

PREM 19/2633

PART 26

29 26

Confidential filing

21/89

CANADIAN  
Canadian Economic Summit  
TORONTO  
~~Toronto~~ June 1988.

ECONOMIC POLICY

PT 1: MAY 79

PT 26: JUNE 88

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
18-6-88							
<del>24-6-88</del>							
<del>23-6-88</del>							
<del>7-7-88</del>							
<del>11-7-88</del>							
<del>21-7-88</del>							
<del>16-8-88</del>							
<del>25-8-88</del>							
<del>7-9-88</del>							
<del>9-8-88</del>							
19-6-89							

PREM 19/2633

From: THE PRIVATE SECRETARY



IN CONFIDENCE

HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

19 June 1989

Dear Caroline

*Handwritten initials*

The Home Secretary has asked me to write to you to let you know the latest position about the application by Mr Conrad Black, Chairman of the Daily Telegraph, to take up residence in the United Kingdom. The Prime Minister will recall that Mr Black raised the matter with her during her recent visit to Canada.

We have agreed Mr Black's request for entry clearance as a person of independent means and we expect this to take place immediately. We understand that his wife and two of his four children will accompany him, the other two children remaining in Canada to complete their education. Mr Black has asked that his application and his intention to take up residence in the United Kingdom should not become known and we are therefore treating it with the utmost discretion.

Yours

*Catherine Barnardo*

*for*

P R C STORR

Ms Caroline Slocock  
10 Downing Street  
LONDON SW1





Foreign and Commonwealth Office

London SW1A 2AH

9 August 1988

Dear Charles, <sup>POS</sup> 9/8

Letter from Prince Sihanouk to the Prime Minister

I enclose the original of the letter from Prince Sihanouk to the Prime Minister foreshadowed in Jakarta telegram 279 of 28 July. The message is in response to an earlier one from the Prime Minister and does not require a reply. The Prime Minister will of course have met the Prince during her visit to Thailand.

How ever

L Parker

(L Parker)  
Private Secretary

C D Powell Esq  
PS/No 10 Downing Street



*Norodom Sihanouk*  
*du Cambodge*

Jakarta, 28th July 1988

Your Excellency,

The British Embassy in Jakarta has conveyed to me Your Excellency's very thoughtful message, containing Your views on the discussion on Cambodia at the recently held Toronto Economic Summit.

I am particularly grateful to have received Your Excellency's gracious comments and pay homage to Your noble concern and efforts to help my unfortunate people and country. With the assistance of the Leaders of the Free World, like Your Excellency, I hope to be able to save what is left of my country and people.

I am very touched by Your Excellency's personal concern in my people's well-being, as expressed by Your kind decision to visit the Sihanoukist refugee camp of Site B, during the course of Your forthcoming visit to Thailand. May I assure Your Excellency that my people and I are very much looking forward to Your Excellency's visit to our camp, where a most friendly and respectful welcome awaits Your Excellency and Your delegation.

Please accept, Your Excellency, the renewed assurances of my highest consideration and personal esteem.

*A. Gill*

Her Excellency  
The Right Honourable Mrs. Margaret Thatcher,  
British Prime Minister,  
LONDON.

Econ Poli Canadian

Econ summit

P. 26





AUSTRALIAN HIGH COMMISSION : LONDON

AUSTRALIA HOUSE STRAND WC2B 4LA TEL 01-379 4334

Please quote in reply

Branch:

Our Ref:

Direct enquiry 01-438

21 July 1988

808/1/1

*CDD  
25/7.*

Mr D.R. Norgrove  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON SW1A 2AA.

Dear Mr Norgrove,

I enclose the original of a letter of 10 June 1988 from the Australian Prime Minister, The Hon. R.J. Hawke, to the Prime Minister, The Rt. Hon. Margaret Thatcher MP, on the Toronto Summit.

The text of Mr Hawke's letter was conveyed by the High Commissioner to the Prime Minister's Office on 11 June.

Yours sincerely,

(R. G. Starr)  
Minister





*Mr. P...  
cc to*

10 DOWNING STREET  
LONDON SW1A 2AA

THE PRIME MINISTER

21 July 1988

*Your Royal Highness,*

I read your message to the Heads of State or Government attending the Toronto Economic Summit with interest. As you will be aware, the summary of the discussion of Cambodia which was read out by the Canadian Foreign Minister after the Summit repeated the Seven's call for the withdrawal of all Vietnamese troops and their support for the re-emergence of a free and independent Cambodia.

It remains to be seen whether the Vietnamese Government will abide by their declared intention to withdraw all their troops from Cambodian territory, and will genuinely co-operate in the search for a settlement of the problem acceptable to all the parties concerned. Pressure on Vietnam to co-operate has been, and remains, the primary focus of the efforts of the international community. But it will be essential to ensure that any vacuum created by Vietnamese withdrawal is not filled by the return of Pol Pot's Khmer Rouge. With the support of the international community, you have a unique role to play in the process which we all hope will bring peace and freedom to the Cambodian people.

I look forward to meeting you at the Site B Camp in Thailand on 7 August and again when you make your own working

*P...*

visit to Britain on 25/26 October when I hope we shall have the opportunity for more substantial discussion.

Yours sincerely

Norodom Sihanouk

His Royal Highness Prince Norodom Sihanouk

cc PE



Foreign and Commonwealth Office

London SW1A 2AH

20 July 1988

*Dear Charles*

Further to my letter of 17 June to Nigel Wicks I enclose a draft reply from the Prime Minister to the letter which Prince Sihanouk sent to Heads of State or Government attending the Toronto Economic Summit.

The Canadians have not replied in writing on behalf of the Seven, although Clark acknowledged the message orally when he met Sihanouk on 8 July. Nevertheless we believe that a British response would be timely given the Prime Minister's forthcoming visit to Site B, the main Sihanoukist refugee camp in Thailand, and her prospective meeting with Prince Sihanouk again when he visits Britain on 25/26 October.

On 10 July Prince Sihanouk announced his resignation as President of the Coalition Government of Democratic Kampuchea (CGDK). This is not the first time he has done so. As far as we can judge, his reasons are tactical, to distance himself from the Khmer Rouge and to make his position as the head of a neutral Cambodian Government consisting of the CGDK and Heng Samrin factions more credible. He is not expected personally to attend the Jakarta Informal Meeting on 25 July but apparently still intends to play an active part in solving the Cambodian problem.

Although now in France, Sihanouk still plans to be at Site B for the Prime Minister's visit. But he is mercurial and we should try to pin him down. The draft reply is therefore intended to do this, as well as to give him encouragement and reassurance.

If the Prime Minister is content, we shall ask our Embassy in Paris to forward the letter to Prince Sihanouk.

*Yours ever*

*R N Peirce*

(R N Peirce)  
Private Secretary

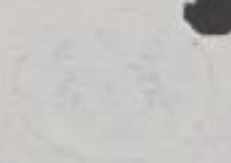
C D Powell Esq  
10 Downing Street



Ever Pol - Canadian Summit  
1125

EVERETT POLICE DEPARTMENT

NOV 11 1964



DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: Prime Minister

Reference  
LAOAFR

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO: HRH  
Prince Norodom Sihanouk

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Copies to:

*TO*  
*PM 2 ACI*

PRIVACY MARKING

SUBJECT:

.....In Confidence

I read your message to the Heads of State or Government attending the Toronto Economic Summit with interest. As you will be aware, the summary of the discussion of Cambodia which was read out by the Canadian Foreign Minister after the Summit repeated the Seven's call for the withdrawal of all Vietnamese troops and their support for the re-emergence of a free and independent Cambodia.

CAVEAT.....

It remains to be seen whether the Vietnamese Government will abide by their declared intention to withdraw all their troops from Cambodian territory, and will genuinely co-operate in the search for a settlement of the problem acceptable to all the parties concerned. Pressure on Vietnam to cooperate has been, and remains, the primary focus of the efforts of the international community. But it will be essential to ensure that any vacuum created by Vietnamese withdrawal is not simply filled by the return of Pol Pot's Khmer Rouge. With the support of the international community, you have a unique role to play

Enclosures—flag(s).....

Econ

in the process which we all hope will bring peace and freedom to the Cambodian people.

I look forward to meeting you at the Site B camp in Thailand on 7 August and again when you make your own working visit to Britain on 25/26 October when I hope we shall have the opportunity for more substantial discussion.

BBW  
104  
1002





PRIME MINISTER

CANBERRA

*Alreadu 'T'd*

11 JUL 1990

*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  
B. White



Line QTS

cc: Mr Richardson  
FCO

10 DOWNING STREET

*From the Principal Private Secretary*

11 July 1988

TORONTO ECONOMIC SUMMIT: RECORD OF THE PROCEEDINGS

You may be interested to see a copy of the detailed record of the discussion at the Toronto Economic Summit which concerned agriculture. I now attach a copy of the note that I have prepared on the basis of notes that I took during the discussion.

Could I ask that you should treat this note on a personal basis and show it only to your Minister and to David Hadley. I ask this because the Prime Minister attaches considerable importance to restricting to the very minimum the circulation of records of her discussions with Heads of Government, and I know that she would not want this record to be distributed widely.

N. L. WICKS

D. H. Andrews, Esq., C.B., C.B.E.  
Ministry of Agriculture, Fisheries and Food

QTS





file DT  
cc: Mr. Richardson  
FCO

10 DOWNING STREET

*From the Principal Private Secretary*

11 July 1988

TORONTO ECONOMIC SUMMIT: RECORD OF THE PROCEEDINGS

You may be interested to see a copy of the detailed record of the discussion at the Toronto Economic Summit which concerned trade. I now attach a copy of the note that I have prepared on the basis of notes that I took during the discussion.

Could I ask that you should treat this note on a personal basis and show it only to your Minister. I ask this because the Prime Minister attaches considerable importance to restricting to the very minimum the circulation of records of her discussions with Heads of Government, and I know that she would not want this record to be distributed widely.

N. L. WICKS

C. G. N. Roberts, Esq.  
Department of Trade and Industry

CONFIDENTIAL

R11/7.



Foreign and Commonwealth Office

London SW1A 2AH

8 July 1988

N L Wicks Esq CBE  
No 10 Downing Street

Dear Mr Wicks,

TORONTO ECONOMIC SUMMIT: RECORD OF THE PROCEEDINGS

1. Many thanks for your detailed record of the discussions at Toronto, sent under cover of your letter of 30 June to Tony Galsworthy.
2. We spoke about copying action outside the FCO and the Treasury and you agreed that Christopher Roberts at the DTI and David Hadley at MAFF should see relevant passages only. We have done a scissors and paste job on your text, and I attach selected extracts for Christopher and David respectively. If you agree with our "selection", you will no doubt wish to write a personal covering letter in order to stress the confidentiality of this record.

Yours Sincerely

Nicola Brewer

for T L Richardson  
Economic Relations Department  
WH 413 270 2670

CONFIDENTIAL



DSG

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Principal Private Secretary*

7 July 1988

*Dear Peter,*

TORONTO SUMMIT: AFRICAN DEBT

Reading paragraph 7 of FCO telegram number 225 to Abidjan of 6 July, which refers to the phrase in the Toronto Declaration "within a framework of comparability", I am reminded that I have not recorded a little exchange in the Sherpas' drafting group when this passage was discussed. I argued strongly for the inclusion of some reference to burden-sharing. The Americans, and I recall others, objected. I accepted the text as it eventually appeared in the Declaration, on the basis of a firm assurance from Trichet that the words "within a framework of comparability" included the concept of burden-sharing. I said that I dropped my point in view of the assurance of the Chairman of the Paris Club that the drafting already, effectively, took care of it.

I am copying this letter to Tom Richardson (Foreign and Commonwealth Office).

*Yours sincerely*  
*Nigel Wicks*

N. L. Wicks

P. Mountfield, Esq.,  
H.M. Treasury.

ca



CONFIDENTIAL

*pa. a Toronto file*  
033746  
MDLOAN 5220

CONFIDENTIAL

FM FCO

TO PRIORITY WASHINGTON

TELNO 1132

OF 071637Z JULY 88

AND TO PRIORITY UKREP BRUSSELS, EC POSTS, WELLINGTON

AND TO PRIORITY CANBERRA, OTTAWA

AND TO PRIORITY TOKYO, UKMIS GENEVA, UKDEL OECD, UKDEL IMF/IBRD

INFO ROUTINE BERNE, STOCKHOLM, VIENNA, OSLO

INFO SAVING BRASILIA, BOGOTA, SANTIAGO, MONTEVIDEO, KUALA LUMPUR

INFO SAVING MANILA, JAKARTA, BANGKOK, BUDAPEST, HELSINKI

FCO TELSNOs 1046 AND 1068: TORONTO ECONOMIC SUMMIT: TRADE AND AGRICULTURE

1. THE OUTCOME OF THE TORONTO SUMMIT ON TRADE AND AGRICULTURE WAS SATISFACTORY. IT ENDORSED THE IMPORTANCE OF MAINTAINING THE MOMENTUM OF THE URUGUAY ROUND NEGOTIATIONS AND SET THE FRAMEWORK FOR THE PREPARATION FOR THE MID-TERM MEETING (MTM) IN MONTREAL IN DECEMBER.

2. THE COMMUNIQUE (BY BAG TO SOME POSTS) CONFIRMS PUNTA DEL ESTE COMMITMENTS, REPRESENTS A USEFUL ADVANCE ON THE OECD MINISTERIAL COMMUNIQUE IN MAY, AND MORE FIRMLY ESTABLISHES THE POSSIBILITY OF SOME CONCRETE RESULTS BEING AGREED AT MONTREAL. IN PARTICULAR, IT:

- REAFFIRMS THE IMPORTANCE OF A SUCCESSFUL URUGUAY ROUND, AND THE PUNTA LANGUAGE ON STANDSTILL AND ROLLBACK AND EARLY AGREEMENTS WHERE POSSIBLE (TWICE) (PARA 14).
- EMPHASISES THE IMPORTANCE OF THE MTM FOR THE SUCCESS OF THE ROUND, AND THE NEED THEN TO REGISTER TANGIBLE PROGRESS. IT CALLS FOR THE GREATEST POSSIBLE ADVANCE IN ALL AREAS, WITH DECISIONS WHERE APPROPRIATE, AND ADOPTION OF A FRAMEWORK APPROACH ON ALL ISSUES. (PARA 19).
- WELCOMES PROGRESS TOWARDS COMPLETION OF THE SINGLE EUROPEAN MARKET (AND THE US/CANADA FREE TRADE AGREEMENT), WHICH SHOULD SUPPORT THE OPEN, MULTILATERAL TRADING SYSTEM. (PARA 15).
- INCORPORATES A UK-INSPIRED PARAGRAPH (PARA 16) ON STRENGTHENING THE GATT SYSTEM AND IMPROVED DISPUTE

PAGE 1  
CONFIDENTIAL



SETTLEMENT PROCEDURES (ONE OF OUR KEY OBJECTIVES).

- ENCOURAGES THE NEWLY INDUSTRIALISING ECONOMIES (NIES) TO UNDERTAKE INCREASED COMMITMENTS WITHIN GATT (INTEGRATION). (PARA 17).

- RESTATES THE NEED TO MAKE AGRICULTURE MORE RESPONSIVE TO MARKET SIGNALS, AND EMPHASISES THE IMPORTANCE OF THE MTM. IT SUPPORTS EFFORTS TO ADOPT A FRAMEWORK APPROACH INCLUDING SHORT TERM ELEMENTS IN LINE WITH THE LONGER TERM GOAL OF REDUCING ALL FORMS OF SUPPORT AFFECTING AGRICULTURAL TRADE (PARA 18).

- EXPLICITLY RECOGNISES THE USEFULNESS OF A PSE-TYPE MEASURING DEVICE (PARA 18) (FOR THE FIRST TIME: THE OECD COMMUNIQUE REFERRED ONLY TO THE CONTINUATION OF WORK ON PSES WITHIN OECD).

3. WHAT THE COMMUNIQUE DOES NOT, AND COULD NOT DO, IS TO GUARANTEE THAT SPECIFIC RESULTS IN PARTICULAR FIELDS WILL BE ACHIEVED OVER THE NEXT MONTHS. IN MANY AREAS OF THE NEGOTIATION, RELATIVELY LITTLE PROGRESS HAS BEEN MADE, AND ON A NUMBER OF ISSUES FURTHER ADVANCE WILL DEPEND UPON THE WILLINGNESS OF THE MAIN PLAYERS TO MOVE FROM ENTRENCHED POSITIONS. THE DEVELOPING COUNTRIES IN PARTICULAR ARE LIKELY TO MAINTAIN A DEFENSIVE POSTURE UNTIL THEY ARE PERSUADED OF THE BENEFITS OF THE NEGOTIATIONS TO THEM. THE OUTCOME AT MONTREAL MUST THEREFORE STILL REMAIN UNCERTAIN. NEVERTHELESS, THE RECOGNITION (PARA 19) THAT DECISIONS CAN, WHERE APPROPRIATE, BE TAKEN BY THE TIME OF THE MTM ESTABLISHES FOR THE FIRST TIME A LINK BETWEEN THE MTM AND THE PUNTA LANGUAGE ON EARLY RESULTS.

IT ALSO REINFORCES ARGUMENTS AGAINST A NARROW INTERPRETATION OF GLOBALITY (IE PROGRESS IN ALL SECTORS AT THE PACE OF THE SLOWEST). THE PARAGRAPH IS OF GENERAL APPLICATION BUT COMES AFTER THE PARAGRAPH ON AGRICULTURE AND SHOULD (WE THINK) BE READ AS INCLUDING AGRICULTURE. SIMILARLY THE DISCUSSION OF SHORT TERM ELEMENTS IN PARA 18 IS IN THE MTM CONTEXT (THOUGH NOT SPECIFICALLY LINKED TO IT). WE WELCOME THE PUBLIC MESSAGE TO THE NEGOTIATORS TO GET ON WITH THE JOB.

4. THE UK AIM ON AGRICULTURE IS MTM AGREEMENT ON A CLEAR FRAMEWORK FOR LONG TERM REFORM AND SPECIFIC EARLY ACTIONS CONSISTENT WITH THE LONG TERM OBJECTIVES. THE US HAVE SHOWN WELCOME SIGNS OF FLEXIBILITY OVER THEIR INSISTENCE ON A



COMMITMENT TO ELIMINATION OF ALL TRADE DISTORTING SUPPORT BY THE YEAR 2000 AS A PRECONDITION FOR DISCUSSING SHORT TERM MEASURES. BUT IT IS CLEAR THAT THEY HAVE NOT MODIFIED THEIR ULTIMATE GOAL. THEY WILL OPPOSE (AS THE UK WOULD) ANY AGREEMENT ON SHORT TERM MEASURES THAT DOES NOT ALSO ADDRESS THE LONG TERM. IN THE NEAR FUTURE, IT MAY BE DIFFICULT TO PERSUADE THE EC TO GO BEYOND THE REFORMS AGREED IN BRUSSELS IN FEBRUARY, BUT THE EC TOO HAS COMMITTED ITSELF TO LONG TERM GOALS. THE EC MUST NOW BUILD ON ITS OWN SHORT TERM PROPOSALS IN LINE WITH THE LONG TERM GOAL OF REDUCING ALL MEASURES THAT (DIRECTLY OR INDIRECTLY) AFFECT TRADE. TABLING OF THE CAIRNS GROUP PAPER ON QUOTE DOWNPAYMENT UNQUOTE AT THE JULY AGRICULTURAL NEGOTIATING GROUP SHOULD BE HELPFUL IN FOCUSING ATTENTION CONSTRUCTIVELY ON THIS ISSUE.

5. IN SPEAKING TO YOUR CONTACTS, PLEASE DRAW ON THE FOLLOWING.

LINE TO TAKE

TRADE

- THE SUMMIT COMMUNIQUE GIVES A FIRM MESSAGE TO THE GATT NEGOTIATORS BY REAFFIRMING COMMITMENTS MADE AT PUNTA DEL ESTE (IN PARTICULAR THE NEED TO RESIST NEW PROTECTIONIST MEASURES AND PROGRESSIVELY TO REDUCE THE PRESENT BARRIERS TO TRADE), AND EMPHASISING THE IMPORTANCE OF THE MTM, AT WHICH DECISIONS CAN BE TAKEN IF APPROPRIATE.

- THE SUMMIT ENDORSES OUR VIEW THAT TANGIBLE PROGRESS MUST BE REGISTERED ON ALL ISSUES BY THE TIME OF THE MTM. THIS OPENS THE WAY FOR CONCRETE MTM PROGRESS ON ISSUES SUCH AS DISPUTE SETTLEMENT, FUNCTIONING OF THE GATT SYSTEM AND TROPICAL PRODUCTS, AND THE ESTABLISHMENT OF NEGOTIATING FRAMEWORKS IN OTHER AREAS (NEW ISSUES SUCH AS SERVICES, AS WELL AS AGRICULTURE).

- WE ATTACH GREAT IMPORTANCE TO THE STRENGTHENING OF THE GATT SYSTEM ITSELF, AND IN PARTICULAR TO IMPROVING DISPUTE SETTLEMENT PROCEDURES TO ENSURE THAT TRADE DISPUTES ARE RESOLVED SPEEDILY, EFFECTIVELY AND EQUITABLY. THE COMMUNIQUE USEFULLY EMPHASISES THESE ELEMENTS.

- BY REFERRING TO THE NEED FOR NEWLY-INDUSTRIALISED ECONOMIES TO ACCEPT MORE FULLY THEIR GATT OBLIGATIONS, THE COMMUNIQUE REFLECTS OUR COMMITMENT TO THEIR INTEGRATION IN THE GATT ROUND.



## AGRICULTURE

- THE COMMUNIQUE UNDERLINES THE NEED FOR THE FARMING SECTOR TO BECOME MORE RESPONSIVE TO MARKET SIGNALS - OUR UNDERLYING OBJECTIVE IN TACKLING AGRICULTURAL DISTORTIONS.

- THE COMMUNIQUE USEFULLY LINKS SHORT TERM STEPS WITH LONGER TERM GOALS IN THE FRAMEWORK APPROACH OUTLINED IN THE OECD MINISTERIAL COMMUNIQUE. IT DEFINES THE LONG TERM GOAL IN HELPFUL BUT NOT OVER PRECISE TERMS: THE REDUCTION OF ALL SUBSIDIES AND OTHER MEASURES DIRECTLY AND INDIRECTLY AFFECTING AGRICULTURE TRADE, WITH THE OBJECTIVE OF MAKING AGRICULTURE MORE RESPONSIVE TO MARKET SIGNALS. IT USEFULLY CALLS FOR ADOPTION OF THE FRAMEWORK APPROACH AT THE MTM, WHERE THE UK OBJECTIVE IS FOR AGREEMENT ON BOTH LONG TERM AND EARLY SHORTER TERM ACTION. THE COMMITMENT TO TAKE EARLY DECISIONS WHERE APPROPRIATE AT THE MTM WILL BE HELPFUL IN THIS CONTEXT.

- FOR THE FIRST TIME THE USE IN GATT OF A QUOTE DEVICE FOR THE MEASUREMENT OF SUPPORT AND PROTECTION UNQUOTE IS EXPLICITLY ENDORSED BY SUMMIT LEADERS. WE BELIEVE THE USE OF A PSE-TYPE MEASURE WILL BE USEFUL IN DEFINING BOTH THE SHORT AND LONG TERM ELEMENTS OF ANY PACKAGE, AND IN PROVIDING THE LINK BETWEEN THEM.

HOWE

YYYY

DISTRIBUTION

242

MAIN 231

.FRAME EXTERNAL

ECD (E)

ADDITIONAL 1

FRAME

CONFIDENTIAL

033746  
MDLOAN 5220

SAVING 10

BRASILIA  
BOGOTA  
SANTIAGO  
MONTEVIDEO  
COLOMBO

MANILA  
JAKARTA  
BANGKOK  
BUDAPEST  
HELSINKI

NNNN





10 DOWNING STREET  
LONDON SW1A 2AA

THE PRIME MINISTER

6 July 1988

Y  
Leon Laxer

Thank you for your letter of 20 May about the Toronto Economic Summit.

You will have seen that the Toronto Economic Declaration reaffirmed the macroeconomic policies which have produced sustained economic growth and low inflation. The benefits that these policies have brought are by no means confined only to the Summit nations.

One of the major achievements of the Summit was the agreement reached on debt, where discussions concentrated on how to help the poorest, most indebted African countries.

The Chancellor of the Exchequer has, as you kindly mentioned in your letter, taken the lead in pressing for action. At Toronto we all welcomed Nigel Lawson's proposals, together with those subsequently put forward by other countries, and agreed on a plan which will bring considerable relief to the worst off sub-Saharan African debtors. There are some technical details yet to be sorted out by the Paris Club. At Toronto we called for this work to be completed by the end of this year.

We have also been looking at ways of clearing the arrears to the IMF of some highly indebted countries; but this will not be easy.

089



I agree with you on the need for orderly and negotiated solutions to the problems of middle-income debtors but these must continue to be negotiated on a case by case basis. Developments on the "menu of options" are encouraging, but there is scope for further imaginative solutions. This is a matter for the banks to negotiate voluntarily with the debtors. But we are playing our role too: through the General Capital Increase for the World Bank which the United Kingdom expects shortly to subscribe to, and through rescheduling of official debt and appropriate provision of export cover.

The preparatory phase in the Uruguay Round has proceeded satisfactorily and was completed on schedule at the end of 1987. This year, with real negotiation under way, the GATT Mid Term Meeting in Montreal in December will provide an important opportunity to register progress in all areas of the negotiations including those where early agreement may be possible. Among these, the tropical products negotiation, in which the European Community tabled the first substantial proposal last year, is of particular relevance to developing countries. The Toronto Summit has provided the basis for progress by allowing for decisions to be taken at the MTM where possible. The Toronto Declaration re-emphasised the commitment of Summit leaders to agricultural reform and called for further steps to make the crucially important area of agriculture more responsive to market signals.

I agree that we live in an increasingly interdependent world. Developing countries need outside help and the United Kingdom is one of the world's major aid donors.

The recent rise in commodity prices will have gone some way towards lessening the problems of some commodity-dependent developing countries. But commodity problems should be considered in the right context, as part of the wider developmental process. Looking at past experience, as you suggest, it is clear that existing mechanisms, particularly market intervention by international commodity

agreements, have proved unsatisfactory in addressing the real problems of commodity-dependent countries. These countries need help to adjust their economies to changing global conditions. It is to this end that the British Government strongly supports the wide-ranging structural adjustment programmes of the International Financial Institutions.

Yours sincerely

Nargant Shalita

---

His Excellency Senor Javier Perez de Cuellar





KK

cc: Fco

10 DOWNING STREET  
LONDON SW1A 2AA

THE PRIME MINISTER

6 July 1988

*Jean Su Graham*

Thank you for your letter of 31 May enclosing a copy of the ICC statement, which you also copied to Sir Geoffrey Howe.

I believe the Toronto Summit was a considerable success. It underlined the effectiveness of the economic policies pursued in this second seven year cycle of Summits. As I said in my statement to the House of Commons, Heads of Government committed themselves to continue the fiscal, monetary and structural policies which have brought six years of non inflationary growth. Existing arrangements for coordination are working well - as demonstrated by the capacity of the world economy to absorb the shock of last October's stock market collapse. External imbalances are falling, and Summit leaders agreed to continue their efforts to reduce them further. They also recognised that this is not just a matter for the major surplus and deficit countries: the newly industrialising economies also have a part to play.

Your point about the need to break down structural rigidities was also reflected in the declaration. We committed ourselves to continue structural reform, with specific priorities for each of our countries set out in an Annex.

88



I agree that a successful outcome to the Uruguay Round must be a priority. Toronto gave a further impetus to the Geneva negotiations particularly in the run up to the Montreal Mid Term Meeting of the GATT Round. I was especially pleased that the declaration contained a renewed commitment to standstill and rollback of protectionist barriers, and endorsed the need to strengthen GATT disciplines and dispute settlement procedures. Just as importantly, we all also reaffirmed our commitment to agricultural reform; we pledged to take further steps to make the agricultural sector more responsive to the needs of the market.

We reached agreement at Toronto on rescheduling the official debt of the poorest debtor countries, particularly in Africa. The technical details of the agreed framework of comparability will now be worked out in the Paris Club. The various proposals of Nigel Lawson and others offer an opportunity significantly to help some of the poorest countries, who are seeking to implement internationally agreed programmes of economic reform.

So I am sure you will agree that the Toronto Summit made good progress on the three major areas of concern you identified in your paper: sustainable world growth, the Uruguay Round and debt. In addition, I consider that the agreements reached on drugs and on terrorism will rank as particular achievements at this Summit.

Yours sincerely

Najant Dabke

Sir Graham Wilkins



10 DOWNING STREET  
LONDON SW1A 2AA

THE PRIME MINISTER

6 July 1988

*Jean de Raljen*

Thank you for your letter of 3 June enclosing UNICE's paper.

The Toronto Summit addressed all of the issues treated in your paper. We took a confident view of the world economy: we underlined the effectiveness of the economic policies that have been pursued in the past seven years, during the second cycle of Summit meetings now concluded. We also agreed to continue sound policies. But our declaration was not complacent. It warned of the need to maintain vigilance against any resurgence of inflation; and we agreed to continue efforts to reduce external imbalances. Countries with budgetary deficits committed themselves to continuing to reduce them, while those with large external surpluses continuing to sustain the momentum of domestic demand. And, in a point your paper also makes, we drew attention to the contribution that the newly industrialising economies can and should make. Microeconomic (structural) reform was another priority which we identified in each of our countries.

I believe that the discussions at Toronto have indeed given a further impetus to the GATT negotiations in this important period before the Mid Term Meeting in Montreal.

057



Our commitment to standstill and rollback of protectionist barriers was renewed; and, a point which I consider particularly important, emphasised the need to strengthen GATT disciplines and dispute settlement procedures. The Toronto Declaration also specifically recognised that the Montreal Mid Term Meeting can take decisions, where conditions are ripe, and referred to the greater international responsibilities of certain newly industrialising countries in the Asia Pacific region.

One of the major achievements at this Summit was the agreement to reduce the debt burden of some of the poorest and most indebted African countries. This owed much to the initiative put forward by the Chancellor of the Exchequer over a year ago. I entirely agree with you that developing countries must also help themselves by, for example, creating favourable conditions for international investment - a point to which the Toronto Summit also drew attention.

Yours sincerely

Margaret Thatcher

Mr. K. G. Ratjen



File

KATAHF

CC FCO

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

4 July 1988

Thank you for writing to the Prime Minister on 14 June, on behalf of the signatories to the Jakobstettel Conference, about the Report of the World Commission on Environment and Development.

As I hope you have now seen, the communique issued at the end of the Toronto Summit drew attention to the Report and endorsed the concept of sustainable development. The communique also highlighted a number of specific environmental issues and, inter alia, encouraged all countries to sign and ratify the Montreal Protocol on Substances that Deplete the Ozone Layer, to energetically pursue negotiations on a Protocol on emissions of nitrogen oxides, to develop an international agreement on the transfrontier shipment of hazardous wastes and to establish an inter-governmental panel on global climate change under the auspices of UNEP and WMO.

(C. D. POWELL)

The Convenor of the Jakobstettel Conference

BS



PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T1043/88



AS DAS  
cc frs

Subject

10 DOWNING STREET

LONDON SW1A 2AA

cc master  
ops

THE PRIME MINISTER

4 July 1988

Dear Bob.

Thank you for the letter you sent me before the Economic Summit. Many of the points you raised were indeed discussed at Toronto and covered in the Economic Declaration.

I fully agree with you that we must all continue to resist protectionist pressures, and I believe that the outcome of the Toronto Summit will give fresh momentum to the Geneva negotiations in the run-up to the Montreal Mid-Term Meeting of the GATT Round. We renewed our commitments to standstill and rollback of protectionist barriers; and we endorsed the need to strengthen GATT disciplines and dispute settlement procedures, a point to which I personally attach great importance.

You were concerned that substantial results should be achieved, wherever possible, at Montreal, and in particular that progress should be made on agricultural reform. So you will have been pleased to see, as I was, that the Toronto declaration, reaffirming the Punta del Este declaration, allows for early agreement where appropriate, and also specifically recognises that the Mid-Term Meeting can take decisions where appropriate.

The declaration did indeed re-emphasise the commitment of Summit participants to agricultural reform. It supports a framework approach including short-term options in line with long-term objectives, which it specifies as the reduction of

LB

all forms of agricultural support affecting international trade. We pledged to take further steps to make the agricultural sector more responsive to the needs of the market. And there is a short but helpful reference to the usefulness of a 'device for the measurement of support and production', in other words something like the OECD Producer Subsidy Equivalent.

I look forward to seeing you in August, when we can turn our attention to making a success of the Montreal meeting.

Yours ever  
Rogers

The Honourable R. J. L. Hawke, Esq., A.C., M.P.





Foreign and Commonwealth Office

London SW1A 2AH

4 July 1988

*Dear Charles*

The Prime Minister received various letters and messages before the Toronto Economic Summit.

I now attach draft replies (cleared with all appropriate Whitehall departments) to:

*fiap P124*  
Mr Javier Perez de Cuellar, United Nations Secretary General

*Lu P124*  
Mr K G Ratjen, Chairman, Union of Industrial and Employees' Confederation of Europe (received direct via UKRep Brussels)

*Ret P124*  
Sir Graham Wilkins, Chairman, International Chamber of Commerce, UK (a copy was also sent to the Foreign Secretary)

*fiap P125*  
In addition, a circular (unsigned) letter was sent to us from the Convenor of the Jakobstettel Conference on the environment. It was copied to the Chancellor of the Exchequer and Secretary of State for the Environment. We doubt whether a personal reply from the Prime Minister is necessary; I therefore attach a draft letter for your signature.

There were three letters or messages from Summit leaders to the Prime Minister. Mr Takeshita sent a message, via the Japanese Embassy in London, concerning aid and debt. I covered this in my letter to you of 17 June. The Italian Prime Minister wrote to the Prime Minister concerning the environment (your letter of 7 June refers). We agreed that no formal reply was necessary. President Mitterrand wrote to all Summit participants on 7 June about African debt. Again, we do not believe that a reply is required.

*Yours ever*

*Bob Peirce*  
(R N Peirce)  
Private Secretary

C D Powell Esq  
PS/No 10 Downing Street

KATAHEI

DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final I +

FROM: Prime Minister

Reference  
~~BK1AAD~~

DEPARTMENT: TEL. NO:

Your Reference  
PO8 ABG

BUILDING: ROOM NO:

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO: Copies to:

Mr Javier Perez de Cuellar  
Secretary General of the United  
Nations NEW YORK

PRIVACY MARKING

..... In Confidence

SUBJECT:

Thank you for your letter of 20 May about the  
Toronto Economic Summit.

CAVEAT .....

You will have seen that the Toronto Economic  
Declaration reaffirmed the macroeconomic policies  
which have produced sustained economic growth and  
low inflation. The benefits that these policies  
have brought are by no means confined only to the  
Summit nations.

One of the major achievements of the Summit was  
the agreement reached on debt, where discussions  
concentrated on how to help the poorest, most  
indebted African countries.

The Chancellor of the Exchequer has, as you kindly  
mentioned in your letter, taken the lead in  
pressing for action. At Toronto we all welcomed  
Nigel Lawson's proposals, together with those  
subsequently put forward by other countries, and  
agreed on a plan which will bring considerable

Enclosures flag(s) .....



SECURITY CLASSIFICATION

Top Secret

Secret

Confidential

Restricted

Unclassified

PRIVACY MARKING

.....  
In Confidence

relief to the worst off sub-Saharan African debtors. There are some technical details yet to be sorted out. by the Paris Club At Toronto we called for this work to be completed by the end of this year.

We have also been looking at ways of clearing the arrears to the IMF of some highly indebted countries; but this will not be easy.

I agree with you on the need for orderly and negotiated solutions to the problems of (but these must continue to be negotiated on a case by case basis) middle-income debtors. Developments on the "menu of options" are encouraging, but there is scope for further imaginative solutions. This is a matter for the banks to negotiate voluntarily with the debtors. But we are playing our role too: through the General Capital Increase for the World Bank which the United Kingdom supports will shortly contribute to of official date and through rescheduling and appropriate provision of export cover.

The preparatory phase in the Uruguay Round has proceeded satisfactorily and was completed on schedule at the end of 1987. This year, with real negotiation under way, the GATT Mid Term Meeting in Montreal in December will provide an important opportunity to register progress in all areas of the negotiations including those where early agreement may be

SECURITY CLASSIFICATION

Top Secret

Secret

Confidential

Restricted

Unclassified

PRIVACY MARKING

.....

In Confidence

possible. Among these, the tropical products negotiation, in which the European Community tabled the first substantial proposal last year, is of particular relevance to developing countries. The Toronto Summit has provided the basis for progress by allowing for decisions to be taken at the MTM where possible. The Toronto Declaration re-emphasised the commitment of Summit leaders to agricultural reform and called for further steps to make the crucially important area of agriculture more responsive to market signals.

I agree that we live in an increasingly interdependent world. Developing countries need outside help. <sup>and</sup> ~~That is why~~ the UK is one of the world's major aid donors.

The recent rise in commodity prices will have gone some way towards lessening the problems of some commodity-dependent developing countries. But commodity problems should be considered in the right context, as part of the wider developmental process. Looking at past experience, as you suggest, it is clear that existing mechanisms, particularly market intervention by international commodity agreements, have proved unsatisfactory in addressing the real problems of commodity-dependent countries. These countries need help to adjust their economies to changing



SECURITY CLASSIFICATION

---

Top Secret

Secret

Confidential

Restricted

Unclassified

---

PRIVACY MARKING

---

.....  
In Confidence

global conditions. It is to this end that the British Government strongly supports the wide-ranging structural adjustment programmes of the International Financial Institutions.

DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:

Reference

DEPARTMENT: Prime Minister

TEL. NO:

BK1AAF

Your Reference

BUILDING:

ROOM NO:

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO:

Copies to:

Sir Graham Wilkins,  
 ICC United Kingdom, Centre Point,  
 103 New Oxford St, London WC1A 1QB

KAYAME

SUBJECT:

PRIVACY MARKING

..... In Confidence

CAVEAT .....

Thank you for your letter of 31 May enclosing a copy of the ICC statement, which you also copied to Sir Geoffrey Howe.

I believe the Toronto Summit was a considerable success. It underlined the effectiveness of the economic policies pursued in this second seven year cycle of Summits. As I said in my statement to the House of Commons, Heads of Government committed themselves to continue the fiscal, monetary and structural policies which have brought six years of non inflationary growth. Existing arrangements for coordination are working well - as demonstrated by the capacity of the world economy to absorb the shock of last October's stock market collapse. External imbalances are falling, and Summit leaders agreed to continue their efforts to reduce them further. They also recognised that this is not just a matter for the major surplus and deficit countries: the newly industrialising economies

Enclosures flag(s) .....



SECURITY CLASSIFICATION

Top Secret  
Secret  
Confidential  
Restricted  
Unclassified

PRIVACY MARKING

.....  
In Confidence

also have a part to play.

Your point about the need to break down structural rigidities was also reflected in the declaration. We committed ourselves to continue structural reform, with specific priorities for each of our countries set out in an Annex.

I agree that a successful outcome to the Uruguay Round must be a priority. Toronto gave a further impetus to the Geneva negotiations particularly in the run up to the Montreal Mid Term Meeting of the GATT Round. I was especially pleased that the declaration contained a renewed commitment to standstill and rollback of protectionist barriers, and endorsed the need to strengthen GATT disciplines and dispute settlement procedures. Just as importantly, we all also reaffirmed our commitment to agricultural reform; we pledged to take further steps to make the agricultural sector more responsive to the needs of the market.

We reached agreement at Toronto on rescheduling the official debt of the poorest debtor countries, particularly in Africa. The technical details of the agreed framework of comparability will now be worked out in the Paris Club. The various proposals of Nigel Lawson and others offer an opportunity significantly to help some of the poorest countries, who are seeking to implement

SECURITY CLASSIFICATION

Top Secret

Secret

Confidential

Restricted

Unclassified

PRIVACY MARKING

.....

In Confidence

internationally agreed programmes of economic reform.

So I am sure you will agree that the Toronto Summit made good progress on the three major areas of concern you identified in your paper: sustainable world growth, the Uruguay Round and debt. In addition, I consider that the agreements reached on drugs and on terrorism will rank as particular achievements at this Summit.



DSR 11 (Revised Sept 85)

KATHA J

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:

Prime Minister

Reference

~~BK1AAE~~

DEPARTMENT:

TEL. NO:

Your Reference

BUILDING:

ROOM NO:

P08 ABH.

SECURITY CLASSIFICATION

Top Secret

Secret

Confidential

Restricted

Unclassified

TO:

Copies to:

K G Ratjen, UNICE,  
Rue Joseph II,  
40 Bte 4, 1040 Brussels

M. Rye Jr  
inc.

SUBJECT:

Thank you for your letter of 3 June enclosing UNICE's paper.

PRIVACY MARKING

..... In Confidence

The Toronto Summit addressed all of the issues treated in your paper. <sup>we</sup> My ~~67~~ colleagues and I took a confident view of the world economy: we underlined the effectiveness of the economic policies that have been pursued in the past seven years, during the second cycle of Summit meetings now concluded. We also agreed to continue sound policies. But our declaration was not complacent. It warned of the need to maintain vigilance against any resurgence of inflation; and we agreed to continue efforts to reduce external imbalances. Countries with budgetary deficits committed themselves to continuing to reduce them, while those with large external surpluses continuing to sustain the momentum of domestic demand. And, in a point your paper also makes, we drew attention to the contribution that the newly industrialising economies can and should make. Microeconomic

CAVEAT .....

Enclosures flag(s) .....

SECURITY CLASSIFICATION

Top Secret

Secret

Confidential

Restricted

Unclassified

PRIVACY MARKING

.....

In Confidence

(structural) reform was another priority which we identified in each of our countries.

I believe that the discussions at Toronto have indeed given a further impetus to the GATT negotiations in this important period before the Mid Term Meeting in Montreal. Our commitment to standstill and rollback of protectionist barriers was renewed; and, a point which I consider particularly important, emphasised the need to strengthen GATT disciplines and dispute settlement procedures. The Toronto Declaration also specifically recognised that the Montreal Mid Term Meeting can take decisions, where conditions are ripe, and referred to the greater international responsibilities of certain newly industrialising countries in the Asia Pacific region.

~~I consider that~~ One of the major achievements at this Summit was the agreement to reduce the debt burden of some of the poorest and most indebted African countries. This owed much to the initiative put forward by the Chancellor of the Exchequer over a year ago. I entirely agree with you that developing countries must also help themselves by, for example, creating favourable conditions for international investment - a point to which the Toronto Summit also drew attention.



DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM: C Powell

Reference  
BK1AAI

DEPARTMENT: TEL. NO:

Your Reference

BUILDING: ROOM NO:

KAYAME

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO: Copies to:

Convenor, Jakobstettel Conference,  
 Domain Biodynamic Research Foundation  
 P~~O~~ Box 189, Breslau, Ontario, Canada NOB IMO

PRIVACY MARKING

..... In Confidence

SUBJECT:

Thank you for writing to the Prime Minister on 14 June, on behalf of the signatories to the Jakobstettel Conference, about the Report of the World Commission on Environment and Development.

CAVEAT .....

As I hope you have now seen, the communiqué issued at the end of the Toronto Summit drew attention to the Report and endorsed the concept of sustainable development. The communiqué also highlighted a number of specific environmental issues and, inter alia, encouraged all countries to sign and ratify the Montreal Protocol on Substances that Deplete the Ozone Layer, to energetically pursue negotiations on a Protocol on emissions of nitrogen oxides, to develop an international agreement on the transfrontier shipment of hazardous wastes and to establish an inter-governmental panel on global climate change under the auspices of UNEP and WMO.

Enclosures flag(s) .....

ECON. POL. - Toronto Summer - Prob





Foreign and Commonwealth Office

London SW1A 2AH

1 July 1988

*cc/c*  
*Dear Charles*

Toronto Economic Summit: letter to the Prime Minister  
from the Australian Prime Minister

*at 11.25*  
In your letter of 13 June you asked for a reply after the Toronto Economic Summit to Mr Hawke's letter to the Prime Minister. I enclose a draft, which has been cleared with Treasury, DTI and MAFF officials.

We shall be sending you shortly draft replies to other letters sent to the Prime Minister before the Toronto Summit.

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

*Yours sincerely*

*R N Peirce*

(R N Peirce)  
Private Secretary

C D Powell Esq  
PS/No 10 Downing Street

DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM:

Reference

DEPARTMENT: prime Minister

BK1AAC

TEL. NO:

Your Reference

BUILDING:

ROOM NO:

SECURITY CLASSIFICATION

Top Secret

Secret

Confidential

Restricted

Unclassified

TO:

Copies to:

The Hon R J L Hawke Esq AC MP

CANBERRA

DS3AAR

SUBJECT:

Thank you for the letter you sent me before the Economic Summit. Many of the points you raised were indeed discussed at Toronto and covered in the economic declaration.

PRIVACY MARKING

..... In Confidence

CAVEAT .....

I fully agree with you that we must all continue to resist protectionist pressures, and I believe that the outcome of the Toronto Summit will provide fresh impetus to the Geneva negotiations in the run up to the Montreal Mid Term Meeting of the GATT Round. We renewed our commitments to standstill and rollback of protectionist barriers; and we endorsed the need to strengthen GATT disciplines and dispute settlement procedures, a point to which I personally attach great importance.

You were concerned that substantial results should be achieved, wherever possible, at Montreal, and in particular that progress should be made on agricultural reform. So you will have been pleased to see, as I was, that the Toronto

Enclosures flag(s) .....



SECURITY CLASSIFICATION

Top Secret  
Secret  
Confidential  
Restricted  
Unclassified

PRIVACY MARKING

.....  
In Confidence

*A* declaration, reaffirming the Punta del Este declaration, allows for early agreement where appropriate, and also specifically recognises that the Mid Term Meeting can take decisions where appropriate.

The declaration did indeed re-emphasise the commitment of Summit participants to agricultural reform. It supports a framework approach including short term options in line with long term objectives, which it specifies as the reduction of all forms of agricultural support affecting international trade. We pledged to take further steps to make the agricultural sector more responsive to the needs of the market. And there is a short but helpful reference to the usefulness of a 'device for the measurement of support and production', in other words something like ~~like~~ the OECD Producer Subsidy Equivalent.

I look forward to seeing you in August, when we can turn our attention to making a success of the Montreal meeting.

*cd-*

Elon Pol: Canadian Economic Summit A26





CONFIDENTIAL



*me SH*

10 DOWNING STREET

*From the Principal Private Secretary*

30 June 1988

*Dear Tony,*

**TORONTO ECONOMIC SUMMIT: RECORD OF THE PROCEEDINGS**

I understand that it is customary for the UK Sherpa to produce a detailed record of the discussions at the Economic Summit. I now attach the record for the Toronto Summit.

As you know, the Prime Minister attaches great importance to keeping the records of her discussions with Heads of Government to the most restricted circulation possible. They should be seen only by those who need to see them for operational purposes. I should be grateful if you could treat the note attached in the same way that you treat notes of the Prime Minister's discussions with Heads of Government.

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

*Truly*

*Nigel Wick*

—

N. L. WICKS

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

CONFIDENTIAL

*[Handwritten signature]*

CONFIDENTIAL

NLWAAA

PROCEEDINGS OF THE TORONTO SUMMIT

SUNDAY JUNE 19 TO TUESDAY JUNE 21

1988

CONFIDENTIAL



## SUMMIT PARTICIPANTS:

## CANADA

The Right Honourable Brian Mulroney - Prime Minister  
The Right Honourable Joe Clark - Secretary of State for  
External Affairs  
The Honourable Michael H. Wilson - Minister of Finance

## FRANCE

His Excellency Monsieur Francois Mitterrand - President  
of the Republic of France  
His Excellency Roland Dumas - Minister of State, Minister  
of Foreign Affairs  
His Excellency Pierre Bérégovoy - Minister of State,  
Minister of the Economy, Finance and the Budget

## FEDERAL REPUBLIC OF GERMANY

His Excellency Dr. Helmut Kohl - Federal Chancellor  
Hans-Dietrich Genscher - Federal Minister for Foreign  
Affairs  
Dr. Gerhard Stoltenberg - Federal Minister of Finance  
Dr. Martin Bangemann - Federal Minister of Economics

## ITALY

His Excellency Ciriaco De Mita - President of the  
Council of Ministers  
His Excellency Giulio Andreotti - Minister for Foreign  
Affairs  
His Excellency Giuliano Amato - Minister of the Treasury

## JAPAN

His Excellency Mr. Noboru Takeshita - Prime Minister of  
Japan  
His Excellency Sousuke Uno - Minister for Foreign Affairs  
His Excellency Kiichi Miyazawa - Minister of Finance  
His Excellency Hajime Tamura - Minister of International  
Trade and Industry

UNITED KINGDOM

The Right Honourable Margaret Thatcher - Prime Minister

The Right Honourable Sir Geoffrey Howe - Secretary of  
State for Foreign and Commonwealth Affairs

The Right Honourable Nigel Lawson - Chancellor of the  
Exchequer

UNITED STATES OF AMERICA

The Honorable Ronald Reagan - President

The Honourable George P. Shultz - Secretary of State

The Honourable James A Baker, III - Secretary of the  
Treasury

COMMISSION OF THE EUROPEAN COMMUNITIES

Mr. Jacques Delors - President of the Commission of the  
European Communities

Mr. Willy de Clercq - Member of the Commission, External  
Relations

Mr. Peter Schmidhuber - Member of the Commission,  
Monetary Affairs



FIRST SEPARATE SESSION OF HEADS OF STATE OR GOVERNMENT AT THE  
METROPOLITAN TORONTO CONVENTION CENTRE - SUNDAY 19 JUNE

The Session opened at 1505.

