personal Representatives. Specialist working groups have been set up from time to time to deal with particular issues or remits. There was, for example, a Working Group on Technology, Growth and Employment, which was set up at the Versailles Summit in 1982 and did some useful work, particularly in establishing joint venture projects among Summit countries, before it was finally disbanded two or three years ago. But such groups have been few, and all have reported to the Summit through the Personal Representatives. The preparatory process has been deliberately kept lean in order that heads of state or government themselves should be able to concentrate on identifying issues and exchanging views rather than on reaching decisions.

20. It would be beside the point to expect a catalogue of specific achievements from a process which has had other objectives. Perhaps the nearest the Economic Summit has come to attempting anything

which could be described as specific achievements was the agreements in Tokyo in 1979, and Venice in 1980 on targets for energy conservation and for development of alternative energy sources in the wake of the second major wave of oil price increases. I doubt whether the targets then agreed would bear very close inspection today, though I must confess that I have not done the exercise.

21. But those two Summits illustrated one important benefit of the Economic Summit process: that it enables heads of state or government to reach and to express a consensus of political will at the highest level on the need to pursue particular economic objectives. The Tokyo and Venice Summits of 1979 and 1980 articulated a clear political commitment by the seven governments of the Summit countries to the vigorous pursuit of policies of energy conservation and the development of alternative energy sources; and the political significance of that, both domestically and internationally, was perhaps more important than the specific targets by means of which it was expressed.

22. The problems of the developing countries have exercised the minds of heads of state or government at every Economic Summit meeting in which I have been involved. The articulation of detailed policies on the support of developing countries and the debt problems of the major debtor nations has been dealt with in other international fora, not least because many other countries are involved. But the Summit meetings have helped to focus the minds of heads of state or government on these problems, and to reaffirm political will at the highest level for a positive and constructive approach to them; and they have probably on occasion helped heads of state or government to carry political and public opinion at home for more outgoing national policies than they might otherwise have been able to accept.

23. Again, the detailed application of policies on multilateral coordination and surveillance in international financial management has been a matter primarily for Ministers of Finance; but the Summit has taken useful initiatives of process in this area, and its endorsement of the policies agreed and pursued by Ministers of

Finance has given heightened political weight to the policies and has helped to improve their effectiveness.

24. Perhaps the most valuable service that successive Economic Summits have been able to render has been the regular and unvarying commitment of the seven heads of state or government to the preservation and strengthening of the open multilateral trading system. At a time when protectionist tendencies have seemed to be on the increase, that commitment, collectively undertaken and reiterated at the highest level, has been a demonstration and an example to other trading partners, as well as a reinforcement for resistance to domestic protectionist pressures in the Summit countries themselves.

25. At the last two Summits, at Tokyo in 1986 and Venice in 1987, heads of state or government have discussed at some length the problems of world agricultural surpluses and the part created in generating those surpluses by domestic (including European Community) agricultural support policies. They have reached general agreement on the need to eliminate surpluses over a period of time and to reduce governmental support policies as necessary for that purpose. The detailed work on this is being done in the Organisation for Economic Cooperation and Development and as part of the Uruguay Round in the General Agreement on Tariffs and Trade; the expression of political will to tackle the problem contained in the Summit declarations has helped to highlight political and public consciousness of the problem in the Summit countries and elsewhere, and to give additional impetus to the discussions of the problem in regional groupings and in other international bodies.

26. But I would argue that the most significant achievement of the Economic Summit process is still that it provides a regular opportunity for those seven heads of state or government to meet and talk to each other face to face; to exchange views in a relatively free-ranging and informal way about international political, economic and financial issues, and to enable each other to understand the particular domestic political and economic needs and problems which impel or constrain them. It must be better that this should happen than that it should not. Also, despite all the

ballyhoo that surrounds Summit meetings and the unfulfilled and often unfulfillable expectations to which they can give rise, the fact that the Economic Summit has become and is accepted as an annual event - one event (albeit a particularly conspicuous one) in an annual calendar of events and meetings, helps to place it in perspective and to ensure that not too much is seen as riding on the outcome.

27. A cynic might argue that the only reason why the Summit process should and probably will continue is because it would be too devastating an admission of failure or of lack of cohesion to discontinue it. I do not want to take that position. I believe that the holding of the annual Economic Summits helps to make the development of the world macro-economy better managed and more positive than it would be if Summits did not occur. That judgement is in the nature of things not capable of demonstration or proof, since it is impossible to show how things would have turned out if there had been no Economic Summits. But is it a judgement of faith, based on experience. But, if it is right, it is surely sufficient to justify the countries concerned in continuing the process, and in deciding in this city later this year to embark upon a further cycle of Economic Summits.

FEBRUARY 1988

ROBERT ARMSTRONG



File MJ  
cc Duty  
Clerk

10 DOWNING STREET

LONDON SW1A 2AA

18 February 1988

*From the Principal Private Secretary*

TORONTO SUMMIT, BACKGROUND PAPERS

I should have replied before now to thank you for your letter of 5 February and the collection of papers which you sent me. They are a useful source of reference.

I would indeed like a personal copy of the papers of the Lancaster Group on debt and should be grateful if you could arrange for copies to be sent to me here at No.10. As for telegram distribution, there seems to be a hiccup somewhere. Telegrams started to arrive but have subsequently stopped. Perhaps one of your people could have a word with the Duty Clerk about this.

Finally, thank you for the offer of the services of your Conference Section. I am sure that we will be in touch with Bill Kilby in due course.

N.L. Wicks

T.L. Richardson, Esq.,  
Foreign and Commonwealth Office.

✓



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H M Treasury

*M*

Parliament Street London SW1P 3AG

Switchboard 01-270 3000  
Direct Dialling 01-270 4349

Sir Geoffrey Littler KCB  
Second Permanent Secretary

10 February 1988

*Dear Nigel,*

TORONTO ECONOMIC SUMMIT PREPARATION

I agree with the suggestion in your letter of 9 February to Rod Braithwaite (to whom I am copying this), that our briefing should cover some stock exchange issues. As well as 'circuit-breakers', etc, it should also touch on the present lack / future possibility of cooperation between major stock exchange supervisors. *at flap*

I have asked Rachel Lomax to organise a brief for us. I have told her to work to 24/25 February for this - a fair amount of activity is going on and we want as up to date a note as can reasonably be prepared.

I am content with the other briefing suggestions made by Rod, and have commissioned my people as appropriate.

*Yours,*

*Geoffrey*

Nigel Wicks Esq CBE  
10 Downing Street  
LONDON SW1.

Economic Policy, Canadian  
Economic  
Summer 1924



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10 DOWNING STREET  
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*From the Principal Private Secretary*

9 February 1988

TORONTO ECONOMIC SUMMIT: SECOND MEETING OF PERSONAL  
REPRESENTATIVES, 27-29 FEBRUARY

Thank you for your letter of 5 February with which you enclosed a suggested list of briefs for the second Sherpa meeting which takes place near Montreal on 27-29 February.

I am content with the briefs suggested with one addition. Sylvia Ostry mentioned at dinner the other evening that there was a good deal of interest in North America in various devices - circuit breakers and all that - which might mitigate fluctuations in the stock market. Geoffrey Littler pointed out to her that there was less interest in such matters this side of the Atlantic. Nevertheless, I suppose that it is just possible that either Alan Wallis or herself might raise this matter in Montreal bearing in mind the interest stimulated by the Phelan and Ruder reports. I therefore suggest that there should be a brief on these issues.

I am sending a copy of this letter to Geoffrey Littler.

N.L. Wicks

R.Q. Braithwaite, Esq.,  
Foreign and Commonwealth Office.

5





Foreign and Commonwealth Office

London SW1A 2AH

N Wicks Esq  
Principal Private Secretary  
No. 10

5 February 1988

*Jean Nijer*

TORONTO SUMMIT: BACKGROUND PAPERS

- in black folder*
1. As promised in my letter of 26 January, I now attach a further folder of Summit papers. You will see from the covering list that it includes a range of recent declarations as well as current papers on key issues such as debt, the Uruguay Round and agriculture. You may also be interested in a few back papers on the Japanese proposals for a meeting of trade Ministers, although the idea of any link with the Summit seems to have been squashed for the moment. I have added a copy of the briefing letter we provided for the Sherpas meeting in November, and a short minute on potential tension between the key Canadian officials involved in Summit preparations.
  2. We discussed telegram distribution at our meeting on Wednesday; I can confirm that we have added your name to the Monetary, Frame Economic and Frame External distribution lists. If you would like a personal copy of the Lankester (ex-Lavelle) Group papers on debt, I will arrange for an extra set to be sent to Number 10.
  3. You mentioned organisation of the Sherpas meeting at Leeds Castle in May. We have been in touch with our Conference Section, who will be happy to pass on whatever advice they can. If your staff would like to draw on their experience, perhaps they could contact Bill Kilby in this department in the first instance.

*Yours ever  
Tom*

T L Richardson  
Economic Relations Department

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88 SUMMIT PREPARATION: SIGNIFICANT PAPERS, 1986/87

- A OECD Ministerial Communiqués 1987  
1986
- B IMF/World Bank Development Committee Communiqués: September 1987  
April 1987
- C IMF Interim Committee Communiqué: September 1987  
April 1987
- D Louvre Statement: February 1987
- E G7 Statement: April 1987
- F G7 Statement: September 1987
- G G7 Statement and Annex: December 1987
- H Ministerial Declaration on the Uruguay Round: September 1986
- I Cairns Group Ministerial Meeting - September: May 1987
- J Summary of recent EC, US, Cairns Group and Japanese proposals on Agriculture
- K European Council - Draft Conclusions. December 1987.
- L Guidance telegram: Debt: Mexico and the banks: January 1988
- M Guidance telegram: Debt: Sub-Saharan Africa: December 1987
- N Japanese proposals for a Trade Minister's meeting at the Summit:  
(i) Teleletter from Tokyo, 24.12.87  
(ii) Minute Richardson, PS 30.12.87  
(iii) Minute Spencer (ECD(E)), PS 18.1.88  
(iv) Telno 157 from Washington 23.1.88  
(v) Telno 256 from UKRep 26.1.88
- O Doucet - Ostry: Confusion of Roles: Minute Richardson-Brewer, para 5: December 1987
- P Briefing letter, First Meeting of Personal Representatives for 1988 Summit: October 1987

ECONOMIC RELATIONS DEPARTMENT  
5 February 1988

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ANNEX

US Proposal on Agriculture in GATT

US proposal aims at complete reduction by year 2000 of all agricultural support affecting trade. Proposals exclude income aids decoupled from production and marketing, and food aid; and envisage two-stage approach:

- (i) Agreement on a measuring device such as OECD Producer Subsidy Equivalent (PSE), an idea UK strongly supports; and commitment to reductions in aggregate levels to zero (unrealistic);
  - (ii) Each country to select specific policy changes to meet this commitment (UK supports this approach).
- EC response recognised importance of US proposal while expressing doubt about realism of seeking to remove all forms of support by 2000.

