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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

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PROCEEDINGS OF THE TORONTO SUMMIT

SUNDAY JUNE 19 TO TUESDAY JUNE 21

1988

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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 Communiques 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 Equivalents (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 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 Esta 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 Esta 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 Esta 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 Esta Agreement. There was no reason to single out agriculture. The Punta del Esta 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.