Mr. Mulroney began by explaining the order of the Summit's discussions and the arrangements generally. That day's discussions would deal with economic priorities. He sought a free-wheeling discussion, centred on the subject of the Summit - Economics. Politics would be discussed that evening. He would circulate a summary of the many messages received from trade unions, business leaders, other Heads of State and Government and other interested persons. Canadian priorities for the Summit were clear: the debt of the poorest nations, agriculture, trade and especially their free trade agreement with the United States. He suggested that fifteen minutes before the end of the meeting, the Canadian Minister of Finance, Mr. Wilson, should join the discussion to be given an oral briefing on the main points raised. Mr. Wilson would then make a statement to the press, but would not answer questions. The same procedure would be followed for that evening's discussion on East/West.

Before asking Mrs. Thatcher to open the discussion, Mr. Mulroney asked participants if they had any technical points to raise. Chancellor Kohl asked whether there would be an opportunity to discuss the environment, including the threat to the ozone layer. The world expected the leaders to discuss that subject, especially as many poor countries were adopting policies which were disastrous for their environment. Mr. Mulroney replied that the environment would be discussed on Monday when there would be an opportunity too to discuss, training and education. But this day's discussion concerned Economics.

Mrs. Thatcher after thanking Mr. Mulroney\* for the arrangements and welcoming the new comers to the Summit,

---

\* The leaders often referred to each other by their first names. This note uses, for consistency, surnames.



said that she had been struck by the contrast in economic performance at the end of this second cycle of Summits compared to the end of the first cycle in 1981. Then unemployment had been high and rising, inflation had been high, policy had accommodated inflation, locomotive theories were still current, and in many countries policy was based on the distribution of wealth, rather than its creation, and on economic fine tuning and short-term expediency. In the second cycle, economic policy had increasingly dealt with fundamentals, structural reform, the creation of wealth and measures to release the energies of the people. The result had been beneficial - low inflation, growth and rising employment. The message to come from this Summit should be that the leaders at the Montebello Summit in 1981 would have been delighted if they could have foreseen what was to be achieved in the forthcoming cycle of Summits.

Mrs. Thatcher said that her second point was that the press were continually saying that this was a "non-Summit". This argument could be met by pointing to the performance of the world economy over the last few years. This could only have been achieved through the agreements reached at preceding Summits and which had enabled countries to support each other in their endeavours. Successive Summit Communiqués had given extra authority to national action beyond that which would have been given by national statements. Last October's stock exchange market crash could not have been managed unless the economic fundamentals had been right.

Her third point was that there was still more to do - sound policies should continue, and there had to be new special efforts to tackle the priorities of trade, agriculture and debt. Trade had to be liberalised and protectionism resisted. She congratulated the United States and Canada on their Free Trade Agreement. This was an example to other countries and would bring enormous benefit. There needed to be action to resist subsidies which only undermined competitive industry and raised unemployment. Protectionism harmed third world countries which needed trade as well as aid. Protection



nowadays went far beyond tariff barriers and included many other measures. Each participant at the Summit had undertaken commitments in the GATT Round. It was essential to give those commitments substance at the forthcoming Mid Term Review (MTR) in Montreal, covering such subjects as trade and service, intellectual property rights, foreign direct investment and foreign takeovers. Of course, the leaders needed to remember that the Summit was not a negotiating body. But it had to set the tone. It could, for example, set the framework for negotiations at the MTR, including provision for early agreement, as agreed at the Punta del Este, reinforcing GATT and improving dispute procedures.

Mrs. Thatcher then referred to the article in that week's Economist concerning agriculture. To general laughter, she said that it was always easy for "has beens" to tell present leaders what to do. She then read out extracts from the article, including the following:

'Agricultural policies threaten to bankrupt all our countries. Massive production and export subsidies impose an unjustifiable burden on taxpayers and unfairly pressure developing-country agricultural exporters. Unfortunatley, this is an area where this is a clear consensus on what actions should be taken but where the forces of protection and nationalism have overwhelmed prudent policy. This must change. We recommend to our governments that they commit themselves to phase out by 1995 practices and subsidies which distort agricultural trade, so as to reintroduce a significant element of competition and lead to large budget savings'.

The European Community had taken very considerable strides last February to deal with its agriculture problems, and she listed some of the measures involved. Certainly agriculture expenditure had expanded, but a very good start had been made in restraining it. Mrs. Thatcher then referred to the OECD's work in devising methods to compare all forms of agricultural



subsidy, and she quoted the following information regarding Producer Subsidy Equivalent (PSE):

	<u>1980</u>	<u>1986</u>
United States	15	35
Canada	24	46
EC(10)	36	49
Japan	54	75
OECD average	28	47

These were alarming figures. They had to be reduced. Of particular concern was the increase in PSEs between 1980 and 1986. The trend was still the wrong way.

Mrs. Thatcher then quoted Abba Eban's dictum to the effect that men do not begin to act sensibly until they have exhausted the possibilities of acting stupidly. If the Summit nations continued their policies of competitive subsidy, they would bankrupt themselves as well as do great harm to the developing countries. The leaders had discussed agriculture reform in general terms at the Vienna and Tokyo Summit. Now was the time to agree action. This should include the freeze and then reduction in the level of subsidies, measures to provide greater access for tropical products to the markets of developing countries, and agreement to implement the OECD'S methods of comparison. President Reagan's proposal to abolish subsidies within 10 years was a brave one. But she could not be so optimistic.

Finally, Mrs. Thatcher turned to her third subject - debt. The Summit countries had to act to help the poorest nations. Burden sharing had to be fair, although they could, if necessary, make their contribution in different ways. The developing countries concerned needed to have an IMF programme. The UK had written off aid loans, where in many cases the money had already disappeared, and was prepared to re-schedule trade loans with reduced interest rates through the Paris Club. The task now was to fit all options on the table into a compatible whole.



Concluding her introduction, Mrs. Thatcher said the economics of a country would only be right if its people were right. It was not by chance that the science of economics had originally been called "political economy", or that Adam Smith had been a professor of moral philosophy. A key factor for economic security in an age of increasing technological change was the ability to respond quickly to change. Not only was technology changing, so were politics, for example in East/West relationships. Leaders could not plan the world just as they could not plan their own national societies. But just as they could establish the right economic framework at home, so they could establish the right international framework for economic progress. She hoped the Summit would send out a message of success, achievement, confidence and of a commitment to continue the successful economic policies of the second cycle.

President Reagan said that Mrs. Thatcher's eloquent words duplicated what he had intended to say. This was his last Summit. He had seen such progress. A particular topic which had emerged, notably following the Tokyo Summit, was the recognition that every Summit country was subsidising agriculture. Agricultural subsidies amounted to \$200 billion worldwide. There would be a \$9 billion drop in subsidies for US farmers in the next US budget. There was always great difficulty in telling farmers there was no market for their products.

The President then referred to certain scientific breakthroughs which were in prospect. These could increase the demand for agricultural products. Corn products could provide the basis for gasoline when crude oil was exhausted and were able to make plastics bio-degradable. These developments, and many others, suggested that if scientific advances continued, agricultural products would find new markets. The President then described some particular incidents which illustrated the absurdity of present agricultural production. One concerned members of a royal



family, not he said from any of the Summit countries, who had bought a large farm in the US which was in receipt of substantial subsidies. The President's point here was that taxpayers money was being used to help rich investors, not poor farmers.

He had consistently fought protectionism in Congress, including vetoing a recent trade bill, in what was an election year. He believed that the new bill would meet his objections. He would continue to vote down protectionist measures. Recalling the economic situation when he had come into office, the President said that the fundamental decision had been to return to a belief in the market place. This had been evidenced by his Administration's decision to reduce tax rates. The US now had a top tax rate which was equivalent to the UK's basic rate. Yet, high earners in the US were contributing a higher percentage of total tax taking since they now had an incentive to earn and to account for their income in the US. People at the bottom end of the income scale were paying a lower proportion of tax. These measures showed the way forward. During his Presidency 16.8 million new jobs had been created in the US, 62.6% of the age group over 16 were now employed and half of the new jobs were in higher income brackets. The President concluded his presentation by craving the indulgence of the meeting to quote one more set of figures. After recalling his initiative to establish a task force to reduce bureaucracy, he said that the outcome had been to reduce paper work by 600 million man hours so that the book of government regulations was now half of its original size.

Mr. Mulroney commented that the Canadians were good witnesses of US efforts to fight protectionism. President Reagan had stood firmly against those in the US intent on bashing Japan and Europe. He had told President Mitterrand earlier in the year that he had believed that Mr. Gephardt would be chosen as the Democratic Presidential candidate because of the pressures of protectionism.



Opening his intervention, Chancellor Kohl asked about the message which was to come from this Toronto Summit. This should be one of confidence, optimism and the value of collaboration between the Seven Summit countries. This latter point had been demonstrated by the united reaction to the stock market fall last October when a 1929 disaster was averted because of the way the Summit countries had worked together. This point needed to be reflected in the communiqué. The prospect ahead was, in his view, one of price stability and not of inflation. But, undoubtedly, more needed to be done. He agreed that the greatest danger was protectionism and he thanked President Reagan for standing up to it. The fight against protectionism was important for the poor countries, especially in Africa. Unless their commodities found markets in the developed world, they would not have the wherewithal to pay for the import of capital goods from developed countries. So the Summit should send a clear message in support of freer world trade. Unless the current GATT round succeeded, the Summit's support of free trade would not hold credibility.

Turning to agriculture, the Chancellor said that agricultural policy needed a stronger market orientation. The US and Canada had not yet seen the real effects of the European Community's agreement reached last February in Brussels. He did not want to see a Federal Republic without farmers. But it had to be realised that each country's agricultural problems differed, as was demonstrated by the different size of farms. The average farm in West Germany was 17 hectares, 27 in France, 75 in the UK and 175 in the US. Agricultural reforms had to be completed in less than 20 years. Progress was being reviewed in the Community. But time was needed for the adjustment needed. The opportunity offered by the MTR needed to be taken to move forward.

On debt, the Chancellor noted that West Germany had forgiven many debts and would forgive more. The Summit Ministers should present an overall concept to the Paris Club so that



each country could proceed differently within the overall framework. He agreed with Mrs. Thatcher that the creditors would not get their money back in many cases. The objective should be to help the LDC to help themselves. They bore much of the responsibility for their present economic misfortunes as a consequence of the mismanagement of their economies.

After reviewing the salient features of the West German economy, Chancellor Kohl welcomed the US/Canada Free Trade Agreement. He concluded his presentation by agreeing that tremendous progress had been made since Williamsburg.

Mr. Mulroney, after noting Chancellor Kohl had said that 20 years was too long for the abolition of agricultural subsidies, asked whether he had a target timetable for their abolition. The Chancellor replied that he had no target in mind. But it was necessary to make determined measures between now and "the next legislative period" (sic).

President Mitterrand said that the previous interventions had echoed his general thinking. He agreed with Mrs. Thatcher that very considerable progress had been made and that results had been achieved. But no doubt difficulties would recur. The Summit countries had developed a level of unity between themselves which had helped produce the good results. He certainly agreed that the President of the United States had stood up against demagogic views of protectionism in the US.

Recalling the changes in economic circumstances in the second cycle, President Mitterrand said that inflation had fallen from 14% to 2.5% with comparable reductions in other countries. Unemployment had however increased, though the rate of increase had slowed. He expected a slow, but sure, fall in unemployment even if there would be no return to "full employment".

President Mitterrand then described some of the structural reforms undertaken by France. For centuries France had had a highly centralised political system based on Paris. His



administration had carried through more decentralisation than France had seen for 5 centuries, so that France was no longer run by a handful of senior civil servants. It was a Socialist administration which had begun in 1981 to dismantle the price control system which had existed under Louis XIV and Napoleon I. As a Socialist he had helped to develop counter powers to state powers. France had given her support for the liberalisation of capital movements.

He had always opposed protectionism which had a long history in France. He believed that a country which was frightened of others would be weak. Europe had decided to abolish frontiers by 1993 for everything, including services and football players - on which he needed to be careful what he said. Nevertheless, protectionism had advanced, though less in Europe than elsewhere. In Europe there were 10 million farmers compared to 2.5 million in the US. Further progress needed to be made in agriculture reforms. At the same time, measures had been taken to prevent social upheavals, like setting fire to town halls, pulling English drivers from their trucks, wine wars with Italy, chicken wars with England and wars with West Germany about beer, which they were insisting should be made according to 16th century requirements. The President said on the English chicken wars, to general laughter, that he did not know why French turkeys always became ill in October, but seemed to be in good health in the rest of the year! Outside Europe, there was still trade tensions, for example with Japan. The former Japanese Prime Minister, Mr. Nakasone, had always presented to the Summit a particular view on human relations. Yet the Japanese economy nonetheless seemed to go on in its old way, closed to some large extent to the rest of the world. These were the considerations which led him to argue that protectionism was still gaining ground, though perhaps to a lesser extent than had been expected.

The President commented that the second cycle of the Summit had established a certain order in international monetary affairs, particularly after 1985. He hoped that this progress



could be continued, through the European Community and the establishment of currency poles in addition to the dollar and the yen. He agreed that the Finance Ministers had taken the right measures after October 19, despite the risk of higher inflation. They had proved the pessimists wrong.

The President then gave his views on the problems of the developing countries. Those countries had two complementary problems - development and debt. On development, aid had fallen though some countries, including France, were trying harder than others to maintain aid flows. Nor had all Summit decisions on aid been fully followed up.

On debt, he paid tribute to those countries that had written off debt. He had not forgotten that the original United Kingdom proposals were similar to those of France. Despite this help, achievements in dealing with debt fell short of expectations. There now needed to be a co-ordinated approach with joint or common measures. After describing our initiative, the President said that the United Kingdom had come forward with constructive proposals. If decisions were not made, France would proceed to write off one third of its debt using the criteria agreed at Venice, in a way which would exclude countries like Brazil and the Ivory Coast. The Paris Club case by case approach was the right way forward. He agreed that each case needed IMF agreement. He accepted the safeguards which Mrs. Thatcher had suggested to him which would prevent money being wasted by spendthrift countries. His proposal applied to all official ODA loans and commercial loans underwritten by the state. Some twenty or so countries would be affected. He did not know whether Nigeria would be included; its debts were very high. Of course, there would be complaints from countries, like Gabon, excluded from the benefits of the scheme. They would argue that they had made great adjustment efforts but were debarred from the benefits. President Mobutu had told him not to make presents to developing nations since they only became used to them. In his view it would not make any difference to the prospects of receiving repayment whether or not Zairian debt was written



off.

Concluding his remarks on the LDCs the President said some countries had been so damaged by falls in commodity prices that it was impossible for them to cope. This made it particularly important for the industrialised countries to do something to help market access for their tropical products. It was a regrettable fact that poor countries had been helping the industrialised countries by repaying some \$35 billion to them.

After complimenting President Reagan and General Secretary Gorbachev, the President said that it seemed much easier to control nuclear weapons than to control poverty. Some 2-3 billion human beings were affected by rain or by the absence of rain. Those people did not have a voice in determining world affairs. Population was growing much too fast in the developing world. With it, there was an increasing fanaticism which led to terrorism. He feared the growth of miniaturized nuclear weapons and he recalled the terrifying sight around Lebanon airport with soldiers walking around with anti-aircraft missiles on their shoulders.

Mr. Mulroney, commenting on President Mitterrand's reference to Gabon, recalled that the President of Gabon had told him that if he had known that Canada was going to forgive debt, he would have made sure that Gabon owed Canada more.

Mr. Takeshita, after noting that the meeting was running rather late, promised to shorten his remarks. He thanked Mrs. Thatcher for her opening review. He recalled the increasing stress on policy co-ordination since he first attended the Summit as Finance Minister. But there was still the problem of the external imbalances. Japan would ensure the continuation of strong domestic demand so that it took root as the motor for growth. They would further open up Japan's markets. One non-tariff barrier was the Japanese language and he called for greater Japanese language training in the other Summit countries.



Mr. Takeshita then gave a brief history of Japan's balance of payments. Between 1945 and 1955 Japan had received development assistance from abroad, mainly from the USA. Between 1955 and 1965 assistance had come from the World Bank. In that period Japan had begun to make aid abroad, partly in the form of war reparations. Between 1965 and 1975 Japan had increased the scale of its assistance to other countries, especially to those in South East Asia. In the last ten or so years there was increasing emphasis on improving the quality of assistance and not just its quantity. After giving details of the Japanese aid programme, Mr. Takeshita said that Japan had little aid expertise of some areas of the world, like the SAHEL, and would welcome advice from other countries with greater experience there. This would be particularly important as Japan switched the emphasis of its aid programme from Asia.

Mr. Takeshita concluded his remarks by hoping that the discussions in the Uruguay Round concerning agriculture would make progress.

Mr. De Mita said that although this was his first Summit, he was aware of the considerable progress made during the second cycle. On the progress of the Italian economy, he referred to the contribution of small firms to economic prosperity and to the particular Italian problems of public debt. The emphasis of Italian economic policy was to prepare their economy for 1992. Mr. De Mita then said that he had difficulty in following the reasoning [presumably of the preceding speakers] on agriculture, trade and the poor [but he did not go on to say why]. The basic problem was that the three enormous powers, Japan, the United States and Europe, were producing more than their markets could consume. Those countries needed to grow in a way that did not cause problems for others. Mr. De Mita then speculated on the effects of removing subsidies from agriculture. The Community needed to examine the consequences of agricultural subsidy on the environment. The main message should be support to producers, not their



products. He agreed with President Mitterrand's suggestion that the Summit should agree a common position on debt, but it was important that debt write-off should be accompanied by general policies to help the developing countries. He referred to proposals which the Italians had brought to the Summit for debt and the environment.

Concluding his remarks Mr. De Mita said that there were differences of opinion over economic issues and the Summit needed a united approach which would come from examining the issues in all their complexity. By looking at the past, the leaders could decide how to go into the future.

M. Delors said that the Summit needed to send a message to the stock and exchange markets. Mrs. Thatcher had provided their answer to a sceptical press. They should demonstrate to the world how matters had improved. He paid tribute to the beneficial effects of the United States' economy.

International co-operation had helped everybody. The Summit needed to convey two other messages. It should explain why October's fall in stock prices had not proved as damaging as had been expected at the time. This was because economies had become more flexible and because of the correct monetary response. The second message concerned trade and exchange rates. There the emphasis needed to be on greater multilateralism, including on agriculture. He agreed that Europe had a lot more to do on agriculture, but if action had not already been taken, the position would have been even worse. The standard of living of farmers had fallen. He agreed with President Reagan's comment that agriculture should increasingly provide raw material for industry.

Turning to the world economy, M. Delors said that the international financial institutions needed to adopt a global method. He then drew attention to three particular factors in the current development of the world economy. First the Single European Market. This was not creating a fortress in Europe. It would contribute positively to international trade and would create some two to five million new jobs in Europe.



He welcomed the US/Canada Free Trade Agreement which demonstrated the globalisation of the world economy. Finally, he agreed that the Newly Industrialised Economies (NIEs) needed to share the burdens and responsibilities of the industrialised countries. He accepted that the NIEs were in different positions, with for example Hong Kong being different from Singapore and from Taiwan.

Mr. Mulroney then said that the Canadian Finance Minister, Mr. Wilson, had joined the discussion so that the meeting could agree a statement which he would read to the press about that afternoon's discussion. Mr. Mulroney proceeded to read the statement. Mrs. Thatcher immediately said that she could agree the statement. So did President Reagan.

Chancellor Kohl asked that the statement should refer to optimism and should emphasise the importance of GATT.

President Mitterrand said that he did not like the reference to market forces in the statement. It also put too much emphasis on agriculture. More generally, he did not like Mr. Mulroney's procedure for agreeing the statement. It should be refined by the Sherpas. M. Delors asked that the statement should recognise the efforts which had already been made to reform agriculture. Mrs. Thatcher thought the statement should refer to renewing and strengthening those efforts. Mr. Takeshita said that he understood that the statement was simply an indication of that afternoon's discussion. Mr. Mulroney said that the statement was his summary and was in the nature of a progress report. It did not bind anyone.

This session then concluded.



FIRST PLENARY SESSION AT THE METROPOLITAN TORONTO CONVENTION  
CENTRE ON MONDAY 20 JUNE

The Session began at 10.15 am. Mr. Mulroney explained that only Heads of State or Government and Finance Ministers were present because Foreign Ministers were still drafting the Political Declaration. He understood that their discussion concerned the Declaration's form, not its substance. Chancellor Kohl pointed out that it had been agreed to have short Declarations. The Declaration should not cover issues not dealt with by the Heads in their discussion. Mr. Mulroney replied that he preferred that the Political Declaration should deal solely with East/West issues in view of the importance of the INF Agreement. Inclusion of regional issues would dilute that message.

Mr. Mulroney then turned the discussion to the economic issues set down for that morning's plenary discussion, namely fiscal policy, structural policy, macro policy and debt. He invited Mr. Wilson, as Chairman of the Finance Ministers to report on their discussion yesterday afternoon.

Mr. Wilson, emphasising that his comments were of a personal nature, referred to the two G7 meetings since the Venice Summit as an illustration of the active co-operation which now existed between Finance Ministers. Although there were challenges ahead, the economic situation was generally good. Imbalances were progressively being corrected, helped by the exchange rate adjustments. The current stability in exchange rates was helpful and further exchange rate changes were generally believed to be unnecessary at the present time for correcting the imbalances. There were some fears about inflation. The use of indicators, to which Finance Ministers had agreed to add a commodity price indicator, would prove a useful tool in warning of prospective inflation. The Finance Ministers' discussion had emphasised structural reform. They planned to exchange information to show the public costs and benefits of such reforms. They also planned to integrate a review of structural reform into the economic co-operation



process.

On trade, Finance Ministers thought the Summit should seek strong signals of support for the Uruguay Round, and for agricultural reform. The approach for the MTR should be to develop short-term options within the long-term framework. It was thought that the US/Canadian Free Trade Agreement could act as a catalyst for the discussion in Geneva. The Single European Market had been welcomed. Such arrangements needed to be structured so that they enhanced the multilateral trading system.

Turning to debt, Mr. Wilson referred to the various options before the Summit. The Finance Ministers had agreed that the Paris Club should be asked to examine technical aspects as soon as possible, for example, to check that there was fair burden sharing. They supported the menu approach and agreed that there should be consideration of any new initiatives before they were launched. There was support for the GCI for the World Bank.

President Reagan referred to the progress made in the world economy since the Venice Summit. The response to the October 19 crash demonstrated that success. Economic prospects were the best for 7 years. He emphasised the need for further structural reform, particularly on tax and deregulation. 50% of the new jobs in the US had been created by entrepreneurs and two-thirds of the jobs created by employees with less than 200 workers. The President then referred to some particular cases of entrepreneurship to make his point.

Mrs. Thatcher said that the President's illustrations had underlined one fundamental change between the first and second cycle of Summits. The first cycle had been concerned with distribution of wealth which had, in some ways, undermined its very creation. The second cycle had concentrated on wealth creation. Mrs. Thatcher concluded her intervention under this



heading by warning that in times of prosperity, spending Ministers always wanted to increase spending. Prime Ministers and Chancellors of the Exchequers needed to insist that they lived within their means. Mr. Mulroney agreed that this was certainly the position in Canada. The Canadians thought that the Government should provide them with anything they wanted. But for 4 consecutive years, the Government had reduced the deficit, the first time this had been done for 40 years.

Mr. Beregovoy said that France too was reducing its deficit though the new French Government's plan for privatisation would make that hard in that it would be deprived of income. There was a new spirit of enterprise in France. The efforts to create suitable international monetary organisation were helpful. He paid tribute to the role of Mr. James Baker, the US Treasury Secretary, since the Plaza Agreement. The key, in both trade and other policies, was to ensure that the major players abided by the rules of the game.

Mr. Delors made three points. First, it was important to reinforce competitiveness by supply side policies. This would reduce unemployment. The Single European Market was relevant here, and he gave figures to demonstrate that point. It should not be thought that a Single Market represented a closed zone. Europe under the German Presidency was proceeding quickly to structural reform, as recent decisions on capital movements, professional qualifications and road transport demonstrated. Second, agricultural reform was an important element in domestic structural reform, though it needed to be carried out in a balanced manner. Finally, Mr. Delors called on Summit countries to help Eastern European countries, in a cautious and prudent way, with the development of their economies. Mr. Mulroney congratulated Mr. Delors for his leadership in preparing Europe for the Single European Market. The Summit's welcome should be reflected in the Economic Declaration.

President Reagan recalled his reforms to reduce bureaucracy in the state Administration when he had been Governor of



California and the efforts that he had sponsored while President, for example, to reduce the time taken to obtain passports. It should never be forgotten that the first cause of bureaucracy was to preserve the bureaucrats' position.

Mr. Lawson noted that the difference between the first and second Summit cycles was demonstrated by the different experience with fiscal policy. Concern during the first cycle had been to produce growth, though in the event only inflation had been generated and growth had been worse. That came from the implementation of the neo-Keynesian prescription of increasing budget deficits. In the second cycle, policy had been reversed. The emphasis then was on reducing budget deficits, so that the UK now had a surplus, which would probably be larger than that he had forecast at Budget time. The UK would never return to a policy of budget deficits. Despite this fiscal prudence, growth had come. This was because of the emphasis on structural reform which provided a climate in which ordinary people could do their best. Certainly there was much more to do, especially on education and housing. In these circumstances fiscal policy took on the new role of keeping inflation down and providing a framework for stability.

In answer to a question from Mr. Mulroney about the definition of fiscal policy in the UK, Mr. Lawson said that the aim was to abolish budget deficits and to reform and reduce the distortions in the tax system. But the two objectives went together: we would not reform the tax structure at the expense of running large budget deficits.

Chancellor Kohl said that the Federal Republic was in the process of rethinking economic policy as his speech last Sunday celebrating 40 years of the Deutschmark had indicated. Experience had been encouraging. Certainly emphasis would continue to be on deregulation and competition. His Government would speak also of the social market economy. Unless economic policy took account of people, and social justice, it would not be a humane policy.



Referring to the Single European Market, Chancellor Kohl said that many of the measures necessary to create it, were controversial, including the DM45 billion tax reduction programme. The German Government were trying to reform the health insurance system and reduce the cost of health provision, despite the doctors' pleas of desperate poverty. Industrialists and trade unionists were joining to stop deregulating postal services but the reform programme would nevertheless be pushed forward. On unemployment, the Chancellor noted that structural unemployment from the farming, coal and shipbuilding sectors represented a difficult problem. Germany like other countries, had major problems of unemployment benefit fraud. Continuing priority would be given to keeping inflation low. Above all, his message was one of confident optimism and of the need to continue to deregulate and to free markets. If Summit countries could set an example, there would be benefits for other countries in Africa, Latin America and elsewhere.

Mr. Takeshita emphasised the importance of policy co-operation. The Japanese growth rate, at 4.9%, was good. The forthcoming privatisation of NTT would provide useful proceeds for reducing tax and increasing public works expenditure. He was confident that domestic demand would continue to lead Japanese growth. He noted the good labour relationships that the Japanese enjoyed. After referring to the play on his name, Mr. Takeshita said that the rise in the yen had helped Japan with its import prices. Structural adjustment was proceeding in the coal and agricultural sectors and emphasis would be placed in the future too on the distribution sector and on tax reform. The Japanese would aim at 3.75% annual growth over the next 5 years. Imports had risen by 35% in dollar terms and 20% in volume terms.

Mr. Baker said that Summit countries now had a political mechanism for the co-ordination of economic policy whether it was called a managed float or an improved exchange rate system. This had been achieved in a way which had not ceded



sovereignty. He believed the arrangements could survive. Mr. Mulroney paid tribute to Mr. Baker's openness in the discussions with Canada's representatives on economic policy.

Mr. Amato agreed with Mr. Lawson's comparison of the first and second cycle of Summits. Italy was planning to reform its taxation system on lines similar to the US reform. He did not agree that every dollar spent by the state was bad. Public expenditure was well spent if it produced jobs. Italy, like the UK, was considering reforming its health services. It admired the health maintenance organisations of the US which introduced competition into the system. Mrs. Thatcher interjected at this point that the Foreign Ministers, who had still not joined the meeting, should be sent the message "speed up or give up". Mr. Mulroney asked the Canadian Sherpa to convey that message.

President Reagan then mentioned an old economist [Kaldron? - phonetics] who had commented that at the beginning of the Roman Empire, tax rates had been low and tax take high; while at its end tax rates had been high and tax take low. This dictum was fully borne out by the dynamic effects of the tax reductions in the US, which had been completely ignored by those who had fought the reductions. The President then gave an anecdote which supported his point. At this point the Foreign Ministers began to join the meeting.

Mr. Beregovoy emphasised the importance of the Single European Market. He agreed the need to reduce tax at the same time as budget deficits were reduced, which was the difficulty faced by the US. They all owed a debt of gratitude for to Mr. Baker for the Plaza Agreement. Growth had to be financed by mobilising capital. This required reductions in interest rates which could only be achieved by careful co-ordination between countries. This co-ordination needed to be based on regulatory mechanisms since it could not be left to free market forces.



Turning the discussion to debt issues, Mr. Mulroney referred to the Canadian Government's forgiveness of debt programme, which had begun last September. This had followed Mr. Lawson's proposal to which new dimensions had been added by President Mitterrand. He hoped that the Summit could now produce a concrete proposal on this heart-rending problem.

Chancellor Kohl agreed with the approach suggested by Mr. Mulroney. Certainly there were problems in achieving agreement now. But there should not be delay. It was essential that agreement should be achieved this year. This should take account of the different backgrounds, especially legal ones, from which the proposals had originated. He believed that the North/South conflict would be the issue of the third cycle. He agreed with Mrs. Thatcher that debtor countries had to help others. Too often they were trapped in corruption and economic mis-management. They must be helped towards self-aid. Aid needed to encompass new dimensions, for example to prevent the environmental catastrophes, like those taking place in Ghana and Zaire, and the desecration of the tropical rain forests. We had to have a global policy for the environment.

Mrs. Thatcher agreed that a clear message on debt should come from the Summit. There had already been too much delay. Two conclusions ought to be obvious. First, aid loans to the poorest countries should be written off. Second, there were various options for Paris Club debt and the Club should be asked to negotiate on the basis that each country took its own route on the understanding that there was fair burden sharing and a cohesive result overall.

Mr. Mulroney then asked Mr. Wilson to bring the meeting up to date on Finance Ministers' discussion of debt. Mr. Wilson said there was not much to add to Mrs. Thatcher's comment. Countries should choose the options - a sort of menu approach - and leave the details to the Paris Club. There was clear urgency. There was a meeting of the Paris Club in July and the Summit should give their discussions momentum.



Mr. Baker agreed with this approach though the United States was in a difficult situation regarding write-off because of Congressional considerations. In any event 97% of US aid was now in grant form. Mr. Stoltenberg commented that unless the industrialised countries opened their markets to the debtor countries, all the efforts to write-off debt would be in vain. It should also be emphasised that the LDCs should do their best to attract private capital. Mr. Amato noted the relationship between reducing a country's debt burden and their future development. He agreed exactly with the approach suggested by Mrs. Thatcher.

At this point Mr. Clark announced that within minutes texts on the Political Declaration and the Chairman's summary of the political discussion would be ready. They would contain no surprises. The Political Declaration would deal with East/West issues, terrorism and narcotics, in much the same language as agreed by the Sherpas. The Chairman's summary would concentrate on the Middle East, South Africa and Cambodia and would indicate that discussions on these issues would continue. Mr. Mulroney concluded the discussion by bringing the session up to date with developments in Haiti.

The Session concluded at about 12.45 pm.



SECOND PLENARY SESSION AT THE METROPOLITAN TORONTO CONVENTION  
CENTRE ON MONDAY 20 JUNE

The Session began at about 3.00 pm.

Mr. Mulroney asked Mr. Takeshita to begin discussion on the Newly Industrialising Economies (NIEs).

Mr. Takeshita said that there was need for dialogue. Unilateral approaches should be avoided. The emphasis should be on taking the NIEs into a partnership for everyone's benefit. Mr. Mulroney then asked for further contributions on the NIEs. There were no volunteers.

Opening the discussion on trade and agriculture, Mrs. Thatcher said that she hoped that there was general agreement to the proposition that there should be progress at the Mid Term Review, with provision for early agreement if that proved necessary. The aim for agriculture should be to freeze and then reduce subsidies. Europe had already taken very considerable steps, including a legally binding regulation, price mechanisms and so on. She had long been struck by the fact that although the developed countries generally forswore policies of permanent subsidisation, they adopted such a policy for agriculture. Certain farmers, such as hill farmers, would need long term help. They should be helped not through price measures but through specific measures which raised their income. The problem was that an increasing share of farmers' income came from subsidies. The damage to Third World countries of rich countries' subsidies was too often ignored. It was important for the Summit to obtain agreement to push forward the process of first freezing agricultural subsidies and then reducing them.

Chancellor Kohl said that no doubt mistakes had been made in the CAP. But over production existed outside Europe as well. The problem differed from country to country. This was demonstrated by the diversity in farm size between the countries in Europe and between Europe and the United States.



If there were further cutbacks, thousands of farms would be affected. In Germany this year alone, some 40,000 farms had been abandoned. The agreed objectives could not be accomplished overnight. They would need four to five years. Political problems were great. It should be remembered that his party had recently lost two elections. He agreed with Mrs. Thatcher's comment about the burden on the Third World; it would not be sensible to write-off Third World debts and then force the countries concerned to build up further debts by denying their products access to our markets.

President Reagan observed that protectionism had not been defeated in the United States. The best way to defeat it was the successful completion of the Uruguay Round in the four years allotted. Muscle had to be placed behind the M.T.M. Certainly, governments had responsibilities to farmers. But this responsibility could be carried out without larger subsidies. In the United States, farmers could often compensate for their lower farm income by taking a second job. The problem was the subsidies to big farmers. He recalled the diversified farms in the Illinois of his boyhood which produced enough food for the family with a cash crop providing for extras. There was some merit in returning to such arrangements. The President concluded his intervention by reminding his colleagues that while he could veto protectionist bills, Congress could override him if he went too far.

After commenting that all governments were sinners when it came to agricultural subsidies, Mr. Mulroney asked Mr. Takeshita to speak. Mr. Takeshita said that Japan's agriculture differed from that of many other countries, partly because of the history of self-sufficiency. But now Japan was the largest importer of agricultural products. Another feature of Japan's agriculture was the small size of the average farm - 1.2 hectares. Japan's policy was to try to increase farm size and competition. Referring to the Producer Subsidy Equivalent (PSE) concept, Mr. Takeshita said that they understood its use as a common index, but were opposed to it



as an indicator or as a measurement of agricultural support though they were still discussing their position in Japan.

Mr. Baker interjected that the Summit leaders were not negotiators. Their task was to point negotiators in the right direction. There was a lot of agreement for short term steps, but these steps had to be consistent with the longer term agreement.

Mr. Bangemann said that a formula would be helpful. This might be to begin with all measures that were detrimental to trade leaving aside for the time being social measures. Progress ought also to be made on such issues as intellectual property and services.

Mr. de Clercq agreed with Mr. Baker's point that the Summit should provide a good political signal. It was important to avoid a clash between the United States and the European Community. Nor was it the task of the Summit to undertake a detailed discussion of substance. He accepted that there was a difference of opinion between the Community and the United States over the emphasis on short term and longer term measures. But it was important to deal with immediate problems without pretending that there would be paradise in ten years' time. There was general recognition that there were hot points which needed to be dealt with. We should start by a freeze and a standstill and then look progressively to roll back. The fire always had to be put out before the house could be built. Mr. de Clercq then recalled various statements made at the Venice Summit, the Punta del Este meeting and at the recent OECD meeting.

Mr. Baker, commenting on Mr. de Clercq's point, said that he may have misunderstood him. The United States' position was that they could not agree on short term steps until they had an agreed commitment for the longer term. Mr. de Clercq replied by referring to the Punta del Este agreement which had never referred to the cancellation of all subsidies.

Mr. Baker retorted that that agreement had called for the

abolition of agricultural distortions "period". We were talking about total elimination. The Punta del Este agreement did not speak about gradual elimination.

Mr. Mulroney, concluding that afternoon's proceedings, suggested that Mrs. Thatcher's statement had made much sense. Agriculture was the only industry which was permanently subsidised. Summit governments did not usually subsidize inefficiency. Chancellor Kohl had drawn attention to the political difficulties. But he (Mr. Mulroney) too was not offended by the notion of getting re-elected. He believed that emphasis on short term steps could be made consistent with longer term agreement. The Montreal MTR must not be an occasion for platitudes. The leaders should give its deliberations a push in the right direction.

The Session concluded at about 4.00 pm.



INFORMAL DISCUSSION OF THE HEADS OF STATE OF GOVERNMENT AT  
HART HOUSE UNIVERSITY OF TORONTO ON MONDAY 20 JUNE 1988

The discussion began at 6.50 pm.

Mr. Mulroney asked President Reagan to open the discussion with his view of the future.

President Reagan said that a bearing on the future could be achieved by looking at the past. He then compared the economic situation at the time of the Montebello Summit with that currently prevailing. There had been a remarkable renaissance. Two factors had helped: various micro policies undertaken by each government and closer international co-operation. The international economy had been revived by reviving the market. The challenges ahead included the impact of new technologies and the increasing integration of world markets.

He recalled his experience in the movie industry. That industry had escaped the ravages of the 1930s depression partly because it was not a protected industry. After the War, employment in the industry had dropped by about one-third in the face of the challenge from television. Thankfully, government had not tried to prevent that fall. The outcome was that the industry itself had responded so that the film industry's employment was now at its old level.

The President referred to the information revolution now underway. The industrial revolution had increased productivity one hundred times. But the micro revolution was increasing productivity in the information technology industries by over one million times. At the same time the globalisation of the market place could not be prevented. If governments erected barriers, markets would find ways around them.

There were two watch-words to the future: co-operation and flexibility. Co-operation was needed both in international



economic and security relationships. A strong world economy would strengthen international security. In passing, President Reagan noted that there were two countries which needed particular help - the Philippines and Afghanistan. The future, too, would belong to the flexible and those who travelled light. The Single European Market and the US/Canada Free Trade Agreement were steps towards this goal. The proof of the power of the flexible was demonstrated by developments in Communist countries. Leaders should always keep in their minds the face of the entrepreneur who never appeared in the history books, but who developed his dream into a business. This had happened in the case of the Wang processor and the Apple computer, and in the case of the man who ran the new restaurant on the corner. Entrepreneurs would be the driving force for the future. Governments could not help them except by keeping out of their way. The future did not lie with the big guy.

President Mitterrand began his intervention on education and training by quoting a 1792 text of Condorcet about the establishment of equality between citizens. This was the first task of education. He then quoted from Elie Wiesel and then from the early 20th century French philosopher Alain (phon?). Basing himself on these quotations, the President said that the acquisition of knowledge was at the centre of life. All knowledge was a factor of human progress, though knowledge was not enough by itself. It was, however, a factor of liberation. Knowledge too was a factor of technical progress. Technical change altered industry. Unless countries modernised, they would find foreigners taking over their markets. Knowledge was a factor in economic progress. For the more people with knowledge, the greater a society's prosperity. Competition could not be supported without knowledge.

The President then stated that the acquisition of knowledge obviously began at school where children started to acquire equality of opportunity. School education needed to last from the age of 3 until 18. Thereafter there would have to be



opportunities for continual adult education with the result that there would be "permanent education". He foresaw the development of universities for senior citizens so that the 65-70 year olds could learn Chinese. The best way of avoiding unemployment was to provide training for our children. Certainly it would cost much money, but civilised countries would accept that expenditure. In France the education budget was in direct competition with the defence budget. This year the education budget would absorb some 20 per cent of the national budget. Too many people were functionally illiterate in France with many people in middle age having forgotten what they learned at school. In France 10 out of a 100 adults were unable to read the daily newspaper or cope with simple mathematics. Half of French citizens did not read even one book a year. Education needed to be made international with exchanges of teachers, of pupils, as well as of exhibitions of pictures and so on. He hoped that the European Community could continue its ERASMUS exchange programme fulfilling the ambition to allow students to continue their education in another country. In this way we would create bridges of knowledge.

Mr. Mulroney commented that projections in Canada suggested that only 7 per cent of the employment would be available to those with less than twelve years of schooling. Canada devoted less money proportionately to research and development. This suggested that there would be great pressures on the national budget. Canada had lived too long on its natural resources to the neglect of its human resources.

Mrs. Thatcher said that in discussions such as these there was always a tendency to oppose what the last speaker had said, if only to get a debate going. She agreed with President Mitterrand's thoughts about knowledge. She then cited Rutherford's words about not knowing the use of splitting the atom, and Faraday's about the use of electricity would be that governments would tax it. She believed that mankind could cope with advancing technology and the need to educate people.



This was supported by the evidence of our forefathers' achievements who had left agricultural life for a world of railways, cars, aircraft and electricity. They had learned to cope with all these things.

Mrs. Thatcher said that she was much more concerned about philosophical and behavioural issues. She did not believe in Rousseau's view of man, but inclined to J.S. Mill's. Too often universities were depositories of knowledge, not of wisdom, filled with people who could not come to decisions. Universities often used intellect to reinforce prejudice.

She had already made the point in the formal session that economies could not be put right unless the attitude of the people was right. In this regard she cited the words of J.B. Priestley that many of us in our youth had been constrained by the force of circumstances, but we had not yet learned to proceed from that constraint to one of self-discipline. The problem there partly reflected the problems of society, partly human nature itself. To give a particular example, how could other cities follow Toronto's example of low crime? How could we proceed to a world where standards were set by agreement? How could we persuade our people to look after their families as happened in India? We used to think that if a country enjoyed good health and prosperity, the problems of the world would be solved. Europe had achieved that goal. But there was still crime and lawlessness. So while she agreed with much that President Mitterrand had said, she could not help arguing with him!

President Mitterrand replied that he too was an anti-Rousseau man. He did not believe that liberty existed in a natural state. Liberty existed only where there were institutions. There needed to be a code [of behaviour] but one which did not become sclerotic. He agreed with the Prime Minister that education was not enough. There was a need for internal wisdom and self-mastery. Yet it was important that knowledge was not confined to narrow groups. Narrow groups abused knowledge and this led to revolution. Knowledge had to be in



the hands of the masses. Though he was not a Marxist, he saw some truth in the Marxist concept of the Lumpenproletariat. But knowledge was not sufficient for liberation by itself.

President Mitterrand then referred to some scientific work that he had seen recently regarding two "filaments", one paternal and one maternal, in cells. These were filled with over three million characters and were some 1 metre 10 centimetres long if stretched out. Japan recognised the importance of understanding that knowledge. That was why she was devoting enormous sums to that area of research. The outcome was inevitable: the knowledge thereby gained would enable Japan to conquer the pharmaceutical industry.

President Reagan said that since people were different, education benefited them in different ways. He cited an example of a boy who had been one of the boat people. Ten years after leaving his boat in the Vietnam Sea, without a word of English language, he had won a scholarship to Harvard and was now at Dartmouth University Medical School studying to become a doctor. He believed that education should be available to all, but we should recognise the freedom of the individual to choose how to use his education.

Mr. Mulroney said that this had been a unique discussion for an Economic Summit.

The Heads of State or Government then adjourned for dinner at 7.55 pm.

CONCLUDING PLENARY SESSION AT THE METROPOLITAN TORONTO  
CONVENTION CENTRE AT 10.30 AM ON TUESDAY 21 JUNE 1988

The Session began at 10.30 am. It had before it the draft of the Economic Declaration dated 07.00 a.m., 21 June 1988. Mr. Mulroney took the meeting through the paragraphs one by one.

Paragraphs 1-4

These paragraphs were agreed.

Paragraph 5

Mr. Amato said that the phrase that employment had continued to expand was too optimistic for Italy. He suggested that the words "to a different degree in the various countries" should be added to the sentence. Mr. Mulroney proposed the word "generally" should be included in the sentence. The paragraph was agreed on that basis.

Paragraph 6

This was agreed.

Paragraph 7

Mrs. Thatcher suggested that the words "We need to maintain vigorous action against and resurgence of inflation" should be included after the second sentence. The paragraph was agreed with this inclusion.

Paragraphs 8-14

These paragraphs were agreed (though after some initial hesitation by President Mitterrand in the case of paragraph 12).



Paragraph 15

Mrs. Thatcher suggested the opening sentence should read: "We warmly welcome the free trade agreement and the steady progress ...". Mr. Mulroney said that he preferred the word "strongly" or in French "avec grande satisfaction". He suggested too that the word "catalyse" should be included before "the liberising impact" at the end of the paragraph. The paragraph was agreed on the basis of the amendment suggested by Mr. Mulroney.

Paragraphs 16-17

These paragraphs were agreed.

Paragraph 18

Mr. Wilson explained that the European Community preferred the first bracket and the United States the second, which Finance Ministers generally (though in Mr. de Clercq's absence) had supported. The intention of the last square bracket was to give a clear signal to the negotiators. Mr. Baker would have preferred the word "commitment" to have been inserted into the language. Finance Ministers would have preferred too to talk of "abolition of trade restrictions" though the softened language was acceptable to them. Mr. de Clercq said that the first bracket was short, clear, concise and well-balanced. The second bracket was unbalanced, and not in accord with the Punta del Este Agreement. There was no reason to single out agriculture. The Punta del Este declaration was a global one. Mr. Bérégovoy said that neither bracket was acceptable to France. All that was necessary for the Declaration was already in paragraph 19. President Mitterrand said that the passage was written in a language whose interpretation was not available at the Summit - Double Dutch. Chancellor Kohl understood President Mitterrand's objections, but he could nevertheless agree to the first bracketed sentence. Canada and the US should accept that there had been real sacrifices



in the Community's Brussels Agreement. Mrs. Thatcher commented that apart from the passages on debt, these sentences were at the heart of the communique. The issue was a simple one: were Summit countries prepared to take more action and further steps to reform agriculture? Surely the answer was yes. She recognised that agriculture was different, but this was only because governments had made it so. She agreed with Mr. de Clercq that the first sentence was clear. It was a passive sentence indicating that governments did not intend to do anything more. On the next sentence the US had dropped its reference to its long-term goal of abolition of subsidies and to the requirement for a specific commitment. She wondered whether the inclusion of the words "inter alia" before the word "reduction" might help. She feared that there would be a bad press if the first sentence was adopted. She had thought that Chancellor Kohl had yesterday indicated that further action was required. It was relevant that Europe still had a PSE higher than the US's. President Reagan associated himself with Mrs. Thatcher's position. He could see the press summation - Summit failed on the real issues.

Chancellor Kohl said, with some emphasis, that he agreed that action should have been taken ten years ago. But agricultural reform involved people. If governments tried to go too fast, the single European market of 1992 could be jeopardised. In fact, there was a good story to tell the press. The Community had decided to bring down agricultural production. This had already affected his votes in elections. Nothing could be accomplished overnight. The first bracket might perhaps be rephrased to tighten it up. But he could not accept the second bracket. Mr. Andreotti supported Chancellor Kohl's position. Mr. de Clercq then suggested a redraft. During confused discussion, Mr. Baker said that the US's objective remained the total elimination of trade distorting practices, though they were not insisting on the inclusion of the target of 2000 in the text. After M. Delors had suggested that the disagreement should be reflected in the declaration, Chancellor Kohl suggested that Mr. de Clercq and Mr. Wilson



should put together words which reflected the discussion. This was agreed. Paragraphs 18 and 19 were left in abeyance for the time being.

Paragraphs 20-21

These paragraphs were agreed.

Paragraph 22

President Reagan asked that the square brackets should be removed in view of the Philippines' need for help. Their security position was difficult with a Communist insurgency in their country. It was important for all Summit countries that the Philippines remained a democracy. President Mitterrand objected strongly to removal of the square bracket. Many countries were in the same position as the Philippines. Mr. Andreotti supported President Mitterrand. He had seen mention of a special plan for the Philippines, which Mrs. Aquino had told him was called "the mini-Marshall plan" The mouse in the square brackets certainly did not amount to that. It might be better to have a special paragraph for the Philippines. It would be a great political mistake if the Philippines was not mentioned. President Reagan referred again to the Philippines' strategic position, its importance for international sea lanes and its proximity to the Soviet base, originally built by the US, in Vietnam. The Communist insurgency was increasing in strength and could menace the US Philippines bases in the Philippines. President Mitterrand said that the Philippines had not been mentioned during the preparations for the Summit. France had no commitment or involvement with that country. The Philippines was not in the NATO area. The text was completely unacceptable.

Mr. Uno, supporting the removal of the square brackets, said that the Foreign Ministers had agreed that the Philippines should be mentioned in the Economic Declaration. After further interventions by Mr. Andreotti, Mr. Stoltenberg said that the text did not merit the controversy which it was



engendering. President Reagan agreed that the Summit was making too much of the matter. Mr. Clark suggested that a sentence should be included which read "In particular there is a need to encourage countries, the Philippines among others, which are making a difficult transition to democracy." Chancellor Kohl, Mrs. Thatcher and Mr. Takeshita signified assent. Mr. De Mita supported President Mitterrand's point that the Heads of Government should have been warned that the issue of the Philippines was going to be raised. The Philippines was certainly not a unique country, but it was an exceptional one. A positive sign of encouragement would be consistent with all that had been said at the Summit. President Mitterrand repeated that he could not understand why the Philippines was a special case. Similar reasoning could be applied to Argentina.