EC Proposal on Agriculture in GATT

- Draft proposal contains a number of positive elements:
- o Commitment to reductions in support in short and long term.
  - o Credit for reforms already implemented.
  - o Endorses use of an aggregate measuring device (eg PSE).
  - o Recognises the need for short term action (which the US proposal did not).
- Some aspects of the proposal are unwelcome:
- o Linkage between "rebalancing" (ie increasing protection in some sectors) and reductions in overall support.
  - o Linkage between long and short term action.
  - o Linkage between internal EC reforms and reforms by trading partners.
  - o Concentration on action on specific commodities in surplus.

Cairns Group Proposal in GATT

- Cairns Group have put forward comprehensive proposal including long and short term measures.

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1. Overall objective: long term framework supported by new GATT rules covering market access, subsidies, health regulation, consultation and surveillance.

2. Programme of reform: including reductions in aggregate support; priority treatment for export and other subsidies related to exports and import access; only limited exceptions (eg for structural adjustment); agreement on rules for health measures, consultation surveillance and dispute settlement.

3. Specific early relief measures:

- o Freeze on access barriers, production and export subsidies, unjustified health regulations.
- o Political commitment to stock disposal.
- o Concerted multilateral steps to tackle existing distortions (eg commitment to reduce subsidies by X%, commitment to increase access).

- The proposal also underlines need for differential and more favourable treatment for developing countries.

**JAPANESE PROPOSAL IN GATT**

- Proposal recognises need to tackle import barriers as well as export subsidies but the emphasis is firmly on the latter. There are clear statements of the need to respect the principles of food security and the specific problems of agriculture.

- The proposal covers all agricultural fishery and forestry products.

- Emergency measures: major exporting countries should freeze export subsidies at current level.

- Other proposed measures:

- o tariff reductions by request and offer procedure.
- o removal of QRs and other import restrictions: discipline for exceptions to be improved.

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- o review of general exceptions to restrictions on exports at time of critical shortage.
  - o subsidies: export subsidies to be frozen. Other government subsidies affecting trade should be brought under GATT control (with exceptions for infrastructure improvement, social welfare etc).
- 
- Rejection of aggregate measures such as PSE which is not designed to compare levels of agricultural protection, nor does it take account of eg food security.
  - Proposal recognises need to reduce sanitary and phytosanitary restrictions while recognising particular conditions of each country.
  - Special and differential treatment for developing countries.

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FCO TELNO 57 TO TOKYO: JAPANESE PROPOSAL FOR MEETING OF TRADE

MINISTERS  
 SUMMARY

1. US OPPOSE JAPANESE IDEA FOR A MEETING OF TRADE MINISTERS FROM THE G7 COUNTRIES PLUS THE COMMISSION.

DETAIL

2. YEUTTER TOLD LORD YOUNG TODAY (22 JANUARY) THAT THE JAPANESE PROPOSAL FOR A MEETING OF TRADE MINISTERS FROM THE G7 COUNTRIES PLUS THE COMMISSION WAS A LOUSY IDEA. HE (AND DE CLERCQ) HAD TOLD TAMURA SO IN TERMS IN BALI. THERE WAS NO NEED FOR ANOTHER GROUPING OF TRADE MINISTERS IN ADDITION TO NARROWER QUADRILATERAL MEETINGS (US, CANADA, JAPAN, COMMISSION) AND THE WIDER INFORMAL MEETING OF THE KIND DUE TO TAKE PLACE IN KONSTANZ IN MARCH. HE HAD SAID THAT THE ONLY CONTEXTS IN WHICH IT MIGHT MAKE ANY SENSE WOULD BE IF TRADE MINISTERS WERE TO MEET AS PART OF THE SUMMIT, OR IF TRADE AND FINANCE MINISTERS WERE TO MEET TOGETHER TO DISCUSS TRADE/FINANCE LINKS. BUT A MEETING IN THE MARGINS OF THE SUMMIT WAS A MATTER FOR HEADS OF GOVERNMENT, AND HE HAD TOLD TAMURA THAT IF, THE JAPANESE WISHED TO PURSUE IT, TAKESHITA SHOULD TAKE UP THE IDEA WITH MULRONEY.

3. YEUTTER SAID THAT TAMURA HAD PUT HIMSELF OUT ON A LIMB. NOTHING WAS LIKELY TO COME OF THIS. LORD YOUNG AGREED. A TRADE MINISTERS MEETING IN THE MARGINS OF THE SUMMIT WAS A PARTICULARLY BAD IDEA.

4. SMITH (DEPUTY USTR) SPOKE TO ROBERTS (DTI) LAST NIGHT ON SIMILAR LINES. HE WAS DAMNING BOTH ON THE IDEA OF A SEPARATE G7 PLUS COMMISSION TRADE MINISTERS MEETING, AND THAT OF A MEETING IN THE SUMMIT MARGINS.

5. COMMENT: YEUTTER LEFT US WITH THE IMPRESSION THAT HE MIGHT HAVE BEEN LESS THAN CLEAR WITH TAMURA THAT HE REGARDED HIS CONDITIONS FOR A TB MEETING AS IN PRACTICE IMPOSSIBLE TO MEET. WHETHER THIS ACCOUNTS FOR TAMURA'S OPTIMISM ABOUT THE US VIEW WE CANNOT JUDGE.

6. FCO PLEASE REPEAT TO DTI FOR HUTTON (EEP DIVISION).

*par?*  
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MY 3 IPTS (NOT TO ALL)

MY CALL ON DE CLERCQ: MITI PROPOSAL FOR A TRADE MINISTER'S MEETING  
 1. DE CLERCQ CONFIRMED THAT HE AND YEUTTER HAD SAT FIRMLY ON TAMURA'S PROPOSAL FOR A T8 MEETING. IT WOULD ONLY CAUSE TROUBLE FOR THE EC (BECAUSE OF THE RESTRICTED MEMBERSHIP) HE WAS OPPOSED TO A PROLIFERATION OF THESE MEETINGS WHETHER OR NOT LINKED TO THE SUMMIT.

2. I SAID THAT BRITISH MINISTERS HAD REACTED COOLLY TO TAMURA'S PROPOSAL. WE WOULD CERTAINLY NOT AGREE TO ANY LINK WITH THE SUMMIT.

HANNAY

YYYY

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MAIN 244

FRAME EXTERNAL  
 ECD (E)  
 NAD

FED  
 MR FEARN  
 MR MCLAREN

*Handwritten notes:*  
 PR  
 Mr. Brown  
 L. Brat  
 Coos  
 9

ADDITIONAL 1

FRAME

NNNN

CONFIDENTIAL

Mr Richardson

Ms Brewer

Draft Submission attached  
I am drafting a short reply  
for Mr Braithwaite to Sir R. Armstrong  
separately.

cc: Mr Braithwaite  
Mr Maud  
Mr Fowler, NAD

MAFO 091/14

N. Brewer 8/12

16/55

TORONTO ECONOMIC SUMMIT

1. You will have seen Ottawa telno 742, giving Doucet's views on how Mr Mulroney may be approaching the Toronto Summit. We have been asked to let Ottawa know if there are any special markers that we would want the High Commissioner to put down if and when Doucet gives a lunch for Summit Ambassadors before Christmas.
2. To take the mechanics first, I am clear that we shall need to consult No 10, through a Private Secretary letter, on Doucet's two main proposals: a retreat for Heads of Government during the Summit, and less pre-cooking of the communique. The first step, however, is to obtain Sir Robert Armstrong's views. I have asked Mr Woolley to elicit them, and I hope to have an answer from him today. As the Prime Minister and Foreign Secretary will both be in Copenhagen from tomorrow afternoon until Saturday evening, I think we should aim to submit to Private Office next Monday 7 December, by which time I shall be back from Paris.
3. The Prime Minister strongly dislikes the idea of the retreat, and Sir R Armstrong made her position clear at the first meeting of Personal Representatives. I am sure she will stand firm against it.
4. Doucet's other idea is somewhat trickier. The Prime Minister will probably be attracted by "informal exchanges" at the Conference proper (not at a retreat). But summits last for little more than 48 hours, and if too much of the communique is left open until the evening of the first day, it may prove exceedingly difficult to get a text approved before the summit breaks up. Subject to Mr Braithwaite's views, I think we should advise No 10 that there is no need for us to take a firm view at this stage (not least because of doubts about Doucet's own responsibilities, on which see below). But it might be possible to identify in advance two or three important policy areas which require discussion at Head of Government level, and on which the draft communique would not be set in concrete.
5. Glen Bailey of the Canadian High Commission told me in strict confidence - which should be respected - that we could expect some friction, and confusion of roles, between Doucet and Mrs Ostry. Doucet is Ambassador for International Summits, and was responsible for the organisation of the francophone meeting and CHOGM, as he will be for Toronto. Mrs Ostry is Personal Representative. Doucet is an old university friend of Mr Mulroney, and was his Principal Policy Adviser for the first 2½ years of the Conservative Government. He was criticised for failing to manage issues in a way that avoided political embarrassment to the government, and resigned. But he still breakfasts with Mr Mulroney once a week.

\* Promised - probably to Mr Braithwaite

and Sir R Armstrong's

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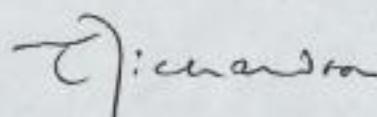
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6. Mrs Ostry is working on her own proposals for the organisation of the Summit, in the light of the first meeting of Personal Representatives. She is "moving very cautiously", so as not to be out of step with Doucet and the Prime Minister. I gather that she and other Canadian officials have doubts about the retreat idea (because of lack of time), but are keener on not pre-cooking the communique.

7. All of this suggests that we and the High Commission should handle Doucet respectfully but cautiously. Bailey has offered to give us private advice as and when we get discordant noises out of Ottawa. No doubt the High Commission are aware of this problem; but it should be possible to refer to it in guarded terms in any telegram of instructions that we send them once the Prime Minister has been consulted.

8. Finally, you will note that the Secretary of State has minuted on the telegram that "some thought is needed about this as part of Anglo/Canadian relations". Mr Calshaw confirms that he has in mind relations between Mr Mulroney and the Prime Minister. So far as the economic agenda for the Summit is concerned, I agree with Doucet that there is "a close coincidence between Canadian and UK positions"; and I made a point of saying so to Mr Bailey.

