

010

① O.P.C. ✓

Were heads of government not

Prime Minister

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MR POWELL

to be consulted thoroughly in the meeting on the double taxation issues?

Very broad brush. But relevant to tomorrow's meeting with Signor Craxi. COP 10/2.

The meeting of Personal Representatives for the preparation of the Venice Economic Summit was held in Florence last week. The meeting was called and hosted by the Italian Government and chaired very effectively by Signor Renato Ruggiero.

2. The purpose of the meeting was to identify and discuss the main issues likely to come under discussion at the Venice Economic Summit, with a view to the preparation of a "thematic paper".

3. On the economic side, the meeting identified three main issues as likely to be in the forefront of discussion at Venice:

Yon-cant

i. How can we deal with the fundamental imbalances in the world economy (notably the United States' fiscal deficit and current balance of payments deficit, and the Japanese trade surplus) without putting at risk the prospects of continuing growth in the industrialised countries, and without a recrudescence of inflation.

ii. The maintenance of the open multilateral trading system in the face of protectionist pressures, particularly in the United States; and the need for urgency in tackling the fundamental problems of surplus capacity in agriculture.

iii. The management of international debt problems over the coming years, particularly in the light of the increasing reluctance of commercial banks to commit resources in this area.

As single telephone call could have told us this.



171

4. On the first of these points, there was some discussion of the prospects for exchange rates, and of the need to reduce the instability of exchange rates which had had a very unsettling effect on trade. Attention was drawn to the fact that the United States dollar had fallen in value by some 35 per cent over the last 18 months against the Japanese yen, and by a similar amount against the deutschmark. Signs were beginning to appear that the effects of this were working through to United States export and trade figures, but the effects were slow to come, partly because the Japanese appeared to have been able to absorb a very large part of the effects without increasing the prices of their exports in overseas markets, at any rate until relatively recently. There was not much pressure upon the Japanese Personal Representative (who has only just taken up his duties) to explain what progress the Japanese Government were making in seeking to reduce the Japanese savings ratio, increase consumption and open up the Japanese domestic market to foreign goods; but he will have been aware of the probability of further pressure to come on this score. As one of the European Personal Representatives said to me in the margins of the meeting, however, the Japanese are pastmasters at promising action which never seems to lead to results. The Personal Representative of the Federal Chancellor outlined the economic programme which he expected the new German Government to follow over the coming years; he expected that the result would be to reduce the German trade surplus to something like 0.5 per cent of the Gross National Product.

[I wonder why?]

Wasn't charged in these meetings & remind me!

5. On trade, there was general agreement that the Summit would need to give renewed impetus to the Uruguay round, the new round of multi-lateral trade negotiations in the GATT: perceptible progress in these negotiations would be important for the United States Administration in its attempt to resist protectionist pressures in the United States. The Summit would also want to



put renewed momentum behind the discussions in the GATT and the OECD of the problems of agricultural surpluses; but should not seek to set up its own initiative in this area.

*As before*

6. On the strategy for managing international debt, the general conclusion was that there was no alternative but to continue a "case by case" approach, though that might need to be accompanied by pressure upon the commercial banking system to maintain its share in carrying the problem. The United States representatives and others stressed the importance of the pursuit by debtor countries of sound economic policies and of policies which would welcome and encourage inhand investment. The role of the international financial institutions was also discussed; the United States representative made it clear that there was no prospect of the United States Administration finding its share of a general capital increase for the World Bank this year.

7. On the economic side the next step will be for the Italian Government, as this year's Chairman of the Economic Summit, to prepare a draft of a thematic paper for discussion at a further meeting of Personal Representatives at the end of April.

8. On the political side, Signor Ruggiero said that neither the present Italian Prime Minister nor his successor (Signor Andreotti) envisaged a general political declaration from the Venice Economic Summit. There would no doubt need to be some kind of declaration or statement on terrorism; Political Directors or their representatives would be discussing this separately. It did not seem likely that there would need to be another declaration on drugs. It was recognised, however, that Heads of State or Government would be likely to want to issue some kind of statement or declaration on AIDS, which might commend measures on public education taken in the United Kingdom

*at an Economic Summit*



and some other countries, and perhaps propose arrangements to encourage greater international co-operation among the Summit countries in the field of research.

9. It was recognised that Heads of State or Government would want to discuss other major political issues in the margins of the Summit, including East/West relations, arms control, developments in the Soviet Union under Mr Gorbachev, the Middle East (including Lebanon) and Afghanistan. There was no mention of Southern Africa.

10. I am sending copies of this minute to the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

RTA

ROBERT ARMSTRONG

10 February 1987