After further discussion, it was agreed that Mr. Clark should draft a sentence which reflected the discussion.

#### Paragraphs 23-29

These were agreed.

#### Paragraph 30

Mr. Lawson asked for the removal of "or budgetary" in the third sentence. Mr. Baker objected. Mr. Lawson then suggested a redraft of the last sentence. Later in the discussion Mr. Miyazawa asked for the inclusion of the words "otherwise to remove the burden" into the last sentence. The sentence was agreed on the basis that it read: "We also welcome the action taken by a number of creditor governments to write off or otherwise remove the burden of ODA loans, and also urge countries to maintain a high grant element in their future assistance to the poorest." Mr. Lawson then withdrew the first amendment (to laughter, particularly from Mr. Baker). Mr. Amato, after making a point reflecting the labyrinthine complexities of Italian finances, suggested a substantial redraft of the second sentence. His point was



made by Mr. Lawson's suggestion that the word "usually" should be included in the sentence. On this basis, paragraph 30 was agreed.

Paragraph 31-32

These were agreed.

Paragraph 33

Mr. Genscher asked for a reference to the North Sea. Mrs. Thatcher said that if the North Sea was mentioned, problems of Rhine pollution merited attention. After discussion, it was agreed to include a reference to "air, sea and fresh water pollution". The paragraph was agreed on this basis.

Paragraph 34

This paragraph was agreed as drafted.

Paragraphs 18-19

Discussion then returned to paragraphs 18 and 19 on the basis of a text proposed by Mr. Wilson and Mr. de Clercq. Mr. Baker objected to the words "taking into consideration the diversity of our agricultural situations ...". In his view, this represented a step back. He could accept the sentence if the reference "taking into consideration" was removed. Chancellor Kohl and Mr. Bérégovoy were prepared to accept the sentence, as originally drafted, on the basis that it was a compromise. Mr. Baker said that he preferred the original first square brackets to the so-called compromise. Mrs. Thatcher said that she could accept the sentence, but wondered whether replacement of "taking into consideration" by "noting the diversity" might not meet Mr. Baker's point. M. Delors suggested as an alternative "given the diversity". After telephoning his advisers outside the meeting, Mr. Baker accepted the phrase "noting, among other things, the

diversity....". Paragraphs 18 and 19 were agreed on that basis.

Paragraph 22

Following the tabling of a further draft by Mr. Clark of the last sentence of paragraph 22, that paragraph was agreed on the basis that the original paragraph should conclude after "developing countries" and that a new sentence should be added at the end of the paragraph, "Several countries find themselves in that situation in various regions of the world: Latin America, Africa and the Pacific, particularly the Philippines, and that merits our special attention." Paragraph 22 was agreed on that basis.

While waiting for Mr. Clark to return with his sentence on the Philippines, Mr. Takeshita asked, after noting that his statement was not part of the plenary, that countries should co-operate in making the Seoul Olympics a success.

The concluding session finished at 1.30 p.m.



UNCLASSIFIED

FM FCO

TO IMMEDIATE WASHINGTON

TELNO 1068

OF 271515Z JUNE 88

INFO IMMEDIATE EC POSTS, TOKYO, OTTAWA, UKREP BRUSSELS  
INFO IMMEDIATE UKDEL OECD, UKMIS GENEVA, UKMIS NEW YORK  
INFO IMMEDIATE UKDEL IMF/IBRD, BERNE, STOCKHOLM, OSLO, HELSINKI  
INFO IMMEDIATE VIENNA, CANBERRA, WELLINGTON  
INFO PRIORITY SEOUL, HONG KONG, SINGAPORE, KUALA LUMPUR  
INFO PRIORITY REYKJAVIK, NEW DELHI, ISLAMABAD, DHAKA, ANKARA  
INFO PRIORITY PEKING, BANGKOK, JAKARTA, MANILA, CAIRO, DAKAR  
INFO PRIORITY FREETOWN, ACCRA, LAGOS, KINSHASA, HARARE, LILONGWE  
INFO PRIORITY KAMPALA, NAIROBI, LUSAKA, ADDIS ABABA, MAPUTO  
INFO PRIORITY DAR ES SALAAM, KHARTOUM, RIYADH, CARACAS, BRASILIA  
INFO PRIORITY MEXICO CITY, MONTEVIDEO, BIS BUENOS AIRES, SANTIAGO

MY TELNO 1046: TORONTO SUMMIT

LINE TO TAKE

GENERAL

1. A HIGHLY SUCCESSFUL MEETING, WHICH UNDERLINED THE EFFECTIVENESS OF ECONOMIC POLICIES PURSUED IN THIS SECOND SEVEN-YEAR CYCLE OF SUMMITS THAT TORONTO CONCLUDED. LEADERS EXPRESSED THEIR CONFIDENCE IN THE PERFORMANCE OF THE WORLD ECONOMY, AND COMMITTED THEMSELVES TO CONTINUE SOUND POLICIES.
2. UK VIEWS FULLY REFLECTED IN COMMUNIQUE. WE PARTICULARLY WELCOME THE AGREEMENTS ON DEBT, DRUGS AND TERRORISM. WE NOW NEED TO BUILD ON THESE ACHIEVEMENTS IN THE ORGANISATIONS CONCERNED. COMMUNIQUE LANGUAGE ON TRADE AND AGRICULTURE ALSO POINTS WAY TOWARDS MAKING PROGRESS AT GATT MID TERM MEETING IN MONTREAL THIS DECEMBER.

MACROECONOMIC ISSUES

3. CLEAR REAFFIRMATION THAT PRESENT MACROECONOMIC POLICIES ARE RIGHT. EXISTING ARRANGEMENTS FOR COORDINATION ARE WORKING (CF CAPACITY OF WORLD ECONOMY TO ABSORB SHOCK OF OCTOBER STOCK MARKET COLLAPSE). LEADERS AGREED TO CONTINUE THEIR EFFORTS TO REDUCE EXTERNAL BALANCES, WITH MAJOR SURPLUS AND DEFICIT COUNTRIES ALL PLAYING THEIR PART (PARA 7 OF COMMUNIQUE: TORONTO TELNO 15 REFERS). THEY WARNED OF THE NEED TO MAINTAIN VIGILANCE AGAINST ANY RESURGENCE OF INFLATION.

STRUCTURAL REFORM

4. LEADERS COMMITTED THEMSELVES (PARAS 9 AND 10 OF COMMUNIQUE) TO CONTINUE STRUCTURAL REFORM: SPECIFIC PRIORITIES FOR EACH



COUNTRY WERE SET OUT IN THE ANNEX TO THE COMMUNIQUE. UNNECESSARY REGULATIONS AND BARRIERS TO BUSINESS MUST BE REMOVED IN ORDER TO PROMOTE EFFICIENCY, ENTERPRISE AND COMPETITION AND PROVIDE (PARA 9) THE BASIS FOR MORE ROBUST GROWTH.

#### TRADE AND AGRICULTURE

5. TORONTO GAVE FRESH IMPETUS TO GATT NEGOTIATIONS. LEADERS GAVE FIRM COMMITMENT (PARA 14) TO RESIST PROTECTIONISM AND TO ROLL BACK AGRICULTURAL SUPPORT. THEY ATTACHED (PARA 16) PARTICULAR IMPORTANCE TO STRENGTHENING GATT DISCIPLINES, AND DISPUTE SETTLEMENT PROCEDURES.

6. THEY ALSO REAFFIRMED THE PUNTA DEL ESTE AGREEMENT TO ALLOW FOR EARLY AGREEMENT WHERE APPROPRIATE, AND SPECIFICALLY RECOGNISED (PARA 19) THAT THE GATT MID TERM MEETING COULD TAKE CONCRETE DECISIONS IF ANY ISSUES WERE RIPE FOR THIS.

7. LEADERS AGREED (PARA 18) THAT 'A DEVICE FOR THE MEASUREMENT OF SUPPORT AND PROTECTION' (IE LIKE THE OECD'S PRODUCER SUBSIDY EQUIVALENT) WOULD FACILITATE A FRAMEWORK APPROACH ON AGRICULTURE. THEY SUPPORTED SUCH A FRAMEWORK WHICH SHOULD INCLUDE SHORT TERM OPTIONS AS WELL AS LONGER TERM OBJECTIVES, CONCERNING THE REDUCTION OF ALL FORMS OF DIRECT AND INDIRECT SUBSIDIES AND PROTECTION FOR AGRICULTURE.

#### DEBT

8. DISCUSSIONS CONCENTRATED ON HOW TO HELP THE POOREST DEBTOR COUNTRIES. SINCE HIS INITIATIVE IN APRIL LAST YEAR, THE CHANCELLOR OF THE EXCHEQUER HAS TAKEN THE LEAD IN PRESSING FOR ACTION ON DEBT RELIEF FOR AFRICA. UK VERY PLEASED THAT HIS PROPOSALS, AND SUBSEQUENT VARIATIONS BY OTHER COUNTRIES, WERE WELCOMED (PARA 30) BY ALL LEADERS AT TORONTO. NEGOTIATION ON TECHNICAL DETAILS NOW FALLS TO THE PARIS CLUB. WILL OFFER REAL BENEFITS TO POOREST AND MOST INDEBTED SUB-SAHARAN AFRICAN COUNTRIES (INCLUDING SOME COMMONWEALTH MEMBERS, THOUGH THE LIST REMAINS TO FINALISED) SO LONG AS THEY HAVE INTERNATIONALLY AGREED PROGRAMMES OF ECONOMIC REFORM.

#### NEWLY INDUSTRIALISING ECONOMIES

9. LEADERS RECOGNISED (PARA 21) THAT THE ASIAN NIES DIFFER IN MANY IMPORTANT RESPECTS: URGED THEM TO ACCEPT MORE OBLIGATIONS IN THE GATT: AND ENCOURAGED THE DEVELOPMENT OF AN INFORMAL CONSTRUCTIVE DIALOGUE WITH THEM. OECD NOW CONSIDERING QUESTION.

10. NOT A CONTENTIOUS ISSUE AT TORONTO.

#### DRUGS

11. LEADERS APPROVED IMPORTANT NEW STEPS TO INTENSIFY COOPERATION IN THE FIGHT AGAINST DRUGS (PARAS 16 AND 17 OF POLITICAL COMMUNIQUE: TORONTO TELNO 8 REFERS).

12. UK WILL CONTINUE TO EXTEND ITS NETWORK OF BILATERAL



AGREEMENTS FOR MUTUAL ASSISTANCE IN TRACING, FREEZING AND CONFISCATING THE PROCEEDS OF THE DRUGS TRADE AND CURBING THE LAUNDERING OF DRUG MONEY.

13. GUIDANCE ON TERRORISM IN MIFT (NOT TO ALL).

ADDITIONAL POINTS

14. Q. SUMMITS UNEXCITING, POINTLESS?

A. AS COMMUNIQUE SAYS (PARA 4), SUMMITS AN EFFECTIVE FORUM TO PROMOTE NEW IDEAS AND DEVELOP COMMON SENSE OF PURPOSE, AS WELL AS TO ADDRESS TOPICAL ISSUES. RESULTS EVIDENT OVER TIME RATHER THAN IMMEDIATELY. VALUABLE INFORMAL OPPORTUNITY TO DEVELOP CLOSE RELATIONS BETWEEN G7 LEADERS WHICH MUST ENHANCE COOPERATION. SUCCESS DOESN'T MAKE MEDIA HEADLINES. TORONTO WAS ONE OF THE BEST SUMMITS IN UK'S VIEW.

15. Q. LEADERS COMPLACENT?

A. CERTAINLY NOT. LEADERS RESOLVED TO TACKLE THE OUTSTANDING PROBLEMS WHICH REMAIN. COMMUNIQUE WARNS OF NEED FOR VIGILANCE AGAINST INFLATION AND CONTINUED ACTION ON TRADE IMBALANCES AND BUDGET DEFICITS. ALSO PRESSURE FOR MORE TO BE DONE ON MICROECONOMIC SIDE.

16. Q. WHY SO LITTLE ABOUT TRADE IMBALANCES?

A. ADJUSTMENT OF US/FRG/JAPAN IMBALANCES IS UNDERWAY AS A RESULT OF ACTIONS ALREADY TAKEN. NEED MORE OF THE SAME, NOT DIFFERENT POLICIES.

17. Q. DID SUMMIT COUNTRIES AGREED ON CONCERTED ACTION TO RAISE INTEREST RATES?

A. NO. ALL AGREED ON NEED TO KEEP INFLATION DOWN. INTEREST RATES NOT THE ONLY INSTRUMENT FOR DOING THIS.

18. Q. SECTION ON STRUCTURAL REFORM POINTS FINGER AT GERMANY?

A. WE ALL NEED TO UNDERTAKE MICROECONOMIC REFORMS TO IMPROVE THE WORKING OF OUR MARKETS. ACTION IN EC CLEARLY OF HIGH PRIORITY, AND A CENTREPIECE OF THE PROGRAMME FOR ACHIEVING A SINGLE EUROPEAN MARKET BY 1992.

19. Q. WHY NO AGREEMENT ON TOTAL ELIMINATION OF AGRICULTURAL SUPPORT?

A. UNREALISTIC. MUST AIM FOR PROGRESSIVE REDUCTION OF SUPPORT. STERILE TO ARGUE ABOUT COMPLETION DATES INSTEAD OF GETTING ON WITH IT A STEP AT A TIME. EUROPEAN COUNCIL DECISIONS EARLIER THIS YEAR AN IMPORTANT FIRST STEP, BUT ALL NEED TO DO MORE.

20. Q. MORE DETAILS ON AFRICAN DEBT RELIEF?

A. WILL BE WORKED ON IN PARIS CLUB. BUT CAN CONFIRM THAT UK CONTRIBUTION WILL TAKE FORM OF REDUCING INTEREST RATES ON RESCHEDULED DEBT. WE SHALL PRESS VIGOROUSLY FOR PARIS CLUB AGREEMENT BY END-YEAR DEADLINE.



21. Q. WHAT ABOUT MIDDLE-INCOME DEBTORS?

A. LEADERS REAFFIRMED (PARA 23) CASE-BY-CASE APPROACH, AND ENCOURAGED FURTHER DEVELOPMENT OF MARKET-ORIENTED INNOVATIVE FINANCING TECHNIQUES, WHICH IN SOME CASES HAVE ALREADY REDUCED THE ORIGINAL STOCK OF DEBT.

22. Q. JAPANESE PLAN FOR DEBT RELIEF FOR MIDDLE-INCOME DEBTORS?

A. FINANCE MINISTERS AGREED TO GIVE IT FURTHER CAREFUL STUDY. (IF PRESSED) BUT MUST NOT CONFUSE ROLES OF GOVERNMENTS/IFIS AND COMMERCIAL BANKS, TO WHOM MOST OF THE DEBT IN THESE COUNTRIES IS OWED.

23. Q. WHY SO LITTLE DISCUSSION OF NIES AT TORONTO?

A. OECD MINISTERS AGREED IN MAY ON PRINCIPLE OF INFORMAL CONTACTS. MODALITIES NOW BEING STUDIED BY OECD WORKING GROUP. SUMMIT DID NOT WANT TO PRE-EMPT GROUP'S CONCLUSIONS. IMPORTANT DIFFERENCES BETWEEN KOREA/TAIWAN AND FREE-TRADING OPEN HONG KONG/SINGAPORE.

24. Q. WHAT DID DEVELOPING COUNTRIES GAIN FROM SUMMIT?

A. A LANDMARK AGREEMENT ON AFRICAN DEBT RELIEF WHICH FOLLOWS OTHER INITIATIVES THIS YEAR, SUCH AS THE IMF'S ENHANCED STRUCTURAL ADJUSTMENT FACILITY WHICH WILL HAVE REAL IMPACT ON DEBT BURDENS OF POOREST AND MOST INDEBTED COUNTRIES IN AFRICA AND ELSEWHERE. SUMMIT COUNTRIES ALSO COMMITTED THEMSELVES TO ENSURE MORE OPEN MARKETS FOR DEVELOPING COUNTRIES' EXPORTS.

25. Q. UK AID PROGRAMME LAGGING?

A. IT IS INCREASING IN REAL TERMS, IS OF HIGH QUALITY AND FOCUSED ON THE POOREST. ANY UK CONTRIBUTION TO CONCESSIONARY INTEREST RATES IN THE PARIS CLUB FOR THE POOREST AND MOST INDEBTED AFRICAN COUNTRIES WILL BE FINANCED THROUGH A FURTHER INCREASE IN THE AID PROGRAMME.

HOWE

YYYY

DISTRIBUTION

278

MAIN 240

.ECONOMIC SUMMIT  
STANDARD  
ERD (-)  
ECONOMIC ADVISERS

EED  
UND  
LEGAL ADVISERS  
MAED



UNCLASSIFIED

176547  
MDHOAN 9171

FED  
NAD  
ECDS  
COMED  
PLANNERS  
SOVIET

SCD  
NCAD  
MR CARRICK  
MR MCLAREN  
SIR D MIERS

ADDITIONAL 38

ECONOMIC SUMMIT

NNNN

*pl file*

CONFIDENTIAL

167135  
MDHOAN 8935

CONFIDENTIAL

FM FCO

TO IMMEDIATE WASHINGTON

TELNO 1046

OF 231130Z JUNE 88

INFO IMMEDIATE EC POSTS, TOKYO, OTTAWA, UKREP BRUSSELS  
INFO IMMEDIATE UKDEL OECD, UKMIS GENEVA, UKMIS NEW YORK  
INFO IMMEDIATE UKDEL IMF/IBRD, BERNE, STOCKHOLM, OSLO  
INFO IMMEDIATE HELSINKI, VIENNA, CANBERRA, WELLINGTON  
INFO PRIORITY SEOUL, HONG KONG, SINGAPORE, KUALA LUMPUR  
INFO PRIORITY REYKJAVIK, NEW DELHI, ISLAMABAD, DHAKA  
INFO PRIORITY ANKARA, PEKING, BANGKOK, JAKARTA, MANILA  
INFO PRIORITY CAIRO, DAKAR, FREETOWN, ACCRA, LAGOS, KINSHASA  
INFO PRIORITY HARARE, LILONGWE, KAMPALA, NAIROBI, LUSAKA  
INFO PRIORITY ADDIS ABABA, MAPUTO, DAR ES SALAAM, KHARTOUM  
INFO PRIORITY RIYADH, CARACAS, BRASILIA, MEXICO CITY  
INFO PRIORITY MONTEVIDEO, BIS BUENOS AIRES, SANTIAGO

UKDEL TORONTO TELNO 15: TORONTO SUMMIT 19-21 JUNE

SUMMARY

1. A GOOD MEETING. SUMMIT LEADERS STRONGLY REAFFIRMED THE VALIDITY OF EXISTING MACROECONOMIC POLICIES, WHICH HAVE BROUGHT SUSTAINED GROWTH WITH LOW INFLATION, HIGHER INVESTMENT AND MORE JOBS. EMPHASIS ON STRUCTURAL REFORMS TO REMOVE UNNECESSARY CONTROLS AND REGULATIONS AND BARRIERS TO TRADE.
2. UK OBJECTIVES SECURED ON SUB-SAHARAN AFRICAN DEBT, DRUGS AND TERRORISM. AGREEMENT THAT GATT DISCIPLINES SHOULD BE STRENGTHENED. SATISFACTORY OUTCOME ON AGRICULTURE, WITH EC AND US NOT STANDING ON MAXIMALIST POSITIONS.

DETAIL

3. HEADS OF STATE OR GOVERNMENT DISCUSSED WORLD ECONOMIC PROSPECTS ON THE FIRST EVENING: THE PRIME MINISTER OPENED AT MR MULRONEY'S INVITATION. LEADERS DISCUSSED THE POLITICAL AGENDA OVER DINNER AND, FOLLOWING FURTHER NEGOTIATION OF THE TEXT BETWEEN FOREIGN MINISTERS, ADOPTED THE SUMMIT POLITICAL DECLARATION ON THE AFTERNOON OF 20 JUNE. TEXT IN TORONTO TELNO 8, NOW REPEATED TO CERTAIN POSTS.
4. ALSO ON 20 JUNE, LEADERS DISCUSSED MACROECONOMIC POLICY, STRUCTURAL ADJUSTMENT AND DEBT (MORNING): TRADE, AGRICULTURE, AND THE NEWLY INDUSTRIALISING ECONOMIES (AFTERNOON) AND DRUGS AND THE ENVIRONMENT IN THE EVENING. ON 21 JUNE THEY ADOPTED THE TORONTO ECONOMIC DECLARATION. TEXT IN TORONTO TELNO 15.

PAGE 1  
CONFIDENTIAL



CONFIDENTIAL

167135  
MDHOAN 8935

5. FOREIGN AND FINANCE MINISTERS MET SEPARATLY ON 19 JUNE AND THE MORNING OF 20 JUNE. FOR THE RECORD OF FOREIGN MINISTERS' OPENING SESSION ON 19 JUNE SEE TORONTO TELNO 14 (NOT TO ALL). FINANCE MINISTERS SPENT MUCH OF THEIR TIME ON AFRICAN DEBT ISSUES, AND REACHED AGREEMENT UPON AN APPROACH THAT COMMITS ALL SUMMIT PARTICIPANTS TO FURTHER MEASURES OF DEBT RELIEF, WITH DETAILS TO BE WORKED OUT RAPIDLY IN THE PARIS CLUB IN A WAY THAT WILL ENSURE COMPARABILITY BETWEEN THE VARIOUS OPTIONS.

6. THE FOLLOWING ACCOUNT OF SUMMIT DISCUSSION OF THE ECONOMIC AGENDA IS STRICTLY FOR YOUR INFORMATION. IN CONTACTS WITH THE PRESS YOU SHOULD BE GUIDED BY FURTHER TELEGRAM TO FOLLOW SHORTLY (AND BY TEXTS OF MINISTERIAL

PRESS BRIEFINGS WHICH WE ARE FAXING TO CERTAIN POSTS).  
MACROECONOMIC ISSUES AND STRUCTURAL ADJUSTMENT

7. HEADS OF GOVERNMENT AGREED THAT THE SECOND 7 YEAR CYCLE THAT TORONTO NOW CLOSES HAD SEEN AN ENORMOUS IMPROVEMENT IN THE MANAGEMENT OF THE WORLD ECONOMY. IN HER OPENING REMARKS, THE PRIME MINISTER COMPARED THE EMPHASIS DURING THE FIRST SUMMIT CYCLE (1975-81) ON THE DISTRIBUTION OF WEALTH, THE ACCOMMODATION OF INFLATION, SHORT-TERM EXPEDIENCY AND FINE TUNING WITH THE EMPHASIS IN THIS SECOND CYCLE ON THE CREATION OF WEALTH, THE CONTROL OF INFLATION, STRUCTURAL ADJUSTMENT AND RELEASING THE ENERGIES OF THE PRIVATE SECTOR. INDUSTRIALISED COUNTRIES HAD SUCCESSFULLY WEATHERED LAST OCTOBER'S STOCK MARKET COLLAPSE BECAUSE THEY HAD GOT THE ECONOMIC FUNDAMENTALS RIGHT. THIS ANALYSIS WAS STRONGLY ENDORSED BY REAGAN, KOHL, MITTERRAND AND DELORS, AND IS REFLECTED IN THE OPENING PARAGRAPHS OF THE DECLARATION.

8. TAKESHITA SAID THAT JAPAN WOULD ENSURE THAT DOMESTIC DEMAND TOOK ROOT AS THE MOTOR FOR GROWTH, SO AS TO REDUCE EXTERNAL BALANCES FURTHER. REAGAN CONCENTRATED ON TAX REFORM, STRUCTURAL ADJUSTMENT AND US SUCCESS IN DEREGULATING AND CREATING NEW JOBS. MITTERRAND REAFFIRMED HIS SUPPORT FOR ANTI-INFLATIONARY POLICIES, DECENTRALISATION AND LIBERALISATION OF CAPITAL MOVEMENTS IN FRANCE AND THE EC. DELORS STRESSED THE IMPORTANCE OF SUPPLY SIDE POLICIES TO REDUCE EMPLOYMENT: THE SINGLE EUROPEAN MARKET WOULD NOT (REPEAT NOT) BE A CLOSED FORTRESS. MULRONEY AND THE PRIME MINISTER SAID THAT PUBLIC SPENDING MUST BE RESTRAINED DESPITE THE EXPECTATIONS THAT PROSPERITY BROUGHT ABOUT.

9. ON BEHALF OF FINANCE MINISTERS, WILSON (CANADA) REPORTED A HEALTHY WORLD ECONOMIC SITUATION: THE PROGRESSIVE CORRECTION OF IMBALANCES, HELPFUL EXCHANGE RATE ADJUSTMENTS (WITH NO NEED FOR FURTHER CHANGES), A STRONGER GROWTH THAN FORECAST, AND INFLATION STILL SUBDUED. BUT HE DREW ATTENTION TO THE NEED FOR FURTHER

PAGE 2  
CONFIDENTIAL



CORRECTION OF IMBALANCES IN BOTH SURPLUS AND DEFICIT COUNTRIES, AND TO RENEWED FEARS OF INFLATION IN SOME COUNTRIES. HE STRESSED THE IMPORTANCE OF COOPERATION BETWEEN SUMMIT COUNTRIES ON STRUCTURAL REFORM. THE GENERAL MESSAGE WAS THAT SUMMIT COUNTRIES MUST PERSEVERE WITH AND STRENGTHEN EXISTING MACRO AND MICRO POLICIES. COMMUNIQUE DRAFTING WAS UNCONTENTIOUS.

TRADE AND AGRICULTURE

10. TRADE ISSUES AS SUCH RECEIVED RELATIVELY LITTLE ATTENTION. THE PRIME MINISTER STRESSED THE NEED TO MAKE PROGRESS IN THE MID TERM MEETING (MTM) IN MONTREAL IN DECEMBER, REMINDED HER COLLEAGUES THAT THE 1986 PUNTA DEL ESTE DECLARATION PROVIDED FOR EARLY AGREEMENTS WHERE POSSIBLE, AND SAID THAT GATT DISCIPLINES SHOULD BE STRENGTHENED. PARA 16 OF THE COMMUNIQUE REFLECTS UK LANGUAGE ON GATT, AND PARA 14 INCORPORATES A REFERENCE TO EARLY AGREEMENTS. WE ALSO SECURED A RENEWED COMMITMENT TO STANDSTILL AND ROLLBACK (AGAINST US OPPOSITION SINCE THEY RIGHTLY SAW THIS AS CRITICISM OF THEIR RECENT DECISION TO BRING FARMLAND BACK INTO CULTIVATION). WE HELPED THE CANADIANS TO OBTAIN THE STRONGER ENDORSEMENT THEY WANTED FOR THEIR FREE TRADE AGREEMENT WITH THE US.

11. AS PREDICTED, AGRICULTURE WAS THE MOST CONTENTIOUS ITEM. THE PRIME MINISTER DEFENDED THE EUROPEAN COUNCIL DECISIONS AS A GOOD START TO REFORM: SAID THAT PERMANENT SUBSIDIES FOR AGRICULTURE WERE UNACCEPTABLE, BUT THAT THE US PROPOSAL FOR THE COMPLETE ELIMINATION OF ALL SUPPORT FOR AGRICULTURE BY 2000 WAS BRAVE BUT UNATTAINABLE: COMMENDED THE OECD'S WORK ON MEASURING ALL FORMS OF SUBSIDY: AND ADVOCATED A SHORT TERM AGREEMENT AT THE MTM TO FREEZE AND THEN REDUCE SUBSIDIES.

12. THE US AND EUROPEAN COMMISSION CLASHED, THOUGH WITHOUT UNDUE ACRIMONY, BOTH IN PLENARY AND COMMUNIQUE DRAFTING. THE COMMISSION REJECTED QUOTE ZERO/2000 UNQUOTE AS IMPRACTICAL AND NOT PROVIDED FOR AT PUNTA, WHICH SPOKE ONLY OF QUOTE PHASED REDUCTIONS UNQUOTE. NOR WOULD THEY AGREE TO SINGLE OUT AGRICULTURE AS AN ISSUE REQUIRING CONCRETE ACTION AT THE MTM, THOUGH THEY WERE READY TO ACCEPT A FREEZE ON SUBSIDIES AS A PRELUDE TO THEIR REDUCTION. WITH STRONG SUPPORT FROM KOHL, THEY ALSO STRESSED THE DIVERSITY OF EUROPEAN AGRICULTURE. THE US BEGAN BY INSISTING ON AGREEMENT ON THE OBJECTIVE OF TOTAL ELIMINATION OF ALL SUPPORT AS A PRECONDITION FOR THEIR ACCEPTING SHORT TERM ACTION. MITTERRAND, LIKE KOHL, CAUTIONED AGAINST TRYING TO FORCE THE PACE OF REFORM, WHILE ACCEPTING ITS NEED. THE JAPANESE AGAIN SAID THEY WERE DIFFERENT, BUT PROMISED FURTHER LIBERALISATION AND APPEARED TO ACCEPT THE OECD'S MEASURING DEVICE OF FARM SUPPORT.



CONFIDENTIAL

167135  
MDHOAN 8935

13. AFTER LENGTHY DISCUSSION ON THE FINAL DAY, THE OUTCOME WAS VERY SATISFACTORY FOR THE UK. THE US DROPPED ITS INSISTENCE ON TOTAL ELIMINATION, AND THE EC, IN PRACTICE. ITS INSISTENCE ON THE QUOTE GLOBALITY UNQUOTE OF THE GATT NEGOTIATIONS. WHILE PARA 18 OF THE COMMUNIQUE DOES NOT SPECIFICALLY REFER TO THE ADOPTION OF MEASURES OF AGRICULTURAL REFORM AT THE MTM, PARA 19 (UNLIKE LAST MONTH'S DECD COMMUNIQUE) USEFULLY ALLOWS FOR CONCRETE MTM DECISIONS IN PARTICULAR AREAS OF THE NEGOTIATIONS.

DEBT

14. PARAGRAPH 30 OF THE COMMUNIQUE, ON THE DEBT OF THE POOREST AND MOST DEBT-DISTRESSED COUNTRIES (IN PRACTICE THOSE IN SUB-SAHARAN AFRICA) IS A BREAKTHROUGH FOR THE INITIATIVE THAT THE CHANCELLOR FIRST LAUNCHED IN APRIL 1987. IT SETS THE PARIS CLUB AN END-YEAR DEADLINE TO REACH AGREEMENT ON THE DETAILS, IN A WAY THAT ENSURES FAIR BURDEN-SHARING BETWEEN THOSE WHO LIKE THE UK WILL REDUCE INTEREST RATES ON RESCHEDULED OFFICIAL (MOSTLY EXPORT CREDIT) DEBT: THOSE WHO LIKE FRANCE WILL WRITE OFF PART OF THE DEBT ITSELF: AND THOSE WHO LIKE THE US WILL STILL CHARGE COMMERCIAL RATES BUT AGREE TO LONGER REPAYMENT PERIODS. YOU SHOULD NOT BE DRAWN BEYOND THE TEXT OF PARAGRAPH 30, AND IN PARTICULAR YOU SHOULD NOT SPECULATE ON THE PRECISE EXTENT OF THE INTEREST RATE CUT THAT THE UK WILL APPLY, OR PRECISELY HOW BURDEN-SHARING WILL BE CALCULATED. BUT POSTS, ESPECIALLY IN AFRICA, SHOULD REMIND THEIR HOST GOVERNMENTS THAT THIS WAS A BRITISH INITIATIVE, WHICH WE HAVE PURSUED TENACIOUSLY FOR OVER A YEAR DESPITE CONSIDERABLE SCEPTICISM FROM MANY OTHER CREDITORS. AS NECESSARY, THEY SHOULD ALSO DRAW ATTENTION TO THE CONDITION THAT COUNTRIES MUST BE FOLLOWING APPROVED ADJUSTMENT PROGRAMMES IN ORDER TO QUALIFY FOR THESE REAL BENEFITS. POSTS SHOULD ALSO NOTE THAT THE CONVERSION OF AID LOANS INTO GRANTS, REFERRED TO IN THE FINAL SENTENCE OF THIS PARAGRAPH, PICKS UP ANOTHER OF THE CHANCELLOR'S PROPOSALS.

15. IT WILL BE IMPORTANT TO RING-FENCE THE LIST OF COUNTRIES ELIGIBLE. FINANCE MINISTERS AGREED TO BASE THEMSELVES ON WORLD BANK CRITERIA FOR THE SPECIAL ACTION PROGRAMME, WHICH COVER POVERTY, INDEBTEDNESS AND ADJUSTMENT. BUT AS YET THERE IS NO (NO) FIRM AGREED LIST OF COUNTRIES BASED ON THESE CRITERIA.

16. THE JAPANESE DID NOT PRESS THEIR IDEAS FOR SOME FORM OF IMF, IBRD OR GOVERNMENTAL GUARANTEE OF DEBT OWED BY MIDDLE INCOME DEBTORS TO THE COMMERCIAL BANKS. THE CHANCELLOR, BAKER AND STOLTENBERG COUNSELLED CAUTION. THE COMMUNIQUE REAFFIRMS THE EXISTING CASE BY CASE APPROACH.

17. THERE WAS NO DISCUSSION OF AID TARGETS (IN PARTICULAR, THE UN TARGET OF 0.7 PER CENT OF GDP).

PAGE 4  
CONFIDENTIAL



CONFIDENTIAL

167135  
MDHOAN 8935

NEWLY INDUSTRIALISING ECONOMIES

18. AGAIN, ALMOST NO DISCUSSION. PARAGRAPH 21 OF THE COMMUNIQUE WAS UNCONTENTIOUS. THE PROPOSED INFORMAL DIALOGUE WITH THE ASIANS IS UNDER DISCUSSION IN THE OECD, AND NOTHING SAID AT TORONTO PREJUDICES HONG KONG'S POSITION.

OTHER ISSUES

19. THE GERMANS SPOKE STRONGLY ABOUT ENVIRONMENTAL CONCERNS BUT DID NOT SEEK ANY AMENDMENTS OF NOTE TO THE COMMUNIQUE, THOUGH THEY RAISED POLLUTION IN THE NORTH SEA.

20. WASHINGTON: PLEASE PASS TO PS/MRS CHALKER

HOWE

YYYY

DISTRIBUTION 279

MAIN 240

ECONOMIC SUMMIT  
STANDARD  
ERD (-)  
ECONOMIC ADVISERS  
FED  
NAD  
ECDS  
COMED  
PLANNERS  
SOVIET

EED  
UND  
LEGAL ADVISERS  
MAED  
SCD  
NCAD  
MR CARRICK  
MR MCLAREN  
SIR D MIERS

ADDITIONAL 39

ECONOMIC SUMMIT

OCMIAN 0302

NNNN



RESTRICTED

171031  
MDADAN 1311

ADVANCE COPY

RESTRICTED  
FM TOKYO  
TO IMMEDIATE FCO  
TELNO 634  
OF 240830Z JUNE 88  
INFO ROUTINE WASHINGTON, UKREP BRUSSELS, OTTAWA, UKDEL OECD  
INFO ROUTINE UKDEL HANNOVER  
INFO SAVING PARIS, BONN, ROME, UKMIS GENEVA

TORONTO SUMMIT: JAPANESE PRESS REACTIONS

SUMMARY

1. THE JAPANESE PRESS SEE THIS OVERALL AS A SUCCESSFUL, IF NOT SPECTACULAR, SUMMIT. JAPAN IS SEEN AS HAVING PLAYED AN IMPORTANT PART IN THE ECONOMIC DEBATE, BUT CARRIED LESS WEIGHT IN THE POLITICAL DISCUSSIONS. JAPAN'S EMERGING ROLE AS ASIAN SPOKESMAN NOTED. TAKESHITA THOUGHT TO HAVE DONE CREDITABLY, ROUNDING OFF HIS INITIATION IN DIPLOMATIC AFFAIRS, AS HIS ENERGIES NOW RETURN TO DOMESTIC TAX AND AGRICULTURAL REFORMS.

DETAIL

2. THE JAPANESE MEDIA PORTRAY TORONTO AS A GENERALLY HARMONIOUS AFFAIR, AND MUCH EASIER FOR JAPAN THAN RECENT SUMMITS. ON THE MAIN ECONOMIC ISSUES OF STRUCTURAL ADJUSTMENTS, AGRICULTURE, THE NIES, ODA AND DEBT, THE SUMMIT IS SEEN AS HAVING GONE SAFELY WITHOUT HAVING BROKEN MUCH NEW GROUND. ON MACROECONOMIC POLICY IT IS NOTED THAT JAPAN WAS PRAISED WHILE CRITICISM OF THE US WAS MUTED OUT OF CONSIDERATION FOR PRESIDENT REAGAN AT HIS LAST SUMMIT. BUT THE GENERAL VERDICT IS THAT INTERNATIONAL COORDINATION IS WORKING REASONABLY WELL.

3. THE OUTCOME ON AGRICULTURE IS SEEN AS SATISFACTORILY PROTECTING THE JAPANESE POSITION IN THE URUGUAY ROUND, SINCE REFERENCE TO PSES IS QUALIFIED: MOST REFLECT FINANCE MINISTER MIYAZAWA'S PORTRAYAL OF AGRICULTURE IN THE GATT AS ESSENTIALLY AN ISSUE BETWEEN THE NORTH AMERICANS AND THE EUROPEANS. REPORTING ON THE SUMMIT WAS ALMOST OVERSHADOWED BY COMMENTARY ON THE FUTURE OF JAPANESE AGRICULTURE AFTER THE US-JAPAN AGREEMENT ON BEEF AND CITRUS, WHICH IS SEEN AS HAVING MUCH MORE FUNDAMENTAL IMPLICATIONS THAN THE GATT ROUND NEGOTIATION.

4. THE EMERGENCE OF THE NIES AS A TOPIC IS SEEN AS A FEATURE OF THIS SUMMIT, AND THE COMMUNIQUE LANGUAGE AS OWING A LOT TO JAPANESE VIEWS.



SEVERAL PAPERS COMMENT ON JAPAN'S ROLE VIS-A-VIS ASIA. THE YOMIURI SUGGESTS THAT JAPAN IS SHIFTING AWAY FROM BEING THE SOLE ASIAN AT SUMMITS TO BEING ASIA'S SUMMIT REPRESENTATIVE. SOME EDITORIALS SUGGEST THAT THE ECONOMIC DECLARATION IS UNBALANCED IN WELCOMING THE US-CANADA FREE TRADE ZONE AND EUROPEAN SINGLE MARKET WHILE IMPLICITLY CRITICISING EAST ASIAN ECONOMIC VITALITY, AND THAT IT WILL BE JAPAN'S ROLE IN FUTURE TO ACT AS A BUFFER TO AMERICAN AND EUROPEAN PRESSURE ON EAST ASIA. ON AID AND DEBT THE FRAME WORK AGREEMENT ON DEBT RELIEF MEASURES FOR THE LLDCS WAS GIVEN A WELCOME. IT WAS NOTED THAT TAKESHITA HAD RAISED THE IMPORTANCE OF ASIAN AS WELL AS SUB-SAHARAN AFRICAN COUNTRIES IN THIS CONTEXT. THE PAPERS GENERALLY AGREE THAT JAPAN'S OWN INITIATIVES HAD BEEN USEFUL AND TAKEN SERIOUSLY BY OTHER COUNTRIES.

5. HOWEVER, SEVERAL PAPERS ALSO SOUND A WARNING NOTE ABOUT COMPLACENCY. THE NIKKEI CONTINUING A CONSISTENTLY DISSIDENT THEME IN ITS EDITORIALS, SAYS THE RESOLVE TO TACKLE EXTERNAL IMBALANCES EXPRESSED AT THE TOKYO AND VENICE SUMMITS HAS VIRTUALLY DISAPPEARED, IN SPITE OF BLACK MONDAY. DISCUSSION OF THE AMERICAN DEFICIT IN TORONTO IT SUGGESTS WAS INADEQUATE: THE AMERICANS NEED TO EXERT MORE EFFORT NOW THOUGH THE PAPER CONCLUDES THIS IS UNLIKELY. IT ALLEGES THAT POLICY COORDINATION AMONGST SUMMIT PARTICIPANTS IN PRACTICE DOES NOT EXTEND MUCH BEYOND COORDINATED EXCHANGE RATE INTERVENTIONS. ALTHOUGH THE IMBALANCES REMAIN, 'UNTIL THERE IS ANOTHER CRISIS, COORDINATION WILL CONTINUE TO SLEEP'.

6. ON THE POLITICAL SIDE, THE JAPANESE PRESS SEE THE SOVIET UNION AS HAVING DOMINATED DISCUSSION. THEY WELCOME THE RECOGNITION IN THE POLITICAL DECLARATION OF THE PROGRESS MADE IN EAST/WEST RELATIONS SINCE VENICE. BUT JAPANESE COMMENTATORS NOTE THAT PRIME MINISTER TAKESHITA WAS MORE CAUTIOUS THAN HIS COLLEAGUES IN GIVING GORBACHEV CREDIT FOR CHANGING SOVIET FOREIGN POLICY. TAKESHITA'S STATEMENT THAT PERESTROIKA HAS NOT YET MADE ITS INFLUENCE FELT IN ASIA IS WIDELY QUOTED. THE REFERENCE IN THE DECLARATION TO THE SOVIET MILITARY BUILD-UP IN THE FAR EAST AS A MAJOR SOURCE OF INSTABILITY IN ASIA IS SEEN AS REFLECTING THE CONCERNS OF THE JAPANESE GOVERNMENT. THE JAPANESE PRESS REGARD IT AS SIGNIFICANT THAT TAKESHITA RAISED THE RETURN OF THE OCCUPIED NORTHERN TERRITORIES

THEY SEE THIS AS AN ATTEMPT TO STRENGTHEN JAPAN'S BARGAINING POSITION WITH THE RUSSIANS BY RALLYING WESTERN SUPPORT FOR JAPAN'S CLAIMS. SEVERAL PAPERS NOTE WITH APPROVAL THAT YOU RAISED THIS ISSUE WITH THE RUSSIANS EARLIER THIS YEAR.



RESTRICTED

17107  
MDADAN 13

7. THE JAPANESE PRESS GAVE TAKESHITA A CREDITABLE PASS MARK FOR HIS PERFORMANCE AT HIS FIRST SUMMIT. THERE IS SOME IMPLICIT CRITICISM OF TAKESHITA FOR HAVING FAILED TO SECURE THE INCLUSION IN THE POLITICAL DECLARATION OF ANY SPECIFIC REFERENCE TO THE REGIONAL ISSUES OF SPECIAL CONCERN TO JAPAN (EG CAMBODIA, THE PHILIPPINES AND KOREA) EVEN THOUGH THE SUMMIT PARTICIPANTS DECLARED THEIR SPECIAL INTEREST IN THE COUNTRIES OF EASTERN EUROPE. FOR THE JAPANESE PRESS THIS SHOWS THAT THE SUMMIT REMAINS ESSENTIALLY A TRANS-ATLANTIC FORUM AND THAT THERE IS STILL A LONG WAY TO GO BEFORE JAPAN CAN PLAY A ROLE IN POLITICAL DISCUSSION AT THE SUMMIT COMPARABLE TO HER CENTRAL POSITION IN THE DEBATE ABOUT ECONOMIC ISSUES.

FIELD

YYYY

DISTRIBUTION

5

ADVANCE

5

.ECONOMIC SUMMIT  
MR CARRICK  
MR N WICKS, NO 10 D.S.

HD/ERD  
HD/PLANNERS

F

NNNN



PAGE 3  
RESTRICTED

UNCLASSIFIED

165526  
MDHIAN 4573

PS TO PRIME MINISTER  
NO 10 DOWNING ST

UNCLASSIFIED

FM PARIS

TO IMMEDIATE FCO

TELNO 636

OF 231117Z JUN 88

INFO ROUTINE WASHINGTON, BONN, ROME, TOKYO, OTTAWA, UKREP BRUSSELS

TORONTO ECONOMIC SUMMIT: FRENCH PRESS REACTIONS

SUMMARY

1. EXTENSIVE PRESS COVERAGE OF THE TORONTO ECONOMIC SUMMIT, WITH PARTICULAR EMPHASIS PLACED ON AGRICULTURAL SUBSIDIES, DEBT AND EAST WEST RELATIONS. REAGAN'S DEPARTURE SEEN AS MARKING THE END OF AN ERA.

DETAIL

ECONOMIC SUBJECTS

2. THERE HAS BEEN EXTENSIVE COVERAGE IN THE FRENCH PRESS IN THE LEAD UP TO, DURING AND AFTER THE TORONTO ECONOMIC SUMMIT. REPORTING HAS BEEN LARGELY FACTUAL, WITH THE EMPHASIS ON AGRICULTURE AND DEBT. WITH LITTLE DISSENSION TO FOCUS ON AT THE SUMMIT, THE PRESS CONCENTRATED ON THE STRAINS ON AGRICULTURE, BOTH WITHIN THE COMMUNITY AND BETWEEN THE COMMUNITY AND NORTH AMERICA. BUT THERE IS SATISFACTION THAT THE COMMUNITY POSITION HELD AND THE OVERALL RESULT IS SEEN, FOR EXAMPLE BY LE MONDE, AS A COMPROMISE BETWEEN THE TWO CAMPS. THE COMMUNIQUE LANGUAGE ON DEBT FOR THE POOREST IS SEEN AS A STEP FORWARD AND - INEVITABLY - A REFLECTION OF MITTERRAND'S IDEAS.

3. AMONG THE MORE THOUGHTFUL PAPERS, TRIBUNE DE L'EXPANSION HIGHLIGHTS THE DEBATE ON AGRICULTURAL SUBSIDIES AND THIRD WORLD DEBT AS THE KEY ISSUES OF THE SUMMIT. ON AGRICULTURE, THE EC'S POSITION IS SEEN AS REINFORCED IN THE COMMUNIQUE TEXT BY RECOGNITION OF THE DIVERSITY OF NATIONAL AGRICULTURAL CIRCUMSTANCES AND THE NEED FOR A GLOBAL APPROACH IN THE MONTREAL MTD: THE LATTER, SAYS TRIBUNE, WILL PREVENT AGRICULTURE BEING SINGLED OUT FOR SPECIAL, POTENTIALLY DAMAGING, ATTENTION. LES ECHOS UNDERLINES THE DIFFICULTY OF THE NEGOTIATIONS WHICH PRECEDED AGREEMENT ON THE SUMMIT TEXT ON AGRICULTURE, AND THE ROLE PLAYED BY DELORS IN PRESENTING THE EC'S CASE AGAINST THE US OPTION ZERO. LE FIGARO POINTS TO DIFFERENCES BETWEEN EC MEMBERS ON HOW 'ANTI-SUBSIDY' THE COMMUNIQUE LANGUAGE ON AGRICULTURE SHOULD BE, THE UK HOLDING OUT FOR SOMETHING MUCH NEARER THE US POSITION THAN THE FRENCH, AT THE OTHER EXTREME, COULD CONTEMPLATE.

4. THE DEBT OF THE POOREST WAS EXTENSIVELY TREATED IN THE RUN UP TO

PAGE 1  
UNCLASSIFIED



AND DURING THE SUMMIT, WITH ANALYSES OF THE POSITIONS OF THE MAIN PARTICIPANTS. THE COMUNIQUE LANGUAGE ON DEBT FOR THE POOREST IS WIDELY NOTED AND IS REGARDED AS A WELCOME, IF EXPECTED, SUCCESS FOR THE SUMMIT. INEVITABLY, IT IS SEEN AS OWING MUCH TO MITTERRAND'S PRE-SUMMIT INITIATIVE, AND HIS DESCRIPTION OF IT AS THE SUMMIT'S MOST INTERESTING ADVANCE, AND BEREGOVY'S AS 'A MESSAGE OF HOPE', ARE WIDELY QUOTED.

#### POLITICAL SUBJECTS

5. HERE TOO PRESS COVERAGE IS, FOR THE MOST, FACTUAL. LONG ARTICULES IN THE LEADING PAPERS GIVE A FULL ACCOUNT OF THE POLITICAL DECLARATIONS. EDITORIAL COMMENT CONCENTRATES ON EAST/WEST RELATIONS. A LE MONDE ARTICLE ENTITLED 'REDUCE MISTRUST' REFERS TO THE SUMMIT 'DRAWING UP AN ASSESSMENT OF THE MOST IMPORTANT IMPROVEMENT IN EAST/WEST RELATIONS EVER SEEN IN SUCH A SHORT PERIOD'. HOWEVER, LE MONDE ARGUES THAT GORBACHEV GOT A MIXED BAG OF BOUQUETS AND BRICK-BATS FROM THE SEVEN OVER DISARMAMENT, AFGHANISTAN AND EASTERN EUROPE. THE EDITORIAL ENDS WITH A REFERENCE TO CONVENTIONAL DISARMAMENT NEGOTIATIONS: IT FEARS THAT THE WEST, PARTICULARLY THE EUROPEAN MEMBERS OF THE ALLIANCE, WILL FAIL TO ADOPT A UNITED FRONT ON A SUBJECT WHICH IS 'MORE VITAL FOR THEIR SECURITY THAN EURO-MISSILES'.

6. SEVERAL PAPERS REFER TO GORBACHEV AS THE MISSING STAR OF THE SUMMIT. LIBERATION SAYS THAT HE WAS SALUTED BY THE WESTERN LEADERS AS 'REAL REFORMER WITH WHOM LINKS SHOULD BE REINFORCED'. AN EDITORIAL IN FIGARO ECHOES THIS, POINTING OUT THAT THE SEVEN'S REFERENCE TO 'GREATER FREEDOM AND OPENNES' IN THE SOVIET UNION IS A PAT ON THE BACK FOR GORBACHEV.