2 December 1987



T L Richardson  
Economic Relations Dept

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Foreign and Commonwealth Office

London SW1A 2AH

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Sir R Armstrong  
Cabinet Office

29 October 1987  
Richard  
Amendments in para  
3 and 8

tp pa

Dear Robert,

NS 29/10

TORONTO ECONOMIC SUMMIT:  
FIRST MEETING OF PERSONAL REPRESENTATIVES

1. In his letter of 20 October to Geoffrey Adams, Paul Cuthbert-Brown asked for briefing in the form of a letter for the first meeting of Personal Representatives, which takes place on Vancouver Island on 6/8 November, to reach you by 29 October.
2. The agenda for the Vancouver meeting covers follow up to Venice and preparation for Toronto. Both will be overshadowed by the state of the financial markets and the consequences for the world economy and exchange rate management.
3. I gather that you were only able to see Delvoie today. He may have told you more about Sylvia Ostry's intentions than does the Canadian paper which Nicola Brewer sent to Cuthbert-Brown on 26 October. Under the agenda item covering the review of developments since Venice, the first issue she flags, economic policy coordination, is bound to have pride of place. Sylvia Ostry has proposed (her letter of 27 October) inviting financial sub-Sherpas to Vancouver. We and the Treasury do not think this is a good idea, and the Treasury are drafting a reply. Nevertheless there is bound to be some discussion of the effect on exchange rates and interest rates of the recent fall in share prices. To set this fall in historical perspective, since the early eighties equity prices had at their peak more than doubled in real terms in the US and Germany, trebled in France and the UK and quadrupled in Japan - a far greater rise than the improvement in current and expected profitability. So it was neither unexpected nor unprecedented that there would be a correction at some stage. What was not foreseen was the scale and speed of that correction once it began. The fall in equity prices is bound to have a deflationary effect upon investment and consumption, but how much we do not know.

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4. At the Annual Meetings, before the recent turmoil, Ministers were able to reiterate that the major seven economies were in their fifth year of expansion, and that growth appeared to be strengthening a little despite some weakening in average real GNP growth in the second half of 1986, from around 3% a year to just below 2½%. At the recent meeting of the OECD's Executive Committee in Special Session, Henderson for the Secretariat was inevitably more pessimistic.

5. Summit countries now need to reassure the markets that economic fundamentals are still sound and that the necessary actions to restore confidence are being taken. When we meet on 4 November, Geoffrey Littler will no doubt have more to say about the three key elements in any package: exchange rates, interest rate differentials (especially between the US and Germany) and action to reduce the US fiscal deficit and hence the imbalances. We can welcome the substantial cut in the US Federal deficit in fiscal year 1987 (just ended) and the willingness of the Administration to implement, if necessary by tax increases, the full \$23 billion cut in FY1988 from the estimated baseline specified by Gramm-Rudman, mark II. But next year's deficit is still likely to be above the FY 1987 level; and we should urge larger cuts in the deficit and above all a sustained programme to reduce it year on year, if market confidence is to be restored. The FRG too could do more, and the Chancellor has twice said so in terms in the last week. The immediate target is a reduction in German interest rates, but this will be opposed by influential voices in the Bundesbank and elsewhere.

6. We gather that Mrs Ostry would be particularly interested to hear how the Chancellor's proposal at the Annual Meetings for a more permanent regime of managed floating will be carried forward. Geoffrey Littler will be able to advise on this.

7. Debt Sylvia Ostry's second issue. If the stock market collapse does herald lower growth in developed countries it will curtail debtors' export earning opportunities, and reduce their capacity and willingness to repay. They will, however, benefit from lower interest rates. There has been good progress since Venice on a General Capital Increase for the World Bank. The IBRD Board will begin serious negotiations next month, and for US, German and Japanese budgetary reasons these negotiations have to conclude by mid-December if the GCI is not to be delayed for a year. Camdessus's initiative to enlarge the IMF's Structural Adjustment Facility continues to gather support. We have said we will contribute an interest rate subsidy, and we are ready in principle to contribute capital too if the



arrangements for repayment etc are satisfactory. Whether discussions can be concluded by the end of 1987, as proposed in the Venice Communiqué, is open to doubt (though it may be unwise to say so in public). That is certainly true of the Chancellor's debt initiative, but we should continue to urge the case for interest rate cuts and cite CHOGM's endorsement of the initiative.

8. Turning to trade, the Vancouver Declaration at CHOGM usefully reaffirmed the need for liberalisation of trade and agriculture in the Uruguay Round. The Geneva negotiations are now on schedule. The Community has put forward two major outline proposals: on Tropical Products where the Community's negotiating directive has been particularly welcomed by developing countries; and on Agriculture, on which a position paper has been submitted. Although the latter contains a number of unwelcome elements from the UK point of view, tactically it is far better for the Community to have a paper on the table in Geneva which demonstrates its commitment to negotiate constructively. The US, Canada and the Cairns Group have accepted that the Community's move is a useful step forward, though they too find parts of the paper unattractive. They have also tabled position papers for a first round of talks. Progress in the GATT should provide a useful external stimulus for the CAP reforms we are working for (though the latter must not be dependent on the former).

9. If it were not for recent stock market developments, Sylvia Ostry would probably be tempted to concentrate discussion at Vancouver on trade and agriculture. The Canadians have been pressing for a mid-term Ministerial review which could decide on measures for early agreement in the GATT negotiations (the so-called 'early harvest'). They may be considering proposing such a review in Vancouver in late 1988. We do not object in principle, but have consistently argued that it is premature at present to decide areas for agreement: far better to wait until it is clear what subjects can be included in any mid-term review or 'early harvest'. At CHOGM the Canadians (and Australians) appeared to recognise that these arguments had some force.

10. It is also too early to consider preparations for the political subjects at the Summit, although Sylvia Ostry will presumably confirm that she intends Political Directors from foreign ministries to attend the final preparatory meeting of Personal Representatives before the Summit, as they have done in recent years. There are just two points on the political side of which you might like to be reminded:



- Terrorism. The counter-terrorism experts continue to meet to follow up work after Venice. Progress has been slow under shaky Italian Chairmanship, and the French (aided by the Germans and Japanese) have seized the opportunity to be obstructive, thereby irritating the Americans. We are now waiting for an Italian initiative to take work forward again.

- Impact of technological change. Shultz is keen that Heads of Government at Toronto should discuss the impact of technological change on world trends and on international relations. At this year's dinner for Summit Foreign Ministers in the margins of the UN General Assembly in New York in September it was agreed that Shultz would circulate a paper on this subject by the end of the year, and that Genscher would host an informal 'brain-storming' meeting of Foreign Ministers in the Spring to consider how to take things further.

11. Finally, a brief word on the Brundtland Report since the Canadians have suggested that energy/environment issues might be briefly addressed in Toronto if the debate on this Report is carried further. The World Commission on Environment and Development, which Mrs Brundtland chaired, published in April a Report entitled 'Our Common Future'. It has attracted considerable public attention, and will no doubt be the subject of further international discussion. Although we have problems with parts of it, we have on the whole welcomed it as comprehensive, realistic and balanced. Sir Crispin Tickell made a statement in the UN General Assembly on 19 October endorsing the Report's central theme of sustainable development based on economic growth. CHOGM likewise welcomed the Report.

Yours ever.

Rodric

R Q Braithwaite

gc Sir G Littler *SLM*

Annex to Richardson to Wickes. 5/2/88

cc PS/Si Robert Amusborg  
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MR TAMURA'S PROPOSAL FOR TRADE MINISTERS MEETING AT THE SUMMIT.

1. SEVERAL ARTICLES HAVE APPEARED HERE RECENTLY ABOUT A PROPOSAL BY MR TAMURA, MINISTER OF INTERNATIONAL TRADE AND INDUSTRY, THAT TRADE MINISTERS SHOULD MEET AT THE SUMMIT. IN VIEW OF THE SECRETARY OF STATE'S VISIT HERE (IT IS NOW POSSIBLE THAT HE MAY SEE MR TAMURA) AND MR TAMURA'S INTENDED VISIT TO LONDON ON 18 JANUARY, WE MADE SOME DISCRETT ENQUIRIES AND YOU MIGHT LIKE SOME BACKGROUND EVEN THOUGH THERE IS AT THIS STAGE VERY LITTLE FIRM TO REPORT.

2. HOSOKAWA, DIRECTOR OF THE INTERNATIONAL ECONOMIC AFFAIRS DIVISION OF MITI, TOLD US INFOMALLY THAT TAMURA WAS RUNNING HIS IDEA VERY STRONGLY AS "A PERSONAL PROPOSAL AT THE POLITICAL LEVEL" (IE IT DID NOT HAVE THE SUPPORT OF OTHER MINISTRIES, OR EVEN OFFICIALS WITHIN HIS OWN MINISTRY AT THIS STAGE). HIS REASONING WAS THAT TRADE MATTERS HAD BECOME INCREASINGLY IMPORTANT ITEMS ON THE AGENDA OF SUMMITS, AND IT WAS WRONG FOR MINISTERS RESPONSIBLE FOR TRADE NOT TO BE PRESENT AT DISCUSSION. SEVERAL VERSIONS OF TAMURA'S PROPOSAL HAVE SURFACED, SUGGESTING EVEN THE POSSIBILITY OF A SEPARATE MEETING IN ADVANCE OF THE SUMMIT, BUT HOSOKAWA SAID THAT TAMURA'S PROPOSAL AMOUNTED TO EXPANDING THE OFFICIAL PARTY OF EACH COUNTRY AT SUMMITS TO PRIME MINISTERS PLUS THREE.

3. TAMURA HAS OF COURSE BEEN DOING HIS BEST TI IMPLY THAT HE HAS VARIOUS PEOPLE'S AGREEMENT TO THE IDEA. HOSOKAWA SAID THAT TAMURA THOUGHT HE HAD OBTAINED STRONG AGREEMENT FROM BANGEMANN AT THE VENICE SUMMIT THAT TRADE MINISTERS SHOULD NOT BE EXCLUDED FROM SUMMIT TEAMS. THE IDEA WAS ALSO BROACHED DURING

DE CLERCQ'S VISIT HERE ON 4 DECEMBER, AND THAT OF M NOIR ON 15 DECEMBER, ALTHOUGH BOTH OUR COMMISSION AND FRENCH COLLEAGUES SAY THAT THEIR MINISTERS MERELY LISTEND POLITIELY. HOSOKAWA ALSO IMPLIED THAT TAMURA INTENDED TO LOBBY HARD FOR HIS IDEA AMONG THOSE INCLUDING YEUTTER, CAIRNS AND DE CLERCQ, WHO WOULD BE PRESENT AT THE BALI MEETING OF TRADE MINISTERS IN EARLY JANUARY, WITH A VIEW NO DOUBT TO USING THEIR REACTIONS TO ENLIST THE SUPPORT OF TAKESHITA WHICH WHOULD BE NECESSARY IF THE STRONG OPPOSITION OF THE JAPANESE MFA TO THIS PROPOSAL WAS TO BE OVERCOME.