7. OTHER POLITICAL SUBJECTS RECEIVE SCANT TREATMENT. LIBERATION CLAIMS THAT THE SEVEN WERE DIVIDED ON SOUTH AFRICA (PARTICULARLY ON THE SHARPEVILLE SIX) AND ON CONDEMNING ISRAEL FOR ITS POLICY IN THE OCCUPIED TERRITORIES. IT ALSO CLAIMS THAT THERE WAS DISAGREEMENT ABOUT WHETHER TO MENTION THE KEY ROLE THAT SIHANOUK COULD PLAY IN A CAMBODIAN SETTLEMENT. THE SEVEN'S DECLARATION ON TERRORISM RECEIVES ALMOST NO COVERAGE.

8. MOST PAPERS NOTE THAT THIS WAS REAGAN'S LAST SUMMIT. LE MONDE IN A COMMENT COLUMN ENTITLED 'END OF AN ERA' NOTES THAT AMERICAN DOMINANCE OF THE SUMMITS MAY FADE INTO HIS DEPARTURE, AND THAT TORONTO CONFIRMED THE COMMUNITY AND JAPAN AS TWO NEW POLES OF INFLUENCE.

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

23 June 1988

Dear Charles,

EDD  
23/6

Thank you for your letter of 22 June enclosing the text of the Prime Minister's statement to the House on the Toronto Economic Summit. The following points have been suggested to me, but I have obviously not had a chance to consult the Foreign Secretary, who has been at Cabinet.

- 1) page 8, second tirect: delete "better balance of conventional forces at a lower level" and replace with "reduction of the massive Soviet conventional threat in Europe and Asia";
- 2) page 8, insert new last tirect: "- encouraged the countries of Eastern Europe to open up their economies and societies";
- 3) page 9, insert after "terrorism and hijacking": "We expressed support for practical work underway in the International Civil Aviation Organisation to strengthen international protection against hijacking";
- 4) page 9, insert after "both Houses of the Canadian Parliament": "and had talks with the Canadian Prime Minister".

I gather that the first paragraph on page 7 on trade debt is not quite right, but that the Treasury are preparing a revision.

The department have pointed out that you have made no mention of the Chairman's statements on the Middle East, Southern Africa and Cambodia. I assume that this is intentional.

Yours ever,

(A C Galsworthy)  
Private Secretary

C D Powell Esq  
10 Downing Street

CONFIDENTIAL



PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. 7950/88



10 DOWNING STREET  
LONDON SW1A 2AA

SUBJECT CO OPS  
MASTER

THE PRIME MINISTER

23 June 1988

Dear Brian,

May I thank you most warmly for inviting me to visit Ottawa following the Toronto Economic Summit, and for the very kind and generous welcome extended to me during that visit. It was a particular honour to be invited to address the Canadian Parliament for a second time and I am of course writing to thank the Speakers of the House and Senate. From some of the subsequent comment, I conclude that at the least my speech was not dull!

I very much enjoyed our talk over lunch at your house and will reflect on the points which you made. You kindly said that you would let me know as soon as there were any developments on the matter of the submarines.

May I also take the opportunity to congratulate you most warmly on the success of the Toronto Economic Summit. I should be very grateful if you would pass on my gratitude and appreciation to all those responsible for the practical arrangements which were outstandingly good.

And finally: thank you so much for the beautiful and elegant Inuit carvings which I am delighted to have.

Warm regards to you and Aida.

Yours ever

Margaret

The Right Honourable Brian Mulroney, M.P.



file

ea

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

23 June 1988

PRIME MINISTER'S VISIT TO CANADA

I enclose the Prime Minister's thank-you letter to Mr. Mulroney for her recent visit to Canada. I should be grateful if the text could be telegraphed to the High Commission in Ottawa for delivery today.

(CHARLES POWELL)

Lyn Parker, Esq.,  
Foreign and Commonwealth Office.





Foreign and Commonwealth Office

London SW1A 2AH

23 June 1988

N Wicks Esq CBE  
10 Downing Street


*Jean Forster*

SUMMIT SUPPLEMENTARIES

/ 1. As promised, I enclose a full set of supplementaries for the Prime Minister's statement on the Summit this afternoon. A copy also goes to our Parliamentary Relations Unit who will additionally be sending it over to No 10 in the usual way.

*Yours ever,*  
*Tom*

T L Richardson  
Economic Relations Department



1. GENERAL

- Highly successful Summit.

- Confidence justified. But Summit leaders were not complacent about the world economy. More to be done but we are on the right course.

- Would single out agreements on debt, drugs and terrorism as particular achievements at Toronto.

2. FOREIGN POLICY ISSUES

(A) East-West Relations

Purpose of another statement on East-West?

Common interpretation of developments in East-West relations a crucial challenge for West. Economic summits a unique forum for shared views and policies going beyond both EC and NATO: glad to see declaration supported much of our own stress on realism as basis of policy, while welcoming changes in the Soviet Union.

Declaration underestimates progress in East-West relations/depth of change in Soviet Union?

Statement gives balanced over-view of East-West relations. Welcomes impressive progress so far (Afghanistan, INF). Product of resolution and unity of West. Right also to highlight remaining problems (conventional imbalance, Soviet military build-up in Far East, human rights). Must not lower guard or make unwarranted concessions.

(B) Terrorism

What is work underway in ICAO (International Civil Aviation Organisation)?

Includes measures to investigate future hijackings, to offer



assistance to countries dealing with hijackings, and to strengthen security guidelines. As the statement makes clear, a fourth proposal to endorse the principle that hijacked aircraft should not be allowed to take off once they have landed, except in specific circumstances, has been adopted by the ICAO Council.

What are Montreal and Rome agreements?

The Montreal Protocol for the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation extends the provisions of the Montreal Convention (which makes an offence of activities likely to endanger the safety of an aircraft in service to international airports). Rome agreement is the IMO Convention on the Suppression of Unlawful Acts against the Safety of Maritime Navigation.

Statement hypocritical in light of French deals involving hostages?

French Government assure us they have paid no ransom to hostage takers and release of their hostages will not change policy towards the area. Summit statement expresses position of all seven countries.

Statement meaningless - Kuwaiti airline hijackers still free?

Deplore the fact that hijackers and murderers in this incident went free. That is why our initiative in ICAO, which was endorsed by Summit Seven, included steps to encourage countries not party to the Hague Convention to become so (which obliges them to prosecute or extradite hijackers) and to seek to keep hijacked aircraft on the ground once landed so that there is a better chance of apprehending the hijackers.

(C) Arab-Israel

Point of Arab-Israel statement?

Reaffirmation of international concern at Arab-Israel dispute.

Focus on best way forward - international conference; support for continuing US effort.

(D) Iran-Iraq

Point of Iran-Iraq statement?

Reiterated commitment to seeking settlement based on Security Council resolution 598 and to any necessary follow-up resolution to secure implementation. Expressed appreciation of Secretary General's efforts. Renewed commitment to upholding principle of freedom of navigation in Gulf.

Chemical Weapons?

Condemned use of chemical weapons in Iran-Iraq conflict. Foreign Secretary made specific proposals in his speech to UN Special Session on Disarmament to bolster authority of 1925 Geneva Protocol and facilitate automatic international response to alleged CW use.

Ballistic missile proliferation in the Middle-East?

Deplored proliferation of ballistic missiles in region. Proliferation a serious threat to regional and world security. We welcome internationally agreed measures to curb spread of these missiles.

Integration of UK/Belgian/Netherlands Minesweeping forces in the Gulf?

- Aware of press reports about developing cooperation of UK/Belgian/Netherlands minesweeping forces. Discussions have been taking place between naval experts.
- [If integration has been approved]: an announcement will be made shortly.
- [If no decision has been made] Remains under consideration.



(E) South Africa

Will you make further appeal for Sharpeville Six?

Legal process not yet exhausted. So premature to make further bilateral representations. Our appeals for clemency stand. Naturally hope they will be heeded.

Pressure for sanctions?

Remain firmly opposed to sanctions. Would not help end apartheid.

Angola/Namibia/Cairo talks?

Strongly support negotiations. Hope all involved will show necessary flexibility to bring peace to Angola and independence to Namibia.

(F) Cambodia

Point of statement?

Summit Leaders, who had received a message before the Summit from Prince Sihanouk, agreed on the need to see the withdrawal of all foreign troops and a negotiated settlement in Cambodia.

3. WORLD ECONOMY

How good has performance of world economy actually been?

- Growth of real GDP in major countries has averaged over 3 per cent a year for past 6 years. Longest period of economic expansion since the war.

- Inflation in major countries averaged over 10 per cent at start of 1980s. Current rate is 3 per cent.

Unemployment remains high?

- Considerable falls in unemployment since 1980-82 recession. Particularly in US and UK - the countries which have done most to deregulate their economies.

- Way to reduce unemployment further is not through so-called expansionary macroeconomic policies, but through market-oriented microeconomic reform to improve overall economic performance.

Growth now too fast. Risk of renewed inflation?

- There has been no pick up in consumer price inflation; average rate in major seven unchanged, at 3 per cent, for over a year.

- Summit countries agreed on need to remain vigilant against resurgence of inflation. Will pursue policies to maintain downward pressure on inflation.

Was yesterday's  $\frac{1}{8}$  rise in interest rates coordinated with the Bundesbank at the Summit?

- No.

Implications of rise in commodity prices?

- Reflects recent strong growth in world economy, but also special factors, eg drought in parts of US.

- One reason for keeping a watchful eye on inflation.

- But must not exaggerate risk of acceleration in consumer prices; largest increases have been in industrial materials prices which are only small part of total costs; oil prices have not increased; domestic (mainly labour) costs have not



accelerated; rise in commodity prices has been from exceptionally low levels.

#### Trade imbalances

- Trade deficit of US and surpluses of Japan and Germany now falling, particularly as a proportion of GNP. Further significant reductions in prospect.

#### No New Agreements on International Policy Cooperation?

- Procedures for cooperation between G7 working well, as developments since October stockmarket collapse demonstrate.
- Summit endorsed policies of G7 to stabilise exchange rates.
- Japan and Germany pledged to sustain momentum of domestic demand growth to reduce their current surpluses; US to reduce growth of domestic demand relative to output.

#### 4. STRUCTURAL ADJUSTMENT

##### Why such emphasis on structural reforms?

- Undertook in communique to pursue further structural reform.
- Reforms to deregulate markets and allow market forces to operate more freely are the key to sustainable growth.
- Improvement in UK's economic performance in 1980s owes much to Government's policies of deregulation, privatisation, tax reform and reduction etc.

##### Surely microeconomic reform is a domestic issue?

- Market-oriented policies must include open trading system. Vital to maintaining competitive stimulus for industry, wide choice for consumers and profitable opportunities for exporters.

- Scope for further structural reform in all Summit countries. Useful to exchange experiences.

- Structural reforms can contribute to reducing current account imbalances, eg by stimulating domestic demand and import growth in Japan and Germany.

#### What should Japan do?

- Undertook (in communique annex) to pursue further structural reform.

- In particular, should:

- continue its market opening policies.

- reduce protection of agriculture and relax controls on land use in order to free more land for residential construction.

#### What should Germany do?

- Communique (Annex) gave details of various elements of Germany's structural reform.

- Should include:


- reduction in subsidies to declining industries;

- more extensive deregulation of service industries. (In other countries these have been major sources of employment growth).

#### 5. NEWLY INDUSTRIALISING COUNTRIES

- As I have said, we urged these countries to accept more obligations in the GATT. We also encouraged the development of an informal, cooperative dialogue with them, recognising that their economies differ in many important respects.





## 6. TRADE AND AGRICULTURE

- Summit has given real boost to GATT negotiations. Leaders gave firm commitment to resist protectionism and to tackle the serious problems affecting world agriculture.
- They also reaffirmed the Punta del Este agreement to allow where appropriate for early results in the negotiations and they specifically recognised that the Mid Term Meeting of GATT in Montreal in December could take concrete decisions if any issues were ripe for this.

### What is new?

- What we now have is firm commitment to reform of agriculture - both long and short term, in a framework approach directed towards the reduction of all forms of subsidies; and clear instructions to the negotiators in Geneva to get on with it.
- We also have recognition of the value to the negotiations of an objective measurement of the amount of support and protection each country or group of countries gives its farmers. The OECD's work in this area will be a very useful basis.
- We also agreed, in very clear language, that GATT disciplines must be improved and the organisation strengthened - something I consider very important.

### Why no commitment to the complete elimination of all agricultural support?

- Unrealistic. We need to move negotiations forward and aim for a progressive reduction of support. No point arguing about where we will end up.

### European Council decision

- I believe other countries now recognise that we took some very difficult decisions in Brussels. The Toronto communique

acknowledges the "recent significant policy reform efforts undertaken by a number of parties". Much more to do but we have made a good start.

#### Levels of US/EC support and protection

- OECD has measured different countries', or group of countries' support up to 1986.
- Alarming increase in the figures. Europe high but Japan higher and US catching up.
- Competitive subsidies will bankrupt us all.

#### Must not destroy farming community


- Question is way we help them. Should not do so through prices, which benefits biggest farmers, but through specific means.
- Agriculture cannot be only major sector of production divorced from market realities.
- But we all recognised the importance of family farming and the rural economy, and said so in our communique.

#### 7. DEBT

##### Poorest countries' debt?

- Welcome Summit consensus on options for providing debt relief to poorest countries undertaking adjustment programmes. Culmination of more than a year's efforts since my right honourable Friend Chancellor of the Exchequer launched the UK initiative at the IMF Interim Committee in Washington.





Aid loans?

- UK has already provided £1 billion special debt relief for poorest countries - primarily conversion of aid loans into grants including almost £300 million for 15 sub-Saharan African countries.

(Defensive)

More relief for poorest debtors?

- Summit agreement allows creditors to choose options for providing relief. If all chose to reduce interest rates by 3 per centage points, this would provide relief of \$500 million a year - a very valuable contribution. Poorest debtors can also benefit from IMF's new Enhanced Structural Adjustment Facility and from World Bank's lending on favourable terms.

US contribution too small?

- Summit agreement provides for comparability between different creditors. Paris Club to work out details by end-1988 at the very latest.

Which debtors included?

- World Bank considers three criteria in its Special Assistance Programme for Africa - poverty, debt burden and countries' readiness to undertake adjustment programmes. These seem to us the appropriate kind of criteria to use.

UK choice of option?

- My right honourable Friend the Chancellor of the Exchequer has made it clear that he believes a reduction in interest rates offers the most appropriate form of relief. It helps to prevent debt problems compounding.

Cost to the UK

- Depends on how many countries qualify and the rate at which their debts fall to be rescheduled.

Middle-income debtors?

- Not included in debt relief agreement. Stick to case by case approach. Debt owed largely to commercial banks. Therefore a matter for debtors and banks.

8. DRUGS

What specific action is HMG taking to improve international cooperation?

- Considerable activity on several fronts.
- Britain is establishing a network of agreements for mutual assistance in confiscating the proceeds of drug trafficking and curbing the laundering of drug money, using the powers created by our Drug Trafficking Offences Act. A UK/USA Agreement was signed in February. I signed an agreement with Canada yesterday. Negotiations are well advanced with many other countries.
- We are active participants in the UN Convention on illicit drug trafficking.
- We are a major contributor to the UN fund for drug abuse control, and have also contributed £0.8 million to law enforcement and rural development programmes in various countries.

What will be the principal areas of activity of the special task force?

- We do not yet know, but want it to consider some of the following areas;





Improvement of intelligence sharing;

Coordination of training assistance programmes;

Support for multilateral anti-drug organisations;

Concluding bilateral agreements to provide for the tracing, freezing, seizure and forfeiture of drugs-related assets and proceeds; and

Greater cooperation in combatting money laundering.

## 9. ENVIRONMENT

### (A) Brundtland Report

- Gave warm welcome to Report when it was launched in London in April 1987.

- Support Report's central theme of sustainable development. Summit endorsed it.

### (B) Acid Rain

Welcome Summit's call for priority attention to be given to this issue.

## 10. SCIENCE

### (A) Human Frontier Science Programme

What is the Human Frontier Science Programme (HFSP)?

- The HFSP aims to promote basic research on biological functions, through international cooperation. It is likely to concentrate on a) brain functions and b) biological functions on the molecular level. The Venice Economic Summit (June 1987) welcomed this Japanese initiative.

What will be the UK's role in the HFSP?

- For the Japanese Government to make formal proposals to other Summit countries in the first instance. UK regards the programme as an interesting, and potentially important, initiative by Japan, and will give any Japanese proposals serious consideration.

(B) Bioethics

What is the background to the Economic Summit's involvement in Bioethics?

- Raised at the Williamsburg Summit in 1983, by the then Prime Minister of Japan, Mr Nakasone (the need for Governments and others to gain a better understanding of the scientific, social and ethical issues raised by advances in the life sciences). Annual conferences of scientists and other experts since 1984.

When will the UK host a Bioethics Conference?

The EC has offered to host the next 'Bioethics' conference in the Spring of 1989. The question of any subsequent meeting will be decided then.





KK FILE

10 DOWNING STREET

*From the Principal Private Secretary*

23 June 1988

I attach copies of the major representations received by the Government of Canada on the Toronto Summit. Please could you deal with these as you believe appropriate.

(N. L. WICKS)

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

DT

~~SUBJECT: HASTER~~  
OPS

UNCLASSIFIED

167077

MDHOAN 8928

~~PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. 7958/88~~

UNCLASSIFIED  
FM FCO  
TO DESKBY 232100Z OTTAWA  
TELNO 316  
OF 232035Z JUNE 88

1. PLEASE PASS FOLLOWING (REVISED) MESSAGE FROM PRIME MINISTER TO BRIAN MULRONEY AS SOON AS POSSIBLE. THIS TELEGRAM SUPERCEDES PREVIOUS TELEGRAM.

BEGINS

DEAR BRIAN,

MAY I THANK YOU MOST WARMLY FOR INVITING ME TO VISIT OTTAWA FOLLOWING THE TORONTO ECONOMIC SUMMIT, AND FOR THE VERY KIND AND GENEROUS WELCOME EXTENDED TO ME DURING THAT VISIT. IT WAS A PARTICULAR HONOUR TO BE INVITED TO ADDRESS THE CANADIAN PARLIAMENT FOR A SECOND TIME AND I AM OF COURSE WRITING TO THANK THE SPEAKERS OF THE HOUSE AND SENATE. FROM SOME OF THE SUBSEQUENT COMMENT, I CONCLUDE THAT AT THE LEAST MY SPEECH WAS NOT DULL (EXCLAMATION).

I VERY MUCH ENJOYED OUR TALK OVER LUNCH AT YOUR HOUSE AND WILL REFLECT ON THE POINTS WHICH YOU MADE. YOU KINDLY SAID THAT YOU WOULD LET ME KNOW AS SOON AS THERE WERE ANY DEVELOPMENTS ON THE MATTER OF THE SUBMARINES.

MAY I ALSO TAKE THE OPPORTUNITY TO CONGRATULATE YOU MOST WARMLY ON THE SUCCESS OF THE TORONTO ECONOMIC SUMMIT. I SHOULD BE VERY GRATEFUL IF YOU WOULD PASS ON MY GRATITUDE AND APPRECIATION TO ALL THOSE RESPONSIBLE FOR THE PRACTICAL ARRANGEMENTS WHICH WERE OUTSTANDINGLY GOOD.

AND FINALLY: THANK YOU SO MUCH FOR THE BEAUTIFUL AND ELEGANT INUIT CARVINGS AND THE MARVELLOUS PICTURE OF THE CANADIAN FOREST SCENE WHICH I AM DELIGHTED TO HAVE. WARM REGARDS TO YOU AND MILA, YOURS EVER, MARGARET  
ENDS

2. SIGNED ORIGINAL FOLLOWS BY BAG.

HOWE

YYYY



UNCLASSIFIED

167077  
MDHOAN 8928

DISTRIBUTION

21

MAIN 21

NAD  
ERD  
PS  
PS/MRS CHALKER

PS/MR EGGAR  
PS/PUS  
MR GILLMORE  
MR FEARN

NNNN

F115

RESTRICTED



10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

22 June 1988

*Dear Tom,*

TORONTO ECONOMIC SUMMIT:  
STATEMENT TO THE HOUSE

I enclose the text of the Prime Minister's statement to the House on the Toronto Economic Summit. I should be grateful for any comments or amendments by 1200 on 23 June.

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

*C. D. Powell*  
(C. D. POWELL)

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

RESTRICTED





TORONTO ECONOMIC SUMMIT

Economic Declaration

1. We, the Heads of State or Government of seven major industrial nations and the President of the Commission of the European Communities, have met in Toronto for the fourteenth annual Economic Summit. We have drawn lessons from the past and looked ahead to the future.
2. Over the past fourteen years, the world economy and economic policy have undergone profound changes. In particular, the information-technology revolution and the globalization of markets have increased economic interdependence, making it essential that governments consider fully the international dimensions of their deliberations.
3. We observed a sharp contrast between the 1970s and 1980s. The former was a decade of high and rising inflation, declining productivity growth, policies dominated by short-term considerations, and frequently inadequate international policy cooperation. In the 1980s inflation has been brought under control, laying the basis for sustained strong growth and improved productivity. The result has been the longest period of economic growth in post-war history. However, the 1980s have seen the emergence of large external imbalances in the major industrial economies, greater exchange rate volatility, and debt-servicing difficulties in a number of developing countries. Our response to these developments has been an increased commitment to international cooperation, resulting in the intensified process of policy coordination adopted at the 1986 Tokyo Summit and further strengthened at the Venice Summit and in the Group of Seven.
4. Summits have proven an effective forum to address the issues facing the world economy, promote new ideas and develop a common sense of purpose. Especially in the 1980s they have helped bring about an increasing recognition that the eradication of inflation and of inflationary expectations is fundamental to sustained growth and job creation. That recognition has been underpinned by a shift from short-term considerations to a medium-term framework for the development and implementation of economic policies, and a commitment to improve efficiency and adaptability through greater reliance on competitive forces and structural reform. Over this period we have also singled out for concerted attention a number of other issues of decisive importance: the overriding need to resist protectionism and strengthen the open, multilateral trading system; to maintain and strengthen an effective strategy to address the challenge of development and alleviate the burden of debt; and to deal with the serious nature of the world agricultural problem.



5. Since we last met, our economies have kept up the momentum of growth. Employment has continued to expand generally, inflation has been restrained, and progress has been made toward the correction of major external imbalances. These encouraging developments are cause for optimism, but not for complacency. To sustain non-inflationary growth will require a commitment to enhanced cooperation. This is the key to credibility and confidence.

#### INTERNATIONAL ECONOMIC POLICY COOPERATION

##### Macroeconomic Policies and Exchange Rates

6. The Tokyo and Venice Summits have developed and strengthened the process of coordination of our economic policies. Developments in the wake of the financial strains last October demonstrate the effectiveness and resilience of the arrangements that have emerged. The policies, the short-term prospects, and the medium-term objectives and projections of our economies are being discussed regularly in the Group of Seven. The policies and performance are assessed on the basis of economic indicators. We welcome the progress made in refining the analytical use of indicators, as well as the addition to the existing indicators of a commodity-price indicator. The progress in coordination is contributing to the process of further improving the functioning of the international monetary system.

7. Fiscal, monetary and structural policies have been undertaken to foster the adjustment to more sustainable economic and financial positions in the context of non-inflationary growth. Efforts in those directions, including continued reduction of budgetary deficits, will continue. We need to maintain vigilance against any resurgence of inflation. We reaffirm our determination to follow and, wherever feasible, strengthen our agreed strategy of coordinated efforts to reduce the growth of spending in countries with large external deficits and to sustain the momentum of domestic demand in those with large external surpluses. The reduction of large external imbalances, however, will require not only our cooperative efforts, but also those of smaller economies, including newly industrializing economies, with large external surpluses.

8. The exchange rate changes in the past three years, especially the depreciation of the U.S. dollar against the Japanese yen and the major European currencies, have played a major role in the adjustment of real trade balances. We endorse the Group of Seven's conclusion that either excessive fluctuation of exchange rates, a further decline of the dollar, or a rise in the dollar to an extent that becomes destabilizing to the adjustment process, could be counterproductive by damaging growth prospects in the world economy.



### Structural Reforms

9. International cooperation involves more than coordination of macroeconomic policies. Structural reforms complement macroeconomic policies, enhance their effectiveness, and provide the basis for more robust growth. We shall collectively review our progress on structural reforms and shall strive to integrate structural policies into our economic coordination process.
10. We will continue to pursue structural reforms by removing barriers, unnecessary controls and regulations; increasing competition, while mitigating adverse effects on social groups or regions; removing disincentives to work, save, and invest, such as through tax reform; and by improving education and training. The specific priorities that each of us has identified are outlined in the attached Annex on Structural Reforms.
11. We welcome the further development of the OECD's surveillance of structural reforms. Such surveillance would be particularly useful in improving public understanding of the reforms by revealing their impact on government budgets, consumer prices, and international trade.
12. One of the major structural problems in both developed and developing countries is in the field of agricultural policies. It is essential that recent significant policy reform efforts undertaken by a number of parties be continued through further positive action by all Summit participants. More market-oriented agricultural policies should assist in the achievement of important objectives such as preserving rural areas and family farming, raising quality standards and protecting the environment. We welcome the OECD's increased emphasis on structural adjustment and development in the rural economy.
13. Financial and technological innovations are rapidly integrating financial markets internationally, contributing to a better allocation of capital but also increasing the speed and extent to which disturbances in one country may be transmitted to other countries. We will continue to cooperate with other countries in the examination of the functioning of the global financial system, including securities markets.

### MULTILATERAL TRADING SYSTEM/URUGUAY ROUND

14. A successful Uruguay Round will assure the integrity of an open, predictable multilateral trading system based on clear rules and will lead to trade expansion and enhanced economic growth. At Punta del Este, Ministers committed themselves to further trade liberalization across the wide range of goods and services, including such new areas as trade-related intellectual property and trade-related investment measures, to strengthen the multilateral trading system, and to allow for early agreement where appropriate. Countries must continue to resist protectionism and the temptation to



adopt unilateral measures outside the framework of GATT rules and to allow for early agreements where appropriate. In order to preserve a favourable negotiating climate, the participants should conscientiously implement the commitments to standstill and rollback that they have taken at Punta del Este and subsequent international meetings.

15. We strongly welcome the Free Trade Agreement between Canada and the USA, and the steady progress towards the target of the European Community to complete the internal market by 1992. It is our policy that these developments, together with other moves towards regional cooperation in which our countries are involved, should support the open, multilateral trading system and catalyze the liberalizing impact of the Uruguay Round.

16. We attach major importance to strengthening the GATT itself. It is vital that the GATT become a more dynamic and effective organization, particularly in regard to the surveillance of trade policies and dispute settlement procedures, with greater Ministerial involvement, and strengthened linkages with other international organizations. GATT disciplines must be improved so that members accept their obligations and ensure that disputes are resolved speedily, effectively and equitably.

17. Trade plays a key role in development. We encourage the developing countries, especially the newly industrializing economies, to undertake increased commitments and obligations and a greater role in the GATT, commensurate with their importance in international trade and in the international adjustment process, as well as with their respective stages of development. Equally, developed countries should continue to strive to ensure more open markets for the exports of developing countries.

18. In agriculture, continued political impetus is essential to underpin the politically difficult efforts at domestic policy reform and to advance the equally difficult and related process of agricultural trade reform. Although significant progress was made in 1987 in the Uruguay Round negotiations, with the tabling of major proposals, it is necessary to ensure that the Mid-Term Review in Montreal in December, 1988 adds impetus to the negotiations in this as in other fields. We support efforts to adopt a framework approach, including short as well as long-term elements which will promote the reform process as launched last year and relieve current strains in agricultural markets. This would be facilitated by a device for the measurement of support and protection. Also, ways should be developed to take account of food security and social concerns. To move the issue forward, and noting among other things the diversity of our agricultural situations, our negotiators in Geneva must develop a framework approach which includes short-term options in line with long-term goals concerning the reduction of all direct and indirect subsidies and other measures affecting directly or indirectly agricultural trade. The objective of the framework approach would be to make the agricultural sector more responsive to market signals.



19. As the Uruguay Round enters a more difficult phase, it is vital to ensure the momentum of these ambitious negotiations. The Mid-Term Review will provide a unique opportunity to send a credible political signal to the trading world. The greatest possible advance must be made in all areas of the negotiations, including, where appropriate, decisions, so as to reach before the end of the year the stage where tangible progress can be registered. To this end, we support efforts to adopt a framework approach on all issues in the negotiations, i.e. reform of the GATT system and rules, market access, agriculture and new issues (such as trade in services, trade-related intellectual property rights, and trade-related investment measures). For our part, we are committed to ensure that the Mid-Term Review establishes a solid base for the full and complete success of the negotiations, in accordance with the Punta del Este Declaration.

20. We all recognize the critical and expanding role of international investment in the world economy and share a deep concern that increased protectionism would undermine the benefits of open investment policies. We resolve to progressively liberalize international investment policies and urge other countries to do likewise.

#### NEWLY INDUSTRIALIZING ECONOMIES

21. 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. With increased economic importance come greater international responsibilities and a strong mutual interest in improved constructive dialogue and cooperative efforts in the near term between the industrialized countries and the Asian NIEs, as well as the other outward-oriented countries in the region. The dialogue and cooperative efforts could centre on such policy areas as macroeconomic, currency, structural and trade to achieve the international adjustment necessary for sustained, balanced growth of the world economy. We encourage the development of informal processes which would facilitate multilateral discussions of issues of mutual concern and foster the necessary cooperation.



DEVELOPING COUNTRIES AND DEBT

22. The performance of developing countries is increasingly important to the world economy. Central to the prospects of the developing countries are a healthy global economic environment and an open trading system, adequate financial flows and, most important, their commitment to appropriate economic reform. The problems of many heavily-indebted developing countries are a cause of economic and political concern and can be a threat to political stability in developing countries. Several countries find themselves in that situation in various regions of the world: Latin America, Africa and the Pacific, particularly the Philippines, and that merits our special attention.

Middle-Income Countries

23. A number of highly-indebted middle-income countries continue to have difficulties servicing their external debt and generating the investment necessary for sustainable growth. The market-oriented, growth-led strategy based on the case-by-case approach remains the only viable approach for overcoming their external debt problems.

24. We are encouraged that many indebted countries have begun the difficult process of macroeconomic adjustment and structural reform necessary for sustained progress, encouraging the return of flight capital and new investment flows. The success of these efforts is essential for improving the economic performance and strengthening the creditworthiness of these countries.

25. Official financing has played a central role in the debt strategy through the Paris Club (US \$73 billion of principal and interest have been consolidated since 1983) and the flexible policies of export credit agencies. The international financial institutions will continue to have a pivotal role. We endorse the recent initiatives taken by the International Monetary Fund to strengthen its capacity to support medium-term programs of macroeconomic adjustment and structural reform and to provide greater protection for adjustment programs from unforeseen external developments. We strongly support the full implementation of the World Bank's US \$75 billion General Capital Increase to strengthen its capacity to promote adjustment in middle-income countries. We also support greater awareness by international financial institutions of the environmental impact of their development programs.

26. Commercial banks have played an important role in supporting debtor countries' reform efforts through an expanded menu of financing options which has facilitated the channelling of commercial bank lending into productive uses. Their continued involvement is indispensable to the debt strategy. In this regard, the World Bank and IMF can play an important catalytic role in mobilizing additional financing from private (and official) sources in support of debtor countries' adjustment programs.



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

28. International direct investment plays an important role in spurring economic growth and structural adjustment in developing countries. Thus it contributes to alleviating debt problems. Developing countries should welcome and encourage such investment by creating a favourable investment climate.

#### Debt of the Poorest

29. An increase in concessional resource flows is necessary to help the poorest developing countries resume sustained growth, especially in cases where it is extremely difficult for them to service their debts. Since Venice, progress in dealing with the debt burden of these countries has been encouraging. Paris Club creditors are rescheduling debt at extended grace and repayment periods. In addition, the recent enhancement of the IMF's Structural Adjustment Facility; the World Bank and Official Development Assistance (ODA) agencies' enhanced program of co-financing; and the fifth replenishment of the African Development Fund will mobilize a total of more than US \$18 billion in favour of the poorest and most indebted countries undertaking adjustment efforts over the period 1988/90. Out of this total, US \$15 billion will be channelled to sub-Saharan African countries.

30. We welcome proposals made by several of us to ease further the debt service burdens of the poorest countries that are undertaking internationally-approved adjustment programs. We have achieved consensus on rescheduling official debt of these countries within a framework of comparability that allows official creditors to choose among concessional interest rates usually on shorter maturities, longer repayment periods at commercial rates, partial write-offs of debt service obligations during the consolidation period, or a combination of these options. This approach allows official creditors to choose options consistent with their legal or budgetary constraints. The Paris Club has been urged to work out necessary technicalities to ensure comparability by the end of this year at the very latest. This approach will provide benefits over and above the impressive multilateral agreements to help the poorest countries over the past year. We also welcome the action taken by a number of creditor governments to write-off or otherwise remove the burden of ODA loans, and also urge countries to maintain a high grant element in their future assistance to the poorest.



ENVIRONMENT

31. We agree that the 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 the concept of sustainable development.

32. Threats to the environment recognize no boundaries. Their urgent nature requires strengthened international cooperation among all countries. 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 are encouraged to sign and ratify it.

33. Further action is needed. Global climate change, air, sea and fresh water pollution, acid rain, hazardous substances, deforestation, and endangered species require priority attention. It is, therefore, timely that negotiations on a protocol on emissions of nitrogen oxides within the framework of the Geneva Convention on Long-range Transboundary Air Pollution be pursued energetically. The efforts of the United Nations Environment Program (UNEP) for an agreement on the transfrontier shipment of hazardous wastes should also be encouraged as well as the establishment of an inter-governmental panel on global climate change under the auspices of UNEP and the World Meteorological Organization (WMO). We also recognize the potential impact of agriculture on the environment, whether negative through over-intensive use of resources or positive in preventing desertification. We welcome the Conference on the Changing Atmosphere to be held in Toronto next week.

FUTURE SUMMITS

34. 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 industrialized 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 years ahead. We believe that the mutual understanding engendered in our meetings has benefitted 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 interdependence 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, July 14-16, 1989.

\*\*\*\*\*



## OTHER ISSUES

### HUMAN FRONTIER SCIENCE PROGRAM

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

### BIOETHICS

2. 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 we welcome the intention of the European Communities to host the sixth conference in the spring of 1989.

## ANNEX ON STRUCTURAL REFORMS

- Europe is pursuing structural reforms to complement macroeconomic policies in order to spur job creation, enhance growth potential, and achieve a sustainable pattern of external balances. Structural reform measures are being put into place in the framework of the Communities' program for a unified internal market by 1992; including full liberalization of capital movements; removal of physical, administrative and technical barriers to allow the full mobility of persons, goods and services and an improvement of competition policy. However, full achievement will depend on complete and timely implementation of the measures and on complementary policies including those in the fields of regional, social and environmental policies and of technological co-operation.
- The main elements of Germany's structural reforms are tax reform and reduction, deregulation and privatization, reform of the postal and telecommunications system, increased flexibility in the labour market, and reform of the social security system.
- In France, the main structural reforms will deal with improving the level of education and professional training and development for workers, and with major improvements in the functioning of financial markets in order to facilitate the financing of the economy at the lowest possible cost.
- Italy will seek to promote training and education, increase the flexibility of the labour market to spur employment, improve the functioning of financial markets, revise the tax system to promote efficiency and eliminate distortions, and enhance public sector efficiency.
- In the United Kingdom, there has already been a substantial program of tax reform, trade union law reform, deregulation, opening up of markets and privatization of state industries. This will continue. Further measures are being introduced to improve both the quality of education and the flexibility of the housing market.
- Japan will pursue further structural reforms to support and sustain the greater reliance on domestic demand-led growth which has quickened remarkably. Japan will promote reform of government regulations in key sectors including land use policies and the distribution system, and reform of the tax system.
- For the United States, where recent indications that the declining trend in private savings may have bottomed out are encouraging, it is nonetheless a priority to increase incentives to save. Also the United States will strengthen the international competitiveness of its industrial sector.
- The most promising areas of structural reform in Canada are implementation of the second stage of tax reform, the proposed liberalization of the financial services sector, and, most important, the implementation of the Free Trade Agreement with the United States.



ECON POL - summary pt 26

FROM: The High Commissioner

DATE: 21 June 1988

Private Secretary/No. 10

**PRIME MINISTER'S VISIT TO OTTAWA: 22 JUNE 1988:  
SIGNATURE OF BILATERAL AGREEMENTS**

- / 1. I attach the text of Mr Mulroney's proposed talking points after signature of the agreements.
- / 2. I also attach some suggested points on which the Prime Minister might wish to draw in replying.
3. The airline representatives who will be present at the signature of the Canada/UK Air Services Agreement will be:
  - Air Canada : Claude Taylor (Chairman)  
Pierre Jenniot (President and Chief Executive Officer)
  - Nationair : Claude Levesque (Vice-President, Marketing)
  - British Airways: Ian Reid (Vice-President, Sales for Canada)  
John Moreau (Customer Services Director, BA(Canada))
  - Wardair : We understand that as Mr Max Ward is not available they will not be represented.

*Charles Herzfeld*

*W.H.* A B Urwick



MR MULRONEY'S TALKING POINTS

Prime Minister Thatcher and I have just signed two important treaties.

The Mutual Assistance Treaty in Criminal Matters on Drug Trafficking provides a framework for cooperation between Canada and Britain that will lead to improved assistance in the investigation and prosecution of international narcotics trafficking and related criminal activities.

The Treaty is a concrete response to serious concerns expressed by the Toronto Summit participants with regard to the increasing problems of international drug trafficking and money laundering which is generally associated with it.

I am also delighted that we have signed the historic Canada-UK Air Agreement today.

It attests to our traditional and close relationship.

This agreement is consistent with the economic objectives that we share.

We have agreed to remove the heavy hand of government regulation from air services between our two countries.

This agreement has been called an OPEN SKIES AGREEMENT.

Politically speaking, Prime Minister, perhaps we should call it a BLUE SKIES AGREEMENT.

SUGGESTED POINTS FOR PRIME MINISTER'S REPLY

I can wholly endorse Prime Minister Mulroney's statements on both the agreements.

Appropriate, given emphasis at the Toronto Summit on the battle against drug trafficking world-wide, that our two countries should be signing today an agreement which will give practical implementation to this cooperation.

We hope to have a bilateral network of agreements. This one with Canada is only the second we have signed so far.

Our Air Services Agreement has many liberal and pro-competitive <sup>OLA</sup> features which make it a pathfinder for both our countries.

It is symbolic of our common approach to sweeping away out-dated regulatory controls and opening up wide-ranging opportunities for the airlines of our countries.

On behalf of the consumer I am particularly pleased that the traveller should also benefit from tariff competition.



CONFIDENTIAL



*the slow  
copy*

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

21 June 1988

*Dear Mr.*

TORONTO SUMMIT: UK/US AVIATION PROBLEMS

Thank you for your letter of 16 June warning that President Reagan might raise the question of Berlin air services with the Prime Minister in the margins of the Toronto Economic Summit.

He had plenty of opportunities to do so, but did not.

I am sending copies of this letter to Roy Griffins (Department of Transport) and to Trevor Woolley (Cabinet Office).

*Yours sincerely  
C. D. Powell*

(C. D. POWELL)

Lyn Parker, Esq.,  
Foreign and Commonwealth Office.

CONFIDENTIAL

*Power*



10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

1. Kohl - ag. protectionism except  
in Agriculture.
2. Pohl - widespread convergence in  
ec. policy. N.B. There can be no  
convergence between the economics of  
freedom the economics of socialism.
3. Nigel Lawson's proposals



PRIME MINISTER

YOUR PRESS CONFERENCE

Your press conference will be held in a large conference room only a short walk from the delegation office where you have debriefed us.

It is a good room and, while it will be crowded, it should not be uncomfortable.

I have arranged for you to give radio and TV interviews in an adjoining room which again is good by Summit standards.

I expect you will be asked to do 5 radio and TV interviews - BBC TV and radio; ITN; IRN; and TV AM.

This has been an altogether too harmonious conference for the media who, finding no blood on the floor, have been saved by arrests of Irish men and the terrorism and drugs element of the political declaration.

Economic success and reasonable accord over debt have proved dull fare and they have so far been frustrated over agriculture. They have tried to play a little on fears of inflation and they will seek a reaction from you to today's increase in the Bundesbank rate.

There will also be some interest into trying to prise more out of you on British Aerospace/Rover and submarines for Canada. It is also possible they will try to discredit the declaration on terrorism.

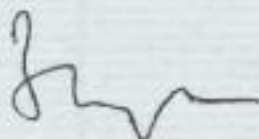
On BAe/Rover I have refused to go beyond saying you called on M. Delors for an early positive decision from the Commission. On submarines I have merely said that you will no doubt encourage Mr Mulroney on Wednesday to buy the superior British technology.

Against all this background, it is important that you sell the success of this Summit firmly and forthrightly and the attached draft opening statement seeks to do that.

The Foreign Secretary and Chancellor will join you on the platform. The media may well try to open up divisions between you and your Ministers, but on exchange rates the phrase "excessive fluctuation of exchange rates" is of course very valuable in Para 8 of the communique.

I will call the questions and will close the press conference after 30 minutes.

The sooner after 4pm that you can start your press conference the more you will get on evening television in London - 4pm here equals 9pm London time.



(BERNARD INGHAM)

21 June 1988



DRAFT OPENING STATEMENT : PRIME MINISTER'S PRESS CONFERENCE

This has been a highly successful and well organised Summit in a splendid city and I would like to thank and congratulate Brian Mulroney for the excellent way he has presided over our discussion. He must be delighted, as I am, with the outcome.

I would also like at the outset to mark President Reagan's last Summit by saying that he could not have had a better one. His final Summit has underlined the success of the economic policies we have pursued in the second cycle of Summit meetings in which he has played such an important part.

We are enjoying unprecedented economic success - the longest continuous period of growth since the war. This stems from the co-operation and common sense of purpose between the Summit countries during the 1980s in applying sound economic policies, containing inflation and promoting efficiency, enterprise and competition.

So the task confronting the Toronto Summit has been to lay the foundations for maintaining this rising prosperity and greater individual freedom into the 1990s.

This in turn has meant reaffirming our commitment to continue sound policies which are delivering the goods and resolving to tackle the outstanding problems which remain with us.

So the very clear message which goes out from Toronto is one of confidence coupled with a commitment to build on and reinforce our success.

I fully appreciate that all this does not give the media a lot to write about. Success, however hard to come by, does not make news. But it does make for a better world and I believe that Summits have played an important part in improving the lot of billions of people.

In charting our course for the future, we in the UK have given a strong lead on a whole range of issues:

- by stressing the need, in order to secure a more open world trading system, for a successful Uruguay round - and a successful mid-term meeting in Montreal this December;
- by calling for the strengthening of GATT as a means of ensuring that protectionism is indeed rolled back;
- by helping to generate a political impetus to freeze and then run down agricultural protectionism; and not least
- through the Chancellor of the Exchequer, by developing a major new initiative to reduce the debt burden on the poorest Third World countries.

As the Communique shows, we have been very successful in all these efforts.

Toronto has set us on course for:

- promoting freer trade and reducing protectionism;
- rolling back agricultural subsidies;
- helping the poorest nations - both directly through write offs or debt relief, and by reducing agricultural support in the industrialised countries.

Elsewhere I am very pleased to say that, with wholehearted British support, the Summit has sharpened up the attack on terrorism and, more particularly on air piracy, and on drug trafficking.

I look forward to an ever-widening network of agreements to enable countries to get at the ill-gotten gains of the drug barons through



measures pioneered in the UK, to seize their funds and outlaw money laundering.

So a very successful Summit indeed. We now embark on a third cycle of Economic Summits. I hope that in 1995 we shall leave Canada as confident, united and determined as we do in 1988.

TORONTO ECONOMIC SUMMIT

Economic Declaration

1. We, the Heads of State or Government of seven major industrial nations and the President of the Commission of the European Communities, have met in Toronto for the fourteenth annual Economic Summit. We have drawn lessons from the past and looked ahead to the future.
2. Over the past fourteen years, the world economy and economic policy have undergone profound changes. In particular, the information-technology revolution and the globalization of markets have increased economic interdependence, making it essential that governments consider fully the international dimensions of their deliberations.
3. We observed a sharp contrast between the 1970s and 1980s. The former was a decade of high and rising inflation, declining productivity growth, policies dominated by short-term considerations, and frequently inadequate international policy cooperation. In the 1980s inflation has been brought under control, laying the basis for sustained strong growth and improved productivity. The result has been the longest period of economic growth in post-war history. However, the 1980s have seen the emergence of large external imbalances in the major industrial economies, greater exchange rate volatility, and debt-servicing difficulties in a number of developing countries. Our response to these developments has been an increased commitment to international cooperation, resulting in the intensified process of policy coordination adopted at the 1986 Tokyo Summit and further strengthened at the Venice Summit and in the Group of Seven.
4. Summits have proven an effective forum to address the issues facing the world economy, promote new ideas and develop a common sense of purpose. Especially in the 1980s they have helped bring about an increasing recognition that the eradication of inflation and of inflationary expectations is fundamental to sustained growth and job creation. That recognition has been underpinned by a shift from short-term considerations to a medium-term framework for the development and implementation of economic policies, and a commitment to improve efficiency and adaptability through greater reliance on competitive forces and structural reform. Over this period we have also singled out for concerted attention a number of other issues of decisive importance: the overriding need to resist protectionism and strengthen the open, multilateral trading system; to maintain and strengthen an effective strategy to address the challenge of development and alleviate the burden of debt; and to deal with the serious nature of the world agricultural problem.



5. Since we last met, our economies have kept up the momentum of growth. Employment has continued to expand, inflation has been restrained, and progress has been made toward the correction of major external imbalances. These encouraging developments are cause for optimism, but not for complacency. To sustain non-inflationary growth will require a commitment to enhanced cooperation. This is the key to credibility and confidence.

INTERNATIONAL ECONOMIC POLICY COOPERATION

Macroeconomic Policies and Exchange Rates

6. The Tokyo and Venice Summits have developed and strengthened the process of coordination of our economic policies. Developments in the wake of the financial strains last October demonstrate the effectiveness and resilience of the arrangements that have emerged. The policies, the short-term prospects, and the medium-term objectives and projections of our economies are being discussed regularly in the Group of Seven. The policies and performance are assessed on the basis of economic indicators. We welcome the progress made in refining the analytical use of indicators, as well as the addition to the existing indicators of a commodity-price indicator. The progress in coordination is contributing to the process of further improving the functioning of the international monetary system.

7. Fiscal, monetary and structural policies have been undertaken to foster the adjustment to more sustainable economic and financial positions in the context of non-inflationary growth. Efforts in those directions, including continued reduction of budgetary deficits, will continue. X We reaffirm our determination to follow and, wherever feasible, strengthen our agreed strategy of coordinated efforts to reduce the growth of spending in countries with large external deficits and to sustain the momentum of domestic demand in those with large external surpluses. The reduction of large external imbalances, however, will require not only our cooperative efforts, but also those of smaller economies, including newly industrializing economies, with large external surpluses.

8. The exchange rate changes in the past three years, especially the depreciation of the U.S. dollar against the Japanese yen and the major European currencies, have played a major role in the adjustment of real trade balances. We endorse the Group of Seven's conclusion that either excessive fluctuation of exchange rates, a further decline of the dollar, or a rise in the dollar to an extent that becomes destabilizing to the adjustment process, could be counterproductive by damaging growth prospects in the world economy.

A  
We need to  
work with  
G7 to  
quit of  
of influence



### Structural Reforms

9. International cooperation involves more than coordination of macroeconomic policies. Structural reforms complement macroeconomic policies, enhance their effectiveness, and provide the basis for more robust growth. We shall collectively review our progress on structural reforms and shall strive to integrate structural policies into our economic coordination process.
10. We will continue to pursue structural reforms by removing barriers, unnecessary controls and regulations; increasing competition, while mitigating adverse effects on social groups or regions; removing disincentives to work, save, and invest, such as through tax reform; and by improving education and training. The specific priorities that each of us has identified are outlined in the attached Annex on Structural Reforms.
11. We welcome the further development of the OECD's surveillance of structural reforms. Such surveillance would be particularly useful in improving public understanding of the reforms by revealing their impact on government budgets, consumer prices, and international trade.
12. One of the major structural problems in both developed and developing countries is in the field of agricultural policies. It is essential that recent significant policy reform efforts undertaken by a number of parties be continued through further positive action by all Summit participants. More market-oriented agricultural policies should assist in the achievement of important objectives such as preserving rural areas and family farming, raising quality standards and protecting the environment. We welcome the OECD's increased emphasis on structural adjustment and development in the rural economy.
13. Financial and technological innovations are rapidly integrating financial markets internationally, contributing to a better allocation of capital but also increasing the speed and extent to which disturbances in one country may be transmitted to other countries. We will continue to cooperate with other countries in the examination of the functioning of the global financial system, including securities markets.

### MULTILATERAL TRADING SYSTEM/URUGUAY ROUND

14. A successful Uruguay Round will assure the integrity of an open, predictable multilateral trading system based on clear rules and will lead to trade expansion and enhanced economic growth. At Punta del Este, Ministers committed themselves to further trade liberalization across the wide range of goods and services, including such new areas as trade-related intellectual property and trade-related investment measures, to strengthen the multilateral trading system, and to allow for early agreement where appropriate. Countries must continue to resist protectionism and the temptation to



adopt unilateral measures outside the framework of GATT rules and to allow for early agreements where appropriate. In order to preserve a favourable negotiating climate, the participants should conscientiously implement the commitments to standstill and rollback that they have taken at Punta del Este and subsequent international meetings.

15. We <sup>welcome</sup> welcome the Free Trade Agreement between Canada and the USA. \* We also welcome the steady progress towards the target of the European Community to complete the internal market by 1992. It is our policy that these developments, together with other moves towards regional cooperation in which our countries are involved, should support the open, multilateral trading system and the liberalizing impact of the Uruguay Round.

16. We attach major importance to strengthening the GATT itself. It is vital that the GATT become a more dynamic and effective organization, particularly in regard to the surveillance of trade policies and dispute settlement procedures, with greater Ministerial involvement, and strengthened linkages with other international organizations. GATT disciplines must be improved so that members accept their obligations and ensure that disputes are resolved speedily, effectively and equitably.

17. Trade plays a key role in development. We encourage the developing countries, especially the newly industrializing economies, to undertake increased commitments and obligations and a greater role in the GATT, commensurate with their importance in international trade and in the international adjustment process, as well as with their respective stages of development. Equally, developed countries should continue to strive to ensure more open markets for the exports of developing countries.

18. In agriculture, continued political impetus is essential to underpin the politically difficult efforts at domestic policy reform and to advance the equally difficult and related process of agricultural trade reform. Although significant progress was made in 1987 in the Uruguay Round negotiations, with the tabling of major proposals, it is necessary to ensure that the Mid-Term Review in Montreal in December, 1988 adds impetus to the negotiations in this as in other fields. [We support efforts to adopt a framework approach, including short as well as long-term elements which will promote the reform process as launched last year and relieve current strains in agricultural markets.] This would be facilitated by a device for the measurement of support and protection. Also, ways should be developed to take account of food security and social concerns. [Any short-term measures would need to be a step forward in line with long-term goals.] [To move the issue forward, our negotiators in Geneva should develop a framework approach which includes short-term options consistent with agreed upon long-term objectives so that Ministers can take decisions at the Mid-Term Review concerning reduction of trade

\* Reserve of Canada



distortive measures of agricultural policies.] The objective of the framework approach would be to make the agricultural sector more responsive to market signals.

19. As the Uruguay Round enters a more difficult phase, it is vital to ensure the momentum of these ambitious negotiations. The Mid-Term Review will provide a unique opportunity to send a credible political signal to the trading world. The greatest possible advance must be made in all areas of the negotiations, so as to reach before the end of the year the stage where tangible progress can be registered. To this end, we support efforts to adopt a framework approach on all issues in the negotiations, i.e. reform of the GATT system and rules, market access, agriculture and new issues (such as trade in services, trade-related intellectual property rights, and trade-related investment measures). For our part, we are committed to ensure that the Mid-Term Review establishes a solid base for the full and complete success of the negotiations, in accordance with the Punta del Este Declaration.

20. We all recognize the critical and expanding role of international investment in the world economy and share a deep concern that increased protectionism would undermine the benefits of open investment policies. We resolve to progressively liberalize international investment policies and urge other countries to do likewise.

#### NEWLY INDUSTRIALIZING ECONOMIES

21. 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. With increased economic importance come greater international responsibilities and a strong mutual interest in improved constructive dialogue and cooperative efforts in the near term between the industrialized countries and the Asian NIEs, as well as the other outward-oriented countries in the region. The dialogue and cooperative efforts could centre on such policy areas as macroeconomic, currency, structural and trade to achieve the international adjustment necessary for sustained, balanced growth of the world economy. We encourage the development of informal processes which would facilitate multilateral discussions of issues of mutual concern and foster the necessary cooperation.



## DEVELOPING COUNTRIES AND DEBT

22. The performance of developing countries is increasingly important to the world economy. Central to the prospects of the developing countries are a healthy global economic environment and an open trading system, adequate financial flows and, most important, their commitment to appropriate economic reform. The problems of many heavily-indebted developing countries are a cause of economic and political concern and can be a threat to political stability in developing countries [such as the Philippines] which are making a difficult transition to democracy and merit our special attention.

### Middle-Income Countries

23. A number of highly-indebted middle-income countries continue to have difficulties servicing their external debt and generating the investment necessary for sustainable growth. The market-oriented, growth-led strategy based on the case-by-case approach remains the only viable approach for overcoming their external debt problems.

24. We are encouraged that many indebted countries have begun the difficult process of macroeconomic adjustment and structural reform necessary for sustained progress, encouraging the return of flight capital and new investment flows. The success of these efforts is essential for improving the economic performance and strengthening the creditworthiness of these countries.

25. Official financing has played a central role in the debt strategy through the Paris Club (US \$73 billion of principal and interest have been consolidated since 1983) and the flexible policies of export credit agencies. The international financial institutions will continue to have a pivotal role. We endorse the recent initiatives taken by the International Monetary Fund to strengthen its capacity to support medium-term programs of macroeconomic adjustment and structural reform and to provide greater protection for adjustment programs from unforeseen external developments. We strongly support the full implementation of the World Bank's US \$75 billion General Capital Increase to strengthen its capacity to promote adjustment in middle-income countries. We also support greater awareness by international financial institutions of the environmental impact of their development programs.

26. Commercial banks have played an important role in supporting debtor countries' reform efforts through an expanded menu of financing options which has facilitated the channelling of commercial bank lending into productive uses. Their continued involvement is indispensable to the debt strategy. In this regard, the World Bank and IMF can play an important catalytic role in mobilizing additional financing from private (and official) sources in support of debtor countries' adjustment programs.



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

28. International direct investment plays an important role in spurring economic growth and structural adjustment in developing countries. Thus it contributes to alleviating debt problems. Developing countries should welcome and encourage such investment by creating a favourable investment climate.

#### Debt of the Poorest

29. An increase in concessional resource flows is necessary to help the poorest developing countries resume sustained growth, especially in cases where it is extremely difficult for them to service their debts. Since Venice, progress in dealing with the debt burden of these countries has been encouraging. Paris Club creditors are rescheduling debt at extended grace and repayment periods. In addition, the recent enhancement of the IMF's Structural Adjustment Facility; the World Bank and Official Development Assistance (ODA) agencies' enhanced program of co-financing; and the fifth replenishment of the African Development Fund will mobilize a total of more than US \$18 billion in favour of the poorest and most indebted countries undertaking adjustment efforts over the period 1988/90. Out of this total, US \$15 billion will be channelled to sub-Saharan African countries.

30. We welcome proposals made by several of us to ease further the debt service burdens of the poorest countries that are undertaking internationally-approved adjustment programs. We have achieved consensus on rescheduling official debt of these countries within a framework of comparability that allows official creditors to choose among concessional interest rates on shorter maturities, longer repayment periods at commercial rates, partial write-offs of debt service obligations during the consolidation period, or a combination of these options. This approach allows official creditors to choose options consistent with their legal or budgetary constraints. The Paris Club has been urged to work out necessary technicalities to ensure comparability by the end of this year at the very latest. This approach will provide benefits over and above the impressive multilateral agreements to help the poorest countries over the past year. On a bilateral basis, several creditor governments have already taken action to write off the principal of ODA loans or to relieve future servicing of these loans, while other countries continue to maintain a high grant element in their assistance to the poorest.

OM-11

We also intend to cut them by giving a number of credits grants to write off or service outstanding ODA loans.



ENVIRONMENT

31. We agree that the 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 the concept of sustainable development.

32. Threats to the environment recognize no boundaries. Their urgent nature requires strengthened international cooperation among all countries. 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 are encouraged to sign and ratify it.

33. Further action is needed. Global climate change, air and water pollution, acid rain, hazardous substances, deforestation, and endangered species require priority attention. It is, therefore, timely that negotiations on a protocol on emissions of nitrogen oxides within the framework of the Geneva Convention on Long-range Transboundary Air Pollution be pursued energetically. The efforts of the United Nations Environment Program (UNEP) for an agreement on the transfrontier shipment of hazardous wastes should also be encouraged as well as the establishment of an inter-governmental panel on global climate change under the auspices of UNEP and the World Meteorological Organization (WMO). We also recognize the potential impact of agriculture on the environment, whether negative through over-intensive use of resources or positive in preventing desertification. We welcome the Conference on the Changing Atmosphere to be held in Toronto next week.

FUTURE SUMMITS

34. 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 industrialized 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 years ahead. We believe that the mutual understanding engendered in our meetings has benefitted 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, July 14-16, 1989.

\*\*\*\*\*

## OTHER ISSUES

### HUMAN FRONTIER SCIENCE PROGRAM

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

### BIOETHICS

2. 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 we welcome the intention of the European Communities to host the sixth conference in the spring of 1989.



## ANNEX ON STRUCTURAL REFORMS

- Europe is pursuing structural reforms to complement macroeconomic policies in order to spur job creation, enhance growth potential, and achieve a sustainable pattern of external balances. Structural reform measures are being put into place in the framework of the Communities' program for a unified internal market by 1992; including full liberalization of capital movements; removal of physical, administrative and technical barriers to allow the full mobility of persons, goods and services and an improvement of competition policy. However, full achievement will depend on complete and timely implementation of the measures and on complementary policies including those in the fields of regional, social and environmental policies and of technological co-operation.
- The main elements of Germany's structural reforms are tax reform and reduction, deregulation and privatization, reform of the postal and telecommunications system, increased flexibility in the labour market, and reform of the social security system.
- In France, the main structural reforms will deal with improving the level of education and professional training and development for workers, and with major improvements in the functioning of financial markets in order to facilitate the financing of the economy at the lowest possible cost.
- Italy will seek to promote training and education, increase the flexibility of the labour market to spur employment, improve the functioning of financial markets, revise the tax system to promote efficiency and eliminate distortions, and enhance public sector efficiency.
- In the United Kingdom, there has already been a substantial program of tax reform, trade union law reform, deregulation, opening up of markets and privatization of state industries. This will continue. Further measures are being introduced to improve both the quality of education and the flexibility of the housing market.
- Japan will pursue further structural reforms to support and sustain the greater reliance on domestic demand-led growth which has quickened remarkably. Japan will promote reform of government regulations in key sectors including land use policies and the distribution system, and reform of the tax system.
- For the United States, where recent indications that the declining trend in private savings may have bottomed out are encouraging, it is nonetheless a priority to increase incentives to save. Also the United States will strengthen the international competitiveness of its industrial sector.
- The most promising areas of structural reform in Canada are implementation of the second stage of tax reform, the proposed liberalization of the financial services sector, and, most important, the implementation of the Free Trade Agreement with the United States.





Rune Minister

## Political Declaration

The situation is:

- The main elements of the text are agreed very much on the basis you saw this morning: East/West, Middle East, Terrorism

and Drugs.

- But the Canadians are insisting on having South Africa in as well, if all these ~~other~~ other elements are included.

- Foreign Ministers ~~are~~ are discussing the South Africa text on their own, having removed their speech.

- If South Africa is included, Cambodia

will be also.

- The only way to avoid a passage  
on South Africa is probably to agree to  
drop all the other regional issues.  
- but all this is second-hand. Foreign

Ministers are in quodam!

Charles





CHAIRMAN'S SUMMARY OF POLITICAL ISSUES

The following represents an agreed summary of the discussions on the Middle East, South Africa and Cambodia.

MIDDLE EAST

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

We have pursued our consultations about the continuing war between Iran and Iraq, which remains a source of profound concern to us. We reaffirm our support for Security Council Resolution 598, which was adopted unanimously. We express our warm appreciation for the efforts of the Secretary General to work for a settlement on this basis and reiterate our firm determination to ensure implementation of this mandatory resolution by a follow-up resolution. We condemn the use of chemical weapons by either party, deplore proliferation of ballistic missiles in the region, and renew our commitment to uphold the principle of freedom of navigation in the Gulf.

SOUTH AFRICA

We declare our abhorrence of apartheid, which must be replaced through a process of genuine national negotiations by a non-racial democracy.

We expressed our urgent opinion on three particular matters:

(1) all legal options available in South Africa should be used to secure clemency for the Sharpeville Six;

(2) the enactment of legislation designed to deprive anti-apartheid organisations of overseas aid would place severe strain on the relations each of us has with South Africa;

(3) we strongly support the current negotiations seeking national reconciliation within Angola, an end to the Angola/Namibia conflict, and early implementation of UN Security Council Resolution 435.

CAMBODIA

As the recent message from Prince Sihanouk has reminded us, the continuing Cambodian conflict and the suffering of the Cambodian people is of deep concern. We join the vast majority of the nations of the world in calling for the prompt withdrawal of all Vietnamese troops. We support a political settlement in Cambodia which will provide for Cambodian self-determination and lead to the re-emergence of a free and independent Cambodia.



ECON POL Summit pr 26

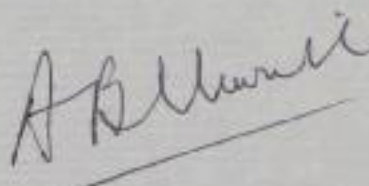
From: The High Commissioner

Date: 20 June 1988

Private Secretary/No. 10

**PRIME MINISTER'S VISIT TO OTTAWA: 22 JUNE 1988: SIGNATURE  
OF BILATERAL AGREEMENTS**

1. As you know, the Prime Minister will be signing two bilateral agreements with Mr Mulroney at the House of Commons immediately after her address to Parliament. One of these is the Canada/UK Mutual Legal Assistance Treaty on Drug Trafficking Proceeds and the other the Canada/UK Air Services Agreement.
2. I attach the texts of the Canadian draft press releases on these two agreements, which have been approved on the Canadian side by the Department of External Affairs and also by the Prime Minister's Office; on the UK side they have been agreed by the FCO and the Department of Transport. They incidentally provide a succinct explanation of the significance of the two agreements for the two countries.
3. The signing ceremony will be very simple (no champagne). The airlines involved (British Airways, Air Canada, Wardair and Nationair) have been invited to send representatives. We are told that Mr Mulroney may say a sentence or two after signature, but not make a formal speech. We hope to have a text of his proposed remarks very shortly.



A B Urwick



PROPOSED CANADIAN PRESS RELEASE

MUTUAL ASSISTANCE TREATY (DRUG TRAFFICKING) BETWEEN CANADA AND  
THE UNITED KINGDOM

Prime Minister Brian Mulroney and Prime Minister Margaret Thatcher today signed a Treaty on Mutual Assistance in Criminal Matters (Drug Trafficking) between Canada and the United Kingdom. This Treaty will provide a framework for cooperation between the two countries in order to improve assistance in the investigation and prosecution of international narcotics trafficking and other related criminal activities.

The Treaty will enable Canada and Britain to make available to their law enforcement authorities important legal means for collecting evidence in the other country that could be used in the course of investigations and judicial proceedings. Specifically, the assistance may range from providing information to locating people or obtaining testimony and records under a subpoena or search warrant or eventually to the restraining and confiscation of proceeds of crime deriving from drug trafficking. The implementing legislation necessary for the entry into force of treaties of this type in Canada is currently before the House of Commons.

Prime Minister Mulroney noted that the Treaty reflects the objectives of the National Drug Strategy launched by the Government in June 1987. The Treaty is also a concrete response to serious concerns expressed by the Toronto Summit participants with regard to the increasing problem of international drug trafficking and the money laundering which is generally associated with it. Since 1984, Canada has undertaken to develop with its Summit partners and other countries a network of mutual legal assistance treaties in criminal matters.

PROPOSED CANADIAN PRESS RELEASE

CANADA-UNITED KINGDOM AIR SERVICES AGREEMENT SIGNED

Prime Minister Brian Mulroney and Prime Minister Margaret Thatcher today signed a new scheduled air services agreement between Canada and the United Kingdom.

The Prime Ministers agreed that this signing marks an historic occasion in air relations between the two countries. The "open skies" agreement is unprecedented internationally for trans-Atlantic services. It allows each country to designate the number of airlines it wishes for services between any cities in Canada and any cities in the United Kingdom. These airlines will be free to operate as many flights in the market as they wish.

The agreement is also a first for Canada in allowing airlines to establish fares in a virtually deregulated environment. Travellers will benefit from the ability of airlines to set fares at very low levels as well as from greatly reduced restrictions on the availability of discount fares. Shippers will be able to take advantage of the deregulation of air cargo rates.

Both Prime Ministers welcomed the agreement as it reflects their desire to reduce the role of governments in the private sector and their particular wish to foster a more competitive, market-oriented aviation industry. "Clearly, air services between our two countries have matured. The heavy hand of government regulation is no longer warranted", Prime Minister Mulroney said.

The agreement also provides for improved flexibility for Air Canada's existing services beyond London to Asia and for expansion of its services to any points in Western Europe. In exchange, the British will gain enhanced reciprocal rights to America, Mexico and the South Pacific.

Canadian carriers Air Canada, Wardair and Nationair now operate scheduled services to the United Kingdom. British Airways operates scheduled services for the UK.





External Affairs  
Canada

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

Affaires extérieures  
Canada

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

11200/6

June 20, 1988

Dear Nigel:

I enclose for your information copies of eight major representations received by the Government of Canada on the Toronto Summit. As you know, in his opening remarks on June 19, the Prime Minister referred to the many representations forwarded to him.

Yours sincerely,

Sylvia Ostry

Enclosure

Mr. Nigel Wicks  
Principal Private Secretary to the Prime Minister

TORONTO SUMMIT: LIST OF MAJOR REPRESENTATIONS

1. UN Secretary General Perez de Cuellar's letter to PM Mulroney of May 20, 1988.
2. "ASEAN Memorandum for the Summit of the Seven Major Industrialized Countries, 19-21 June, 1988, Toronto", under cover of ASEAN Secretary General Savetsila's letter of June 2 to the Secretary of State for External Affairs, Joe Clark.
3. Rio Group paper provided by Mexican Foreign Minister Sepulveda during Rio Group-Canada consultations, Montreal, March 27-28, 1988.
4. Trade Policy Statement of Pacific Economic Cooperation Conference - May 20, 1988, under cover of letter from Saburo Okita, Chairman of the sixth PECC, to Prime Minister Mulroney.
5. "Trade Union Statement to the OECD Ministerial Council and Toronto Summit, May - June, 1988", adopted by TUAC Plenary Session, April 29, 1988, submitted to Prime Minister Mulroney during his consultations with international labour leaders, May 31.
6. Union of Industrial and Employers' Confederations of Europe (UNICE): "Declaration for the Western Economic Summit in Toronto", under cover of UNICE President Ratjen's letter to PM Mulroney of June 3.
7. Business and Industry Advisory Committee (BIAC) position paper for OECD Ministerial consultations, presented to Mrs. Sylvia Ostry on May 25, 1988.
8. Message from Norodom Sihanouk of Cambodia to "Heads of State and Government of the Industrialized Countries meeting in Toronto".



ZCZC

UZLNAN 0044

SECRET

DD 210730Z FCOLN

FM TODEL TO FCOLN

202135Z JUN

GRS 600

SECRET

FM UKDEL TORONTO

TO DESKBY 210730Z FCO

TELNO 12

OF 202135Z JUNE 88

FOLLOWING FOR PAUL GRAY, NO. 10 DOWNING STREET FROM CHARLES POWELL IN TORONTO.

ROVER GROUP

FOLLOWING IS TEXT OF MY NOTE RECORDING THE PRIME MINISTER'S DISCUSSION WITH M. DELORS OF THE PROPOSED SALE OF ROVER GROUP TO BRITISH AEROSPACE. I SHOULD BE GRATEFUL IF YOU COULD PASS IT TO THE DEPARTMENT OF TRADE AND INDUSTRY.

BEGINS

ROVER GROUP

THE PRIME MINISTER HAD A MEETING IN TORONTO THIS AFTERNOON WITH M. DELORS, PRESIDENT OF THE EC COMMISSION, TO DISCUSS THE PROPOSED SALE OF ROVER GROUP TO BRITISH AEROSPACE. M. LAMY WAS ALSO PRESENT.

I SHOULD BE GRATEFUL IF YOU AND COPY RECIPIENTS WOULD ENSURE THAT THIS LETTER IS SEEN ONLY BY NAMED RECIPIENTS ON A STRICT NEED TO KNOW BASIS.

THE PRIME MINISTER SPOKE ALONG THE LINES OF THE BRIEF ENCLOSED WITH YOUR LETTER OF 17 JUNE TO PAUL GRAY. SHE EMPHASISED THE VERY GREAT POLITICAL SENSITIVITY OF THE MATTER AS WELL AS THE URGENCY. THE BAE OFFER EXPIRED ON 31 JULY AND WE NEEDED A DEFINITIVE RESPONSE FROM M. DELORS BY MID-JULY AT THE LATEST IN ORDER TO ALLOW TIME FOR THE PARLIAMENTARY PROCEDURES TO BE COMPLETED. THE DELAY WHICH HAD ALREADY OCCURRED TOGETHER WITH THE UNFORTUNATE LEAK IN BRUSSELS WAS CAUSING SERIOUS PROBLEMS BOTH FOR BAE AND FOR ROVER GROUP AND THEIR DEALERS. THE PRIME MINISTER CONTINUED THAT WE HAD BEEN SERIOUSLY DISAPPOINTED WITH THE OUTCOME OF LORD YOUNG'S FIVE MEETINGS WITH COMMISSIONER SUTHERLAND. IF THIS OPPORTUNITY TO PRIVATISE THE ROVER GROUP WERE MISSED, IT WAS VERY HARD TO SEE ANOTHER ONE MATERIALISING. THE FIGURES HAD BEEN WORKED OVER CAREFULLY. SHE WAS AWARE THAT THERE WERE SOME DIFFERENCES BETWEEN THE UNITED KINGDOM AND THE COMMISSION OVER THE DEFINITION OF DEBT: BUT VIRTUALLY ALL OF IT WAS EITHER AUDITED DEBT OR SUMS WHICH THE AUDITORS CONFIRMED WERE APPROPRIATE. THERE MIGHT BE SOME LATITUDE IN THE OVERALL FIGURE FOR THE NET TERMS NEGOTIATED WITH BAE, BUT NOT MORE THAN FIFTY MILLION POUNDS. TO SUM UP: THE COMMISSION'S DECISION HAD MAJOR POLITICAL AND COMMERCIAL IMPLICATIONS AND WE WERE UP AGAINST A DEADLINE. IT WAS ESSENTIAL THAT A SATISFACTORY SOLUTION SHOULD BE REACHED RAPIDLY.



M. DELORS SAID THAT HE HAD DISCUSSED THE PROBLEM WITH LORD YOUNG AND ALSO WITH COMMISSIONER SUTHERLAND. HE COULD ASSURE THE PRIME MINISTER THAT IT WOULD BE DEALT WITH EQUITABLY. HE UNDERSTOOD THE NEED FOR A QUICK DECISION. COMMISSIONER SUTHERLAND HAD TWO OBJECTIONS. ONE WAS THE PRICE, THE OTHER WAS COMPOSITION OF THE DEBT. THE PRIME MINISTER INTERJECTED THAT THE PRICE REFLECT ROVER GROUP'S VERY POOR PAST PERFORMANCE. BAE WOULD HAVE TO FINANCE INVESTMENT IN NEW MODELS FROM THEIR OWN RESOURCES, WHICH WOULD BE A HEAVY BURDEN. THEY WOULD ONLY BUY ROVER GROUP IF IT WAS DEBT-FREE. THE DEBT HAD ALL BEEN PROPERLY AUDITED. M. DELORS SAID THAT IT WOULD BE HELPFUL IF HE COULD SEE THE AUDIT RESULTS. HE BELIEVED THAT A COMPROMISE COULD BE FOUND BY ALTERING THE MIX BETWEEN DEBT WRITE-OFF AND CARRY-OVER OF TAX LOSSES. THE LATTER WAS OF NO CONCERN TO THE COMMISSION. THE PRIME MINISTER POINTED OUT THAT IT ALSO HAD LITTLE ADVANTAGE FOR BAE SINCE IT WOULD BE RING-FENCED WITHIN ROVER GROUP. M. DELORS CONTINUED THAT HE FULLY APPRECIATED THE PRIME MINISTER'S POLITICAL CONCERNS. HE WOULD PROPOSE A SOLUTION TO HIS COLLEAGUES IN THE COMMISSION. HE WOULD ALSO REMAIN IN CLOSE TOUCH WITH LORD YOUNG.

I AM COPYING THIS LETTER TO TONY GALSWORTHY (FOREIGN AND COMMONWEALTH OFFICE) AND TO ALEX ALLAN (HM TREASURY).

HOWE

YYYY

UZLNAN 0044

NNNN



20/6/88

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T958/88

PRIME MINISTER - PREMIER-MINISTRE

SUBJECT cc MASTER  
OPS.

M.

Conservative  
won with about  
57% OF vote!

B

SUBJECT & MASTER

SECRET 1

File shw a



This was telegraphed to DTI today.  
Circulated in Toronto to copy recipients.

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

20 June 1988

Dear Joseph,

#### ROVER GROUP

The Prime Minister had a meeting in Toronto this afternoon with M. Delors, President of the EC Commission, to discuss the proposed sale of Rover Group to British Aerospace. M. Lamy was also present.

I should be grateful if you and copy recipients would ensure that this letter is seen only by named recipients on a strict need to know basis.

The Prime Minister spoke along the lines of the brief enclosed with your letter of 17 June to Paul Gray. She emphasised the very great political sensitivity of the matter as well as the urgency. The BAe offer expired on 31 July and we needed a definitive response from M. Delors by mid-July at the latest in order to allow time for the parliamentary procedures to be completed. The delay which had already occurred together with the unfortunate leak in Brussels was causing serious problems both for BAe and for Rover Group and their dealers. The Prime Minister continued that we had been seriously disappointed with the outcome of Lord Young's five meetings with Commissioner Sutherland. If this opportunity to privatise the Rover Group were missed, it was very hard to see another one materialising. The figures had been worked over carefully. She was aware that there were some differences between the United Kingdom and the Commission over the definition of debt: but virtually all of it was either audited debt or sums which the auditors confirmed were appropriate. There might be some latitude in the overall figure for the net terms negotiated with BAe, but not more than fifty million pounds. To sum up: the Commission's decision had major political and commercial implications and we were up against a deadline. It was essential that a satisfactory solution should be reached rapidly.

M. Delors said that he had discussed the problem with Lord Young and also with Commissioner Sutherland. He could assure the Prime Minister that it would be dealt with equitably. He understood the need for a quick decision. Commissioner Sutherland had two objections. One was the price, the other was composition of the debt. The Prime Minister interjected that the price reflect Rover Group's very poor past performance. BAe would have to finance investment in new models from their own resources,

SECRET



which would be a heavy burden. They would only buy Rover Group if it was debt-free. The debt had all been properly audited. M. Delors said that it would be helpful if he could see the audit results. He believed that a compromise could be found by altering the mix between debt write-off and carry-over of tax losses. The latter was of no concern to the Commission. The Prime Minister pointed out that it also had little advantage for BAe since it would be ring-fenced within Rover Group. M. Delors continued that he fully appreciated the Prime Minister's political concerns. He would propose a solution to his colleagues in the Commission. He would also remain in close touch with Lord Young.

I am copying this letter to Tony Galsworthy (Foreign and Commonwealth Office) and to Alex Allan (HM Treasury).

*your search.*  
*Chris*

C. D. POWELL

Stephen Ratcliffe, Esq.,  
Department of Trade and Industry.



POLITICAL DECLARATION

I. EAST-WEST

1. We the leaders of our seven countries, and the representatives of the European Community, uphold common principles of freedom, respect for individual rights, and the desire of all men to live in peace under the rule of law. Our peoples stand in solidarity within the framework of our existing alliances for the cause of freedom, to safeguard democracy and the prosperity which it has produced. In our discussions we considered how these goals and values could be pursued in the field of foreign affairs, particularly with regard to East-West relations.
2. We discussed a wide range of regional questions and these discussions are continuing throughout the Summit.
3. We confirmed our belief in constructive and realistic dialogue and cooperation, including arms control, human rights and regional issues, as the way to build stability between East and West and enhance security at lower levels of arms. We also reaffirmed that for the foreseeable future nuclear deterrence and adequate conventional strength are the guarantees of peace in freedom.
4. In several important respects changes have taken place in relations between Western countries and the Soviet Union since we last met. For our part this evolution has come about because the industrialized democracies have been strong and united. In the Soviet Union greater freedom and openness will offer opportunities to reduce mistrust and build confidence. Each of us will respond positively to any such developments.
5. We welcome the beginning of the Soviet withdrawal of its occupation troops from Afghanistan. It must be total and apply to the entire country. The Afghan people must be able to choose their government freely. Each of us confirms our willingness to make our full contribution to the efforts of the international community to ensure the return of the refugees to their homeland, their resettlement, and the reconstruction of their country. We now look to the Soviet Union to make a constructive contribution to resolving other regional conflicts as well.
6. Since our last meeting, progress has been made between the United States and the Soviet Union in agreeing to reduce



nuclear weapons in a manner which accords fully with the security interests of each of our countries. The INF Treaty, the direct result of Western firmness and unity, is the first treaty ever actually to reduce nuclear arms. It sets vitally important precedents for future arms control agreements: asymmetrical reductions and intrusive verification arrangements. We now look for deep cuts in U.S. and Soviet strategic offensive arms. We congratulate President Reagan on what he has already accomplished, along with General Secretary Gorbachev, towards this goal.

7. Nonetheless, the massive presence of Soviet conventional forces in Eastern Europe, the ensuing conventional superiority of the Warsaw Pact, and its capacity to launch surprise attacks and large scale offensive operations, lie at the core of the security problem in Europe. The Soviet military buildup in the Far East is equally a major source of instability in Asia. These threats must be reduced. Our goal is enhanced security and stability at lower levels of forces, after having eliminated the present imbalances. We seek the early establishment of a comprehensive, effectively verifiable and truly global ban on chemical weapons.

8. Genuine peace cannot be established solely by arms control. It must be firmly based on respect for fundamental human rights. We urge the Soviet Union to move forward in ensuring human dignity and freedoms and to implement fully and strengthen substantially its commitments under the Helsinki process. Recent progress must be enshrined in law and practice, the painful barriers that divide people must come down, and the obstacles to emigration must be removed.

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

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

#### TERRORISM

11. We strongly reaffirm our condemnation of terrorism in all its forms, including the taking of hostages. We renew our

ELON POL

Sum J pt 26



commitment to policies and measures agreed at previous Summits, in particular those against state-sponsored terrorism.

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

13. We express support for work currently under way in the International Civil Aviation Organization aimed at strengthening international protection against hijackings. We welcome the most recent declaration adopted by the ICAO Council which endorses the principle that hijacked aircraft should not be allowed to take off once they have landed, except in circumstances as specified in the ICAO declaration.

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

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

#### NARCOTICS

16. The illegal use of drugs and the illicit trafficking in them poses grave risks to the peoples of Summit countries as well as the peoples of source and transit countries. There is an urgent need for improved international cooperation in all appropriate fora on programs to counter all facets of the illicit drug problem, in particular production, trafficking, and financing of the drug trade. The complexity of the problem requires additional international cooperation, in particular to trace, freeze and confiscate the proceeds of drug traffickers, and to curb money laundering.

17. We look forward to the successful negotiation in Vienna in November of a United Nations Convention on illicit trafficking.

18. We supported the initiative of the Government of the United States for a special task force to be convened to propose methods of improving cooperation in all areas including national, bilateral and multilateral efforts in the fight against narcotics.



NOTE FOR THE RECORD

ECONOMIC SUMMIT, TORONTO: HEADS OF GOVERNMENT DINNER ON 19 JUNE 1988

Heads of Government discussed a number of foreign policy issues over dinner on Sunday 19 June at the Toronto Hunt Club.

East/West Relations

This was the main subject discussed. All Heads of Government were warm in their thanks and praise for President Reagan's achievements at the Moscow Summit. Some progress was noted on human rights in the Soviet Union. President Reagan reported that proposals were being drawn up for legislation to provide for greater freedom of expression and the right to emigrate. He also reported that some of the refuseniks who had attended the lunch in the American Embassy in Moscow during his visit had subsequently been detained by the KGB. When the Americans had protested vigorously at the highest level, it turned out that senior officials in Moscow knew nothing of this and orders for release of those detained were given. The general view was that the problems of the Soviet economy were even greater than previously thought with military spending a higher proportion of overall spending than estimated. The Prime Minister stressed that President Reagan had been absolutely right to take a strong line on human rights at the Summit. In response to her question President Reagan had said that he did not know whether a START Agreement could still be reached this year. (General Powell told me separately that he thought a further Summit before the end of President Reagan's term of office highly unlikely.)

Chancellor Kohl had been pessimistic about the prospects of the forthcoming party conference in the Soviet Union: there were several signs that Gorbachev would not make much progress with his reforms there. He had also stressed the mood of uncertainty and unease in Eastern Europe.

Mr. Takeshita had thanked President Reagan for raising the question of the Japanese Northern Territories. He had also said that there was no sign yet of any build-down in Soviet military strength in the Far East.



Arms Control

There had been relatively little discussion of arms control. A point which particularly struck the Prime Minister was a remark by President Mitterrand to the effect that the security of Europe now depended on conventional weapons and that, if there was to be a further war in Europe, it would be fought with conventional weapons. In the same intervention he had also said that the West should not upset the Soviet Union by talking about the reunification of Europe or Europe from the Atlantic to the Urals since this did not help Gorbachev. It was better not to blur the distinction between the two Alliances.(!)

Regional problems

President Reagan made a plea for financial help for the Phillipines and for refugees in Afghanistan. He had also mentioned the proposal by Gorbachev in Moscow to set a target date of the 10th anniversary of Security Council Resolution 435 on 29 September for making progress on Angola. There had been general concern at the lack of progress on Arab/Israel and Iran/Iraq.

Drugs

President Reagan had made a strong plea for a passage on drugs in the Summit's main political declaration.

C.D.I.

C. D. POWELL  
20 June 1988

cc Mr. Wicks  
Mr. Galsworthy  
Sir John Fretwell  
Mr. Richardson

pa

PRIVATE SECRETARY

cc Mr. Wicks

DRAFT DECLARATION

1. The immediate question which Foreign Ministers will be asked to decide is the actual handling of the various pieces of paper prepared last night. There are three possibilities:

(a) the East/West declaration, the text on the Middle East and the texts on terrorism and narcotics issue as a declaration (or two linked declarations). The texts on Southern Africa and Cambodia are used for the Chairman's summary. This is the Presidency's preferred solution. It follows what was agreed earlier by Sherpas. But it offends the Japanese by putting Cambodia in a lower category.

(b) all of the texts are handling as a single or linked declarations. This has the draw-back for us of bringing the text on Southern Africa up to the higher category. We might never succeed in getting it down again at future Summits.

(c) the declaration covers East/West, terrorism and narcotics, seen as subjects of <sup>global</sup> ~~notable~~ importance. The three regional texts are left for the Chairman's summary. We are seen as the main obstacle to this solution, which some would prefer, because of the importance we have attached to the Middle East text.

I suggest we might argue for (a) above. The Japanese showed some signs of beginning to give way on Cambodia. But if we cannot get (a) I would hav thought it better to go for (c), sacrificing something on the Middle East in order to keep South Africa out of the top category.

(There was some confusion about what exactly Foreign Ministers agreed last night: some thought that they wanted all texts to be of equal status, but that was not the Presidency's view.)

On the East/West text there are only two problems.

(a) the German insertion in paragraph 6. This gives undue prominence to Shevardnadze's statement before we have had a



chance to evaluate it properly. It helps the Russians to set the agenda for the CST.

(b) the French reserve on the last paragraph is a doctrinal point about which we all became confused, even Attali. I think we could go along with any of the variants e.g. "consistent with the security interests of each of us".

On the Middle East text I doubt if the Americans will stick to their reserve about compliance. We would be happy for the words to come out but can accept the text as it is.

I went to one of our fall back positions on paragraph 3 of the terrorism text, but this still did not satisfy everyone. I think we can press strongly for the passage in square brackets to be included: it does not significantly lengthen the text.

The French have a problem on condemning Vietnamese occupation in the Cambodia text. We could join in urging them to drop this reserve, but it is not a point of major importance.

The text on Southern Africa is ragged: we had no draft to work with. The French had by this time left, possibly accidentally. I included the reserve to President Botha's speech but there is no prospect of securing agreement to it. It may be useful for trading purposes. The text is relatively mild and contains no hint of sanctions. I think we can live with it.

DRAFT ECONOMIC DECLARATION; COMMENTARY

INTRODUCTION (paragraphs 1 to 5)

1. Only remaining square brackets in middle of paragraph 4 where French object to "market" forces and want a reference to "in a context of supportive social programmes". Everyone else can support "market" forces.

2. The final sentence of paragraph 6 reflects the usual French pressure for references to improving the international monetary system, but is innocuous.

INTERNATIONAL ECONOMIC POLICY COOPERATION (paragraphs 6 to 13)

3. Paragraph 12 on agriculture was controversial. In its present form it gives (implied) credit to the Community for the February reforms; points forward to further reforms; and gives people what they want on small farms.

MULTILATERAL TRADING SYSTEM/URUGUAY ROUND (paragraphs 14 to 20)

4. At the end of paragraph 14 we secured a satisfactory reference to standstill and roll-back. The Americans resisted this to the bitter end but then raised their square brackets. The sentence is so placed in the Communique to govern all trade issues: but the Americans and others all know that it refers particularly to recent and threatened US action to support their farmers.

5. Paragraph 16 on strengthening GATT disciplines reflects our ideas and is satisfactory.

6. Paragraph 18 is the main passage on agriculture. The final text contains alternative square bracketed passages. The first



is satisfactory to the rest of the Community. The second reflects a substantial concession by the Americans, who have abandoned language committing Summit countries to abolish "trade distortive measures of agricultural policies". They are now prepared to settle for reductions of such measures, and have not attempted to set a date. "Zero/2000" has thus disappeared at least in this context. The rest of the Community have not accepted the new American language: but at this stage I think it would be reasonable to give the Americans some support.

7. The latest version of paragraph 9 reflects a compromise between the French and the Americans on "globality", ie the proposition that no agreement on any subject in the Mid-Term Review in Montreal this December can be reached unless there is agreement on all subjects. The new text is satisfactory.

#### NEWLY INDUSTRIALISED ECONOMIES (paragraph 21)

8. There was an argument between the Americans and the Japanese about whether exchange rates were a proper subject for discussion with the NIEs. We have an interest because of the Hong Kong dollar/US dollar link. But the reference in the final text to "currency" policies is all right.

#### DEVELOPING COUNTRIES AND DEBT (paragraph 22)

9. The Americans want a specific reference to helping the Philippines. The rest of us are not keen, and the French were strongly opposed.

10. There is no square bracketed language elsewhere in this section. Paragraph 30 deals with the debt of the poorest in a manner which adequately reflects the Chancellor's ideas, though

without referring to them specifically. The references to "comparability" are code for burden-sharing which the Americans will not accept explicitly.

FUTURE SUMMITS (paragraph 32)

11. This is our language (reflecting a pedestrian original).

OTHER ISSUES

12. The passage on the environment is acceptable. We have checked with the Department of the Environment that they do not object to the reference to "acid rain". But the Americans and the Canadians seem equally determined to have that reference out.

13. We have also checked with London that the reference to the manned space station is OK.

ReB



## COMMENTARY

# S.A. sanctions just a phony moral crusade

By Kelly Hawke

*"The most striking of all impressions I have formed... is of the strength of this African national consciousness... The wind of change is blowing through this continent."*

—British Prime Minister Harold Macmillan, to the South African Houses of Parliament, 1960.

ALTHOUGH much has happened since Macmillan's famous speech, 28 years later the winds have lost their velocity. The South African government has reimposed state emergency regulations for yet another year. Almost all anti-apartheid groups have been banned, and censorship of the media remains rigid.

Two years have passed since the Commonwealth Group of Eminent Persons prompted the U.S., Commonwealth and European Community to impose various sanctions against South Africa. Scores of multinational corporations have sold their S.A. subsidiaries or closed shop completely, and many international banks have stopped rolling over South African loans.

Yet apartheid remains firmly entrenched and the process of reform has slowed to a crawl.

Sanctions are not working. What began as a passionate call to isolate South Africa has been answered with a phony moral crusade.

Sanctions aren't working because they have been poorly applied. Joe Clark and Brian Mulroney led the Commonwealth in song calling for stringent action against South Africa, and yet Canadian sanctions are a joke.

## Imports rerouted

Canada has simply banned what it doesn't need. We've banned steel, but we import alloys from South Africa that are used to make our own steel. Some imports have just been rerouted: uranium imports that used to be recorded as South African shipments are now classified as coming from Namibia. It's the same uranium. Although trade with South Africa dropped last year, it's climbing again: For the first quarter of 1988, trade is up 20% over the same period last year.

Disinvestment has also been a sham. Most companies that have pulled out simply sold their assets to South African management, amounting to nothing but corporate camouflage that has provided lucrative business opportunities for whites at the expense of blacks.

So what are we accomplishing through sanctions and disinvestment? We're sending a confusing message to white South Africans that we are outraged at their behavior, but we pose no serious threat. Meanwhile, random sanctions have caused increased unemployment in the black labor force.

Half-hearted sanctions have proved ineffective and are worse than no sanctions at all. It's time we backed our passionate moral song with action, or cut the hypocrisy altogether. We should either impose full sanctions and stop taking advantage of loopholes in our own policy, or impose no sanctions at all. If we want to make a real effort, we should cut all diplomatic ties; deny South Africans entry into Canada; cut all air links and ban travel. In other words, completely isolate the country.

But before we gear up to blockade the South African coast line, we should ask ourselves: Does isolation lead to reform? Is this really the route we want to take? Can we force the government to change, or will it just keep fighting to the end? If so, what's the point?

KELLY HAWKE is *The Financial Post's* editorial page assistant.

Prime Minister

You might enjoy this, from today's Canadian press!

C.D.P.



DRAFT PASSAGE FOR COMMUNIQUE

At the Venice Summit we recognised that the problems of some of the poorest and most debt-distressed countries, principally in the Sub-Saharan Africa, were uniquely difficult and needed special treatment. We welcome the agreement reached recently on the IMF's Enhanced Structural Adjustment Facility. But we agree that further actions needs to be taken to assist those of the poorest and most debt-distressed countries in Sub-Saharan Africa which are pursuing appropriate adjustment policies, in two respects:

- for ODA loans, several creditor countries have already taken action to write off the principal of such debts - the most appropriate solution for that portion of the debts of these countries. We urge those who have not yet taken such action to do so;
- for Paris Club debts, arising mainly from export credits, we have at this meeting examined ideas of concessional interest rates, extended repayment periods, and partial cancellation of debts; we have agreed the basis of arrangements under which each creditor could choose his preferred option, on terms - particularly as to differential rescheduling and grace periods - designed to maintain the most equitable possible sharing of costs and risks; and we are inviting the Paris Club to negotiate an inter-creditor agreement on this basis as quickly as possible.



2. Threats to the environment recognize no boundaries. Their urgent nature requires strengthened international cooperation among all countries.

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.

3. Further action is needed. Global climate change, air and water pollution, hazardous substances, deforestation, and endangered species require priority attention. ~~In this context 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 should also be encouraged as well as the establishment of an inter-governmental panel on global climate change under the auspices of the UNEP and the WMO. We welcome the Conference on the Changing Atmosphere to be held in Toronto next week.

[acid rain]

be pursued  
urgently

We also recognize  
potential impact  
of ozone on the  
env. whether -  
than our inland  
use of ~~the~~ resources  
at + or preventing  
desertification.

It is  $\therefore$  timely that

### DRUGS

3. Illicit narcotics trafficking poses grave risks to peoples of all countries. Each Summit country should continue to place importance on domestic demand reduction programs but there is also an urgent need for improved international cooperation in appropriate forums on the illicit drug problem, including production, trafficking, and money laundering. The problem requires not only reinforcement of present efforts but also additional international approaches. We look forward to the successful negotiation in Vienna in November of a United Nations Convention on illicit trafficking. We support the initiative of the United States to convene a special task force comprised of foreign affairs, enforcement, finance and other officials from Summit countries concerned with the fight against narcotics. This task force should propose methods of improving cooperation in all areas including national, bilateral and multilateral efforts.

### HUMAN FRONTIER SCIENCE PROGRAM

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



12. One of the major structural problems in both developed and developing countries is in the field of agricultural policies. Important steps to reduce the overproduction have already taken place. It is essential that ~~encouraging~~ policy reform efforts <sup>should</sup> be continued through further positive actions by all Summit participants. //The primary objective of agriculture in all our countries is to satisfy the demand for food in the most economical way possible.// [Other important objectives such as satisfactory levels of farm incomes, the preservation of rural communities and environmental protection <sup>should</sup> ~~can~~ be achieved with less interference in markets.] We welcome the OECD's increased emphasis on structural adjustment and development in the rural economy.

0084A

16. We attach major importance to strengthening the GATT itself, particularly the surveillance of trade policies and dispute settlement procedures. It is vital that the GATT become a more dynamic and [policy oriented] organization, with greater Ministerial involvement, and strengthened linkages with other international organizations. GATT disciplines must be tightened so that members accept ~~all~~ their obligations, and ensure that disputes are resolved speedily, effectively and equitably.



NEWLY INDUSTRIALIZING ECONOMIES

21. 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. With increased economic importance come greater international responsibilities and a strong mutual interest in improved constructive dialogue and cooperative efforts in the near term between the industrialized countries and the Asian NIEs, as well as the other outward-oriented countries in the region. The <sup>economic</sup> dialogue and cooperative efforts should centre on <sup>all relevant policies necessary for achieving</sup> such areas as exchange rates, macroeconomic, trade and structural adjustment policies to achieve the international adjustment necessary for sustained, balanced growth of the world economy. We encourage the development of informal processes which would facilitate multilateral discussions of issues of mutual concern and foster the necessary <sup>cooperative</sup> cooperative actions on an urgent basis.

insert to para 22

22. The performance of developing countries has become increasingly important to the world economy. The situation of individual developing countries varies widely; many still face serious economic difficulties. "Developing countries which are making difficult transitions to democracy, such as the Philippines, merit our special attention in this regard." Central to the prospects of all is strong and sustainable world growth, an open trading system, adequate financial flows and, most importantly, a commitment by these countries to appropriate economic reform.

sentence in " " insert.



25. Official financing has played a central role in the debt strategy through the Paris Club (U.S.\$73 billion of principal and interest have been consolidated since 1983) and the flexible policies of export credit agencies. The international financial institutions will continue to have a pivotal role. We endorse the recent initiatives taken by the International Monetary Fund to strengthen its capacity to support medium-term programs of macroeconomic adjustment and structural reform and to provide greater protection for adjustment programs from unforeseen external developments. Especially important in increasing available resources is the U.S.\$75 billion General Capital Increase of the World Bank which should be speedily approved and subscribed to by all countries that have not yet done so.

26. Commercial banks have played an important role in supporting debtor countries' reform efforts through an expanded menu of financing options which has facilitated the channeling of commercial bank lending into productive uses. Their continued involvement is indispensable to the debt strategy. In this regard, the World Bank and IMF can play an important catalytic role in mobilizing additional financing from private (and official) sources in support of debtor countries' adjustment programs.

28. International direct investment flows play an important role in spurring economic growth and structural adjustment in developing countries. Thus they contribute to alleviating debt problems. Developing countries should welcome and encourage such investment by creating a favourable investment climate. The positive contribution that the Multilateral Investment Guarantee Agency and the International Finance Corporation are making in stimulating international direct investment should be encouraged.

German



INSERT FOR ECONOMIC DECLARATION

29. <sup>especially</sup> In cases where it is extremely difficult for the poorest developing countries to meet their debt service obligations, <sup>through LDCs</sup> an increase in concessional resource flows is necessary to help those countries resume sustained growth. Since Venice, progress in dealing with the debt burden of these countries has been encouraging. Paris Club creditors are rescheduling debt at extended grace and repayment periods. In addition, the recent enhancement of the IMF's Structural Adjustment Facility; the World Bank and ODA agencies' enhanced program of co-financing; and the fifth replenishment of the African Development Fund will mobilize a total of more than US \$18 billion in favour of the poorest and most indebted countries undertaking adjustment efforts over the period 1988/90. Out of this total, US \$15 billion will be channelled to sub-Saharan African countries.

30. We welcome proposals made by several of us to ease further the debt service burdens of the poorest countries ~~eligible for the World Bank Special Assistance Program for Africa;~~ <sup>and</sup> that ~~is~~ those undertaking internationally approved adjustment programs, ~~and having per capita income of less than \$425 per year and debt service ratios greater than 30%.~~ <sup>We have agreed to consensus (to ourselves)</sup> Consensus was achieved on rescheduling official ~~commercial~~ debt of these countries within a framework of comparability that allows official creditors to choose among concessional

on 3 letter instruments

at command rate

bring

consolidate record

interest rates, longer repayment periods, partial write-offs of debt service obligations [or a combination of these options].

This approach allows official creditors to choose options consistent with their legal or budgetary constraints.

The Paris Club has been <sup>urged</sup> requested to examine <sup>warrant out the necessary</sup> technical

aspects to ensure <sup>operational success through</sup> fair burdening sharing, by the end of this year. This approach will provide benefits over and above the

impressive multilateral agreements to help the poorest countries over the past year.

30.bis On a bilateral basis, several creditor governments

have already taken action to write off the principal of Official Development Assistance loans; <sup>or to relieve future savings of these loans.</sup> We welcome the new

ODA initiatives announced in recent weeks, and urge all Summit ~~countries~~ <sup>for - vigorous</sup> to do what they can to help the poorest countries.