4. SIMILAR PROPOSALS BY MITI MINISTERS IN THE PAST HAVE FOUNDERED ON THE OPPOSITION OF OTHER MINISTRIES BUT TAMURA IS IN A STRONGER POSITION THIS TIME BECAUSE HE IS CLOSE TO TAKESHITA AND HAS A FAIR AMOUNT OF AUTHORITY WITHIN THE JAPANESE CABINET. ON BALANCE THE IDEA STILL SEEMS UNLIKELY TO TAKE OFF, BUT THE REACTIONS OF OTHER COUNTRIES COULD COLOUR THINGS,. HOSOKAWA UNDERTOOK TO BRIEF US MORE FULLY ON THE PROPOSAL AFTER TAMURA'S RETURN FROM BALI AND BEFORE TAMURA MEETS LORD YOUNG ON 18 JANUARY. WE WILL REPORT ACCORDINGLY.

5. WE MADE IT QUITE CLEAR THAT WE WERE NOT ENQUIRING ON INSTRUCTIONS, BUT SIMPLY BECAUSE OF THE NEWSPAPER REPORTS. IN REPLY TO HOSOKAWA'S QUESTION, WE SAID WE WERE UNE TO MAKE AN COMMENT ON THIS IDEA, BUT WE NOTED, FOR GOOD MEASURE, THAT WE HAD ALWAYS IN THE PAST TAKEN A RESTRICTIVE VIEW OF ANY PROPOSALS FOR EXPANSION OF THE SUMMIT MACHINERY, BECAUSE THE RESTRICTED AND INFORMAL NATURE OF SUMMITS WAS A KEY TO THEIR EFFECTIVENESS. HOSOKAWA INDICATED SOME PERSONAL SYMPATHY WITH THIS VIEW.

S J GOMERSALL

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*Mr Richardson*

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*M. Grewer  
(Monday)*

From: T L Richardson

Date: 30 December 1987

Mr Maud  
PS *As of 4 pm*

cc: Mr Braithwaite, o/r  
 Mr Cooper, FED  
 Miss Spencer, ECD(E)  
 Mr Broadbent, Economic  
 Advisers  
 Mr Sheinwald, Planners  
 PS/Sir Robert Armstrong

81

*Thursday, no go  
 back from Private Done  
 office. Pl check on  
 Monday whether Mr  
 was egd, call to do  
 a telephone in Tokyo*

JAPANESE PROPOSAL FOR TRADE MINISTERS' MEETING  
 AT THE ECONOMIC SUMMIT

- A 1. The Embassy in Tokyo has reported an idea being promoted by the Japanese Minister of International Trade and Industry, Mr Tamura, that Trade Ministers should also attend the Toronto Economic Summit, or meet concurrently. This is not yet a formal proposal, although the Japanese Embassy here have asked the DTI for their views (which they reserved, while expressing doubts about the idea). However, Tamura may well raise it when he sees the Secretary of State in Japan next month.
2. This is not a new idea. As Mr Bayne's standard book on Summits shows, MITI has long campaigned for greater involvement in them. There is no evidence that Tamura has yet won support for his personal proposal either within Japan (where the MFA remains strongly opposed) or among the rest of G7.
3. We know that the Prime Minister attaches importance to keeping Summits small and informal. She would be likely to oppose any expanded participation. I have asked Sir R Armstrong's office (he is not in today) for a second opinion. But I am sure he will take the same view of the Prime Minister's attitude.
4. If Tamura lobbies the Secretary of State, I therefore recommend that, while reserving our final position until such time as a formal Japanese proposal emerges, we firmly discourage the idea of increasing the number of Summit participants. The Secretary of State could point out that there are plenty of opportunities for Trade Ministers to meet, including at the OECD Ministerial the month before Toronto.

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5. DTI officials concur with this advice; but Lord Young (who will be seeing Tamura in London on 18 January) has not yet been consulted.

T L Richardson  
Economic Relations Department  
WH 413 270 2670

I agree with the line recommended in paragraph 4. But I think it would be sensible for Tamura's Office to be warned that if he does decide to lobby the Secretary of State in Tokyo (and the Prime Minister later in London) he can expect a firm rebuff. If the Secretary of State agrees, appropriate instructions will be sent to the Embassy.

30 December 1987

H J H Maud

c.c.

Mr Braithwaite o.r.  
Mr Cooper FED  
Miss Spencer ECD(E)  
Mr Broadbent  
Economic Advisers  
Mr Sheinwald Planners  
PS/Sir Robert Armstrong

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NBIAHT

Mr. Richardson - H.

Mr. Brewer <sup>L825/1</sup> O.R.

Mr. Kelly (16)

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From: Miss Spencer  
 Date: 18 January 1988  
 cc: Mr Braithwaite  
 Mr Kerr  
 ERD  
 FED

Para 4  
 reflects  
 the views I  
 gave to Mr  
 Linton

PS

**CALL ON SECRETARY OF STATE BY MR TAMURA: PROPOSED MEETING OF G7  
 TRADE MINISTERS**

1. During Tamura's call on Lord Young this morning, he raised again the question of a meeting of Trade Ministers not necessarily in conjunction with the Summit of the Seven. It is possible that Tamura may raise the question during the call on the Secretary of State tomorrow. If so, I recommend the following line to take, which has been agreed with ERD:

- We should need to consider carefully the Japanese proposal for a Trade Ministers' meeting. An interesting idea.

- (If Tamura links the meeting to the Summit) Our views on widening participation at the Summit itself are well known. We are not in favour.

**BACKGROUND**

2. In the past the Japanese have tried to link the idea of a Trade Ministers meeting with the Summit, but have been given the clear message that we (and others) are not in favour of widening attendance at the Summit to include Trade Ministers. They have

also floated, as a variant, a preliminary meeting of Trade Ministers of the Seven, who would report to the Summit.

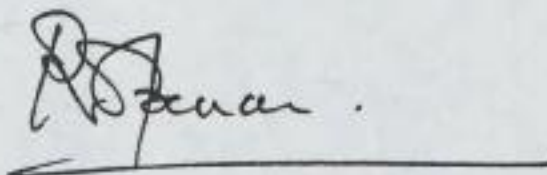
3. Tamura put his proposal to Lord Young today in a slightly different form. He described it as a meeting of Ministers to discuss trade issues. He was not concerned as to whether the meeting was part of the Summit of the Seven (nor, apparently about any relationship to the Summit); but wanted a forum smaller than the OECD Ministerial but larger than the Quadrilateral (US, Canada, Japan, Commission); the G7 plus the Commission seemed about right. He claimed some support from Noir, Bangemann and Ms Carney. Lord Young commented that the proposal was interesting and would need careful consideration.

4. Two further points arise. Although the Japanese are thinking only in terms of 1987, and in terms of a meeting separate from the Summit, there is no guarantee that they would not bid for future meetings to be more directly linked to the Summit. Secondly, because this would be a meeting of Trade Ministers, Community competence is clear: and at an informal meeting of the 113 Committee (full members) last week, the Commission, the Netherlands and Denmark all expressed reservations about the possibility of a meeting of G7 Trade Ministers at Japanese instigation, even if the Commission was included.

5. The Secretary of State may also wish to be aware that Tamura saw the Chancellor today. We understand that Tamura gave a presentation on the Japanese economy (emphasising its strength) and his Government's budgeting proposals, saying that structural reforms were in hand. The Chancellor suggested that in view of

RESTRICTED

the strength of the Japanese economy, structural reforms could be implemented more rapidly. He raised with Tamura UK firms' bids for membership of the Tokyo Stock Exchange, and liquor taxes.

A handwritten signature in cursive script, appearing to read "R. Spencer", is written above a solid horizontal line.

Rosemary Spencer

010  
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Foreign and Commonwealth Office

London SW1A 2AH

N Wicks Esq  
10 Downing Street  
LONDON

CC Sm  
5 February 1988

*Dear Nigel,*

TORONTO ECONOMIC SUMMIT: SECOND MEETING OF PERSONAL REPRESENTATIVES,  
27-29 FEBRUARY

1. As we discussed, I am enclosing a suggested list of briefs for the second Sherpas's meeting which takes place near Montreal on 27-29 February. Geoffrey Littler and I will be accompanying you.
2. The list of briefs covers what seem likely at this stage to be the main economic themes at the Summit, though it may need revision in the light of the Canadian 'Issues for Discussion' paper for this meeting. If this arrives too late to ask Departments to take it into account in their briefs, Economic Relations Department will coordinate any comments separately. The briefs on other subjects (nos 5 - 7) and on certain political issues (nos 8 - 10) will be short and largely for your background information, since we would not expect any non economic subjects to be discussed at this stage. We have not suggested anything on other political issues (eg East/West relations or the Middle East) since so much can change between now and Toronto.
3. Please let me know if you are content with this list, and when you would like the set of briefs to reach your office. Subject to your agreement, I shall ask ERD to follow the usual practice of commissioning briefs (on your behalf as Personal Representative) and coordinating the contributions from other departments here and in Whitehall.

*Yours ever,  
Rodric*

R Q Braithwaite

cc: Sir G Littler,  
H M Treasury.

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REF NO.	TITLE	LEAD DEPT.
1	<u>Summit Organisation</u> including agenda, format and logistical arrangements.	FCO
2	<u>World Economy</u> including policy coordination; the use of indicators in multilateral surveillance; exchange and interest rates; prospects for current account imbalances; structural adjustment; outlook for international growth.	HM Treasury
3	<u>Debt</u>	Treasury with FCO
4	<u>Trade and Agriculture</u> including protectionism; the current GATT Round (and the MTR); agricultural reform; Japanese proposals for a Trade Ministers meeting.	DTI/MAFF
5	<u>Science</u>	Cabinet Office
6	<u>Environment</u>	Department of Environment
7	<u>AIDS</u>	FCO
8	<u>Terrorism</u>	FCO
9	<u>Technology and Foreign Policy</u>	FCO
10	<u>South Africa</u>	FCO



10 DOWNING STREET  
LONDON SW1A 2AA

*From the Principal Private Secretary*

5 February 1988

*Dear Escriitt,*

ECONOMIC SUMMIT : SCIENCE

As I promised in my letter of 28 January, I had a word with Dr. Ostry yesterday about Science and the Summit.

Dr. Ostry readily recalled Sir Robert Armstrong's intervention at last autumn's Sherpa meeting in Vancouver and she knew the Chief Scientific Adviser had had discussions at OECD. But she did not seem to be aware of any especial American interest in this area. She said that at an early stage in the preparations for the Summit, there had been suggestions in Ottawa that science might feature in the Summit discussion. Dr. Ostry was vague on details but she seemed to remember that the initiative concerned the medical aspects of an aging population. But the ideas had got lost in the thickets of the Ottawa bureaucracy and she did not expect them to emerge in time for the Summit.

My conversation with Dr. Ostry suggested to me that there is no enthusiasm on the Canadian side to raise science issues at the Summit. Nor do I believe that the UK interest is sufficiently strong, or developed as to justify our pressing the matter. But it is possible that other countries, notably the Americans, may raise the issue at the next Sherpa meeting in Canada at the end of this month. If they do I shall be in touch.

I am sending a copy of this letter to Rodric Braithwaite (Foreign and Commonwealth Office), Sir Geoffrey Littler (HM Treasury), Sir Christopher Mallaby, John Fairclough, Richard Wilson and Trevor Woolley (Cabinet Office).

*Yours sincerely*  
*Nigel Wicks*

N.L. WICKS

R.E. Escriitt, Esq.,  
Cabinet Office.

*✓*



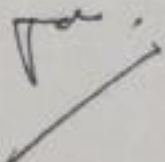
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Foreign and Commonwealth Office

London SW1A 2AH

Nigel Wicks Esq  
No 10

  
4 February 1988

1. I had a call this morning from Daniel Dultzin who is a Counsellor at the Mexican Embassy here.
2. He wanted my views on the prospects for the world economy and likely developments in policy amongst the G7 and OECD countries. I described them on standard lines.
3. For his part, he was quite gloomy about the prospects for the Mexican economy in the course of this year under the political pressures of the Presidential election. Amongst the keys were the success of the new scheme for indexing wages and prices to a notional inflation rate deliberately set lower than the current reality; and rigid adherence by the Mexicans to regular payment of interest under their new scheme with the US Treasury.
4. He also gave me one nugget of intelligence. The man he describes as the "Mexican Sherpa", whose name is Olea and who works in the Mexican Foreign Ministry, told him when he was recently in Mexico that he had been in touch with the "Canadian Sherpa" about a discreet and informal meeting to discuss debt between the G7 Sherpas and those from the Cartagena countries. Dultzin said that he thought this was an interesting idea but it would have to be handled carefully because it could easily go wrong. I agreed with the latter thought and said that we would look rather carefully at any such proposal if it came to be made.
5. I suppose we may hear more of this from Sylvia Ostry this evening.

*for* R. Q. BRAITHWAITE

R Q Braithwaite

cc Sir G Littler  
Mr Richardson

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Canadian High Commission



Haut Commissariat du Canada

*PPS*

*CAP*  
*gr*

*29/2*

Macdonald House,  
1 Grosvenor Square,  
LONDON, W1X 0AB

February 3, 1988

Dear Prime Minister,

I have the honour to send the attached original letter from the Rt Hon Brian Mulroney, Prime Minister of Canada, a copy of which was sent to you on January 13, 1988.

Yours sincerely,

*L. A. Delvoie*

L. A. Delvoie  
Acting High Commissioner

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



File Sherpa

10 DOWNING STREET

LONDON SW1A 2AA

*From the Principal Private Secretary*

28 January 1988

ECONOMIC SUMMIT : SCIENCE

Thank you for your letter of 22 January in which you ask whether the Chief Scientific Adviser should meet the Canadian Sherpa, Mrs. Ostry, when she visits London at the beginning of February. I am grateful to you for writing so fully about these international science issues. I readily accept that the issues to which you refer in your letter are real ones. There may indeed be substantive and mutually satisfactory bargains to be struck over collaboration on major scientific projects and it is just possible that these bargains could best be struck at the highest level. But as I know you recognise, we have to be very careful with any approach, if one is to be made, because of the sensitivities involved. In particular, I would not want to have this matter raised on the Summit network without the prior agreement of the Prime Minister, who as you know has somewhat reserved views at present about scientific collaboration.

Against this background, I will, as a first step, have a word with Mrs. Ostry when she is in London next week. If this shows that the Canadians wish to carry things forward from the Chair, then we will be faced with a fact with which we shall have to deal. We can develop our attitude in slower time, in preparation for the Sherpas meeting at the end of next month. And we can secure the Prime Minister's agreement to our proceeding. In the meantime, I would not wish the Chief Scientific Officer to raise this matter with Mrs. Ostry.

I am sending a copy of this letter to Rodric Braithwaite (Foreign and Commonwealth Office), Sir Geoffrey Littler (HM Treasury), Sir Christopher Mallaby, John Fairclough, Richard Wilson and Trevor Woolley (Cabinet Office).

(N. L. WICKS)

R. E. Escritt, Esq.,  
Cabinet Office.



Foreign and Commonwealth Office

London SW1A 2AH

26 January 1988

N L Wicks Esq CBE  
No 10 Downing Street

*Dear Nigel,*

ECONOMIC SUMMIT: SCIENCE

You rang me about Escritt's letter of 22 January. I have been trying to talk to you on the 'phone but our paths do not cross.

When John Fairclough raised this matter with me towards the end of last year I advised strongly that he should consult Sir R Armstrong. I said that the history of attempting to organise discussions between Chief Scientists in the Summit context had not proved very rewarding. And I underlined that the Prime Minister was averse to anything that looked like "institutionalising" the Summit machinery. Escritt's letter to you is presumably a belated reaction to this advice.

The issues which Fairclough raises are real ones. And there may be substantive and mutually satisfactory bargains to be struck over collaboration on major scientific projects, eg CERN and the Americans' Super-Conducting Super-Collider. It is just possible that these bargains could best be struck at the highest level (President Reagan launched the space station idea at the London Economic Summit: absit omen).

However because of the sensitivities involved the approach, if any, must be very delicate. In any case the Prime Minister is not particularly enthusiastic at present about scientific collaboration. I therefore think that it would be better as a first step for you, rather than John Fairclough, to have a word with Mrs Ostry when she is here next week. If this shows that the Canadians are really "ready to carry things forward" from the chair, then we will be faced with a fact with which we will have to deal. We can develop our attitude in slower time, in preparation for the Sherpas meeting at the end of next month. And we can secure the Prime Minister's agreement to our proceeding. You will want to reply to Escritt fairly soon. For obvious reasons I am copying this letter only to Geoffrey Littler.

*We spoke!*

*Yours ever,*

*Roderic*

R Q Braithwaite

copy copy

CONFIDENTIAL

176711  
MDLIAN 4405

*LEP copy -  
to see.*

*Mr. Dawson*

*Pl. time over copy  
to Mr Wicks, No. 10  
and add his name to future  
telegrams in this series.*

CONFIDENTIAL  
FM OTTAWA  
TO PRIORITY FCO  
TELNO 051  
OF 221805Z JANUARY 88

MY TELNO 44: TORONTO ECONOMIC SUMMIT

*n/Brower  
25/*

SUMMARY

1. MRS OSTRY, WHO WILL BE IN LONDON ON 4/5 FEBRUARY, DISCUSSES SOME OUTSTANDING ISSUES CONNECTED WITH THE TORONTO SUMMIT INCLUDING POINTS WE MIGHT WISH TO TAKE UP IN REPLYING TO MR MULRONEY'S LETTER.

POLITICAL

2. WHEN I CALLED ON MRS OSTRY ON 21 JANUARY, SHE SAID SHE THOUGHT EAST-WEST RELATIONS WERE BOUND TO BE THE DOMINANT THEME OF THE POLITICAL DISCUSSIONS AT THE JUNE SUMMIT. DEPENDING ON EVENTS THERE, THE MIDDLE EAST MIGHT ALSO FEATURE. THE JAPANESE WANTED TO RAISE TERRORISM MAINLY BECAUSE OF THE KOREAN AIRLINE INCIDENT, BUT MRS OSTRY CONSIDERED THIS WAS A ONE-OFF EVENT NOT REALLY APPROPRIATE FOR SUMMIT DISCUSSION: A MEETING OF THE EXPERTS ON TERRORISM WOULD IN ANY CASE BE TAKING PLACE IN CANADA SHORTLY.

FORMAT AND ARRANGEMENTS

3. MRS OSTRY THOUGHT IT VERY DESIRABLE TO HAVE ONE NOTE TAKEN WITH EACH LEADER AT THE INFORMAL MEETINGS. IN VIEW OF THE COMPLEXITY OF THE ISSUES TO BE DISCUSSED MANY OF WHICH WOULD BE NEW TO, FOR EXAMPLE, THE JAPANESE PRIME MINISTER, IT SEEMED ALL THE MORE IMPORTANT THAT EACH DELEGATION SHOULD HAVE ITS OWN DETAILED RECORD OF THE DISCUSSIONS.

4. MRS OSTRY URGED THAT THE PRIME MINISTER'S REPLY TO MR MULRONEY'S LETTER SHOULD SET OUT THE PRECISE NATURE OF ANY CONCERNS WE MIGHT HAVE ABOUT THE PROPOSED ARRANGEMENTS FOR THE SUMMIT BEFORE THESE BECAME SET IN CONCRETE. SPEAKING PERSONALLY, MRS OSTRY RECOGNISED THAT THE LETTER AND ITS ENCLOSURE WERE NOT CLEAR ON SOME POINTS, EG THE PRECISE LOCATION AND NATURE OF SEVERAL OF THE MEETINGS, PARTICULARLY THE RETREAT. THE AMERICANS HAD ALREADY RULED OUT ANY MEETINGS WHICH REQUIRED TRANSPORTING THE PRESIDENT BY BOAT OR HELICOPTER SEMI-COLON ANY RETREAT WAS THEREFORE BOUND TO TAKE PLACE IN TORONTO. THE CANADIANS WOULD WELCOME THE PRIME MINISTER'S VIEW ON THE SUGGESTION FOR AN ADDITIONAL SESSION ON THE FIRST DAY AND A CONSEQUENT REDUCTION IN THE ARRIVAL CEREMONIES, AND ALSO WHETHER

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THE PRIME MINISTER FAVOURED THE PRESENCE OF FINANCE AND FOREIGN MINISTERS AT THE PLENARY SESSIONS. ONE ARGUMENT MRS OSTRY SAW IN FAVOUR WAS THAT THE CREDIBILITY OF THE SUMMIT PROCESS MIGHT BE UNDERMINED IF ECONOMIC MATTERS WERE NOT SEEN TO FEATURE IN THE SUMMIT DISCUSSIONS. SOME OF THE SUMMIT LEADERS (MRS THATCHER BEING A NOTABLE EXCEPTION) WERE NOT VERY EXPERIENCED IN ECONOMIC QUESTIONS.