We agree that trade liberalization, including greater access to our markets, is important to help the poorest countries to improve their debt service capacity while at the same time achieving more sustainable growth.

while  
all  
countries  
agree with  
to support  
a high  
growth  
start is  
the  
assumption &  
the poorest  
countries



Draft Communique Language

Paragraph 30 -- We welcome proposals made by several of us to ease further the debt service burdens of countries in the World Bank's Special Program of Assistance for low income debt-distressed countries <sup>mainly</sup> in Sub-Saharan Africa. We are <sup>ready</sup> <sup>agree to</sup> prepared to consider further debt service relief measures by <sup>on concessional exp't credits</sup> <sup>over B</sup> <sup>guar</sup> individual countries within the Paris Club framework, such as concessional rates on shorter maturities, longer repayment periods at commercial rates, or partial write-offs of debt service obligations during the consolidation period. Such relief could be available for eligible countries pursuing IMF and World Bank-supported adjustment programs. We urge the Paris Club to develop specific options that allow individual creditors to make comparable contributions within the framework of multilateral debt rescheduling in accordance with their respective legal and budgetary procedures and constraints. For ODA loans, several creditor governments have already taken action to write-off the principle of such debts, while others continue to maintain a high grant element in their assistance to these countries. We welcome the new ODA initiatives announced in recent weeks.

Financial  
are  
designed  
to achieve  
for  
stability -  
strong.

FUTURE SUMMITS

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

\*\*\*\*\*



31. FOR ODA LOANS, SEVERAL CREDITOR GOVERNMENTS HAVE ALREADY  
TAKEN ACTION TO WRITE OFF THE PRINCIPAL OF SUCH DEBTS. WE  
WELCOME THE NEW ODA INITIATIVES ANNOUNCED IN RECENT  
WEEKS. <sup>WE URGE</sup> [ALL SUMMIT COUNTRIES] <sup>TO DO</sup> ~~[ARE DOING]~~ WHAT THEY CAN  
WITHIN THE CONSTRAINTS OF THEIR CONSTITUTIONAL AND LEGAL  
SYSTEMS.

CONFIDENTIAL

ANNEX

- Europe is pursuing structural reforms to complement macroeconomic policies in order to spur job creation, enhance growth potential, and achieve a sustainable pattern of external balances. Structural reform measures are being put into place in the framework of the Communities programme for a unified internal market by 1992; including full liberalisation of capital movements; removal of physical, administrative and technical barriers to allow the full mobility of persons, goods and services and an improvement of competition policy. However, full achievement will depend on complete and timely implementation of the measures and on complementary policies including those in the fields of regional, social and environmental policies and of technological co-operation..
  
- The main elements of Germany's structural reforms are tax reform and reduction, deregulation and privatization, reform of the postal and telecommunications system, increased flexibility in the labour market, and reform of the social security system.



- In France, the main structural reforms will deal with improving the level of education and professional training and development for workers, the reform of financial markets, and the elaboration of fiscal incentives to innovation and to productive investment.
- Italy will seek to promote training and education, increase the flexibility of the labour market to spur employment, improve the functioning of financial markets, revise the tax system to promote efficiency and eliminate distortions, and enhance public sector efficiency.
- In the United Kingdom, there has already been a substantial programme of tax reform, trade union law reform, deregulation, opening up of markets and privatization of state industries. This will continue. Further measures are being introduced to improve both the quality of education and the flexibility of the housing market.
- Japan will pursue further structural reforms to support and sustain the greater reliance on domestic demand-led growth which has quickened remarkably over the past year. Japan will promote reform of government regulations in key sectors, including agriculture and land use policies, the distribution system and the tax system.

- For the United States, where recent indications that the declining trend in private savings may have bottomed out are encouraging, it is nonetheless a priority to increase incentives to save. Also the United States will strengthen the international competitiveness of its industrial sector.
  
- The most promising areas of structural reform in Canada are implementation of the second stage of tax reform, the proposed liberalization of the financial services sector, and, most importantly, the implementation of the Free Trade Agreement with the United States.



CONFIDENTIAL

OTHER ISSUES

In addition to economic matters, we have discussed the following other important issues:

ENVIRONMENT

1. Protection and enhancement of the environment is essential. The report of the World Commission on Environment and Development has stressed that environmental considerations must be integrated into all areas of economic policy-making if the globe is to continue to support humankind. Summit countries endorse <sup>the</sup> ~~its~~ concept of sustainable development.
2. Threats to the environment recognize no boundaries. Significant progress has been achieved: The Montreal Protocol on Substances that Deplete the Ozone Layer is a milestone. We encouraged all countries to sign and ratify it. Further action is needed. Global climate change, air and water pollution, hazardous substances, deforestation, and endangered species require priority attention. We welcome the Conference on the Changing Atmosphere to be held in Toronto next week.

2. Threats to the environment recognize no boundaries. Their urgent nature requires strengthened international cooperation among all countries.

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.

*or*

3. Further action is needed. Global climate change, air and water pollution, hazardous substances, deforestation, and endangered species require priority attention. In this context 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 should also be encouraged as well as the establishment of an inter-governmental panel on global climate change under the auspices of the UNEP and the WMO. We welcome the Conference on the Changing Atmosphere to be held in Toronto next week.



TORONTO ECONOMIC SUMMIT

Economic Declaration

1. We, the Heads of State or Government of seven major industrial nations and the President of the Commission of the European Communities, have met in Toronto for the fourteenth annual Economic Summit. We have drawn lessons from the past and ✓ looked ahead to the future.

2. Over the past fourteen years, the world economy and economic policy have undergone profound changes. <sup>In particular,</sup> ✓ The information-technology revolution and the globalization of markets have increased economic interdependence, making it essential that governments consider fully the international dimensions of their deliberations.

3. <sup>with</sup> ~~We observed~~ a sharp contrast between the 1970s and 1980s. The former was a decade of high and rising inflation, declining productivity growth, policies dominated by short-term considerations, and frequently inadequate international policy cooperation. In the 1980s inflation has been brought under control, laying the basis for sustained strong growth and

The result has been the longest period  
of economic growth  
in the past was  
history

improved productivity. However, the 1980s have also seen the emergence of large external imbalances in the major industrial economies, greater exchange rate volatility, and debt-servicing difficulties in a number of developing countries. Our response to these developments was an increased commitment to international cooperation, resulting in the intensified process of policy coordination adopted at the 1986 Tokyo Summit and further strengthened at the Venice Summit, and in the ~~G-7~~ <sup>Group of Seven (G-7)</sup> forum.

4. Summits have proven an effective forum to address the issues facing the world economy, promote new ideas and develop a common sense of purpose. Especially in the 1980s they have helped bring about an increasing recognition that the eradication of inflation and of inflationary expectations is fundamental to sustained growth and job creation. That recognition has been underpinned by a shift from short-term considerations to a medium-term framework for the development and implementation of economic policies, and a commitment to improve efficiency and adaptability through greater reliance on <sup>(competitive forces)</sup> (market forces) and structural reform (in a context of supportive social programs). Over this period also we have singled out for concerted attention a number of other issues of decisive importance: the overriding need to resist protectionism and strengthen the open, multilateral trading system; to maintain and strengthen an



effective strategy to address the challenge of development and alleviate the burden of debt; and to <sup>deal</sup> ~~come to grips~~ with the serious nature of the world agricultural problem.

5. Since we last met, our economies have kept <sup>up the momentum of</sup> ~~growing~~ <sup>th</sup> strongly and are now in their sixth year of economic expansion. Employment has continued to expand, inflation has been restrained, and progress has been made toward the correction of major external imbalances. These encouraging developments are cause for optimism, but not for complacency. To sustain non-inflationary growth will require a commitment to enhanced cooperation. This is the key to credibility and ~~market~~ confidence.

#### INTERNATIONAL ECONOMIC POLICY COOPERATION

##### Macroeconomic Policies and Exchange Rates

6. At the Tokyo and Venice Summits ~~and in the Group of Seven forum~~, our countries have developed and strengthened the <sup>process of</sup> ~~coordination~~ coordination of our economic policies. Developments in the wake of the financial strains last October demonstrate the effectiveness and resilience of the arrangements that have emerged. The policies, the short-term prospects, and the medium-term objectives and projections of our economies are being discussed regularly in the Group of Seven. The policies and

(As part of their continuing effort to strengthen coordination we welcome the agreement of G-7 (to consider) the ways of further improving the functioning of the IFS + the coordination process.)

performance are assessed on the basis of economic indicators. We welcome the progress made in refining the analytical use of indicators, as well as the addition to the existing indicators of a commodity-price indicator.

(The progress in coordination is contributing to the improvement of the functioning of the I.M.S.)

7. ~~We~~ Our countries have undertaken a series of fiscal, monetary and structural policies <sup>have been undertaken</sup> to foster the adjustment to more sustainable economic and financial positions in the context of non-inflationary growth. Efforts in those directions, including continued reduction of budgetary deficits, will continue. We reaffirm our determination to follow, and, wherever feasible, strengthen our agreed strategy of coordinated efforts to reduce <sup>the growth of</sup> spending in countries with large external deficits and to sustain the momentum of domestic demand in those with large external surpluses. The reduction of large external imbalances, however, will require not only our cooperative efforts, but also those of smaller economies, including newly industrializing economies, with large external surpluses.

8. The exchange rate changes in the past three years, especially the ~~real~~ depreciation of the U.S. dollar against the Japanese yen and the major European currencies, have played a major role in the adjustment of real trade balances. We endorse the Group of Seven's conclusion that either excessive fluctuation of exchange rates, a further decline of the dollar, or a rise in



the dollar to an extent that becomes destabilizing to the adjustment process, could be counterproductive by damaging growth prospects in the world economy.

### Structural Reforms

9. International cooperation involves more than coordination of macroeconomic policies. Structural reforms complement macroeconomic policies, enhance their effectiveness, and provide

the basis for more robust growth. *We shall collectively review our progress on structural reforms and we should strive to integrate structural policies into our economic coordination process.*

10. We will continue to pursue structural reforms by removing <sup>unnecessary</sup> barriers, controls and regulations; increasing exposure to market competition, while mitigating ~~any possible~~ adverse effects on social groups or regions; removing disincentives to work, save, and invest, such as through tax reform; and by improving human resource development through education and training. The specific priorities that each of us has identified are outlined in the attached Annex.

11. We welcome the further development of the OECD's surveillance of structural reforms. Such surveillance would be particularly useful in improving public understanding of the reforms by revealing their impact on government budgets, consumer prices, and international trade.

respond  
is it ok?

End of para 12

More market oriented agricultural policies should also achieve important objectives such as preserving rural areas and family farming, raising quality standards and protecting the environment. We welcome the OECD's increased emphasis on structural adjustment and development in the rural economy.



12. One of the major structural problems in both developed and developing countries is in the field of agricultural policies. Important steps to reduce the overproduction have already taken place. It is essential that policy reform efforts should be continued through further positive actions by all Summit participants. ~~[The primary objective of agriculture in all our countries is to satisfy the demand for food in the most economical way possible.]~~ [Other important objectives such as satisfactory levels of farm incomes, the preservation of rural communities and environmental protection [should] be achieved with less interference in markets.] We welcome the OECD's increased emphasis on structural adjustment and development in the rural economy.

13. Financial and technological innovations are rapidly integrating financial markets internationally, contributing to a better allocation of capital but also increasing the speed and extent to which disturbances in one country may be transmitted to other countries. We will continue to cooperate with other countries in the examination of the functioning of the global financial system, including securities markets.

*and will lead to trade  
expansion + enhanced economic growth*

MULTILATERAL TRADING SYSTEM/URUGUAY ROUND

14. A successful Uruguay Round will assure the integrity of an open, predictable multilateral trading system based on clear rules. At Punta del Este, Ministers committed themselves to further trade liberalization across the wide range of goods and services, including such new areas as trade-related intellectual property and trade-related investment measures, and to strengthen the multilateral trading system. Countries must continue to resist protectionism and the temptation to adopt unilateral measures outside the framework of GATT rules. *In order to provide a favourable negotiating climate, the participants should consciously apply the commitments they have undertaken at Punta del Este + at subsequent ministerial meetings.*

*onst + ob*  
15. We welcome the Free Trade Agreement between Canada and the USA. We also welcome the steady progress towards the target of the European Community to complete the internal market by 1992. It is our policy that these developments, together with other moves towards regional cooperation in which our countries are involved should support the open, multilateral trading system and the liberalizing impact of the Uruguay Round.

16. We attach major importance to strengthening the GATT itself, particularly the surveillance of trade policies and dispute settlement procedures. It is vital that the GATT become a more dynamic and [policy oriented] organization, with greater Ministerial involvement, and strengthened linkages with other



0103A

16. We attach major importance to strengthening the GATT itself. It is vital that the GATT become a more dynamic and effective organization, particularly in regard to the surveillance of trade policies and dispute settlement procedures, with greater Ministerial involvement, and strengthened linkages with other international organizations. GATT disciplines must be tightened so that members accept their obligations and ensure that disputes are resolved speedily, effectively and equitably.

*improved*

international organizations. GATT disciplines must be tightened so that members accept their obligations, and ensure that disputes are resolved speedily, effectively and equitably.

17. Trade plays a key role in development. We encourage the developing countries, especially the newly industrializing economies, to undertake increased commitments and obligations and a greater role in the GATT, commensurate with their importance in international trade and in the international adjustment process, as well as with their respective stages of development. Equally, developed countries should continue to strive to ensure more open markets for the exports of developing countries.

18. In agriculture, continued political impetus is essential to underpin the politically difficult efforts at domestic policy reform and to advance the equally difficult and related process of comprehensive agricultural trade reform. Although significant progress was made in 1987 in the Uruguay Round negotiations, with the tabling of major proposals, it is necessary to ensure that the Mid-Term Review in Montreal in December, 1988 adds impetus to the negotiations in this as in other fields. We <sup>strongly</sup> support efforts to adopt a framework approach, including short as well as long term elements which will promote the reform process as launched last year and relieve current strains in agricultural markets. This would be facilitated by agreement on a device for the measurement



of support and protection. Also, ways should be developed to take account of food security and social concerns. Any short term measures would need to be a step forward <sup>in line with</sup> toward <sup>approved</sup> the long term goals. The objective of the framework would be to make the agricultural sector more responsive to market signals.

19. As the Uruguay Round enters a more difficult phase, it is vital to ensure the momentum of these ambitious negotiations. The Mid-Term Review will provide a unique opportunity to send a credible political signal to the trading world. The greatest possible advance must be made in all areas of the negotiations, so as to reach before the end of the year the stage where tangible progress can be registered. To this end, <sup>we</sup> all participants should <sup>support efforts to adopt</sup> seek to agree <sup>on all issues</sup> on framework approaches in the negotiations, <sup>the subject</sup> These <sup>is a sign of</sup> include fundamental reform of GATT rules, market access, <sup>these issues (such as</sup> agriculture, <sup>its</sup> trade in services, trade related intellectual property <sup>and</sup> trade related investment measures. For our part, we are committed to ensure that the Mid-Term Review establishes a solid base for the full and complete success of the negotiations, in accordance with the Punta del Este Declaration.

20. We all recognize the critical and expanding role of international investment in the world economy and share a deep concern that increased protectionism would undermine the benefits

of open investment policies. We resolve to progressively liberalize international investment policies and urge other countries to do likewise.

#### NEWLY INDUSTRIALIZING ECONOMIES

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



DEVELOPING COUNTRIES AND DEBT

22 The performance of developing countries has become increasingly important to the world economy. The situation of individual developing countries varies widely; many still face serious economic difficulties. Central to the prospects of all is strong and sustainable world growth, <sup>in particular</sup> an open trading system, adequate financial flows and, most importantly, a commitment by these countries to appropriate economic reform.

*W.S. Dell*

Middle-Income Countries

23. A number of highly-indebted middle-income countries continue to have difficulties servicing their external debt and generating the investment necessary for sustainable growth. The market-oriented, growth-led strategy based on the case-by-case approach remains the only viable approach for overcoming their external debt problems.

24. <sup>difficult</sup> We are encouraged that 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. The success of these efforts is essential for improving the economic performance and strengthening the creditworthiness of these countries.

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

\$756) 27.bis We strongly support the full implementation of the World Bank's General Capital Increase to strengthen the Bank's capacity to promote adjustment in middle-income countries. We also support greater awareness by international financial institutions of the environmental impacts of their development programs.



June 20, 1130 hours

CONFIDENTIAL

POLITICAL DECLARATION

I. EAST-WEST

1. We the leaders of our seven countries, and the representatives of the European Community, uphold common principles of freedom, respect for individual rights, and the desire of all men to live in peace under the rule of law. Our peoples stand in solidarity within the framework of our existing alliances for the cause of freedom, to safeguard democracy and the prosperity which it has produced. In our discussions we considered how these goals and values could be pursued in the field of foreign affairs, particularly with regard to East-West relations.
  
2. We began discussions of the full range of regional questions and these discussions are continuing throughout the Summit.
  
3. We confirmed our belief in constructive and realistic dialogue and cooperation, including arms control, human rights and regional issues, as the way to build stability between East

and West and enhance security at lower levels of arms. We also reaffirmed that for the foreseeable future nuclear deterrence and adequate conventional strength are the guarantees of peace in freedom.

4. In several important respects changes have taken place in relations between Western countries and the Soviet Union since we last met. For our part this evolution has come about because the industrialized democracies have been strong and united. In the Soviet Union greater freedom and openness will offer opportunities to reduce mistrust and build confidence. Each of us will respond positively to any such developments.

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

6. Since our last meeting, progress has been made between the United States and the Soviet Union in agreeing to reduce



nuclear weapons in a manner which accords fully with the security interests of each of our countries. The INF Treaty, the direct result of Western firmness and unity, is the first treaty ever actually to reduce nuclear arms. It sets vitally important precedents for future arms control agreements: asymmetrical reductions and intrusive verification arrangements. We now look for deep cuts in U.S. and Soviet strategic offensive arms. We congratulate President Reagan on what he has already accomplished, along with General Secretary Gorbachev, towards this goal.

7. Nonetheless, the massive presence of Soviet conventional forces in Eastern Europe, the ensuing conventional superiority of the Warsaw Pact, and its capacity to launch surprise attacks and large scale offensive operations, lie at the core of the security problem in Europe. The Soviet military buildup in the Far East is equally a major source of instability in Asia. These threats must be reduced. Our goal is enhanced security and stability at lower levels of forces, after having eliminated the present asymmetries. We seek the early establishment of a comprehensive, effectively verifiable and truly global ban on chemical weapons.

8. Genuine peace cannot be established solely by arms control. It must be firmly based on respect for fundamental human rights. We urge the Soviet Union to move forward in

ensuring human dignity and freedoms and to implement fully and strengthen substantially its commitments under the Helsinki process. Recent progress must be enshrined in law and practice, the painful barriers that divide people must come down, and the obstacles to emigration must be removed.

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

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

TERRORISM

11. We strongly reaffirm our condemnation of terrorism in all its forms, including the taking of hostages. We renew our



commitment to policies and measures agreed at previous Summits, in particular those against state-sponsored terrorism.

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

13. We express support for work currently under way in the International Civil Aviation Organization aimed at strengthening international protection against hijackings. We welcome the most recent declaration adopted by the ICAO Council which endorses the principle that hijacked aircraft should not be allowed to take off once they have landed, except in circumstances as specified in the ICAO declaration.

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

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

NARCOTICS

16. Illicit narcotics trafficking poses grave risks to the peoples of Summit countries as well as the peoples of source and transit countries. There is an urgent need for improved international cooperation in all appropriate fora on programs to counter all facets of the illicit drug problem, in particular production, trafficking, and financing of the drug trade. The complexity of the problem requires additional international cooperation, in particular to trace, freeze and confiscate the proceeds of drug traffickers, and to curb money laundering.

17. We supported the initiative of the Government of the United States for a special task force to be convened of officials from Summit countries concerned with the fight against narcotics. This task force should propose methods of improving cooperation in all areas including national, bilateral and multilateral efforts.

19. We look forward to the successful negotiation in Vienna in November of a United Nations Convention on illicit trafficking.



EAST-WEST DECLARATION

1. We the leaders of our seven countries, and the representatives of the European Community, uphold common principles of freedom, respect for individual rights, and the desire of all men to live in peace under the rule of law. Our peoples stand in solidarity within the framework of our existing alliances for the cause of freedom, to safeguard democracy and the prosperity which it has produced. In our discussions we considered how these goals and values could be pursued in the fields of foreign affairs, particularly with regard to East-West relations.

2. We confirmed our belief in constructive and realistic dialogue and cooperation, including arms control, human rights and regional issues as the way to build stability between East and West and enhance security at lower levels of arms. We also reaffirmed that for the foreseeable future nuclear deterrence and adequate conventional strength are the guarantees of peace in freedom.

3. In several important respects changes have taken place in relations between Western countries and the Soviet Union since we last met. For our part this evolution has come about because the industrialized democracies have been strong and united. In the Soviet Union greater freedom and openness will offer opportunities to reduce mistrust and build confidence. Each of us will respond positively to any such developments.

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

5. Since our last meeting, progress has been made between the United States and the Soviet Union in agreeing to reduce



nuclear weapons in a manner which accords fully with the security interests of each of our countries. The INF Treaty, the direct result of Western firmness and unity, is the first treaty ever actually to reduce nuclear arms. It sets vitally important precedents for future arms control agreements: asymmetrical reductions and intrusive verification arrangements. We now look for deep cuts in U.S. and Soviet strategic offensive arms. We congratulate President Reagan on what he has already accomplished, along with General Secretary Gorbachev, towards this goal.

6. Nonetheless, the massive presence of Soviet conventional forces in Eastern Europe, the ensuing conventional superiority of the Warsaw Pact, and its capacity to launch surprise attacks and large scale offensive operations, lie at the core of the security problem in Europe. The Soviet military buildup in the Far East is equally a major source of instability in Asia. These threats must be reduced. Our goal is enhanced security and stability at lower levels of forces.<sup>1</sup> We seek the early establishment of a comprehensive, effectively verifiable and truly global ban on chemical weapons.

<sup>1</sup> FRG would like to add the following sentence at this point:

"We noted the statement of Soviet Foreign Minister Shevardnadze in his address to the United Nations Special Assembly on Disarmament concerning conventional arms control in Europe which should be confirmed at the conference table."

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

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

9. We take positive note of Eastern countries' growing interest in ending their economic isolation, for example in the establishment and development of relations with the European Community. East-West economic relations can be expanded and serve our common interests so long as the commercial basis is sound, they are conducted within the framework of the basic principles and the rules of the international trade and payments system, and are consistent with [our respective]<sup>2</sup> security interests.

2 French reserve



MIDDLE EAST

If leaders wish to have text on the Middle East, paragraphs 1 and 2 are agreed.

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

2. We have pursued our consultations about the continuing war between Iran and Iraq, which remains a source of profound concern to us. We reaffirm our support for Security Council Resolution 598, which was adopted unanimously. We express our warm appreciation for the efforts of the Secretary General to work for a settlement on this basis and reiterate our determination to ensure implementation of this mandatory resolution by a follow-up resolution [if compliance cannot

determination to ensure implementation of this mandatory resolution by a follow-up resolution [if compliance cannot be secured.]<sup>1</sup> We condemn the use of chemical weapons by either party, deplore proliferation of ballistic missiles in the region, and renew our commitment to uphold the principle of freedom of navigation in the Gulf.

1 U.S. reserve



TERRORISM

If leaders wish to have text on terrorism, the following paragraphs are agreed language.

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

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

3. We express support for work currently under way in the International Civil Aviation Organization aimed at strengthening international protection against hijackings. We welcome the most recent declaration adopted by the ICAO Council [which endorses the principle that hijacked aircraft should not

be allowed to take off once they have landed, except in certain specific circumstances.}]<sup>1</sup>

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

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

<sup>1</sup> FRG, France, and Italy have reservations



AGREED TEXT JUNE 20 02:50 hours

#### NARCOTICS

Illicit narcotics trafficking poses grave risks to the peoples of Summit countries as well as the peoples of source and transit countries. There is an urgent need for improved international cooperation in all appropriate fora on programs to counter all facets of the illicit drug problem, in particular, production, trafficking, and financing of the drug trade. The complexity of the problem requires additional international approaches, including reinforcement of multilateral co-operation. In this respect, we look forward to the successful negotiation in Vienna in November of a United Nations Convention on illicit trafficking.

We supported the initiative of the Government of the United States for a special task force to be convened of officials from Summit countries concerned with the fight against narcotics. This task force should propose methods of improving cooperation in all areas including national, bilateral and multilateral efforts.

CONFIDENTIAL

CAMBODIA

As the recent message from Prince Sihanouk has reminded us, the continuing Cambodian conflict and the suffering of the Cambodian people is of deep concern. [We condemn Vietnam's illegal occupation of Cambodia]<sup>1</sup> and join the vast majority of the nations of the world in calling for the prompt withdrawal of all Vietnamese troops. We support a political settlement in Cambodia which will provide for Cambodian self-determination and lead to the re-emergence of a free and independent Cambodia.

<sup>1</sup> French reserve



June 20, 0400 hours

SOUTHERN AFRICA

We declare our abhorrence of apartheid, which must be replaced through a process of genuine national negotiations by a non-racial democracy. We deplore the continuing erosion of freedoms and democratic values in South Africa, in particular the renewal of the state of emergency, the harsh censorship regime, and the prohibition of virtually all peaceful opposition to apartheid. We are concerned about legislation designed to deprive anti-apartheid organisations of overseas aid. Implementation of such legislation would place severe strains on the relations each of us has with South Africa.

[We note the positive elements in President Botha's speech of April 21, 1988 and, on that basis, look for a return to the path of reform in South Africa.]

We recognize the need for more effective coordination of positive measures that support democratic forces which can provide black South Africans with economic leverage and the skills that will empower them to bring about a peaceful end to apartheid.

We call for the release of all political prisoners. All legal options available in South Africa should be used to prevent the death penalty imposed on the Sharpeville Six from being carried out.

[We confirm our support for the efforts by SADCC (Southern African Development Coordination Conference) members to develop and strengthen their economies.] We attach particular importance to the return to peace and stability in Mozambique.

We were unanimous in our support for current negotiations seeking national reconciliation within Angola and an end to the Angola/Namibia conflict. We strongly endorse the goal of reaching by September 29, 1988, the tenth anniversary of the UN Security Council Resolution 435, full agreement among all the parties on implementation of that resolution for the independence of Namibia and on complete withdrawal of all foreign forces from Angola.



Botswana Declaration

Du EW Sonny Canlw  
Dings NE  
Can SA.

SOUTH AFRICA

We declare our abhorrence of apartheid, which must be replaced through a process of genuine national negotiations by a non-racial democracy.

We expressed our urgent opinion on three particular matters:

(1) all legal options available in South Africa should be used to secure clemency for the Sharpeville Six.

(2) the enactment of legislation designed to deprive anti-apartheid organisations of overseas aid would place severe strain on the relations each of us has with South Africa.

(3) we strongly support the current negotiations seeking national reconciliation within Angola, an end to the Angola/Namibia conflict, and early implementation of UN Security Council Resolution 435.

Can

of 27 26 S. 022) . y C e  
- 0200/0 2/0 2/2  
2/2 V 2 V E L  
y C 0 2 - 2/2 2 -  
Y Cambodia

SUBJECT cc MASTER



10 DOWNING STREET  
LONDON SW1A 2AA

~~file~~  
+ MATE R:2000

From the Private Secretary

19 June 1988

Dear Tony,

PRIME MINISTER'S MEETING WITH ITALIAN PRIME MINISTER

The Prime Minister had a talk this morning with the Italian Prime Minister before the start of the Economic Summit in Toronto. Signor de Mita was accompanied by his Diplomatic Adviser, Signor Vattani.

Introduction

The Prime Minister said that she was glad to have the opportunity to meet Signor de Mita before the start of the Summit. She quite understood the reasons which had made it necessary to cancel the planned bilateral summit in Italy. Signor de Mita explained that he had still been forming his government on the date in question. He was looking forward to their meeting in October. He was perfectly happy for this to take place in Pallanza as planned, although that might be a little chilly in October and he would be equally happy to move the meeting somewhere further south. The Prime Minister suggested we stick to Pallanza.

Bilateral Defence Co-operation

The Prime Minister referred to the important collaboration between Britain and Italy on the European Fighter Aircraft and the EH 101 helicopter. She thought the European Fighter Aircraft was a good project. But she was worried about the management arrangements for the EH 1010 helicopter. It was vital to get these right since the helicopter would play a very important role in the defence plans of both our countries. Signor de Mita shared the Prime Minister's assessment of the European Fighter Aircraft. He would look into the question of the management arrangements for the EH 101 immediately upon his return to Italy and would subsequently get in touch with the Prime Minister.

Tornado for Jordan

The Prime Minister said that it was important to enable the planned sale of Tornado to Jordan to go ahead. The Germans were being difficult about credit and she would be raising the matter with Chancellor Kohl later in the day. She hoped that there was no problem on the Italian side. Signor de Mita said there was no difficulty in principle. Italy was favourable. But the precise financial details remained to be worked out.



Arms for Argentina

The Prime Minister said that she was grateful for the restraint which Italy had shown in not selling arms to Argentina. She hoped this approach would continue. She understood their concern that other countries should not undercut their position. She was confident that the assurances which she had had from France and Germany were solid. Signor de Mita said that this was a very delicate problem for Italy. Provided there was a general prohibition observed by all the main countries on the sale of arms to Argentina Italy would go along. It was important that no country should try to use the situation to obtain an unfair advantage.

Proliferation of Weapons

Signor de Mita continued that the wider question of arms sales to the Third World might also be addressed by this or a future Summit. He was concerned by the contradiction between efforts to work for peaceful solutions to regional conflicts while pouring in arms to the countries concerned. The Prime Minister said that every country had a right to defend itself. The most important task in this area was to stop the proliferation of nuclear and chemical weapons.

Middle East

Signor de Mita said that Italy had evidence of Israeli plans to destroy Saudi Arabia's Chinese missiles. This was a matter of great concern since it would increase tension in the Middle East, which was already high. The Prime Minister said that she thought such an attack unlikely in the present situation. It had been useful that Saudi Arabia had agreed to sign the Nuclear Non-Proliferation Treaty. The most important task was to continue to bring pressure to bear on both Israel and the Arabs to enter negotiations. This could not be done without the United States, which was the only country in a position to bring serious pressure to bear on Israel. She had hoped that a major step forward would be taken under President Reagan but unfortunately the United States had been side-tracked by the arms for Iran affair. There was now no realistic prospect of reaching an international conference before the US and Israeli elections. Mr. Shamir was taking a very hard-line position.

Signor de Mita shared the Prime Minister's analysis. He had seen Shamir and had tried to make him realise that his uncompromising position would lead to a loss of sympathy for Israel in the West but he did not feel that he had made any impact. The Prime Minister commented that, while the unrest in the occupied territories continued, she feared that support would grow for Shamir's position in Israel. Signor de Mita said that he agreed that there was little immediate prospect of making progress towards an international conference. But both the United States and the Europeans must continue to press for it and to put forward proposals and suggestions.

Latin America

Signor de Mita said that he would like to talk to the Prime Minister on a future occasion about Latin America. The Prime Minister



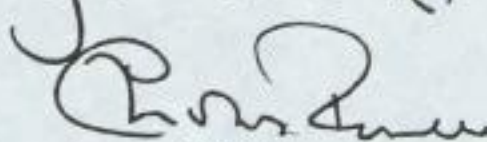
commented that it was a major problem area. The only country which seemed to be on the way to overcoming its economic difficulties was Chile. The situation in Argentina remained a matter for concern. In many ways, President Alfonsin had done remarkably well but even so he had not been able to overcome Argentina's economic difficulties. Debt issues would of course be discussed at the Summit but would focus on the problems of the poorest countries in sub-Saharan Africa. The debt problems of Latin America should continue to be dealt with on a case by case basis with the full involvement of the IMF. To some extent, the Latin Americans were their own worst enemies because they refused to welcome foreign investment.

Signor de Mita said that he did not entirely share the Prime Minister's views about Chile. Certainly the economic recovery was important but the general condition of the people remained poor. We should adopt a carefully modulated approach. More widely he felt that the European Community, the United States and Japan had a common interest in helping the Latin American economies to develop. He did not entirely share the Prime Minister's view of foreign investment: Italy had recently negotiated an investment agreement with Argentina and hoped to complete one with Brazil also. He would very much like to see a common approach by the European Community countries on these matters. The Prime Minister commented that she thought that investment was something better pursued on a bilateral basis.

State Visit

The Prime Minister said that we had been very sad that President Cossiga had been unable to come on his State Visit. He was a great friend to Britain. We hoped one day to reinstate the visit, but it could not be yet. These visits were planned long in advance and there were a number of countries to whom invitations were outstanding. Signor de Mita said that President Cossiga was no less disappointed. But, under the provisions of the Italian Constitution, he had no alternative but to remain in Italy during a Government crisis since the President was the person with responsibility for solving it.

I am copying this letter to Alex Allan (HM Treasury), Brian Hawtin (Ministry of Defence) and to Trevor Woolley (Cabinet Office).

*Yours sincerely,*  
  
C. D. POWELL

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



SUBJECT C. MASTER



10 DOWNING STREET  
LONDON SW1A 2AA

file  
~~copy to cabinet file~~  
MATS Rand

From the Private Secretary

19 June 1988

Dear Tony,

PRIME MINISTER'S MEETING WITH THE FEDERAL GERMAN  
CHANCELLOR

The Prime Minister had an hour's talk with the Federal German Chancellor before the start of the Economic Summit in Toronto today. Herr Teltschik was also present. The Chancellor was in genial mood and recounted his assorted triumphs with even more relish than usual.

Before the meeting started the Prime Minister had intercepted Herr Stoltenberg in the corridor, on his way to meet the Chancellor of the Exchequer, and given him her views on the proposal for a group of wise men to study European financial and monetary co-operation. Herr Stoltenberg said that he agreed with the Prime Minister and wished her success in convincing Chancellor Kohl.

Football Hooliganism

The Prime Minister said that she was angry and upset about the behaviour of British football supporters in Germany. The firm treatment meted out by the German police had been deserved. If any British fans were convicted and imprisoned, we would be ready to make arrangements for them to serve their sentences in the United Kingdom. Chancellor Kohl said that he understood the Prime Minister's concern. But it was not a problem of nationality: it was original sin, which might equally appear in any country. He then told a long anecdote about what his old mum would have thought of it all.

Anglo/German Relations

The Prime Minister said that she was looking forward to seeing the Chancellor at Chequers. He should not believe what he read in the newspapers about relations between the two of them and between our countries. Some of the things said made her very cross. Chancellor Kohl said that much of the German press was left wing and would write anything which was damaging to him. Their objective was to get rid of him because the left believed that it would be easier to get its way in Germany if he were no longer on the scene.



Domestic Politics in Germany

Chancellor Kohl said that he had a full agenda between now and 1990. 1990 itself would be a lost year, with no less than eight elections. He therefore had to push his major reforms through the Government this year and through Parliament next year. He had four main priorities: tax reform, to be completed very shortly; reform of the health service which was far too costly; partial privatisation of the postal services; and pension reform. There would be a major row on all four issues but he relished that. His Party Conference the previous week had been very successful. The left wing press had predicted his defeat: instead it had been an absolute triumph (modest as always). The Prime Minister commented that reform of the health service would probably be the most difficult. Chancellor Kohl agreed but added that people realised that the costs had gone absolutely mad and that something had to be done. He was optimistic that he would get his way on all four points and would win the next elections. The left would make the same mistake as in the past, campaigning for the denuclearisation of Europe. The Prime Minister said that she hoped that Chancellor Kohl would get back with a good majority, preferably more than 50 per cent.

Acid Rain

The Prime Minister congratulated Chancellor Kohl on the outcome of the recent Council meeting which had agreed the Large Combustion Plants Directive.

Tornado for Jordan

The Prime Minister rehearsed the background to the proposed sale of Tornado to Jordan. It was very important to demonstrate support for King Hussein and prevent him from turning to the Soviet Union for his defence needs. We had therefore negotiated the sale of Tornado and secured American permission for the inclusion of components of US origin. We were also providing substantial credit. She had spoken that morning to Signor de Mita and Italy was ready to contribute its share of credit. It was vital that Germany should do so too.

Chancellor Kohl said the issue would be discussed within the German Government next week. The problem lay with Hermes: credit had never so far been extended for military sales outside the NATO area. The Prime Minister said that the German Government must relax its rules. We could not possibly provide all the credit and it was vital that the sale should go through. Germany did not deploy itself forces outside the NATO area. There was no reason why it should not help western interests in other ways. Chancellor Kohl said he would look further into the matter immediately on his return and be in touch with the Prime Minister.



Financial and Monetary Co-operation

Chancellor Kohl said that one of the issues to be discussed at the European Council in Hanover will be the setting up of a group to report on possible developments in the monetary area. Several proposals had been made: he was not committed to any of them. One idea was that Central Bank governors should be appointed to carry out any study. In his view that was a good idea. Others wanted an additional group of experts to give advice.

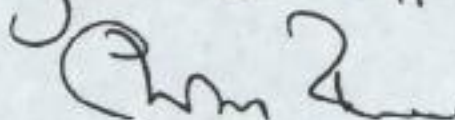
The Prime Minister said that it was first necessary to be clear about the remit of a study. It was no good building castles in the air about a European Central Bank. There would not be such a Central Bank until there was a single government, a single economic policy and a single currency in Europe and that would never happen. There were a number of more technical issues which could be investigated, for instance greater use of the ecu and cross-holdings of Community currencies in national reserves. As to who should conduct the study, she was absolutely against a group of wise men. We were dealing here with money which was a serious matter. The study should be conducted by Central Bank governors reporting to Finance Ministers. She regretted that the proposal for a group of wise men had ever been made. She understood that it emanated from Herr Genscher. Chancellor Kohl said that this was not quite fair: the originators had been Helmut Schmidt and M. Giscard. The Prime Minister continued that she very much agreed with the recent article on the subject by Herr Poehl, who knew what he was talking about. Chancellor Kohl concluded that he understood the Prime Minister was agreeable to a study of practical co-operation in the monetary area conducted by Central Bank governors. This caused him no difficulty but we would have to see what others wanted.

Presidency of the EC Commission

Chancellor Kohl asked whether the Prime Minister had yet reached a conclusion about the re-appointment of M. Delors. The Prime Minister said that the United Kingdom did not have a candidate: she had wanted first to establish whether Germany had someone in mind and whether Mr. Lubbers would be available. Chancellor Kohl said that Mr. Lubbers was definitely not a candidate and he had no German candidate to propose. He understood that the Netherlands, Belgium, Luxembourg and Italy were all ready to support the re-appointment of M. Delors. The Prime Minister said that was all right by her. She presumed the appointment would be for two years although in practice it would be difficult not to allow him to continue for four years if he wished. Chancellor Kohl said that no-one could predict the course of French politics. But he was certain that M. Delors would return to them one day, where he would be a useful bulwark against the left. He had been worried about the likely leftward bias of the new Commission, given that the Belgians would be replacing de Clercq with a socialist. But President Mitterrand

had assured him that he would appoint only one socialist and that the second French Commissioner would be from the centre. He enquired whether the United Kingdom had yet decided whom to nominate to the Commission. The Prime Minister said that no decision had yet been reached but there were likely to be changes.

I am copying this letter to Alex Allan (HM Treasury), Brian Hawtin (Ministry of Defence) and Trevor Woolley (Cabinet Office).

*Yours sincerely,*  


Charles Powell

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



FROM: T Richardson, ERD

DATE: 19 June 1988

cc: PS/Secretary of State  
Sir R Braithwaite

PS/No. 10

1. I understand that the Prime Minister asked:-
  - (a) whether wheat was covered by the US/Canada Free Trade Agreement;
  - (b) what tropical products of developing countries were we and other industrialised countries keeping out?
2. The briefs available here do not cover these points, but I have spoken to the Canadian and EC delegations, and what they tell me sounds right.

#### Wheat

3. Under the US/Canada Agreement, all agricultural tariffs will be eliminated over a 10 year period. There will be special arrangements for wheat, where the Canadians have long-established import restrictions dating back to the 1940s. They have agreed to eliminate import licences on US wheat if and when the level of US support for wheat falls to the Canadian level of support. The respective support levels will be measured by the OECD's PSE - the first time that the PSE has been incorporated in an international agreement. At present, I understand, US support is \$50 a ton higher than Canadian support.

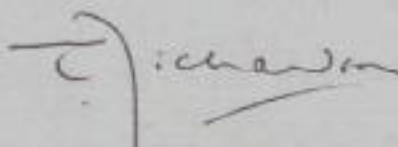
#### Tropical Products

4. The US produces sugar and citrus in competition with developing country producers, and maintains high tariffs in these areas. Canada permits duty-free entry for tropical producers. The EC does likewise for beverages (coffee, tea, cocoa, etc), though countries like Germany and Denmark maintain internal consumption taxes on chocolate and cocoa. There are EC tariffs on tropical fruits because (as in the US) some EC members produce citrus.

5. The EC has made the only serious negotiating offer in this area at Geneva. It has offered to reduce (not eliminate)

consumption taxes on beverages, and to reduce tariffs on tropical fruits.

6. The Punta del Este declaration specifically singled out tropical products as an area where early progress might be feasible. This is relevant to our objective at the Mid-Term meeting in Montreal this December of achieving early results where possible (as again provided for by the Punta declaration), since tropical products is one of the very few areas of interest to developing countries that could be ripe for concrete market opening decisions by early December.

A handwritten signature in dark ink, appearing to read 'T. Richardson', with a stylized flourish at the end.

T Richardson



## JAPAN

Background

1. The Japanese are nationalist and instinctively protectionist. Their society remains relatively closed. A strong sense of nationalism runs through industrial policy: uneconomic industries (eg aluminium) are retained - on a small scale - if the government believes that security of supply or keeping up with technological developments is of strategic importance. Industrial policy works in Japan because:

- industrial leaders cooperate with each other and with government;
- the labour force is ruthless at the sub-contractor level (Japan has among the highest rates of bankruptcy in the world);

And agriculture is ruthlessly protected, for domestic political reasons and in the name of "food security". These are all attributes of a close knit corporatist state.

2. In the 1950s and 1960s the Japanese market for manufactured goods was heavily protected; they also did their best to keep out investment which might threaten national industries. For long periods the yen was badly under-valued. But this has changed. The Japanese have responded to international pressures for market opening, and more recently, for measures to reduce their surplus.

The Present

3. This emerges from the figures as follows: between 1986 and 1987 Japan's current account surplus fell from 4.4% of GNP to 3.8%. First quarter figures for 1988 are consistent with the OECD's forecast that this proportion will decline to 2.9% for 1988 as a whole. If non-monetary gold is excluded the fall in the surplus is steeper (imports of non-monetary gold were worth \$7 bn in 1986 and \$3.5 bn in 1987).

4. Much of this has been brought about by the change in the value in the yen and the stimulus to domestic demand. Growth in the Japanese economy in 1987/88 has been generated by domestic demand not, as in the recent past, by exports. In calendar 1987 domestic demand contributed about 5% of growth, offsetting a fall of 0.7% in the external sector's contribution. This is a dramatic change.

5. In volume terms Japanese exports have fallen from the 1985 peak levels, though this fall appears now to have come to an end. Imports have increased by some 20%. The increases are most striking for imports of manufactured goods (see attached chart). This is important because the large share of raw materials in Japanese imports has meant that hitherto increases in Japan's imports were of little benefit to developed countries. UK exports to Japan were up 26% in sterling terms in 1987 and by 31% over the latest 12 month period to April.

6. The second and third charts attached show the way in which tariff and quota barriers have been removed. Our own exporters report from direct experience that the regulatory environment for our exports is now greatly improved, though marketing and distribution are still difficult. Concern about their international image has also prevented the Japanese from introducing new protectionist measures: MITI has rejected strong pressure from a textile industry potentially ruined by the rising yen to introduce MFA quotas (contrast the US which unlike Japan has a free trade ideology but which has applied a number of protectionist measures in textiles - against free-trading Hong Kong amongst others).

#### The Future

7. Japan may have built up its industry by unfair practices, but its continued success is a result of efficiency. More is spent on private sector research and development in Japan than in any other country including the USA. Japanese firms have also demonstrated an astonishing ability to cut costs in response to the appreciation of the yen. Macroeconomic measures will help reduce Japan's surplus, but it will not be eliminated altogether for the foreseeable future.



as long as their domestic savings ratio remains so high.

8. The result will be that Japan will accumulate assets abroad (as we did at the beginning of this century). These will include financial assets but will increasingly be real estate, equity and direct investment. This can be beneficial. Japanese investment has brought jobs to the UK; it has also brought single union/no strike deals, and quality standards that have transformed some UK component suppliers. But, like it or not, the Japanese are bound to increase their investment abroad, not least because of the failure of others such as the US to save and invest at the same rate they do.

#### How to handle Japan

9. We have not done badly so far. We have applied persistent pressure on selected individual issues. We got our way on Cable and Wireless; we got more than we expected on whisky; we got more than the Japanese thought we were asking for on the Tokyo Stock Market (we told them initially that we wanted three seats: we got four, though this is still not an adequate share of the world's largest stock market); and we are now moving into investment management, which is what our firms have had their eyes on. For specific problems this should still be our approach. Persistent pressure, but applied in such a way that the Japanese believe that they can work with us.

10. Economic Summits provide a good opportunity to work on the Japanese. Unlike others (the FRG, US, France) Japan has taken action in connection with Summit discussions. Some of the action has been a smoke screen. But nevertheless real change is occurring (see above). The most effective way of getting at the Japanese is through collective, multilateral pressure to which the collectivist mentality responds. Our results on whisky, for example, were obtained through action in the GATT. But on Cable and Wireless, we got our way because of the Prime Minister's personal intervention. The Summits also provide an opportunity to sustain this direct pressure, eg on financial services. Mr Takeshita's recent undertakings to the Prime Minister still need to be followed through.

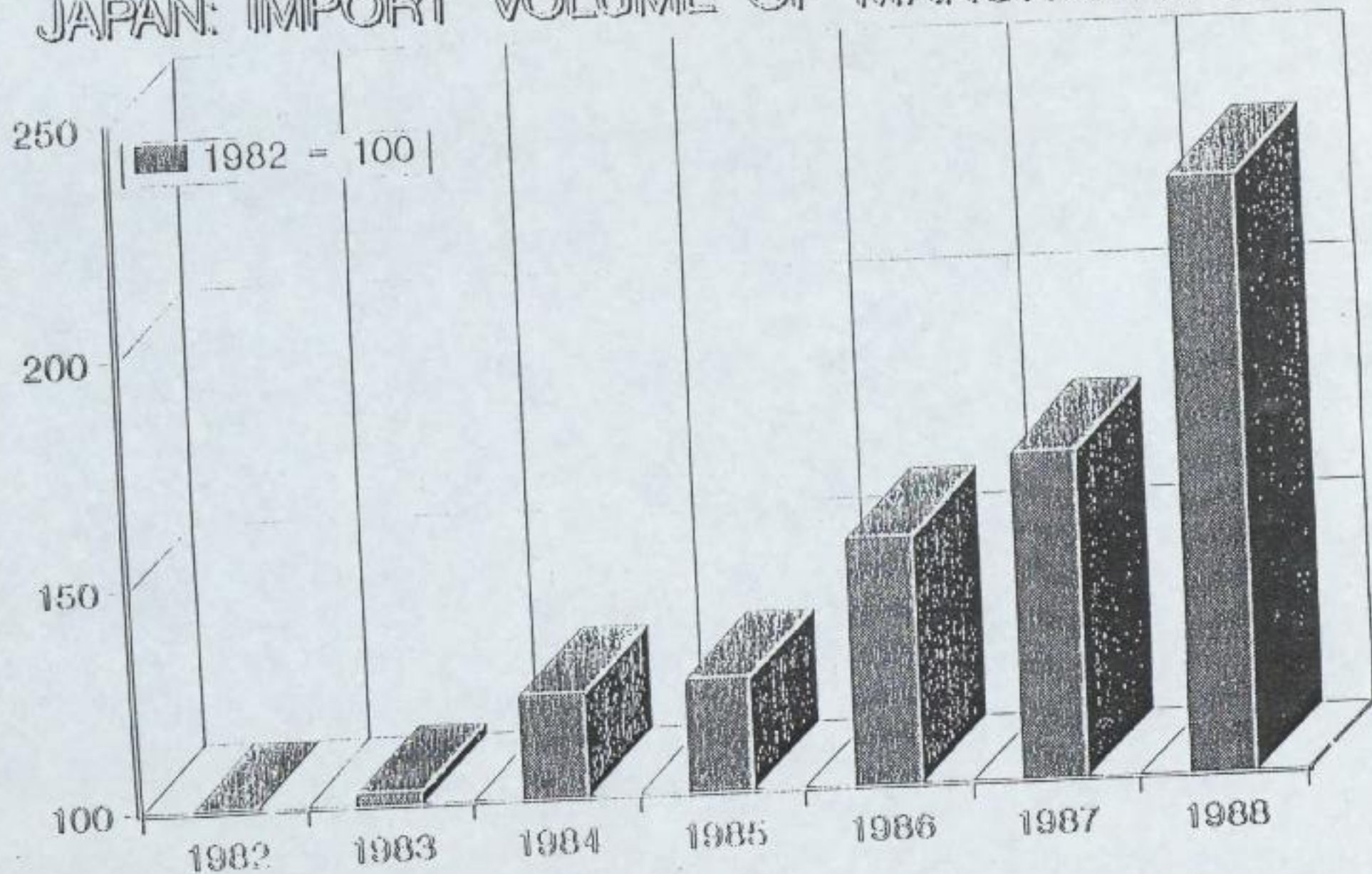
CONFIDENTIAL

11. The Japanese can be difficult to deal with. But they respond more than is commonly believed. Their influence and wealth will grow and will extend into political as well as economic spheres (see for example their Afghanistan initiative). They are an important asset for the West, but we need to integrate them better into the Western political as well as economic system. The signs are that they are looking again at their over-exclusive relationship with the US and that they wish to diversify by expanding their political as well as their economic links with Europe. We ourselves already have 50% of Japanese investment in Europe, English is the second language in Japan, and the Japanese recognise the influence of the present British Government in Europe and with the Americans. These are assets we can exploit for our own political and commercial ends.