TRADE MINISTERS' MEETING

5. MRS OSTRY FORECAST A FORMAL REJECTION BY MR MULRONEY OF MR TAKESHITA'S PROPOSAL THAT TRADE MINISTERS SHOULD MEET DURING THE SUMMIT (MY TELNO 39). MALONE, WHO ASSISTS MRS OSTRY ON SUMMITS, TOLD US LATER IN CONFIDENCE THAT MR MULRONEY HAD SIGNED OFF ON 21 JANUARY A LETTER TO MR TAKESHITA, SAYING THAT BECAUSE OF THE DANGERS OF INSTITUTIONALISATION AND BECAUSE THERE WOULD BE QUADRILATERALS BEFORE AND AFTER SUMMIT AS WELL AS OTHER MEETINGS OF TRADE MINISTERS, MR MULRONEY 'AS SUMMIT HOST COULD NOT ENCOURAGE ANY FURTHER MEETINGS OF TRADE MINISTERS IN OR NEAR TORONTO AT OR AROUND THE TIME OF THE SUMMIT.' MALONE THOUGHT MR MULRONEY WOULD NOT FAVOUR A SEPARATE TRADE MINISTERS' MEETING BETWEEN NOW AND THE SUMMIT SEMI-COLON WE TOLD HIM THAT OUR OWN REACTION TO THIS PROPOSAL HAD BEEN CAUTIOUS.

6. MY JAPANESE COLLEAGUE HAS TOLD ME PRIVATELY THAT HIS PRIME MINISTER HAD BEEN EMBARRASSED BY HIS TRADE MINISTER'S ACTION IN FIRST PUTTING FORWARD THIS PROPOSAL AT BALI AND THEN PRESSING THAT IT BE PURSUED DURING TAKESHITA'S RECENT VISIT TO CANADA. TAMURA, THE TRADE MINISTER, APPARENTLY HAS AN IMPORTANT PARTY ROLE AND TAKESHITA HAD NOT THEREFORE FELT ABLE TO TURN DOWN HIS INITIATIVE (WHICH HAD NOT BEEN CLEARED WITH HIS CABINET COLLEAGUES IN ADVANCE) OUT OF HAND.

7. MRS OSTRY IS LOOKING FORWARD TO MEETING WICKS, AS WELL AS LITTLER AND BRAITHWAITE, IN LONDON ON 4/5 FEBRUARY. I UNDERSTAND THE CANADIAN HIGH COMMISSION IN LONDON ARE MAKING THE ARRANGEMENTS.

8. FCO PLEASE REPEAT TO POSTS AS NECESSARY.

URWICK

YYYY

TPM

MR. POWELL o/r

TORONTO ECONOMIC SUMMIT: 19-21 JUNE

Robert Culshaw rang to say that Mr. Tamura, Japanese Trade Minister, was pressing for Trade Ministers to be included in the delegations to the Toronto Economic Summit in June. <sup>FCO</sup> They, and the Foreign Secretary when he visits Japan, will be taking a firm line that this is not on. Robert Culshaw thought we should be aware of the point in case it is raised by Mr. Tamura on 18 January (presumably he is coming to the UK-Japan 2000 Group lunch that day). They will be happy to provide a further note if you wish.

MEA

(MARK ADDISON)

5 January 1988





10 DOWNING STREET

~~Charles~~

Sir Robert Armstrong's minute of  
2 Nov at Flap. You wanted  
this B/F'd for today.

BA

Please B/F forward

again on 2/3

December.

A.

seen by  
COP  
30/12

Kent

10/12

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10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

MR WOOLLEY  
CABINET OFFICE

Your minute of 9 December covered a draft reply to Ottawa telno 742 about the organisation of the Toronto Economic Summit. I am confident that the Prime Minister would be content with this and it may issue.

(CHARLES POWELL)

10 December 1987

CONFIDENTIAL



Ref. A087/3502

MR POWELL

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— Please find attached a copy of Ottawa TELNO 742 and the draft reply prepared by the Foreign and Commonwealth Office and agreed by Sir Robert Armstrong, subject to the amendment on the last line of paragraph 1 indicated. I should be grateful to know if you are content for the reply to be sent in these terms in view of the reference in the telegram to the Prime Minister's own views.

2. The draft reply also refers to Ottawa TELNO 748: this simply amended the third line of paragraph 2 of TELNO 742 as indicated in manuscript on the copy I attach.

A handwritten signature in blue ink that reads "T A Woolley". The signature is written in a cursive style with a long, sweeping tail on the final letter.

T A WOOLLEY

9 December 1987



OUT TELEGRAM (CONT)

	Classification	Caveat	Precedence
	CONFIDENTIAL		PRIORITY

<<<<

1 <<<<  
 2 world economic issues are close. Both countries are in the van  
 3 of those calling for liberalisation of trade, reform of world  
 4 agricultural policies, and help for the poorest and most indebted  
 5 countries in Africa.

6  
 7 4. In responding to Doucet's views on the Summit you will wish  
 8 to be circumspect in view of the fact that Sylvia Ostry, as  
 9 Personal Representative, also has a major role in Summit  
 10 preparations. Strictly for your information, the Canadian High  
 11 Commission has warned us that the potential for confusion of  
 12 roles is high.

13  
 14 HOWE

15 DISTRIBUTION  
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 17 YYY Y MR BRAITHWAITE  
 18 MR MAUD  
 19 NNNN MR FOWLER, NAD  
 20 MR SHEINWALD, PLANNERS  
 21 PS/PUS  
 22 ADDITIONAL  
 23 PS/SIR ROBERT ARMSTRONG  
 24 SIR G. LITTLE, HMT

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11

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34



For distribution order see Page Catchword:

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FM OTTAWA

TO ROUTINE FCO

TELNO 742

OF 272130Z NOVEMBER 87

INFO ROUTINE TOKYO

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

*Seen by PM.*

WELLINGTON TELNO 506 (NOT TO ALL): TORONTO ECONOMIC SUMMIT 1988

1. FRED DOUCET, THE CANADIAN PRIME MINISTER'S PERSONAL OFFICIAL IN CHARGE OF SUMMITS, GAVE US AN ACCOUNT OVER LUNCH THIS WEEK OF HOW MR MULRONEY MAY BE APPROACHING NEXT YEAR'S TORONTO ECONOMIC SUMMIT.
2. IT LOOKS AS THOUGH MR MULRONEY REMAINS KEEN ON A RETREAT WHICH WOULD ALLOW THE HEADS OF GOVERNMENT TO HAVE SOME DISCUSSIONS ALONE. AT THE SAME TIME THE FINANCE MINISTERS RESPECTIVELY WOULD HAVE THEIR OWN MEETINGS. BUT DOUCET WAS THINKING OF A RETREAT ONLY 20 MINUTES AWAY ON TORONTO ISLAND. DOUCET SAID THAT HE HAD NOTICED RESISTANCE BY SOME OF THE PERSONAL REPRESENTATIVES ON 6 AND 7 NOVEMBER TO THIS IDEA. HE, HOWEVER, WOULD BE ADVOCATING IT FURTHER. HE ENVISAGED THAT THE INFORMAL EXCHANGES DURING THE RETREAT WOULD INFORM THE SUBSEQUENT DEBATE AND DISCUSSION ON THE COMMUNIQUE.
3. IN DOUCET'S VIEW THE SUMMITS IN THE PAST HAD TENDED TO HAVE BEEN TOO MUCH ORDERED IN ADVANCE. THIS LED TO A PREORDAINED DEBATE. IT WAS IMPORTANT THIS TIME PARTICULARLY IN VIEW OF THE LARGE NUMBERS OF MEDIA REPRESENTATIVES EXPECTED, THAT IT WAS NOT FELT THAT THE CONCLUSIONS HAD BEEN DRAFTED BEFOREHAND. OTHERWISE PUBLIC CONFIDENCE IN THE SUMMIT PROCESS MAY BE IMPAIRED AND THE MEDIA WOULD BE MORE THAN EVER ON THE LOOKOUT FOR PERSONAL DIFFERENCES.
4. DOUCET BELIEVED THAT THERE WAS A CLOSE COINCIDENCE BETWEEN CANADIAN AND UK POSITIONS ON WORLD ECONOMIC ISSUES. HE THOUGHT THAT THE SUMMIT WOULD SERVE TO STRENGTHEN THE CANADIAN/UK RELATIONSHIP. THIS HAD NOT BEEN LASTINGLY DAMAGED BY THE HONEST DIFFERENCES OF VIEW OVER SANCTIONS, WHICH HAD BEEN EXPLOITED BY THE PRESS IN VANCOUVER. HOWEVER, IF THERE WERE ANOTHER PUBLIC DISPUTE BETWEEN THE UK AND CANADA AT THE TORONTO SUMMIT, THEN THE PERCEPTION BY PEOPLE IN CANADA WOULD BE THAT THE RELATIONSHIP WAS GOING BADLY AWRY.

5. DOUCET SAID THAT THEY HAD DONE A SURVEY AMONGST YOUNG PEOPLE WHICH HAD REVEALED LITTLE KNOWLEDGE OF THE ECONOMIC SUMMIT PROCESS BUT A DESIRE TO KNOW MORE ABOUT IT. THE CANADIAN GOVERNMENT WAS THEREFORE GOING TO PUT IN HAND AN EDUCATIONAL PROGRAMME. WE DREW ATTENTION TO THE RISK OF RAISING EXCESSIVE EXPECTATIONS OF WHAT MIGHT BE ACHIEVED AT TORONTO.

6. DOUCET HOPED TO GIVE A LUNCHEON FOR THE AMBASSADORS OF THE SUMMIT COUNTRIES BEFORE CHRISTMAS TO EXPLAIN CANADIAN VIEWS. PLEASE LET US KNOW IF THERE ARE ANY SPECIAL MARKERS YOU WOULD LIKE THE HIGH COMMISSIONER TO PUT DOWN IF THIS OCCASION TAKES PLACE.

WENBAN-SMITH

FCO PSE PASS TO SAVING ADDRESSES EXCEPT WASHINGTON  
YYYY

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10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

SIR ROBERT ARMSTRONG

TORONTO ECONOMIC SUMMIT

The Prime Minister read the report of the meeting of Personal Representatives conveyed in Wellington telegram No. 506. On the whole, this confirmed her view that meetings so far ahead of the Summit are of limited use. On a point of detail, she is firmly of the view that there is not sufficient time at a Summit to make a retreat on the CHOGM pattern worth while.

CHARLES POWELL

18 November 1987

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syhw



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MDLIAN 8949

CONFIDENTIAL  
FM WELLINGTON  
TO PRIORITY FCO  
TELNO 506  
OF 130330Z NOVEMBER 87  
AINFO PRIORITY OTTAWA

*This is ridiculous  
There was no point in  
such an  
early meeting*

TORONTO ECONOMIC SUMMIT 1988

1. PERSONAL REPRESENTATIVES MET IN BRITISH COLUMBIA ON 6 AND 7 NOVEMBER FOR FIRST PREPARATORY MEETING.

2. ON SUBSTANCE, THERE WAS A DISCUSSION OF THE RESULTS AND IMPLICATIONS OF THE CRISIS IN THE STOCK AND EXCHANGE MARKETS. FOR SEVEN OUT OF THE EIGHT THE CRUCIAL QUESTION WAS THE OUTCOME OF THE NEGOTIATIONS BETWEEN THE UNITED STATES ADMINISTRATION AND CONGRESS ON THE BUDGET DEFICIT. IF THE OUTCOME WAS AN AGREEMENT WHICH CONVINCED MARKETS THAT THERE WOULD BE APPROPRIATE ACTION OVER TIME TO REDUCE THE DEFICIT IT COULD BE HOPED AND EXPECTED THAT MARKETS WOULD SETTLE DOWN, AND THE EFFECTS OF THE CRISIS ON WORLD ECONOMIC GROWTH WOULD BE LIMITED. WITHOUT SUCH AN OUTCOME, THE OUTLOOK WOULD BE MUCH MORE UNCERTAIN, AND IT WOULD BE UNLIKELY THAT ACTION BY OTHER MAJOR INDUSTRIALISED COUNTRIES (EG GERMANY AND JAPAN) WOULD MAKE MUCH DIFFERENCE. THE FRENCH REPRESENTATIVE SHARED THIS VIEW, BUT WAS MORE PESSIMISTIC THAN OTHERS ABOUT THE PROSPECTS FOR AGREEMENT BETWEEN THE ADMINISTRATION AND THE CONGRESS.

3. THE ODD MAN OUT WAS THE UNITED STATES REPRESENTATIVE (WALLIS). WHILE CONCEDED THAT THE US TREASURY WAS TO BE ACCEPTED AS THE SOLE SPOKESMAN FOR THE ADMINISTRATION, HE SAID THAT DID NOT MEAN THAT ALL THE AGENCIES OF THE ADMINISTRATION AGREED WITH THE TREASURY. HE ARGUED THAT IT WAS ILLUSORY TO BLAME ALL THE WORLD'S TROUBLES ON THE US BUDGET DEFICIT. THAT WAS THE US'S BIGGEST PROBLEM, BUT NOT FOR INTERNATIONAL REASONS. THAT WAS JUST A MATTER OF CONTROLLING PUBLIC EXPENDITURE. IT WAS ALSO AN ILLUSION TO SUPPOSE THAT RAISING TAXATION WOULD REDUCE THE BUDGET DEFICIT: HISTORY SHOWED THAT IT USUALLY DID NOT DO SO. THE GENERAL FEELING (HE SAID) WAS THAT THE PROBLEM WAS DUE TO US MONETARY POLICY. SINCE 1978 MONEY SUPPLY HAD EITHER BEEN INCREASING TWICE AS FAST AS IT SHOULD OR NOT AT ALL. ANALYSIS WAS COMPLICATED BY AN APPARENT REDUCTION IN THE TIME LAGS BETWEEN CHANGES IN MONEY SUPPLY

AND EFFECTS, FROM PERIODS OF 15 TO 18 MONTHS TO PERIODS OF 6 TO 9 MONTHS. IN 1985-86 RAPID GROWTH IN MONEY SUPPLY HAD FED INTO SPECULATIVE INVESTMENT IN MARKETS. IN FEBRUARY 1987 THE FEDERAL RESERVE HAD STABILISED MONEY SUPPLY, AND THE EFFECT HAD BEEN TO PUNCTURE MARKETS. ALMOST EVERYTHING WAS DIFFERENT FROM 1929. NOW THERE WAS BEGINNING TO BE A BELIEF THAT THERE WOULD BE SOME TAX INCREASES, WHICH WOULD HAVE THE WRONG EFFECTS. MOREOVER FEAR THAT PEOPLE WERE STANDING BY THE LOUVRE ACCORD WAS HAVING A NEGATIVE EFFECT.

4. DESPITE THIS MINORITY VIEW, THE GENERAL CONCLUSION WAS THAT RECENT EVENTS HAD STRENGTHENED AND NOT DIMINISHED THE VALUE OF AND NEED FOR INTERNATIONAL COORDINATION AND COOPERATION. THAT HAD CONTRIBUTED TO THE ACHIEVEMENT OF FIVE YEARS OF GROWTH IN THE WORLD ECONOMY, AND KEEPING GROWTH GOING WOULD DEPEND ON THE REESTABLISHMENT OF CONFIDENCE IN THE VALUE AND EFFECTIVENESS OF COOPERATION. WE SHOULD NEED TO CONTINUE WITH 'MANAGED FLOATING', BUT MANAGEMENT MIGHT NEED TO BE MORE FLEXIBLE. THIS WAS LIKELY TO BE A MAJOR

ISSUE FOR THE TORONTO SUMMIT, THOUGH MUCH COULD HAPPEN BETWEEN NOW AND THEN.

5. THERE WERE ALSO UPDATING REPORTS OF THE STATE OF PLAY ON PROPOSALS TO INCREASE THE STRUCTURAL ADJUSTMENT FACILITY, AND ON THE URUGUAY ROUND OF MTN.

6. AS TO FORMAT OF THE SUMMIT MEETING, NO GREAT CHANGES WERE FORESEEN. ARMSTRONG MADE THE CASE FOR A RETURN TO ARRANGEMENTS WHICH MADE THE MEETING AS MUCH AS POSSIBLE AN OCCASION FOR AN INFORMAL EXCHANGE OF VIEWS AMONG HEADS OF STATE OR GOVERNMENT, BUT THE DISCUSSION MADE IT CLEAR THAT OTHERS SAW DIFFICULTIES IN THAT, AND IN PARTICULAR:

A. IT PRESENTED PROBLEMS FOR THOSE COUNTRIES WITH COALITION OR COHABITING GOVERNMENTS SEMI COLON

B. THERE WERE EXPECTED TO BE SOME 4,500 REPRESENTATIVES OF THE MEDIA AT TORONTO, AND THAT WOULD CREATE ITS OWN PRESSURES ON THE PARTICIPANTS.

7. IT WAS, HOWEVER, AGREED THAT ECONOMIC ISSUES WERE LIKELY TO BE ESPECIALLY IMPORTANT AT THIS SUMMIT, AND THAT THE

HEADS OF STATE OR GOVERNMENT SHOULD NOT APPEAR TO BE SIMPLY RATIFYING TECHNICAL AGREEMENTS OR ARRANGEMENTS MADE BY FINANCE MINISTERS. IT WAS SUGGESTED THAT AT TORONTO PLENARY MEETINGS SHOULD START AT THE BEGINNING OF THE FIRST FULL DAY, AND CONTINUE UNTIL THE ECONOMIC DECLARATION WAS AGREED ON THE MORNING OF THE SECOND FULL DAY. HEADS OF STATE OR GOVERNMENT COULD DISCUSS POLITICAL ISSUES AT INFORMAL GATHERINGS SUCH AS MEALS SEMI COLON AND MIGHT HAVE A RESTRICTED MEETING OF HSG ONLY FOR AN INFORMAL EXCHANGE OF VIEWS ON ECONOMIC ISSUES ON THE SECOND DAY, AFTER THE DECLARATION HAD BEEN APPROVED.

8. OSTRY SAID THAT, FOLLOWING THE CHOGM EXPERIENCE, THE CANADIAN PRIME MINISTER WAS MUCH ATTRACTED BY THE IDEA OF A RETREAT FOR HEADS OF STATE OR GOVERNMENT. OTHERS DOUBTED WHETHER THE TIME AVAILABLE AT AN ECONOMIC SUMMIT WAS SUFFICIENT TO ALLOW FOR A RETREAT OF THAT KIND. *It is now*

9. FURTHER MEETINGS OF PERSONAL REPRESENTATIVES WERE PROVISIONALLY AGREED FOR 27 TO 29 FEBRUARY, 13 TO 15 OR 15 TO 17 MAY AND 3 TO 5 JUNE. THE FEBRUARY AND JUNE MEETINGS WOULD BE IN CANADA. THE MAY MEETING WOULD BE IN EUROPE, BEFORE OR AFTER THE OECD MINISTERIAL MEETING. THE FRENCH REPRESENTATIVE SAID THAT IT WOULD NOT BE POSSIBLE TO HOLD THE MEETING AT THAT TIME IN FRANCE, BECAUSE THE PRESIDENTIAL ELECTION WOULD BE IN FULL SWING. ARMSTRONG WAS ASKED AND UNDERTOOK TO FIND OUT WHETHER THE UK WOULD BE PREPARED TO HOST THE MEETING IN BRITAIN. THE PREFERENCE WOULD BE TO HOLD THE MEETING AT SOME CONVENIENT PLACE AWAY FROM LONDON, IN ORDER TO IMPROVE CONCENTRATION. AN EARLIER MEETING AT BROCKET HALL WAS RECALLED WITH APPROVAL.

[3 more!]

10. PRACTICAL ARRANGEMENTS FOR THE SUMMIT WILL BE DISCUSSED IN THE USUAL WAY THROUGH THE HIGH COMMISSION IN OTTAWA. NO SIGNIFICANT CHANGES FROM PREVIOUS YEARS ARE FORESEEN IN SUCH MATTERS AS SIZE OF DELEGATIONS, ACCESS, AND RULES FOR MEDIA BRIEFINGS.

11. ARMSTRONG WOULD BE GRATEFUL IF CONFERENCE DEPARTMENT WOULD PURSUE AS A MATTER OF URGENCY, IN CONSULTATION WITH HIS OFFICE, THE QUESTION OF A UK VENUE FOR THE MAY MEETING OF PERSONAL REPRESENTATIVES.

12. ADVANCE COPIES TO BRAITHWAITE, TREASURY (FOR LITTLER) AND CABINET OFFICE (FOR WOOLLEY).

SOUTAR

YYYY

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ADDITIONAL 37

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MR LITTLER, HM TREASURY

MR WOOLLEY, CAB OFFICE

NNNN



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10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

SIR ROBERT ARMSTRONG

The Prime Minister has considered your minute of 2 November about the forthcoming meeting of Personal Representatives to prepare for the Toronto Economic Summit.

The Prime Minister would indeed wish you to argue for a reduction in the number of such preparatory meetings. She would also like you to go beyond this and see what support can be attracted for an attempt to restore the Summits to something closer to their original conception. By this she means, whether some way can be found of reducing numbers, limiting the formality of the occasion, restricting the number of subjects covered and restoring something of the intimacy which was the original idea. This will no doubt be uphill work given Mr. Mulroney's evident intention to make as much political capital out of the Toronto Summit as possible. But since the focus of your meeting is on organisation, the Prime Minister would be grateful if you could explore how far others are prepared to go in the direction I have suggested.

As regards the substance of the Summit, the Prime Minister agrees that it is too early to discuss this usefully yet. But she will want to start collective consideration of this with colleagues principally concerned fairly soon. I will make arrangements for a meeting.

The Prime Minister is not yet ready to address the question of who should succeed you as Personal Representative.

C.D.P.