CONFIDENTIAL

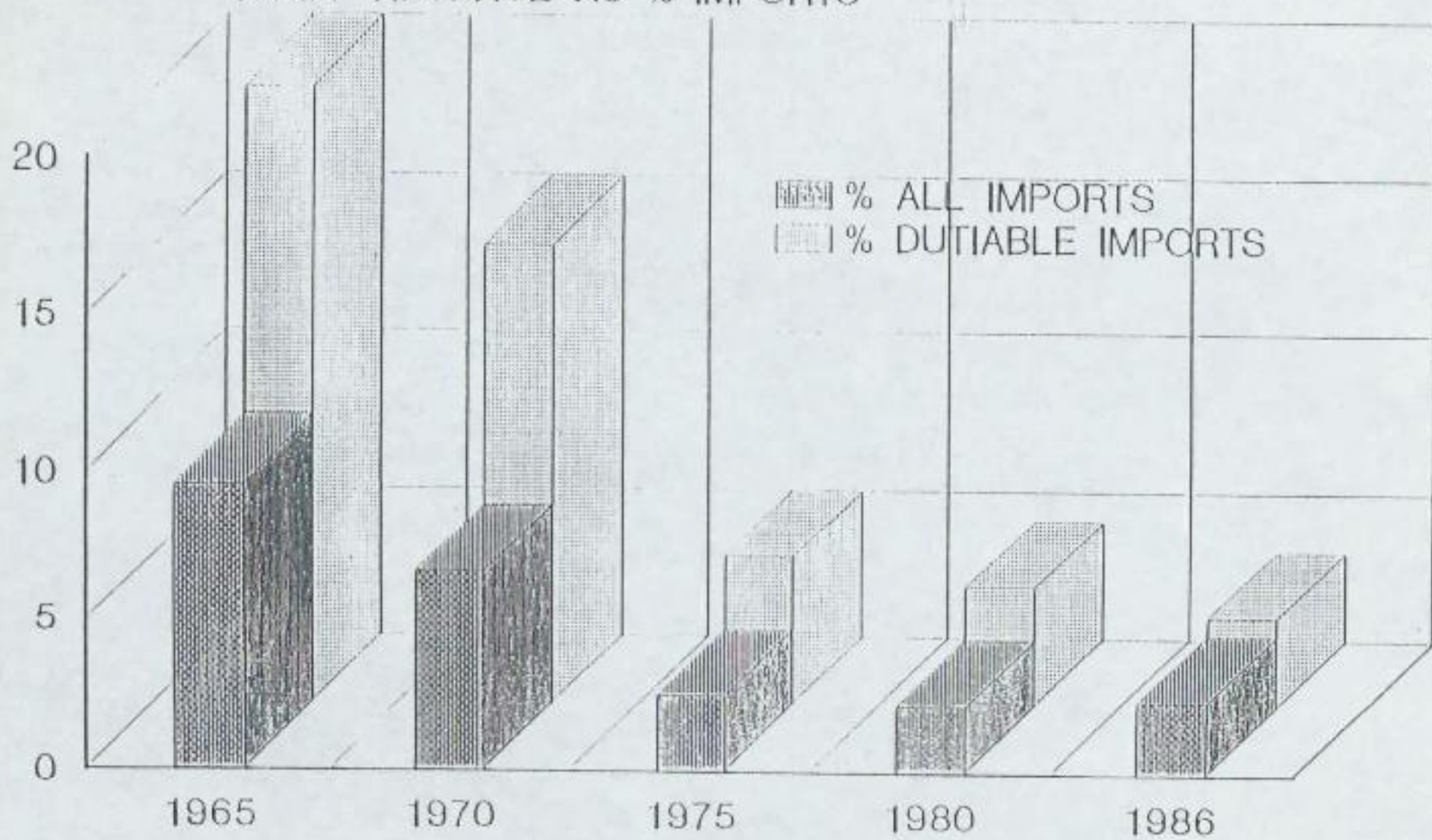


# JAPAN: IMPORT VOLUME OF MANUFACTURES



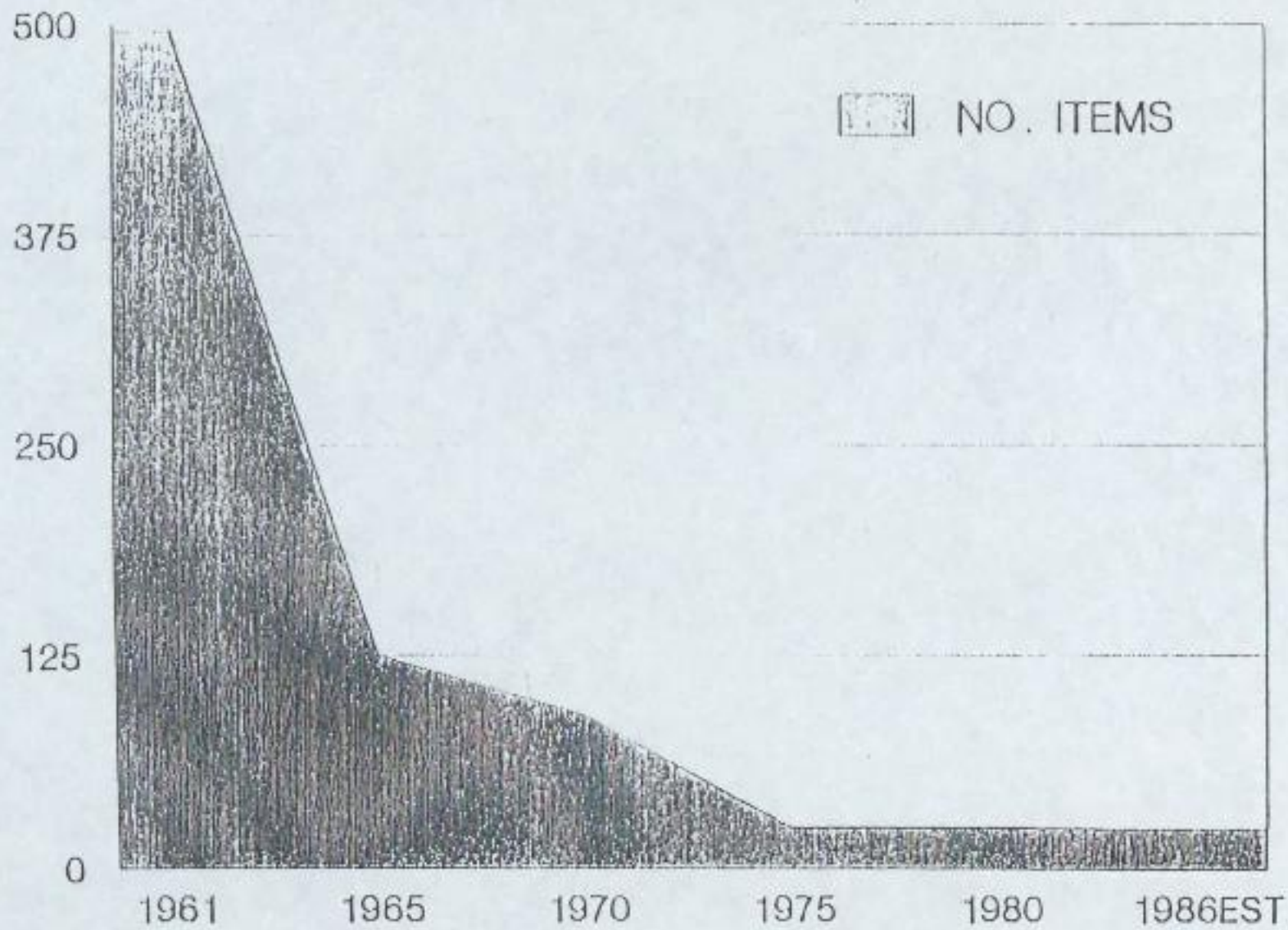
# JAPAN: AVERAGE TARIFF RATES

TARIFF REVENUE AS % IMPORTS





# JAPAN: NO. OF ITEMS UNDER IMPORT QUOTAS



June 19, 2030 hours

CONFIDENTIAL

POLITICAL DECLARATION [East/West]

1. We the leaders of our seven countries, and the representatives of the European Community, hold <sup>up</sup> common principles of freedom, respect for individual rights, and the desire of all men to live in peace under the rule of law. Our peoples stand in solidarity, <sup>within the framework of our unity, alliances,</sup> for the cause of freedom, to safeguard democracy and the prosperity which it has produced. In our discussions we considered how to ~~advance~~ <sup>could be pursued</sup> these goals and values in the fields of foreign affairs, particularly with regard to East-West relations. [We also examined ...]<sup>1</sup>

2. We confirmed our belief in constructive and realistic dialogue and cooperation, including arms control, as the way to build stability between East and West and enhance security at lower levels of arms. We also reaffirmed that for the foreseeable future nuclear deterrence and adequate conventional strength are the guarantees of peace in freedom.

<sup>1</sup> U.S.A. wishes to add another sentence to the effect that leaders also examined the fight against terrorism, narcotics trafficking (and other topics as appropriate).



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

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

5. Since our last meeting, progress has been made between the United States and the Soviet Union in agreeing to reduce

<sup>2</sup> France has a reserve insofar as this statement:

~~"touches on areas outside the competence of the Summit group"~~

nuclear weapons in a manner which accords fully with the security interests of each of our countries. The INF Treaty, the direct result of Western firmness and unity, is the first treaty ever actually to reduce nuclear arms. It sets vitally important precedents for future arms control agreements: asymmetrical reductions and intrusive verification arrangements. We now look for deep cuts in U.S. and Soviet strategic offensive arms. We congratulate President Reagan on what he has already accomplished, along with General Secretary Gorbachev, towards this goal.

6. Nonetheless, the massive presence of Soviet conventional forces in Eastern Europe, the ensuing conventional superiority of the Warsaw Pact, and its capacity to launch surprise attacks and large scale offensive operations, lie at the core of the security problem in Europe. The Soviet military buildup in the Far East is equally a major source of instability in Asia. These threats must be reduced. ~~X~~ Our goal is enhanced security and stability at lower levels of forces.<sup>4</sup> We seek ~~{~~the early establishment of<sup>5</sup> a comprehensive, effectively verifiable and truly global ban on chemical weapons.

~~3~~ ~~French reserve on preceding section.~~

4 FRG would like to add the following sentence at this point:

"We noted the statement of Soviet Foreign Minister Shevardnadze in his address to the United Nations Special Assembly on Disarmament concerning conventional arms control in Europe which should be confirmed at the conference table."

5 ~~Proposed by FRG and Italy. USA and French reserve.~~



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

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

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

\*\*\*\*\*

If leaders wish to have text on the Middle East, paragraphs 10 and 11 are agreed.

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

11. We have pursued our consultations about the continuing war between Iran and Iraq, which remains a source of profound concern to us. We reaffirm our support for Security Council Resolution 598, which was adopted unanimously. We express our warm appreciation for the efforts of the Secretary General to work for a settlement on this basis and reiterate our determination to ensure implementation of this mandatory resolution by a follow-up resolution [if compliance cannot



otherwise be secured.<sup>6</sup> We condemn the use of chemical weapons by either party, deplore proliferation of ballistic missiles in the region, and renew our commitment to uphold the principle of freedom of navigation in the Gulf.

\*\*\*\*\*

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

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

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

<sup>6</sup> U.S. wishes to delete words "if compliance cannot otherwise be obtained"

14. We express support for work currently under way in the International Civil Aviation Organization aimed at strengthening international protection against hijackings. (This includes measures to investigate future hijackings, to help countries to deal with hijackings, to strengthen security guidelines and to endorse the principle that hijacked aircraft should not be allowed to take off once they have landed, apart from exceptional circumstances.)<sup>7</sup>

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

16. We reaffirm our determination to continue the fight against terrorism through the application of rule of law, the policy of no concessions to terrorists and their sponsors, and international cooperation.<sup>8</sup>

<sup>7</sup> FRG, France, Japan and Italy have reservations

<sup>8</sup> U.S. wishes to include the language on narcotics agreed to at the final Sherpas' meeting and add to it the words "including [enforcement of multilateral cooperation], [steps to curb money laundering and stop the flow of precursor chemicals, and measures to deprive narcotics traffickers of their ill-gotten gains" after the words "additional international approaches"].

*In all appropriate form*

*We express support for  
 (in particular we welcome the adoption of  
 the Council resolution by the ICAO Council which  
 endorses the principle that hijacked aircraft  
 should not be allowed to take off once they have landed,  
 except in certain specified cases)*



CONFIDENTIAL

CHAIRMAN SUMMARY'S: MIDDLE EAST

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

We have pursued our consultations about the continuing war between Iran and Iraq, which remains a source of profound concern to us. We reaffirm our support for Security Council Resolution 598, which was adopted unanimously. We express our warm appreciation for the efforts of the Secretary General to work for a settlement on this basis and reiterate our firm determination to ensure implementation of this mandatory resolution by a follow-up resolution. We condemn the use of chemical weapons by either party, deplore proliferation of ballistic missiles in the region, and renew our commitment to uphold the principle of freedom of navigation in the Gulf.

CONFIDENTIAL

CHAIRMAN'S SUMMARY: CAMBODIA

As the recent message from Prince Sihanouk has reminded us, the continuing Cambodian conflict and the suffering of the Cambodian people is of deep concern. We condemn Viet Nam's illegal occupation of Cambodia and join the vast majority of the nations of the world in calling for the prompt withdrawal of all Vietnamese troops. We support a political settlement in Cambodia which will provide for Cambodian self-determination and lead to the re-emergence of a free and independent Cambodia.



*Care to hls*

TO: MR. NIGEL WICKS

PERSONAL REPRESENTATIVE OF THE PRIME MINISTER

PARAGRAPHS 12, 15, 16, 18 and 19 IN THE ATTACHED  
PAGES SEEK TO REFLECT THE DRAFTING SUGGESTIONS MADE AT  
YESTERDAY'S MEETING. MANY CHANGES ARE STILL SUBJECT TO  
RESERVATIONS.

THE ATTACHED DRAFT OF PARAGRAPH 21 HAS BEEN SUBMITTED  
BY MR. MULFORD.

*J. C. P. L.*

DELEGATE OF CANADA

Structural Reforms

9. International cooperation involves more than coordination of macroeconomic policies. Structural reforms complement macroeconomic policies, enhance their effectiveness, and provide the basis for more robust growth.

10. We will continue to pursue structural reforms by removing barriers, controls and regulations; increasing exposure to market competition, while mitigating any possible adverse effects on social groups or regions; removing disincentives to work, save, and invest, such as through tax reform; and by improving human resource development through education and training. The specific priorities that each of us has identified are outlined in the attached Annex.

11. We welcome the further development of the OECD's surveillance of structural reforms. Such surveillance would be particularly useful in improving public understanding of the reforms by revealing their impact on government budgets, consumer prices, and international trade.

12. One of the major structural problems in both developed and developing countries is in the field of agricultural policies. Important steps to reduce the overproduction have already taken place. It is essential that policy reform efforts should be continued through further positive actions by all Summit participants. [The primary objective of agriculture in all our countries is to satisfy the demand for food in the most economical way possible.] [Other important objectives such as satisfactory levels of farm incomes, the preservation of rural communities and environmental protection [should] be achieved with less interference in markets.] We welcome the OECD's increased emphasis on structural adjustment and development in the rural economy.

13. Financial and technological innovations are rapidly integrating financial markets internationally, contributing to a better allocation of capital but also increasing the speed and extent to which disturbances in one country may be transmitted to other countries. We will continue to cooperate with other countries in the examination of the functioning of the global financial system, including securities markets.

MULTILATERAL TRADING SYSTEM/URUGUAY ROUND

14. A successful Uruguay Round will assure the integrity of an open, predictable multilateral trading system based on clear rules. At Punta del Este, Ministers committed themselves to further trade



liberalization across the wide range of goods and services, including such new areas as trade-related intellectual property and trade-related investment measures, and to strengthen the multilateral trading system. Countries must continue to resist protectionism and the temptation to adopt unilateral measures outside the framework of GATT rules.

15. We welcome the Free Trade Agreement between Canada and the USA. We also welcome the steady progress towards the target of the European Community to complete the internal market by 1992. It is our policy that these developments, together with other moves towards regional cooperation in which our countries are involved should support the open, multilateral trading system and the liberalizing impact of the Uruguay Round.

16. We attach major importance to strengthening the GATT itself, particularly the surveillance of trade policies and dispute settlement procedures. It is vital that the GATT become a more dynamic and [policy oriented] organization, with greater Ministerial involvement, and strengthened linkages with other international organizations. GATT disciplines must be tightened so that members accept their obligations, and ensure that disputes are resolved speedily, effectively and equitably.

17. Trade plays a key role in development. We encourage the developing countries, especially the newly industrializing economies, to undertake increased commitments and obligations and a greater role in the GATT, commensurate with their importance in international trade and in the international adjustment process, as well as with their respective stages of development. Equally, developed countries should continue to strive to ensure more open markets for the exports of developing countries.

18. In agriculture, continued political impetus is essential to underpin the politically difficult efforts at domestic policy reform and to advance the equally difficult and related process of comprehensive agricultural trade reform. Although significant progress was made in 1987 in the Uruguay Round negotiations, with the tabling of major proposals, it is necessary to ensure that the Mid-Term Review in Montreal in December, 1988 adds impetus to the negotiations in this as in other fields. We support efforts to adopt a framework approach, including short as well as long term elements which will promote the reform process as launched last year and relieve current strains in agricultural markets. This would be facilitated by agreement on a device for the measurement of support and protection. Also, ways should be developed to take account of food security and social concerns. Any short term measures would need to be a step forward toward the long term goals. The objective of the framework would be to make the agricultural sector more responsive to market signals.



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

20. We all recognize the critical and expanding role of international investment in the world economy and share a deep concern that increased protectionism would undermine the benefits of open investment policies. We resolve to progressively liberalize international investment policies and urge other countries to do likewise.

#### NEWLY INDUSTRIALIZING ECONOMIES

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

#### DEVELOPING COUNTRIES AND DEBT

22. The performance of developing countries has become increasingly important to the world economy. The situation of individual developing countries varies widely; many still face serious economic difficulties. Central to the prospects of all is strong and sustainable world growth, an open trading system, adequate financial flows and, most importantly, a commitment by these countries to appropriate economic reform.



## NEWLY INDUSTRIALIZING ECONOMIES

21. 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. With increased economic importance come greater international responsibilities and a strong mutual interest in improved constructive dialogue and cooperative efforts in the near term between the industrialized countries and the Asian NIEs, as well as the other outward-oriented countries in the region. The dialogue and cooperative efforts should centre on such areas as exchange rates, macroeconomic, trade and structural adjustment policies to achieve the international adjustment necessary for sustained, balanced growth of the world economy. We encourage the development of informal processes which would facilitate multilateral discussions of issues of mutual concern and foster the necessary cooperative actions on an urgent basis.

DEBT OF THE POOREST

NOTE BY THE UNITED KINGDOM

1. At the Venice Summit we recognised that the problems of some of the poorest countries, principally in Sub-Saharan Africa, were uniquely difficult and needed special treatment. For those countries who were pursuing appropriate adjustment policies, we welcomed proposals some of us had made for the easing of Paris Club and other bilateral debt and for an expanded IMF facility. We urged a conclusion of discussion by the end of 1987.

2. We met that timetable with the IMF's Enhanced Structural Adjustment Facility but not with the other proposals. It is important that we now agree, here in Toronto, a substantive scheme which can be set out in the Communique, with the final details to be settled in the Paris Club.

3. Three linked ideas have been put forward:-

- (1) Longer rescheduling and grace periods.
- (2) Concessional interest rates.
- (3) Writing-off of principal.

4. As far as ODA loans are concerned, several creditor countries have already taken action to write off the entire principal. This is the most appropriate solution for that portion of the debts. Those who have not yet taken such action are urged to do so.

5. That leaves the Paris Club debts, which arise mainly from officially-guaranteed export credits. What is needed is an



agreement among creditor countries under which each creditor can choose the option he prefers (subject to paragraph 7 below). The terms of the different options need to be designed as far as possible to maintain an equitable sharing of costs and risks.

6. In order to achieve this, rescheduling periods and grace periods will need to be different for the different options. The three options could thus be specified as follows:-

- (A) Extend the repayment period for the debt under negotiation to 25 years. Interest would be payable at normal Paris Club rates.
- (B) Reduce the interest rate to a rate 3 percentage points below the normal Paris Club rates. The debt under negotiation would be repaid over 15 years.
- (C) Write-off one-third of the debt under negotiation. The remaining two-thirds would then be repaid over 10 years. Interest would be payable at normal Paris Club rates.

In each case, there would be an initial grace period of half the total period of repayment.

7. Creditor countries should be urged to adopt options (B) or (C), which offer a genuine reduction of the ultimate debt burden, unless they have insuperable objections against doing so.

8. In the event of any "Toronto reschedulings" on these terms having to be further rescheduled during the life of the initial agreements, normal Paris Club rates of interest would apply but arrangements should be made which preserve the differential treatment of the three options.

9. It is important that an agreement, and any choice between different options, should be decided by the creditors, and not be matters for negotiation with the debtors.

10. The Paris Club should be invited to work out urgently the details of an agreement on these lines.

19/6/88.





eop  
28/6

PRIME MINISTER

Tokyo Stock Exchange

1. I have seen the Chancellor of the Exchequer's minute of 17 June. I understand the risk of judicial review. But I consider that the Chancellor is right in his judgement that the Japanese would be unlikely to try to test us.
2. I also agree that it would be right to speak to Prime Minister Takeshita if you get the opportunity during the Summit in Toronto. He has not yet replied to the letter you sent him after his visit to London, and the very fact of your enquiry will help to keep up the pressure. You will wish to judge the tactics for yourself. But my own view is that the Japanese will meet us if we are firm. It would therefore be wrong for you to indicate, as early as this weekend, that we now expect that Daiwa and Nomura will get the green light soon.
3. I am copying this minute to the Chancellor of the Exchequer, the Secretary of State for Trade and the Governor of the Bank of England.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office  
18 June 1988



PRIME MINISTER · PREMIER MINISTRE

PMI  
PERSONAL MESSAGE

TORONTO, ONTARIO  
June 18, 1988

SERIAL No. T95A/88

SUBJECT re MASTER  
OPS.

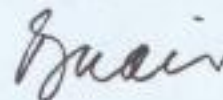
Dear Margaret,

It is a great pleasure for me to welcome you to Toronto and to the fourteenth Economic Summit. As a veteran of nine previous Summits, you bring an unrivalled wealth of experience and insight to our meetings. I know that you will once again be making a major contribution towards a successful and productive meeting.

On behalf of the Government and people of Canada, I am pleased to present to you the stone carving "Sedna", by the Inuit artist Naomi Akevak.

I look forward to working with you over the next few days.

Yours sincerely,



The Right Honourable Margaret Thatcher  
Prime Minister of The United Kingdom





External Affairs  
Canada

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

Affaires extérieures  
Canada

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

June 18, 1988

Dear Nigel:

As agreed, I enclose a copy of the Draft Economic Declaration. I look forward to discussing this with you tomorrow from 12:00 to 14:30 in the Humber Room in L'Hôtel.

Yours sincerely,

Sylvia Ostry

Mr. Nigel Wicks  
Principal Private Secretary to the Prime Minister

TORONTO ECONOMIC SUMMIT

Draft Economic Declaration

1. We, the Heads of State or Government of seven major industrial nations and the President of the Commission of the European Communities, have met in Toronto for the fourteenth annual Economic Summit. We have drawn lessons from the past and looked ahead to the future.

2. Over the past fourteen years, the world economy and economic policy have undergone profound changes. (The information-technology revolution and the globalization of markets have increased economic interdependence, making it essential that governments consider fully the international dimensions of their deliberations.)

*with a market*

*§3-Too Negative.*

3. (We observed a sharp) contrast between the 1970s and 1980s. The former was a decade of high and rising inflation, declining productivity growth, policies dominated by short-term considerations, and frequently inadequate international policy cooperation. In the 1980s inflation has been brought under control, laying the basis for sustained strong growth and improved productivity. However, the 1980s have also seen the emergence of large external imbalances in the major industrial economies, greater exchange rate volatility, and debt-servicing difficulties in a number of developing countries. Our response to these developments was an increased commitment to international cooperation, resulting in the intensified process of policy coordination adopted at the 1986 Tokyo Summit and further strengthened at the Venice Summit and in the G-7 forum.

*Expand  
subject  
inflation*

4. Summits have proven an effective forum to address the issues facing the world economy, promote new ideas and develop a common sense of purpose. Especially in the 1980s they have helped bring about an increasing recognition that the eradication of inflation and of inflationary expectations is fundamental to sustained growth and job creation. That recognition has been underpinned by a shift from short-term considerations to a medium-term framework for the development and implementation of economic policies, and a commitment to improve efficiency and adaptability through greater reliance on market forces and structural reform in a context of supportive social programs. Over this period also we have singled out for concerted attention a number of other issues of decisive importance: the overriding need to resist protectionism and strengthen the open, multilateral trading system; to maintain and strengthen an effective strategy to address the challenge of development and alleviate the burden of debt; and to come to grips with the serious nature of the world agricultural problem.



5. Since we last met, our economies have kept growing strongly and are now in their sixth year of economic expansion. Employment has continued to expand, inflation has been restrained, and progress has been made toward the correction of major external imbalances. These encouraging developments are cause for optimism, but not for complacency. To sustain non-inflationary growth will require a commitment to enhanced cooperation. This is the key to credibility and market confidence.

INTERNATIONAL ECONOMIC POLICY COOPERATION

*Support on 3s.*

Macroeconomic Policies and Exchange Rates

6. At the Tokyo and Venice Summits and in the Group of Seven forum, our countries have developed and strengthened the coordination of our economic policies. Developments in the wake of the financial strains last October demonstrate the effectiveness and resilience of the arrangements that have emerged. The policies, the short-term prospects, and the medium-term objectives and projections of our economies are being discussed regularly in the Group of Seven. The policies and performance are assessed on the basis of economic indicators. We welcome the progress made in refining the analytical use of indicators, as well as the addition to the existing indicators of a commodity-price indicator.

7. Our countries have undertaken a series of fiscal, monetary and structural policies to foster the adjustment to more sustainable economic and financial positions in the context of non-inflationary growth. Efforts in those directions, including continued reduction of budgetary deficits, will continue. We reaffirm our determination to follow, and, wherever feasible, strengthen our agreed strategy of coordinated efforts to reduce spending in countries with large external deficits and to sustain the momentum of domestic demand in those with large external surpluses. The reduction of large external imbalances, however, will require not only our cooperative efforts, but also those of smaller economies, including newly industrializing economies, with large external surpluses.

8. The exchange rate changes in the past three years, especially the real depreciation of the U.S. dollar against the Japanese yen and the major European currencies, have played a major role in the adjustment of real trade balances. We endorse the Group of Seven's conclusion that either excessive fluctuation of exchange rates, a further decline of the dollar, or a rise in the dollar to an extent that becomes destabilizing to the adjustment process, could be counterproductive by damaging growth prospects in the world economy.



Structural Reforms

9. International cooperation involves more than coordination of macroeconomic policies. Structural reforms complement macroeconomic policies, enhance their effectiveness, and provide the basis for more robust growth.

10. We will continue to pursue structural reforms by removing barriers, controls and regulations; increasing exposure to market competition, while mitigating any possible adverse effects on social groups or regions; removing disincentives to work, save, and invest, such as through tax reform; and by improving human resource development through education and training. The specific priorities that each of us has identified are outlined in the attached Annex.

11. We welcome the further development of the OECD's surveillance of structural reforms. Such surveillance would be particularly useful in improving public understanding of the reforms by revealing their impact on government budgets, consumer prices, and international trade.

12. One of the most serious structural problems in both developed and developing countries is in the field of agricultural policies. It is critically important that encouraging policy reform efforts undertaken by a number of parties be reinforced through further positive action by all Summit countries. The primary objective of agriculture in all our countries is to satisfy the demand for food in the most economical way possible. Other important objectives, such as satisfactory levels of farm incomes, the preservation of rural communities, and environmental protection, can be achieved without distorting production or market decisions. We welcome the OECD's increased emphasis on structural adjustment and development in the rural economy.

*Summit*  
*(include a reasonable level of food security)*

13. Financial and technological innovations are rapidly integrating financial markets internationally, contributing to a better allocation of capital but also increasing the speed and extent to which disturbances in one country may be transmitted to other countries. We will continue to cooperate with other countries in the examination of the functioning of the global financial system, including securities markets.

MULTILATERAL TRADING SYSTEM/URUGUAY ROUND

14. A successful Uruguay Round will assure the integrity of an open, predictable multilateral trading system based on clear rules. At Punta del Este, Ministers committed themselves to



further trade liberalization across the wide range of goods and services, including such new areas as trade-related intellectual property and trade-related investment measures, and to strengthen the multilateral trading system. Countries must continue to resist protectionism and the temptation to adopt unilateral measures outside the framework of GATT rules.

15. We welcome the Free Trade Agreement between Canada and the United States, [negotiated and concluded under the GATT. The Agreement should serve as a catalyst for progress in the Uruguay Round.] We also note the steady progress made by the European Communities toward the completion of its internal market by 1992. These developments, together with other moves toward regional cooperation in which our countries are involved, should not weaken but rather support the open, multilateral trading system and the liberalizing impact of the Uruguay Round..

16. We attach a high priority to strengthening the GATT itself, particularly the surveillance of trade policies and dispute settlement procedures. It is vital that the GATT become a more dynamic and ~~policy oriented~~ <sup>policy oriented</sup> organization, with greater Ministerial involvement, and strengthened linkages with other international organizations. GATT disciplines must be tightened to ensure speedy, effective and equitable resolution of disputes and the implementation of recommendations.

17. Trade plays a key role in development. We encourage the developing countries, especially the newly industrializing economies, to undertake increased commitments and obligations and a greater role in the GATT, commensurate with their importance in international trade and in the international adjustment process, as well as with their respective stages of development. [Equally, developed countries should continue to strive to ensure more open markets for the exports of developing countries.]

18. Nowhere is the need for progress more evident than in agriculture. Continued political support and impetus is essential to underpin the politically difficult efforts at domestic policy reform and to advance the equally difficult and related process of comprehensive agricultural trade reform. Although significant progress was made in 1987 in the Uruguay Round negotiations, with the tabling of major proposals, it is necessary to ensure that the Mid-Term Review in Montreal in December, 1988 adds impetus to the negotiations. We endorse the adoption of a framework approach, including short as well as long term elements which will promote the reform process as launched last year and relieve current strains in agricultural markets. This would be ~~facilitated~~ <sup>facilitated</sup> by agreement on ~~the measures to be included in the estimation of~~ <sup>what would help estimate anyone national levels</sup> support and protection [and on the trade liberalization target]. [Also, ways should be developed to take account of food security and social concerns.] Any short term measures would need to be a downpayment on the achievement of long term commitments. The objective of the framework would be to make the agricultural sector more responsive to market signals, <sup>an aim which we endorsed ~ [1988]</sup>

a clear step forward towards



+t.alls Punta Punta track.  
finally agreed - 5 -  
with agreement

CONFIDENTIAL

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

We agree

20. We all recognize the critical and expanding role of international investment in the world economy and share a deep concern that increased protectionism would undermine the benefits of open investment policies. We resolve to progressively liberalize international investment policies and urge other countries to do likewise.

NEWLY INDUSTRIALIZING ECONOMIES

21. 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. With increased economic importance come greater international responsibilities and a strong mutual interest in improved regional 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.

Prop  
one of  
the  
measures

DEVELOPING COUNTRIES AND DEBT

22 [The performance of developing countries has become increasingly important to the world economy.] The situation of individual developing countries varies widely; many still face serious economic difficulties. Central to the prospects of all is strong and sustainable world growth, an open trading system, adequate financial flows and, most importantly, a commitment by these countries to appropriate economic reform.

other decs.



Middle-Income Countries

23. A number of highly-indebted middle-income countries continue to have difficulties servicing their external debt and generating the investment necessary for sustainable growth. The market-oriented, growth-led strategy based on the case-by-case approach remains the only viable approach for overcoming their external debt problems.

24. We are encouraged that 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. The success of these efforts is essential for improving the economic performance and strengthening the creditworthiness of these countries.

25. Official financing has played a central role in the debt strategy through the Paris Club (U.S.\$73 billion of principal and interest have been consolidated since 1983) and the flexible policies of export credit agencies. The international financial institutions will continue to have a pivotal role. We endorse the recent initiatives taken by the International Monetary Fund to strengthen its capacity to support medium-term programs of macroeconomic adjustment and structural reform and to provide greater protection for adjustment programs from unforeseen external developments. Especially important in increasing available resources is the U.S.\$75 billion General Capital Increase of the World Bank which should be speedily approved and subscribed to by all countries that have not yet done so.

26. Commercial banks have played an important role in supporting debtor countries' reform efforts through an expanded menu of financing options which has facilitated the channeling of commercial bank lending into productive uses. Their continued involvement is indispensable to the debt strategy. In this regard, the World Bank and IMF can play an important catalytic role in mobilizing additional financing from private (and official) sources in support of debtor countries' adjustment programs.

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



28. Because of the important role that international direct investment can play in spurring economic growth and alleviating debt problems, developing countries should welcome and encourage such investment and the new activities of the Multilateral Investment Guarantee Agency and the International Finance Corporation.

Debt of the Poorest

29. Over the past year, progress in dealing with the debt burden of the poorest developing countries has been encouraging. As we had encouraged at last year's Venice Summit, Paris Club creditors are rescheduling debt at extended grace and repayment periods. In addition, the recent enhancement of the IMF's Structural Adjustment Facility; the World Bank and ODA agencies' enhanced program of co-financing; and the fifth replenishment of the African Development Fund will mobilize a total of more than US \$18 billion in favour of the poorest and most indebted countries undertaking adjustment efforts over the period 1988/90. Out of this total, US \$15 billion will be channelled to sub-Saharan African countries.

30. Nevertheless, in cases where it is extremely difficult for countries to meet their debt-service obligations, an increase in concessional resource flows will be necessary to help those countries resume sustained growth. We welcome the progress toward a menu of options that allows official creditors to choose amongst shorter repayment periods at concessional rates, longer repayment periods at commercial rates, or cancellation of a portion of government-backed commercial loans. The relief provided would be additional to countries' existing aid programs. We also encourage the exploration of other techniques for reducing the burden of debt service, including the provision of grants for countries undertaking adjustments and further ODA debt cancellation.

FUTURE SUMMITS

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

\*\*\*\*\*



ANNEX

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



*1. actually effective  
multilateral coop  
on steps to . . .*

CONFIDENTIAL

STATEMENT ON OTHER ISSUES

In addition to economic matters, we have discussed the following other important issues:

ENVIRONMENT

1. Protection and enhancement of the environment is essential. The report of the World Commission on Environment and Development has stressed that environmental considerations must be integrated into all areas of economic policy-making if the globe is to continue to support humankind. Summit countries endorse its concept of sustainable development.
2. Threats to the environment recognize no boundaries. Significant progress has been achieved: The Montreal Protocol on Substances that Deplete the Ozone Layer is a milestone. We encouraged all countries to sign and ratify it. Further action is needed. Global climate change, air and water pollution, hazardous substances, deforestation, and endangered species require priority attention. We welcome the Conference on the Changing Atmosphere to be held in Toronto next week.

DRUGS

3. Illicit narcotics trafficking poses grave risks to peoples of all countries. Each Summit country should continue to place importance on domestic demand reduction programs but there is also an urgent need for improved international cooperation in appropriate forums on the illicit drug problem, [including production, trafficking, and money laundering.] The problem requires not only reinforcement of present efforts but also additional international approaches. / We look forward to the successful negotiation in Vienna in November of a United Nations Convention on illicit trafficking. We support the initiative of the United States to convene a special task force comprised of foreign affairs, enforcement, finance and other officials from Summit countries concerned with the fight against narcotics. This task force should propose methods of improving cooperation in all areas including national, bilateral and multilateral efforts.

*/Usinger*

HUMAN FRONTIER SCIENCE PROGRAM

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

BIOETHICS

5. 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 Communities to host the sixth conference in the spring of 1989.]





SOMMET-TORONTO-SUMMIT

Confidential

June 18, 1988

To the Delegation of the United Kingdom:

Attached for the earliest possible attention of your  
Sherpa and Political Director is the latest draft of the  
Political Declaration. It incorporates all reserves and  
suggested changes received up to 12:00 on June 18.

John Higginbotham  
Canadian Delegation

June 18, 1200 hours

CONFIDENTIAL

POLITICAL DECLARATION

1. We the Leaders of our seven countries, and the representatives of the European Community, have considered the future of East-West relations. The discussion has confirmed that our free and democratic societies will stand together in solidarity and cohesion within the framework of our existing alliances. We also reaffirmed that nuclear deterrence and adequate conventional strength are the guarantees of peace in freedom. Equally, we confirm our belief in constructive and realistic dialogue and cooperation, including arms control, as the way to build stability between East and West.<sup>1 and 2</sup>

2. In several important respects changes have taken place in relations between Western countries and the Soviet Union since we last met. This evolution has come about because the industrialized democracies have been strong and united and

1  
2

See attached revision suggested by Italy

See attached revision suggested by the United States



because the inherent limitations of the Soviet social and economic system have forced changes in Soviet policies.<sup>3</sup> Greater freedom and openness in the Soviet Union will offer opportunities to reduce mistrust and build confidence. Each of us will respond positively to any such developments.

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

4. Since our last meeting, progress has been made between the United States and the Soviet Union in agreeing to reduce<sup>4</sup> arms without compromising the security of any of our countries. The INF Treaty, the direct result of Western firmness and unity, is the first treaty ever to abolish an

<sup>3</sup> France has a reserve insofar as this statement "touches on areas outside the competence of the Summit group"

<sup>4</sup> U.S. wishes to insert word "nuclear"

entire class of weapons.<sup>5</sup> It sets vitally important precedents for future arms control agreements: asymmetrical reductions and intrusive verification arrangements. We now look for deep cuts in U.S. and Soviet strategic offensive arms. We congratulate President Reagan on what he has already accomplished, along with General Secretary Gorbachev, towards this goal.

5. Nonetheless, the massive presence of Soviet conventional forces in Eastern Europe and the Soviet capacity to launch surprise attacks and large scale offensive operations lie at the core of the security problem in Europe. The Soviet military buildup in the Far East is equally a major source of instability in Asia. These threats must be reduced<sup>6</sup>: enhanced security and stability at lower levels of forces is our goal. We seek a comprehensive, effectively verifiable and truly global ban on chemical weapons.

6. Genuine peace cannot be established solely by arms control. It must be firmly based on respect for fundamental human rights. We urge the Soviet Union to move forward in ensuring human dignity and freedoms and to implement fully<sup>7</sup> the commitments it has undertaken in the Helsinki process.<sup>8</sup>

5 U.S. wishes to replace "abolish an entire class of weapons" with "actually to reduce nuclear arsenals"  
6 French reserve on preceding section  
7 Canada wishes to add "and to strengthen substantially"  
8 U.S. wishes to add the words "and the Universal Declaration of Human Rights"



Recent progress must be institutionalized, the painful barriers that divide people must come down, and the obstacles to emigration must be removed.

7. We take positive note of Eastern countries' growing interest in ending their economic isolation, for example in the establishment and development of relations with the European Community. East-West economic relations can be expanded<sup>9</sup> so long as the commercial basis is sound, they are conducted within the framework of the basic principles and the rules of the international trade and payments system, and are consistent with our security interests.<sup>10</sup> and <sup>11</sup>

8. We pay special attention to the countries in Eastern Europe. We encourage them to open up their economies and societies, and to improve respect for human rights. In this context we support the continuation and strengthening of the Helsinki process.<sup>12</sup>

\* \* \* \* \*

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

- 9 U.S. wishes to substitute "can serve our common interests" for "can be expanded"
- 10 U.S. wishes to add words "and national legislation"
- 11 France wishes to change to "and that they are consistent with the interests of each of us in the area of security"
- 12 U.S. wishes to reverse paragraphs 7 and 8

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

10. We have pursued our consultations about the continuing war between Iran and Iraq, which remains a source of profound concern to us. We reaffirm our support for Security Council Resolution 598, which was adopted unanimously. We express our warm appreciation for the efforts of the Secretary General to work for a settlement on this basis and reiterate our determination to ensure implementation of this mandatory resolution by a follow-up resolution if compliance cannot otherwise be secured.<sup>13</sup> We condemn the use of chemical weapons by either party, deplore proliferation of ballistic

13 U.S. wishes to delete words "if compliance cannot otherwise be obtained"



missiles in the region, and renew our commitment to uphold the principle of freedom of navigation in the Gulf.

\* \* \* \* \*

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

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

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

13. We express support for work currently under way in the International Civil Aviation Organization aimed at strengthening international protection against hijackings. (This includes measures to investigate future hijackings, to help countries to deal with hijackings, to strengthen security

guidelines and to endorse the principle that hijacked aircraft should not be allowed to take off once they have landed, apart from exceptional circumstances.)<sup>14</sup>

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

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

14 FRG, France, Japan and Italy have reservations

15 U.S. wishes to include the language on narcotics agreed to at the final Sherpas' meeting and add to it the words "including enforcement of multilateral cooperation, steps to curb money laundering and stop the flow of precursor chemicals, and measures to deprive narcotics traffickers of their ill-gotten gains" after the words "additional international approaches".



CONFIDENTIAL

ANNEX

Italian suggested language:

We, the leaders of our seven countries, and the representatives of the European Communities, have considered the future of East-West relations. The discussion has confirmed that our free and democratic societies will stand together in solidarity and cohesion within the framework of our existing alliances.

We confirmed our belief in constructive and realistic dialogue and cooperation, including arms control, as the way to build stability between East and West and enhance security at lower levels of arms. We also reaffirm that for the foreseeable future an adequate military strength and a credible deterrence are necessary to protect peace and freedom.

CONFIDENTIAL

ANNEX

U.S. suggested language:

We the leaders of our seven countries, and of the European Community, represent industrial nations built on common principles of freedom, respect for individual rights, and the desire of all men to live in peace under the rule of law. Our peoples stand in solidarity for the cause of freedom, to safeguard democracy and the prosperity which it has produced. In our discussions we considered how to advance these goals and values in the fields of foreign affairs, particularly with regard to East-West relations and the fight against terrorism and narcotics trafficking.. (And other topics as appropriate.)

We confirmed our belief in constructive and realistic dialogue and cooperation, including arms control, human rights and regional issues, as the way to build stability between East and West and enhance security at lower levels of arms. We also reaffirm that for the foreseeable future an adequate military strength and a credible deterrent are necessary to protect peace and freedom.



# Canada: Uneasy Neighbor

## IN THE NEWS

### Sept. 14: Liberal Party Wins in Ontario

The Liberal Party is returned to power in Ontario, the most populous Canadian province, winning 95 seats in the 130-seat Legislature. The New Democratic Party won 19 seats and the remaining 16 went to Conservatives who ran a political dynasty in the province from 1943 to 1985. The Ontario premier, David Peterson, pledged to fight any trade agreement that failed to meet several conditions, including adequate protection for Ontario's automobile industry.

### Oct. 4: U.S., Canada Reach Free Trade Pact

The United States and Canada, the world's two largest trading partners, reach a free trade agreement that will reduce tariffs and other trade barriers. The negotiators beat by minutes a midnight deadline required by Congress to win the amendment-free confirmation of the pact.

### Oct. 28: Quebec Wins Vote of Confidence

The government wins parliamentary approval for constitutional changes that would recognize Quebec as a "distinct society" and strengthen the province's battle to shore up its French language and culture. The so-called Meech Lake agreement was negotiated last year. Opponents, who include former Prime Minister Pierre Elliott Trudeau, are hoping that the accord will be stalled in provincial legislatures, which must vote on it before June 1990.

### Apr. 27: U.S. Allows Nuclear Technology Sharing

President Ronald Reagan says he would approve a Canadian purchase of nuclear submarines using American reactor technology. To date, only Britain is authorized to use the technology in its Trafalgar-class submarine which Canada is considering acquiring to patrol territorial waters beneath the Arctic ice cap.

### June 18: Group of Seven To Open Economic Summit

Delegates to the 14th Economic Summit of Industrial Nations gather in Toronto. The agenda has been expanded to include the environment and the social and economic challenges of an aging population. The Group of Seven will debate changes in tax, labor trade and regulatory policies to make their economies more efficient.

## IN THIS REPORT

### Economy 8

For an economy traditionally in lockstep with its powerful southern neighbor, Canada is showing an unusual burst of independence.

### Culture 9

After 108 years, the National Gallery of Canada has proper quarters in Ottawa.

### Quebec 9

Lack of protest against the free trade agreement has surprised some observers.

### Foreign Policy 9

A new interest in Central America derives in part from the belief that the region can provide opportunities for business investment.

## Free Trade Reawakens the Dilemma Over Identity

Rarely has there been a decade when a sense of imminent doom has not lurked on the horizon.

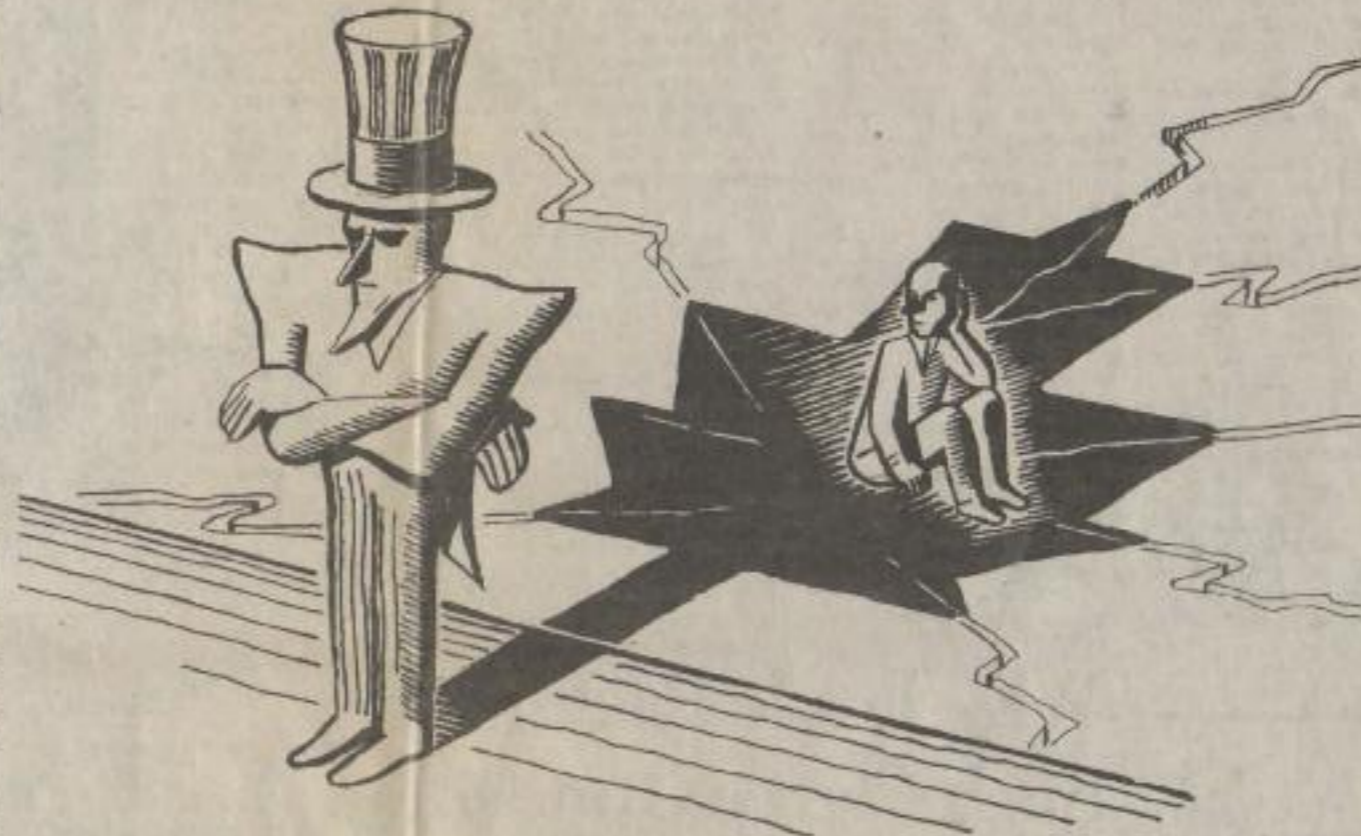
By John Fraser

TORONTO — Insecurity may be an ineradicable part of the Canadian condition, like snow in winter and blackflies in summer. There are very few countries that have reached the august age of 121 years with so many of their founding government and social institutions intact, and even fewer where the population feels the whole bag of tricks is going to be exposed as a fraudulent hoax any day.

Rarely has there been a decade in Canadian history when a sense of imminent doom has not lurked ominously on the horizon. There are good and sensible reasons for this, of course. An officially bilingual state is a recipe for constant confrontation. Close proximity to an infinitely more populous and powerful neighbor is a sturdy buttress to both an inferiority complex and complex malvolence. Regional disparity on all sorts of bizarre levels excites separatist longings throughout the country, east and west, and not just Quebec.

Psychologically, a nation forged not in revolution or even peaceful struggle, but by bureaucratic fiat and political compromise, is fated to view anything that upsets the always delicate status quo with unease.

Such things are part of the permanent emotional landscape for Canadians and they come to take them for granted, acting out their



David Suter

allotted parts unconsciously whenever an issue of sufficient magnitude requires them to provide more than the ubiquitous national shrug.

Free trade with the United States, not surprisingly, is such an issue. Free trade — as an issue rather than any specific aspect of the free trade legislation before legislatures in Washington and Ottawa — touches on all the stiboleths Canadians traditionally float as proofs of their precarious distinctiveness.

It has certainly awakened, yet again, a unique strand of anti-Americanism: not violent, but often arching in its self-deprecating cynicism and comprehensive contempt for American cultural values.

Free trade — as an issue — threatens to

shatter the treasured concept that a strong federal government can best cope with regional disparities and alienation. In Western Canada, they long to be free of federal shackles and deal directly with folks south of the border; in the Maritimes, where they have groused for over a century about being denied direct access to the "natural" markets of New England, they grouse still louder for fear that free trade will weaken federal subsidies and transfer payments.

The game Ontario and Quebec are playing with free trade is the most fascinating of all. With well over half the national population, with most of the industrial base, with a more than fair proportion of natural resources, and

with the most at stake in the linguistic compromises worked out in the past to keep the nation together, these are the definitive provinces.

The Liberal government in Ontario fears free trade and what it will do to the province's rich and well-protected industrial sector. The Liberal government in Quebec yearns for free trade as the long-term solution to dealing with traditional Ontario industrial hegemony.

The truth of the matter is that very few Canadians actually understand the specifics of the particular deal between President Ronald Reagan's officials and those of Prime Minister Brian Mulrooney. They cling to the latest south-sayers — like novelist Margaret Atwood (anti)

or Mordechai Richler (pro) — if they like the cut of their clothes or the way they talk.

There is little studiousness in the current free trade debate in Canada, and that befits a country well-versed in embracing implications rather than reality. Reality for anti-free traders is the fact that Canada has for some time become a willing economic dependent of the United States. Canadians are simply not willing to take the risks and the drop in living standards that an independent economic policy demands.

THE FREE traders, on the other hand, are so eager to feel the steel-cold embrace of "economic reality," which free trade is supposed to usher in, that they have lost all concept of the traditional ties that bind in Canada.

It makes some sense to maintain the top half of North America in a creatively ambivalent relationship with the dominant middle. This ambivalence sustains social and economic alternatives to the American way — the national medicare program in Canada is an obvious example, but so too are acid rain controls, multicultural compromises and a necessarily unaggressive foreign policy.

And so, at a pivotal point in their history — and one, typically, that is going almost unnoticed throughout the United States — Canadians face a traditional dilemma in which they are damned if they do or don't.

All the socialist arguments about the Canadian government abandoning responsibility before the maw of the "American multinationalists" will not make Canadian workers accept a lower standard of living. The staggering success of the Canada-U.S. auto pact is proof of that. All the expectation of increased markets will not make the businessman in Ontario enjoy life when his plant shuts down thanks to increased competitiveness. Ideology has been turned on its head.

The results — either way — will be diverting. On one point, they will also be predictable: Canadians will be busy agonizing over the termination of the nation even as the sequel-centennial approaches.

JOHN FRASER is the editor of *Saturday Night* magazine.

## Mulrooney Fighting To Regain Popularity

By Jeffrey Simpson

TORONTO — With an election looming in the next 12 months, Canadian politics has seldom been more difficult to fathom.

With the economy booming and an impressive series of policy initiatives under way, the Progressive Conservative government of Prime Minister Brian Mulrooney should be sailing toward re-election. Instead, the Conservatives remain mired in third place in every public opinion survey.

The opposition Liberals have not stopped squabbling since their humiliating electoral defeat in 1984 under their leader, John Turner. They are heavily in debt, divided on major policies and so unhappy with Mr. Turner's lackluster leadership that more than half the party's 39-member caucus recently signed letters asking him to step aside.

Despite this turmoil, the Liberals continue to lead in all the national polls, not because they have done anything to warrant public confidence in their abilities, but because the country has badly soured on the Conservatives, and especially on Mr. Mulrooney.

Meanwhile, the left-of-center New Democratic Party, the perennial third party, crept into second place in the polls several years ago and still bids fair to secure its best electoral showing ever. In Ed Broadbent, the son of an autoworker and a university professor by training, the New Democratic Party offers by far the most popular of the three leaders.

His popularity, and that of his party, worries Canada's allies, since the New Democratic

Conservatives remain mired in third place in every opinion poll.

Party is committed to withdrawing the country from the North American Aerospace Defense Command and eventually from the North Atlantic Treaty Organization. And although the New Democratic Party is not strong enough to win the largest number of seats in the next Parliament, it could hold the balance of power in a hung Parliament, where it would almost certainly prefer the Liberals to the Conservatives.

How the three parties got to this point baffles many Canadian observers.

Mr. Mulrooney, who was elected in 1984 with the largest number of seats in Canadian history (210 in a 282-seat House of Commons), promised "jobs, jobs, jobs," a new constitutional deal for the largely French-speaking province of Quebec, improved economic relations with the United States and greater rein for the private sector. He described his objectives as



Ed Broadbent

"economic renewal and national reconciliation," and by almost any standard he has delivered.

Canada has had the best job-creation record among the group of seven leading industrial countries. Interest rates are sharply down, economic growth is excellent, inflation is under control.

True, Canada's chronically disadvantaged regions such as the Atlantic provinces have not shared fully in the economic boom, and prairie farmers continue to struggle against the two plagues of exceptionally dry weather and low world grain prices. But the national unemployment rate has fallen to a 10-year low (7.9 percent), a sharper decline than any of the

Continued on page 8

## Why U.S. Pact Draws Fierce Opposition

By David Crane

TORONTO — The negotiation of a Canada-U.S. free trade agreement might seem like nothing more than the logical outcome of more than 100 years of increasing economic and cultural ties between the two countries, a recognition that each country is the other's most important trading partner.

Yet, many Canadians are fiercely opposed to a free trade agreement with the United States, and there is still the possibility that the agreement will not be ratified in Canada because of this opposition. If an election is held before the agreement is passed by Parliament, there is a strong chance that the government of Prime Minister Brian Mulrooney — and the free trade agreement — will be defeated, since it has been running third in polls for about two years.

Since the United States buys about 75 percent of Canada's exports, and Canadian exports are equivalent to nearly 30 percent of the country's GNP, why is there so much opposition within Canada? There are three key reasons:

• The free trade agreement will mean increased economic, political, social and cultural integration of Canada into the United States. Canadian sovereignty will be lost and Canada's capacity to build a different kind of society sacrificed.

• Canada's trade interests, including those with the United States, are better served by multilateralism than by bilateralism. The negotiation of a bilateral free trade area with the

United States will encourage regional trading blocs that will eventually become regional political blocs as well.

• The agreement itself is not a good agreement. Canada's principal gain is the elimination of U.S. tariffs, but Canadian exporters will remain vulnerable to all the vagaries of U.S. trade remedy procedures while the Canadian federal and provincial governments will be forced to surrender many policy-making levers to pay for duty-free access to the U.S. market. Canada's will to build a separate country

### POINT OF VIEW

distinct from the United States, in the face of the powerful economic and political pull of the United States, is a persistent theme in Canadian history. Successive generations of Canadians have aspired to build a distinct East-West economy and society from Atlantic to Pacific, despite the costs of maintaining a separate country.

Canada has a different social system, with medicare, regional development and other measures that place a high value on sharing and community. Unlike the roots of the U.S. Constitution, which sees government as something to be distrusted and held in check, Canadian political development has seen government as an instrument to foster economic development through a mixed economy — something especially important in a territory

Continued on page 8

# THE BEST CANADIAN BUSINESS DEAL YOU'LL EVER MAKE



Hotel Vancouver, Vancouver B.C.



Canadian Business Class



Canadian DC10-30

Fly Canadian Airlines International and stay free at a prestigious Canadian Pacific hotel or resort. When the two great names in Canadian travel get together to launch their new Business Class Service you can be sure they'll come up

with an unbeatable offer for travellers. Canadian Airlines International flies from Amsterdam, Frankfurt, Milan, Rome and soon Munich and serves more destinations in Canada than any other airline. Canadian Pacific Hotels and Resorts can offer you luxurious accommodation in more cities and resorts across Canada than any other company. And now when you fly Canadian Business Class Service. Offer limited to selected European countries only.

across the Atlantic, Canadian Pacific Hotels & Resorts will provide you with your first night's stay in its own new Business Class\* absolutely free, and it will upgrade you to a Business Class\* or superior room for the rest of your trip at any of its hotels and resorts across Canada. All you have to do to take advantage of this special offer is to contact your travel agent or call any Canadian Airlines International reservations office.

\*Business Class available at selected Canadian Pacific Hotels & Resorts.

Fly Canadian Business Class. Stay Canadian Pacific Hotels & Resorts Business Class. It puts the style back into business travel both in the air and on the ground.

Canadian Pacific  
Hotels & Resorts



Canadian  
Canadian Airlines International



The Economy

# Trade Surplus, Foreign Investment Spur Strong Business Activity

'We're quite upbeat about the Canadian economy.'

By Bernard Simon

**T**ORONTO — For an economy traditionally in lockstep with its powerful southern neighbor, Canada is showing an unusual burst of independence. Business activity has been stronger north of the border for much of the past five years, the Canadian dollar has reversed a 10-year downward trend against the U.S. currency, and Canada's foreign trade is in surplus.

What is more, the authorities in Ottawa have acted sooner and more decisively than their counterparts in Washington to reduce the risk of runaway inflation.

Evidence of the healthy economic climate is not hard to find. On the bright side, the unemployment rate — now at just below 8 percent — is at its lowest level in seven years. Foreign investors, encouraged by Prime Minister Brian Mulroney's Progressive Conservative government, have poured their money into Canadian real

estate and into the mining, lumber and manufacturing industries.

Thanks to climbing tax revenues, federal and provincial governments have been able to maintain — and in some cases expand — their generous social programs without pushing up budget deficits.

"We're quite upbeat about the Canadian economy," said Paul Kovacs, an economist at Burns Fry, a Toronto securities dealer. Mr. Kovacs noted that, despite an erosion in recent years, personal savings relative to incomes are twice as high in Canada as in the United States.

Business spending on plant and machinery is picking up as the consumer boom of the mid-1980s runs out of steam, and Canadian exporters are having considerable success in diversifying their markets beyond the United States.

Burns Fry predicts that gross national product will advance by 3.7 percent this year, about the same as 1987. Inflation is unlikely to be higher than the 4.4 percent posted last year, and the trade surplus is expected to widen from

10.3 billion Canadian dollars (\$8.4 billion) in 1987 to 12.6 billion dollars.

On the other side of the coin, the strains of five years of buoyant growth are starting to show. House prices in the big cities, especially Toronto, have soared out of reach of most first-time buyers. Skills in a growing number of labor categories are in short supply and many industries — construction, and pulp and paper, for example — are bumping against capacity.

Although consumer prices are still relatively stable, economists' main concern is that capacity constraints, more generous pay settlements and rising raw material prices may push inflation higher within the next year or two.

Data Resources of Canada predicted in a recent report that the consumer price index will accelerate to 5.1 percent in 1989 from 4 percent this year. But the consultancy also cautioned of a risk that lax monetary policies and strong growth could push the inflation rate up to almost 8 percent by summer 1989.

An especially encouraging facet of the economic outlook is the prospect that the gap between the performance of Canada's 10 provinces is set to narrow after almost a decade of widely divergent growth rates.

For the past five years, autos, steel, construction and a wide

spectrum of other manufacturing industries have spurred the industrial heartland of Ontario to an average annual growth rate of 5.9 percent. Unemployment has dipped below 6 percent. Housing starts in the province were one-third higher last year than in 1986, accounting for 40 percent of the total throughout the country.

On the other hand, the four Atlantic provinces and some parts of the prairies have suffered from their narrower economic bases and their exposure to volatile commodity prices. Saskatchewan, where farmers have been ravaged by drought and low grain prices, has posted an average growth rate of only 1.5 percent a year since 1983. Newfoundland's unemployment rate remains at over 17 percent.

In a series of long-range forecasts published last month, Royal Bank of Canada predicts a much more balanced picture over the next five years. According to the bank, lower consumer spending and a slacker housing market will push Ontario's growth rate down to an average of 2.5 percent a year between 1988 and 1992.

By contrast, the economies of western and eastern Canada are expected to benefit from developments as diverse as stepped-up oil and gas exploration in Newfoundland, a multibillion-dollar naval

frigate contract in New Brunswick and the impact of the U.S.-Canada free trade agreement in British Columbia.

Royal Bank expects oil-rich Alberta to post the highest growth rate in the country, with output rising by an average of 2.8 percent a year, compared to 2.5 percent for the country as a whole. A main spring of Alberta's growth is expected to be the development of several large tar sands and synthetic fuel projects.

The federal government's present monetary policies are reinforcing the closing of the gap between central Canada on the one hand, and the western and eastern provinces on the other.

Concerned by the threat to inflation posed by Ontario's red-hot performance, the Bank of Canada has driven up interest rates. Canadian banks' prime lending rate stood at 10.75 percent at the beginning of June, up from 9.25 percent after the Oct. 19 crash.

Michael Miller, research director at the WEFA Group, a Toronto consultancy, said that "what the Bank of Canada is doing will lead to slower economic growth, which will put a cap on wage advances in 1989."

**BERNARD SIMON** is assistant managing editor of *The Financial Post* of Canada.



President Reagan and Prime Minister Mulroney meeting in Washington.

## Why Trade Pact Draws Such Fierce Opposition

Continued from page 7

as vast as Canada's yet with such a small population.

But a trade agreement would draw Canada increasingly into the American way of doing things because there would be growing pressure to conform to U.S. practices and policies to make the agreement work better. There would be inevitable pressures for a common external tariff, for harmonization of policies in such areas as consumer protection, environmental control, taxation, competition and deregulation.

And in view of the disparities in size between the two countries, there is little doubt as to whose philosophy and policies would prevail. Moreover, as integration continued, Canada would come to be seen by the rest of the world as even more of a junior partner of the United States than it is today.

This, in turn, explains why multilateralism is so important to Canadians opposing the bilateral trade deal. The General Agreement on Tariffs and Trade (GATT) and other multilateral institutions have served Canada well over the past 40 years. Canada has gained expanding access to the U.S. market, as well as to other markets, through successive GATT rounds, and there is every reason to believe that this will continue in the current Uruguay round of talks.

In some areas, such as the U.S. agreement in the Tokyo round to introduce the material injury test to its countervail and anti-dumping laws, Canada has benefited from changes it could not have negotiated on its own. In other areas, Canada has gained better access to the United States at lower cost than it would have if it had negotiated on its own.

There is no doubt that the multilateral system faces risks. Some Europeans believe the world will inevitably divide into regional blocs in Europe, North America and Asia. But this would be a retrograde step that would impose great costs for countries that did not readily fit into regional blocs. It would raise the specter of imperialism, in a different form. And it would raise global tensions.

Canadians who believe their country should be a champion of multilateralism fear that a

deal with the United States will encourage regional blocs.

They also worry about the implications of another form of bilateralism — the attempt by the United States to negotiate separate free trade deals with different parts of the world.

There are suggestions of a Mexico-U.S. free trade. And Prime Minister Noboru Takeshita of Japan said recently in New York that his country, at the U.S. suggestion, is studying a free trade arrangement with the United States.

A series of such bilateral free trade arrangements could also destroy the multilateral system. But many Canadians also believe that the specific agreement signed by Mr. Mulroney is a bad one. Canada failed to obtain the secure access to the U.S. market that it had sought, since Canada is still exposed to U.S. countervail, safeguard and other trade actions and to future protectionism through future changes to U.S. trade law.

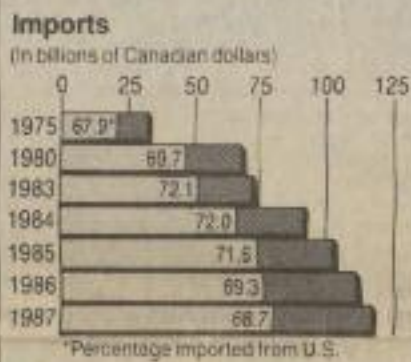
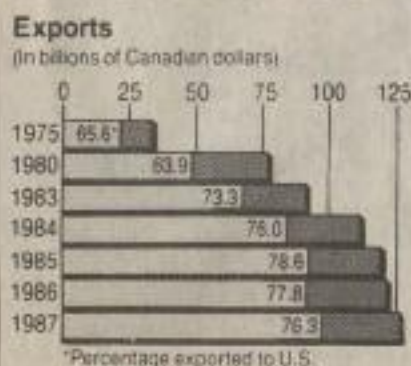
The price Canada paid to obtain the elimination of U.S. tariffs over the next decade was unnecessarily high since similar tariff reductions could have been obtained at lower cost in the Uruguay round. Even without the bilateral arrangements, more than 80 percent of Canadian exports go to the United States either tariff-free or at rates of less than 5 percent.

In return for the elimination of remaining tariffs, Canada has given a wide range of U.S. service industries the right of establishment and national treatment. Canadian controls on U.S. direct investment are largely eliminated except for takeovers of the biggest companies. The United States has gained significant rights of access to Canadian energy and to other natural resources. Canada will be constrained on the development of industrial policies.

Moreover, the agreement contemplates a further round of negotiations which, if successful, would mean further major changes in Canadian policies at both the federal and provincial levels. If effected, these changes would remove any lingering doubts about Canada's future as a distinct society in North America.

Canadians who oppose the bilateral trade deal recognize that foreign markets, especially but not only the U.S. market, are essential to their economic progress. They also recognize that a great deal needs to be done by Canadians to make their own economy more competi-

### Canada Trade Profile



### Five Top Exports to the U.S.

(in billions of Canadian dollars)

Motor Vehicle and parts	\$31,500
Pulp and Paper	9,107
Lumber and sawmill products	5,265
Petroleum	4,820
Chemical and Fertilizer	3,891

Source: Bank of Canada

## Mulroney Fighting To Improve Image

Continued from page 7

major economic forecasting groups had predicted several years ago.

On the constitutional front, Mr. Mulroney and the 10 provincial premiers negotiated what is called the Meech Lake accord, named for the venue near Ottawa where they met. The accord attempts to put into the Constitution five demands made by Premier Robert Bourassa of Quebec after his election in 1985, and thus bring Quebecers to accept politically the constitutional changes of 1982 that they spurned in a unanimous vote of the Quebec legislature.

So far, five Canadian provinces have ratified the accord, and the federal Parliament is about to do so. But the opposition of a new Liberal government in New Brunswick and the uncertainty of a new minority government in Manitoba puts the accord's future in doubt, because such a constitutional amendment requires the unanimous consent of the 10 provincial governments and the federal government.

The free trade agreement with the United States, of course, is the most important initiative of the Mulroney government, a bold but controversial departure from Canada's historic reluctance to enter a free trade arrangement — or reciprocity, as it was once called — with a neighbor 10 times more populous.

The agreement would phase out tariffs over 10 years, fetter both governments from interfering to protect domestic industries, guarantee American access to Canadian energy resources, lower substantially barriers to U.S. investment in Canada and create a bi-national panel to assist in resolving trade disputes.

The agreement has been bitterly

denounced by cultural groups, trade unionists, the national Liberal and New Democratic parties, and by so-called Canadian nationalists, led by the largest circulation paper in Canada, *The Toronto Star*.

But public opinion surveys have consistently shown at worst an evenly divided population; at best, a majority in favor of the agreement. Certainly in Quebec and throughout most of western Canada, a majority favors the deal.

The legislation implementing the trade agreement will produce a long, hot political summer. Although politicians would love to flee humid Ottawa, the trade legislation and assorted other priority bills clogging Parliament's agenda will keep MPs hammering each other through July and perhaps into August.

If the government's political fortunes improve, the Conservatives want to call the election this fall rather than carry on into what would be the fifth year of their mandate. If the polls continue to put the Conservatives in third place, however, they will have no choice but to delay until the winter or spring on the theory that hanging tomorrow is preferable to hanging today.

Scarcely a week passes without Prime Minister Mulroney trying a new device to restore his popularity and that of his party. The economic summit meeting in Toronto of the Group of Seven nations, which begins Sunday, and the tour of West European capitals that preceded it are part of an effort to present Mr. Mulroney as a competent, even important, player on the international stage.

**JEFFREY SIMPSON** is a national columnist for *The Globe and Mail*.

The International Herald Tribune



welcomes the delegates to the 1988 World Economic Summit, Toronto, Ontario.

## We deliver Canada's best

Making decisions today requires more than intuition and number tumbling. Events happening thousands of miles away can profoundly affect you and your business. So it pays to know what is going on both at home and around the world.

This is why top executives in Canada turn each business day to *The Globe and Mail* and its Report on Business. Chairmen, presidents, investors, government leaders, professionals and managers find the information and guidance they need in their pages.

*The Globe and Mail*, Canada's National Newspaper, gives them full coverage of national and international news events, political and government developments. Opinions, background and analysis of domestic and foreign affairs are all there.

From Report on Business, Canada's Business Newspaper, they get the latest news about business and industry, investments, economic trends, plus Canada's most complete business data package, interpretation and forecasts.

To provide a broader, in-depth view of the world, three high-quality national magazines are included with *The Globe and Mail* and Report on Business. Report on Business Magazine presents a well-researched, thorough look each month at the business world. Destinations, published six times a year, is Canada's largest circulation travel and lifestyle magazine, and Domino, Canada's first magazine of international style, published quarterly beginning September, 1988.

To reach Canada's best, advertise in Canada's best information sources.

The Globe and Mail  
Canada's National Newspaper

Head Office: The Globe and Mail, 444 Front St. West, Toronto, Ontario, Canada M5E 1B3. Tel: (416) 593-5811. Telex: 96-216629. Facsimile: (416) 593-5271, (416) 593-5443. Mike Selman — Director of Marketing and Corporate Development: (416) 593-5359.

London: The Globe and Mail, 167 Temple Chambers, Temple Avenue, London, England EC 4Y 0EA. Tel: (1-253-5771). Fax: 351-3343.

New York: The Globe and Mail, 300 Fifth Avenue, Suite # 4128, New York, NY 10110. U.S.A. Tel: (212) 754-6236. Fax: (212) 754-7596.

Hong Kong: The Globe and Mail, 3812 Admiralty Centre, Tower 1, 118 Shewan Road, Hong Kong. Tel: 5-270863. Fax: 5-6850200.

## A Winnipeg location makes business sense.

Winnipeg is on a billion dollar investment roll. It makes good business sense to locate here. But you need information first.

We have all the materials you need to help you make a proper preliminary feasibility study. Information on the market, the raw materials, energy, economics, labour, transportation and more at your fingertips.

We'll send you Winnipeg Facts, followed by, depending on your

requirements, a tailor-made information package of researched materials. You can also request a copy of our video. Just drop us a note on your company letterhead or give us a call at the WBDC. A Winnipeg location makes good business sense.

**Winnipeg Business Development Corporation**

509-167 Lombard Avenue  
Winnipeg, Manitoba, Canada R3B 0V3  
Telephone: (204) 944-8686  
FAX: (204) 944-8492

**WINNIPEG FACTS**

**WINNIPEG: BUILDING ON A BILLION-DOLLAR ROLL**

### REAL ESTATE

#### INVESTMENT

1,800 acres of PRIME HORTICULTURAL PEAT MOSS LAND

- Over 155 million cubic feet of high quality deposits.
- Approved licenses and permits.
- Vendor lease back for 10 years at \$3 million net/yr.
- Existing production.
- Purchase price: \$14,000,000.
- Financing available.

For further details, please contact:  
**Mr. O. LEWIS,**  
46 Coopers Crescent,  
Richmond Hill, Ontario, Canada L4C 9L6.  
Tel.: (416) 737-7545.

#### TORONTO

Businesses as well as prime residential, commercial and industrial properties.  
Contact:  
**Ken Coffin Real Estate Broker**  
22 Academy Road, Weston, Ontario M9N 3K2.  
Tel.: (416) 247-4759

#### TORONTO

Very unique 30 acre lot for estate or business/retirement. Forest, streams, wildlife and park. Deer habitat, trout, salmon farm on water front. Modern 5 bedrooms home with spectacular view. 81 acres. In car free Canada's business center. 12 car flight level (Prestige Inc.) Airport. Excellent revenue potential and appreciation development prospects.  
Owner: Mr. Rizzuto (416) 222-4222.  
Principals only.

#### Investing Moving in Ontario, Canada?

Real Estate Listings of Ontario and Toronto area (with pictures) of residential and commercial property. Over \$50 (CAD) funds for one year per month for twelve months.  
We can also help with purchasing.  
**John Ross Ltd. - 312 Lakeshore Blvd. East**  
Oshawa, Ontario L1H 4L2.

#### OWN A PIECE OF THE ROCKIES:

Deluxe townhouses located in exciting little mountain town of Canmore, Alberta. Surrounded by spectacular mountain views. 6 rooms, 3 bedrooms, 3 bathrooms plus hot tub, deck, skylights and more.  
\$150,000 CDN each.  
Leona Simbors: (416) 475-2649.

#### BUSINESS FOR SALE

Convenience store with car wash and self-service gas station, perfect location, Eastern Township, Canada. Price: C\$290,000.  
Also 1981 4-bedroom house, 106 ft. from Lake Memphremagog shore, price: C\$250,000.  
Tel.: 819-843-4223.

#### FOR SALE

Blackwater Lake Resort Ltd. in Ontario, Canada. Seven acres to be developed on the lakeshore. Well furnished Swiss chalet style home. Fully equipped. Over in Germany with photos and information until June 25.  
Phone 49 5108 2766  
or in Canada phone 416-327-9175.

### BUSINESS OPPORTUNITIES

#### PARTNER IN CANADA

Medium sized company currently manufacturing electrical construction products and measuring/testing equipment for wire and cable seeks financing or joint venture opportunities with organization looking for manufacturing and distribution in North America.

**R. Brown, Andora Assoc. Ltd.**  
55 Valleywood Dr. Markham, Ontario, Canada L3R 5L9  
Tel.: 416-474-9128  
Fax: 416-474-9221

### ANTIQUES

#### LOG HOME OVER 100 YEARS OLD

Diamonded and Delivered  
**BARN HOME**  
Designed from a 150-year-old hand hewn timber frame, dismantled, delivered and erected on your foundation.  
Call Canada 1-416-652-0234

### AUTOMOBILES

#### NEW 1978 CADILLAC ELDORADO

**BIARRITZ**. Fully loaded including power moon roof and reclining power passenger and driver seats.  
**1971 CHEVY PICKUP**  
Custom sport fully loaded including factory air, 200 V6, gauge package with tach, 15,000 original miles.  
CALL: 1-416-852-0254.

#### RE/MAX MAGNITUDE REALTY LTD.

20 Huron St., Woodstock, Ontario, Canada, N4S 5Z2 (519) 539-0471.  
25-acre estate, luxury dwelling with servant's quarters, near London, Ontario. 1,000 acres, quiet heavy industry (airport noise).  
Landscape trees, lush lawns, gardens.  
FOR INFORMATION CALL: (416) 752-1000  
John J. Lee, ASSOCIATE BROKER





Canadians hope the new \$165-million, glass-and-granite National Gallery in Ottawa will nurture their cultural identity.

## A Young Culture Struggles to Come of Age

By Ron Graham

OTTAWA — Rome may not have been built in a day, but 108 years seemed a long time for the National Gallery of Canada to establish decent quarters in Ottawa. Perhaps that's why the May opening of the art museum in its new, huge and splendid place has been greeted with a pride and celebration rarely accorded Canadian public architecture since Expo 67 in Montreal.

Even its sharpest critic conceded that the \$165 million, glass-and-granite extravaganza, designed by Moshe Safdie on a magnificent point overlooking the Parliament buildings and the Ottawa River, is "an instant landmark destined for popular success."

Part of the joy was simple relief at no longer having to visit the worthy collection of European, American and Canadian masters in the dingy, leaky office building that had been the Gallery's home since 1960. It also reflected Canada's perennial desire to come to age at last as a sophisticated culture.

Canadians have had their international achievements, whether the novels of Robertson Davies and Antonine Maillet, the paintings of Jean-Paul Riopelle and Alex

Colville, the music of Glenn Gould and the Montreal Symphony, or the films of Norman Jewison and Denis Arcand. But there remains a persistent insecurity that Canada itself isn't quite a civilized place.

In that respect, the exterior of the new gallery is a perfect symbol for the state of Canadian arts and letters. Though the facade is exciting, confident and of soaring aspiration, it fronts a monumental bunker whose utilitarian austerity suggests a skimping of both imagination and money. Similarly, behind the energy and ambition that characterize the Canadian artistic community today, there looms the impression of a culture under siege.

The limited market for even the most popular forms of art has led to a tradition of heavy state subsidization, as well as a constant complaint that the money isn't enough.

That complaint has grown louder under the Progressive Conservative government of Brian Mulroney. When Ottawa isn't preoccupied with reducing its spending generally, its priorities have been wheat farmers and nuclear submarines before artists and cultural institutions.

In fact, after the new Gallery had been initiated by the previous Liberal government, it was often singled out as an

example of waste and folly by the same Conservatives now basking in its glory.

More alarming has been the government's tendency to link its financial contributions to its political purposes. Nothing threatens the quality of Canadian culture more than putting party considerations ahead of merit in the bestowing of grants and jobs. Recently, scandals, incompetence and interference have damaged such crucial organizations as the national film development agency, the national performing arts center and the main cultural-funding body.

If the struggle against penny-pinching philistinism is nothing new, it has taken on another significance with the free-trade negotiations between Canada and the United States. While the Mulroney government has boasted that it kept culture out of the deal, many worry how long Canada can withstand American demands for unlimited penetration into Canadian publishing, broadcasting and other protected cultural industries. Already Ottawa has had to compromise its film and broadcasting policies in the face of pressure from Washington.

RON GRAHAM is a Canadian journalist and the author of "One-Eyed Kings: Power and Illusion in Canadian Politics."

## In Quebec, Nationalists Pin Hopes on Trade Pact

By Lise Bissonnette

OTTAWA — English-Canadian nationalists, drawn mostly from the intelligentsia, are somewhat unhappy with Quebec these days. Canada's intellectual and cultural elites are mustering a rare quasi-unanimity against the recent Canada-U.S. free trade agreement, deemed to be the Trojan horse for the final "Americanization" of the country.

But protest is marginal in the French-speaking province where cultural worries should have been expected to have sent many to the front lines of the resistance movement.

Quite to the contrary, Quebec is showing a rare quasi-unanimity of its own in approving trade liberalization with the United States. Both the leadership of the governing provincial Liberal Party and the Parti Québécois, the separatist party now in opposition, feature enthusiastic free traders.

Both big and small businesses share the federal and Quebec governments' confidence that the accord will bring added prosperity. And although trade unionists are somewhat more reluctant, their formal attempt at creating a coalition against free trade has vanished. Cultural circles are practically silent; their assumption is that the natural language barrier between Quebec and the rest of the North American continent is enough of a protection against U.S. invasion.

Such general optimism lies on shaky ground. Studies on the impact of free trade with the United States on the Canadian economy tend to show that peripheral regions — the West and the Maritimes — should be the winners. Manufacturing provinces, such as Ontario and Quebec, will have to go through much more painful restructuring, and until they do, it will be almost impossible to assess the overall benefit, if any, of the new arrangement.

The latest and most optimistic studies show that employment in Quebec, could grow by a little more than 2 percentage points from now until 1995, and that Quebec's GDP could grow by slightly over 3 percent. So much has yet to be discussed concerning the implementation of the treaty that Quebec's support for the agreement amounts to a simple act of faith.

"Such a support has more to do with an ideological mindset rather than sound cost-benefit analysis," said Professor Pierre-Paul Proulx, an economist at the University of Montreal. He has studied Canadian-U.S. and Quebec-U.S. trade flows since the 1970s. Although still in favor of liberalization, he stands as a cautioner, warning that tough questions will arise as to the effect of the accord. Provincial jurisdictions over the service sector, the professional corporations and public pricing practices, for example, are already challenged.

Mr. Proulx and other experts are especially worried about domestic energy policies. U.S. opposition to price subsidization could push Quebec's low cost of domestic electricity to more "international" levels.

Electricity, however, is Quebec Premier Robert Bourassa's main reason for supporting the accord. Quebec's electricity exports to the United States have recently moved from surplus selling to firm and guaranteed long-term supplying contracts, mainly with the neighboring New England states and New York. Mr. Bourassa sees these exports, and the huge

hydro-electric development they will command in northern Quebec, as the backbone of Quebec's economic future. Stabilizing the trade climate with the United States is thus a must.

The nationalist Parti Québécois is Mr. Bourassa's best and most bizarre ally. Its new leader, Jacques Parizeau, an economist who was finance minister in the former Parti Québécois government from 1976 to 1984, harbors long-term hopes of his own about a Quebec-U.S. axis. He predicts that Quebec's dependence on the rest of Canada will decrease proportionately to the strengthening of the U.S. trade link. And Quebec's independence should somehow follow naturally, when the idea makes economic as well as political sense.

Free trade with the United States means a pull to a market economy much more than to the social democracy that the Parti Québécois is also supposed to care so much for. But Parti Québécois supporters three years into their recovery from a bitter electoral defeat have more pressing business than questioning Mr. Parizeau's daring assumptions.

Their internal problems have helped Mr. Bourassa create an unprecedented climate of cooperation between the Quebec government and the federal government, headed by Prime Minister Brian Mulroney's Progressive Conservative Party. This strange Liberal-Conservative alliance in Quebec is infuriating to the federal Liberal Party, whose long hold on power (1963-1984) was largely due to a quasi-monopoly of Quebec votes.

Mr. Bourassa and Mr. Mulroney, who is also from Quebec, managed last June to talk English Canada's nine provincial premiers into accepting a constitutional accord with Quebec, the only province to have rejected the 1982 constitutional reform of former Prime Minister Pierre Elliott Trudeau.

THE Meech Lake accord, as the 1987 arrangement is known, has satisfied some basic Quebec demands. Among others: a constitutional preamble formally recognizing Quebec as a "distinct society" within Canada, increased control over immigration, guarantees as to the province's representation among the Supreme Court judges, new rules governing federal spending power in fields of provincial jurisdiction.

Much more heatedly debated in Quebec than the Canadian-U.S. accord, the Meech Lake accord has been denounced by the Parti Québécois.

If polls are to be believed, however, the 1987 deal has gained general support throughout the province. Such support has probably little to do with the agreement's rather symbolic concessions, which are unable to stop Quebec's declining demographic (and political) strength inside the Canadian federation.

In the long term, the Canada-U.S. free trade accord might have much more influence on Quebec's economic and cultural future than the Meech Lake accord. But Canada's hesitation to settle amicably with Quebec, even at a low cost, is keeping the "national question" alive and well-anchored at the top of the province's political agenda.

LISE BISSONNETTE is a journalist and political columnist based in Montreal.

## Canada Cautiously Tries to Be a 'Helpful Fixer' in Central America

By Jonathan Lemco

WASHINGTON — The Canadian government, press and a number of interest groups have recently turned their attention to the role that Canada might play in the Central American peace process.

This is a new phenomenon since as recently as 10 years ago, few Canadians knew or cared about that part of the world.

The reasons for this new interest range from a genuine concern for Central American refugees and an opportunity to target Canadian aid where it can demonstrably improve living conditions to opportunities for business investment in the region and a chance to distinguish Canadian foreign policy from American interests, thereby increasing the perception of Canada as an international "good guy" and "helpful fixer."

To understand the growth of this interest, one must understand something about the highly sensitive Canadian view of their complex, and occasionally troubled, relationship with the United States. The relationship has left Canadians with ambivalent feelings of superiority and insecurity.

By superiority it is meant that Canadians take great pride in their extensive social services, their clean cities, the relative lack of violence in their country and, most

It is a chance to distinguish Canadian foreign policy from American interests.

importantly, the extremely good foreign press they receive and the superior reputation they enjoy around the world. This they contrast with the apparent U.S. failings in these areas.

The Canadian sense of insecurity is fostered by the dynamic U.S. economy, the American superpower status, the vibrant American cultural industry, and, most importantly, the sheer dominance of North America that the United States enjoys by virtue of its size, its military capacity, its economy and its large population.

All this is pertinent to Canada's Central America policy because it has allowed Canada to follow a relatively independent policy in the region. Canada can advocate an indigenous solution to Central America's problems. It can offer its advice to a verification commission and its troops to a peace-keeping mission in accordance with the Arias-Contadora-Esquipulas plans.

As a result, it has been able to

assert itself as an international "good guy" while not alienating the United States.

It has also been able to assert its autonomy from the United States and thereby demonstrate its empathy for Third World nations.

Of course, Canadian policy-makers are not so shortsighted as to completely diverge from U.S. policy. As an ally with many shared interests, they would never go so far as to embarrass the United States.

And the United States has never penalized Canada for its policies in Central America. This may be because Canada has never been perceived as a threat or an embarrassment, or because its policies are not considered important, or because of an honest U.S. sense that Canada is entitled to its own position.

It should be acknowledged that the stakes in the region had, until recently, never been very great. Now, however, because of the free trade agreement with the United

States, it is unlikely that the government of Prime Minister Brian Mulroney would take a foreign policy action different from the American one if there were a perceived risk to the free trade deal.

Perhaps the sharpest divergence between the United States and Canada on Central America concerns the roots of the conflict. The Kissinger Commission report of 1984 portrayed the conflict as an extension of East-West rivalry.

By contrast, successive Canadian governments since the days of Prime Minister Pierre Elliott Trudeau have viewed the conflict as a result of terrible poverty, uneven distribution of wealth, social in-

justice and a failure to institute necessary economic and social reforms. Canadians have argued that intervention by the major powers only aggravates the situation.

Canada regards the Arias-Contadora-Esquipulas plans as the only viable means of resolving the conflict. Joe Clark, the secretary of state for external affairs, has endorsed the Caraballeda declaration, the statement of the Contadora nations and the Contadora support group in January 1986 which called for an end to aid to the contras and the resumption of peace talks in Central America.

Canada has provided the Con-

tadora group with comments on the technical aspects of verification. Both European and Central American countries have expressed interest in an increased Canadian role in the peace efforts. Some suggest that since Canada is not regarded with suspicion by the Central American nations, it could act as a bridge between them and the United States.

Canada's most substantial contributions might include taking part in an international force to supervise the cease-fire and sending observers to verify that the signatories to the peace treaty

keep their promises. It could also help conduct democratic elections or train local election officials.

However, some suggest that Canada's influence comes less from political expression than from the scores of aid projects undertaken by the Canadian International Development Agency. Between 1982 and 1987, Canada gave more than \$105 million in bilateral aid to Central America, tripling its assistance to the region. It also donated more than \$50 million through nongovernment organizations and multilateral bodies. Canada's greatest constraint in

the region is, of course, its desire to remain on the best of terms with the United States. And it will not pursue policies that diverge too sharply from U.S. interests.

This hampers its credibility among Central Americans and makes it that much more difficult to persuade them that Canada is not a U.S. puppet.

JONATHAN LEMCO is an assistant professor of Canadian Studies and Comparative Politics at the Johns Hopkins University School of Advanced International Studies in Washington.

**CONSIDERING AN EDUCATION IN NORTH AMERICA?**

- How does your child compare with students in Canada and the U.S.?
- Complete educational assessments pre-school to university levels.
- Intensive short-term English language training also available.
- Services provided as possible anywhere in the world.

**LYNN HATFIELD, B.A., B.Ed., M.Ed., SPECIAL EDUCATION SPECIALIST**

Twenty Years Experience  
Assessment, Consulting, Programs

112 Orchard Park Road, Lindsay, Ontario, Canada K9V 5A4.  
Phone: (705)324-2759. Fax: (705)328-2036.

THE UNIVERSITY OF BRITISH COLUMBIA

People from all over North America look to The University of British Columbia for a comprehensive understanding of the Asia Pacific and its peoples. With one out of six faculty involved in some facet of Asia Pacific relations, and exchange agreements with 33 Asian universities, UBC clearly leads Canada in reaching out to the Asia Pacific region.

To learn more about the history and the future of UBC's Asia Pacific ties, send for a copy of "Toward the Pacific Century".

Available from:  
The Community Relations Office,  
The University of British Columbia,  
207-6328 Memorial Road, Vancouver, B.C., Canada V6T 1W5.  
Tel.: (604)228-3131.

**CANADIAN IMMIGRATION INVESTMENT FUND**

approved by Canadian Government providing landed immigrant status to Canada for qualified investors subscribing for minimum C.\$250,000. Available immediately.

For offering Memorandum, contact:  
Mr. Martin,  
Tel.: (604) 738-6759,  
Fax: 604-738-5761.

**TRADE ALL CORPORATION**  
62 LEPAGE COURT  
TORONTO, ONTARIO  
M3J 1Z9  
(416) 665-3995  
FAX: (416) 639-4001  
Mr. ART SANDERS - PRESIDENT

Specialists in the buying and selling of clearance merchandise worldwide, as well as sourcing internationally.

**LOOKING FOR AN INVESTMENT OPPORTUNITY?**

**LOOK TO CANADA**  
FBDB — Venture Capital Division.

Venturing in a country can be risky. Venturing in Canada with one of its largest venture capital organizations as a partner, it's a risk you can well afford to take.

The Venture Capital Division of the Federal Business Development Bank will introduce you to a thriving economy with a prosperous small business sector that welcomes investors.

Our Venture Capital Division can offer you the financial resources and the experience you need to break into a vibrant market place that still offers plenty of room to grow. It can open the door to any number of exciting investment opportunities to co-invest in emerging growth companies in Canada.

With a portfolio of more than 60 companies across Canada, a staff of seasoned professionals, 3 strategically located offices in Montreal, Toronto and Vancouver, and a direct line to 16,000 private companies, a partnership with us will help you find the investment opportunity you are looking for.

**Consider the advantages. Consider Canada.**  
Call FBDB Venture Capital Division  
Call at: (514) 283-3609 or Facsimile: (514) 283-7675

**BACKING INDEPENDENT BUSINESS**

Federal Business Development Bank / Banque fédérale de développement  
Canada

The Partners of  
Smith, Lyons, Torrance, Stevenson & Mayer  
extend compliments and best wishes  
to the Delegates to the  
Toronto Economic Summit

**SMITH, LYONS, TORRANCE, STEVENSON & MAYER**  
Barristers & Solicitors

Suite 3400, The Exchange Tower  
P.O. Box 420, 2 First Canadian Place  
Toronto, Canada M5X 1J3  
Telephone: 416-369-7200

TORONTO OTTAWA HONG KONG



NYSE Most Actives table with columns: Vol., High, Low, Last, Chg.

Market Sales table with columns: NYSE 4 p.m. volume, NYSE 2 p.m. volume, etc.

NYSE Index table with columns: 12 Month High, Low, Close, Chg.

Friday's NYSE Closing logo and text: Via The Associated Press

AMEX Diary table with columns: Class, Prev., Chg.

NASDAQ Index table with columns: Class, Prev., Chg.

AMEX Most Actives table with columns: Vol., High, Low, Last, Chg.

Dow Jones Bond Averages table with columns: Bond, Yield, Chg.

NYSE Diary table with columns: Class, Prev., Chg.

Odd-Lot Trading in N.Y. table with columns: Buy, Sell, %BID

Dow Jones Averages table with columns: Index, High, Low, Last, Chg.

Standard & Poor's Index table with columns: Index, High, Low, Last, Chg.

NASDAQ Diary table with columns: Class, Prev., Chg.

AMEX Stock Index table with columns: High, Low, Close, Chg.

Tables include the nationwide prices up to the closing on Wall Street and do not reflect late trades elsewhere.

NYSE Mixed in Heavy Trading

NEW YORK — Prices on the New York Stock Exchange closed mixed Friday in the heaviest trading of the year, with a rally in the blue-chip sector capping a session dominated by dividend-related plays and the expiration of futures and options.

The Dow Jones industrial average, which fell 37.15 points Thursday, rose 9.78 to close at 2,104.02 points, erasing a 16-point deficit in the final 30 minutes. For the week, the Dow was up 2.31 points.

Declines, however, led advances by a 4-3 ratio. Volume was a massive 344 million shares, up from 161.5 million Thursday. It was the busiest day of 1988, and the fifth-highest total on record.

In the first hour alone, 158.7 million shares were traded. The previous high for the first hour was 135.9 million shares on Oct. 20.

What is known as the "triple witching hour" — the expiration of stock-index futures and options, as well as options on individual stocks — and dividend-related activity in two issues combined to produce the heavy trading.

"The market activity was distorted by the aggressive dividend plays and the triple witching hour," said Trade Latimer of Josephthal & Co. She said the late jump in the Dow resulted "from a few more buyers being around than sellers."

"Under these circumstances most serious investors don't bother doing anything unless it is absolutely necessary," Ms. Latimer said. "There are too many distortions, so they just go and play."

She predicted that early Monday morning, "the market will focus on straightening things out and by Monday afternoon, it will be business as usual."

In London, share prices fell Friday as the market was hit by worries that the government would raise interest rates to curb overheated economic growth. The Financial Times-Stock Exchange 100-share index finished down 11.3 points at 1,850.3.

12 Month High Stock table with columns: High, Low, Last, Chg.

12 Month High Stock table with columns: High, Low, Last, Chg.

12 Month High Stock table with columns: High, Low, Last, Chg.

12 Month High Stock table with columns: High, Low, Last, Chg.

12 Month High Stock table with columns: High, Low, Last, Chg.

12 Month High Stock table with columns: High, Low, Last, Chg.

12 Month High Stock table with columns: High, Low, Last, Chg.

12 Month High Stock table with columns: High, Low, Last, Chg.

12 Month High Stock table with columns: High, Low, Last, Chg.

12 Month High Stock table with columns: High, Low, Last, Chg.

12 Month High Stock table with columns: High, Low, Last, Chg.

12 Month High Stock table with columns: High, Low, Last, Chg.

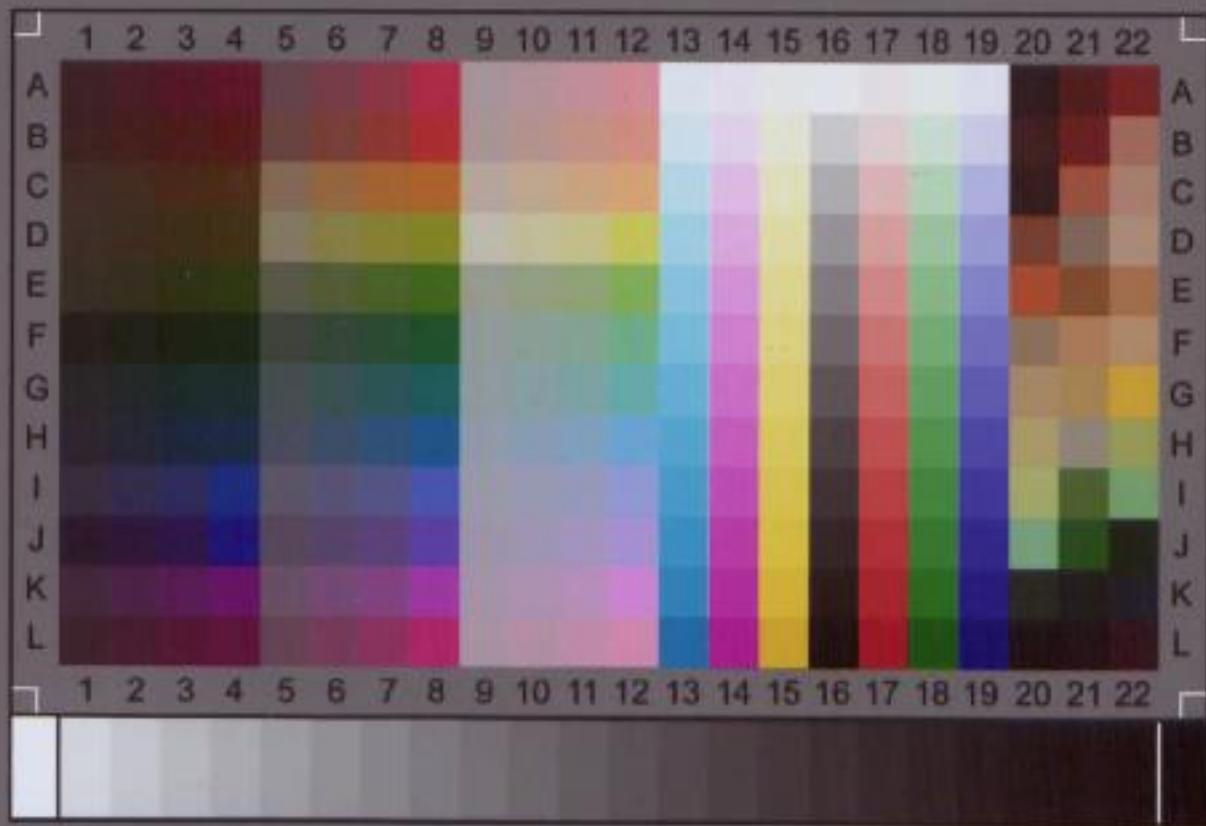


PART 25 ends:-

FCO to CAP 17-6-88

PART 26 begins:-

Int Herald Tribune Extract 18-6-88.



IT8.7/2-1993

2009-02



IT-8 Target

Printed on Kodak Professional Paper

Charge: R090212