Charles Powell

3 November 1987

Ref. A087/3108

MR WICKS

W in discuss  
M.I.

Prime Minister  
The aims proposed in  
paragraph 2 are very  
modest. Would you prefer  
an effort made to get  
back to the original concept  
of these summits i.e. an  
informal  
talk between  
Heads  
of  
Govt.  
without  
accompanying  
circumstances?

As I told the Prime Minister at my meeting with her on Friday 30 October, the first meeting of Personal Representatives to prepare the Toronto Economic Summit 1988 has been called for 6 to 8 November in Vancouver. The meeting will be attended by Personal Representatives only. The Canadians have proposed that there should be a simultaneous meeting in Vancouver of the so-called financial sous-Sherpas (in effect, Sir Geoffrey Littler and his colleagues in the Group of Seven Deputies) to take stock of recent events in the stock and exchange markets and their implications. With the agreement of the Treasury I am discouraging this proposal: it may well not be timely for such a meeting to be held next weekend. In such circumstances meetings of G7 Deputies should be arranged to suit the needs and requirements with which they have to deal. It is neither necessary nor particularly appropriate at this time that they should meet in the shadow of the Personal Representatives: indeed, that would be in danger of sending the wrong signal.

2. The meeting of Personal Representatives will no doubt review developments since the Venice Summit and peer into the uncertain prospects. But it is far too early to judge what will be the main issues for the Toronto Summit, or to take positions on them; and this meeting will be concerned mainly with process and administration: the number of and timetable for preparatory meetings, the documentation for those meetings, arrangements for handling political issues, the arrangements for attendance, location etc of the Summit itself, and such matters as handling the press. I propose to argue in favour of retaining the same general pattern as for previous Summits, but also for a reduction in the number of preparatory meetings: I believe that it should be sufficient to have two (as compared with three in recent years) - the first



to consider a first draft of a thematic paper, and the second to finalise the draft with one eye on possible communique language. The communique itself would not be discussed until the Summit meeting.

3. I shall no doubt be asked who is to succeed me as the Prime Minister's Personal Representative. I do not know whether you are yet in a position to tell me. It seems to me that the choice lies between Mr Butler himself, Sir Geoffrey Littler and Mr R T J Wilson. I imagine that the Prime Minister will not wish to be represented by the Foreign and Commonwealth Office; I doubt whether the Treasury would be very happy about that either. Sir Geoffrey Littler would do it admirably; but the Prime Minister was reluctant to put this entirely in the hands of the Treasury. In any case, Sir Geoffrey Littler may well retire by the end of 1988, and there would therefore be a need for another change quite quickly. Moreover it makes for slight (though in the end manageable) problems if the same person is both the Personal Representative and the G7 Deputy. Mr Butler would have the advantage of being seen as the natural choice, as the successor in post to the two previous Personal Representatives, and as being in fact as well as in name the Personal Representative of the Prime Minister: this undoubtedly gives the Personal Representative an advantage in his dealings with his colleagues. But Mr Butler is not keen to take this on, at any rate at first, with so much else to take on - though he has asked me to say that, if the Prime Minister would prefer him to take it on now, he would of course cheerfully do so.

4. All this leads me to suggest that Mr Wilson might be invited to do it, so long as he is in the Cabinet Office. He would be less au fait than Mr Butler on the political aspects of summitry, but he could no doubt brief himself on those, and he would be well qualified to deal with the economic aspects. One argument for asking Mr Wilson to take it on is that he will presumably not be in the Cabinet Office for more than two or three years: when he moves on there will be an opportunity to consider again whether Mr Butler, by then well settled in, should take it on himself.



5. On the way back from Vancouver I propose to visit Ottawa for 24 hours, to touch base with and say farewell to the Secretary of the Cabinet there. If I have to go to New Zealand to give evidence in the proceedings on the Attorney General's application for an injunction against The Dominion newspaper, which are due to begin on 16 November, I shall need to arrive in Wellington a few days ahead, for briefings with our legal advisers out there, and I would then propose to go straight from Canada to New Zealand, arriving there on the morning of Thursday 12 November. I am afraid that it looks as if I shall have to miss the meetings of the Cabinet on 12 and 19 November.

RA

ROBERT ARMSTRONG

2 November 1987





MJBBCU

apc

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

SIR ROBERT ARMSTRONG

TORONTO ECONOMIC SUMMIT 1988

The Prime Minister has considered your minute of 8 July about representation at the meeting of Personal Representatives on 7 and 8 November to plan the preparations for the Toronto Economic Summit. She wants to reflect further on the appointment of a new Personal Representative before making up her mind. She therefore agrees that you should accept the invitation for 7 and 8 November without indicating at this stage who will actually attend.

Charles Powell  
12 July 1987

SPW

Ref. A087/2015


MR WICKS

Toronto Economic Summit 1988

The Canadian Personal Representative proposes to convene a meeting of Personal Representatives on 7 and 8 November 1987 near Vancouver, to review the results of the Venice Summit and plan the preparations for Toronto. This proposal follows the usual form for a preliminary autumn meeting of Personal Representatives, usually without accompanying "experts".

2. I think it would make sense for the United Kingdom to be represented at this meeting by whoever is going to take my place as the Prime Minister's Personal Representative for the purpose of preparing Economic Summits.
3. Since Economic Summits first began in 1975 the Prime Minister's Personal Representative has been the Secretary of the Cabinet. You suggested that the Prime Minister might wish to make a different arrangement in future.
4. Coming with a Treasury background, Mr Butler would of course be well qualified to undertake this duty. It has also added considerably to the status and influence of the Prime Minister's Personal Representative that he was known to be close to the Prime Minister; some of my colleagues have palpably not been nearly as close to their Heads of State or Government, and this has worked to their disadvantage in the discussions.
5. If the Prime Minister wants to look elsewhere, one obvious candidate would be Sir Geoffrey Littler, who is the United Kingdom's "G5 Deputy". But there is something to be said for keeping that role separate from that of the Prime Minister's Personal Representative, since the G5 Deputy reports in the normal course of business to the Chancellor of the Exchequer.

Prime Minister  
This is for information  
only at this stage. No  
decision is required  
before the early autumn  
C.D.P.  
10/7



6. A third alternative would be to nominate (as some other countries do) a senior Foreign Office official: either Sir Patrick Wright or (more plausibly) Mr Rodric Braithwaite, the Deputy Secretary (Economic) in the Foreign and Commonwealth Office.

7. If the Prime Minister prefers not to take any decision for the time being, I will simply accept the invitation for 7 and 8 November, and we can leave it for later decision who should actually go to the meeting.

RA

ROBERT ARMSTRONG

8 July 1987



10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

SIR ROBERT ARMSTRONG

**TORONTO ECONOMIC SUMMIT**

Your minute of 26 June conveyed the Canadian Government's formal proposals that the next Economic Summit should be in Toronto on 19-21 June 1988. I believe that these dates will be acceptable to the Prime Minister.

I am copying this minute to Tony Galsworthy (Foreign and Commonwealth Office) and Alex Allan (H M Treasury).

C. D. POWELL

26 June 1987

*Cite* *SL*  
*SL 3AKB*  
*cc PC*

*DT*

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Ref. A087/1882

MR POWELL

Toronto Economic Summit 1988

The Canadian Prime Minister has now formally proposed that the Economic Summit next year should be held in Toronto from 19 to 21 June.

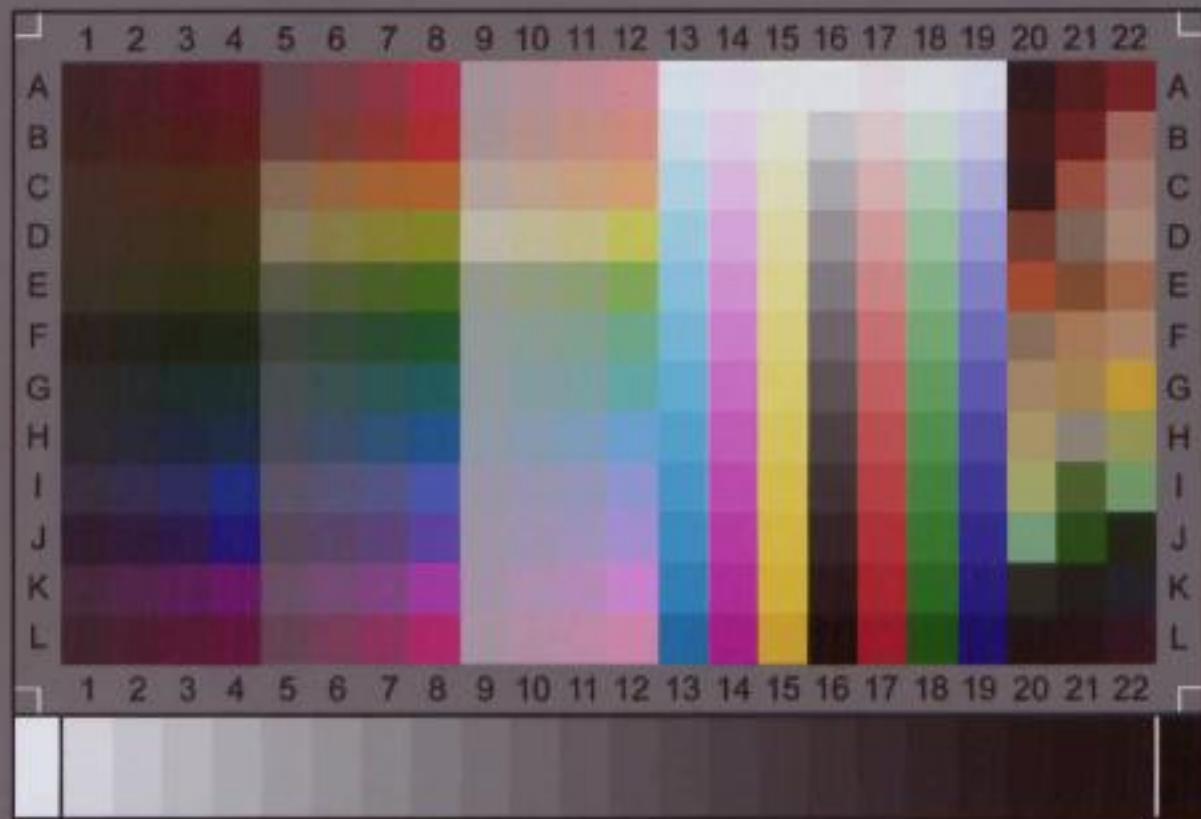
2. I should be very grateful if you could let me know whether these dates would be acceptable to the Prime Minister.

3. I am sending a copy of this minute to the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer, and should be grateful if they likewise could let me know whether the proposed dates are acceptable.

*W. Woollery*  
(Private Secretary)

for ROBERT ARMSTRONG

26 June 1987



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