

Rene Ninster

CCP (2)

Ref. A087/1223

MR POWELL

Fairly satisfactory  
 except on Japan and debt (where  
 the French have ambitions). No  
 statement on South Africa. I  
 attach the drafts on agriculture  
 and on Terrorism.

Venice Economic Summit 1987

CJ/SJS

This note reports on the outcome of the meeting of Personal Representatives from 30 April to 2 May.

Administrative Arrangements

- (removed)
2. I attach the latest version of the programme for the Venice Summit (Annex A).

Thematic Paper

3. We spent much of the time working through the draft thematic paper, a copy of which was attached to my minute of 27 April.

4. Discussion of the section on the world economic situation and policies was dominated by fears that the dollar might fall still further; but the implications of this were not followed up in any depth in the main sessions.

5. The United States representatives reiterated the President's determination to reduce the US budget deficit and resist protectionist pressures, and were able to point to a recent reaffirmation by the President of these points in the joint statement by President Reagan and Mr Nakasone at the end of Mr Nakasone's visit.

6. The Japanese representatives referred to the plans for stimulating domestic growth in Japan, and in particular to the Liberal Democratic Party's plan for a Y5,000 billion package of

stimulus to domestic demand. They were put under pressure to be more specific about the make-up of this package and the timing of its implementation. Their answers were not very satisfactory. It was clear that a great part of the package consisted of what we should call increased public expenditure, including bringing forward expenditure on public works contracts, though the package also included an unspecified amount of tax reform and tax reductions. The package also included proposals for the reduction of working hours and for increased official development assistance to developing countries. We were told that the proposals would be enacted in a supplementary budget, the normal time for which would be in the autumn. It was suggested that Mr Nakasone might call for its enactment in a special session of the Diet in the summer, but I did not have the impression that that was to be counted upon. The Japanese representatives did not seem able to answer questions about how much of the proposed package was truly additional and how much was unspent from a previous Y3,600 billion package. I attach copies of the notes circulated by the Japanese on these matters (Annexes B and C).

[already seen]

7. The text of the thematic paper does not identify individual countries (apart from a reference to large public sector deficits in the United States and Italy), and there was no suggestion that it should; but there was agreement on a sentence which invited countries in balance of payments surplus to design their policies to strengthen domestic demand and the opening of their markets, and deficit countries to focus on reducing their fiscal deficits and strengthening their competitiveness.

#### Trade

8. There were no fundamental disagreements on the need to resist protectionism and support the Uruguay Round. The Canadian representative wanted a harder commitment than other countries were prepared to concede, to a mid-round Ministerial

meeting of the Trade Negotiating Committee and to the objectives to be sought from such a meeting. A satisfactory text on this subject appeared to have been agreed, but at the last moment the French President's Personal Representative reserved his position on it until next time.

### Agriculture

9. There was little discussion of this subject, but general agreement that draft paragraphs for the communiqué of the forthcoming OECD Ministerial Meeting (Annex D) were very much on the right lines and would provide a good basis for Summit drafting on the subject. The United States representatives also circulated draft paragraphs on agriculture for the thematic paper (Annex E), but these were not discussed.

### Debt

10. Despite a good deal of detailed redrafting, the only area in which it seemed as if major disagreements might arise were in relation to the poorest countries, particularly in sub-Saharan Africa. There was general agreement that special treatment was called for; but a range of ideas about what that special treatment should consist of. The French representatives and the Canadian representatives each put forward sets of proposals which went further than others thought appropriate. We argued for the Chancellor of the Exchequer's proposals. The French proposals (Annex F) as usual included proposals for commodity agreements including price intervention measures to stabilise commodity prices and improve the export earnings of the producer countries concerned. They were reminded that commodity producers were not coterminous with the poorest sub-Saharan African countries.

Energy

11. There was some discussion about what might be said about energy, and in particular about nuclear safety and fusion, until the British Personal Representative suggested that energy was not a major problem at this time, and need not be discussed by Heads of State or Government or mentioned in the economic declaration. This suggestion was agreed by the majority of the countries represented.

Environment

12. It was agreed that the economic declaration should include a paragraph commending the work done on harmonisation of techniques and standards of environmental measurements, and renewing the commitment of the Summit countries to the protection of the environment from global threats (acid rain, damage to the ozone layer and so on).

Political Issues

13. The following political issues were identified for discussion at the Summit, the first two by Heads of State or Government, the others by Foreign Ministers:

East-West Relations, including

- internal and foreign policy developments in the Soviet Union
- Arms Control
- Afghanistan and Cambodia

South Africa

Middle East

Iran-Iraq

Latin America

Korea and Philippines

14. It was generally agreed that there should be no general political declaration, and no declarations on regional issues unless some particular development between now and the Summit itself suggested a need for one.

15. On arms control, it was agreed that it was too soon, and events were moving too fast, for it to be possible to say whether there should or could usefully be a statement from the Summit on arms control. In the meantime nothing should be said to increase expectations that there might be such a statement: there was a general wish to avoid the sort of situation that developed at Williamsburg. But I had an impression that the Italian Presidency thought that some statement might be inescapable: failure to produce a statement might be seen as a sign of division and disagreement. The French Personal Representative made his usual noises about France's inability to go along with any statement that took sides in relation to a negotiation to which France was not a party.

16. On South Africa, the Canadian Personal Representative presented her Prime Minister's case for a statement from the Summit. All the European countries and the Community representatives were against any statement or initiative from the Summit on South Africa (and a fortiori against the idea that the Summit should set up a High Level Group which could mediate between the South African Government and the representatives of the black and other communities in South Africa and the Front Line States). The French and the German Personal Representatives were particularly supportive. The United States representatives said that they had been considering possible texts of a statement, but would not be pressing for a statement against the wishes of a majority of those represented. The



Japanese were neutral. So the Canadians were in effect isolated: a satisfactory outcome.

17. On terrorism, it was agreed to consider the possibility of a statement from the Summit going wider than terrorism relating to civil aviation, and I circulated a United Kingdom draft

(Annex G) for consideration and discussion at the next meeting.

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(attached) One Personal Representative was nervous about including anything about hostage-taking, for fear of putting at greater risk hostages at present in captivity; I said that failure to take a robust position on hostage-taking could increase the risk for potential future hostages.

18. On AIDS, the general view was that this was a subject of such importance and concern that the Summit should be seen to have discussed it. Any statement might be part of the President's oral report at the end of the first day, rather than a separate declaration.

19. The topic of drugs could be similarly handled: it would be largely a matter of taking note of the completion of work commissioned at previous Summits.

20. The United States Personal Representative made it clear to me that the President would not be looking for any statement from the Summit on the manned space station this year.

#### Future Arrangements

21. Political Directors will meet on 15 May to finalise the list of political subjects for discussion and consider any drafts (for instance on terrorism) that need to be considered. They will be able to review the need and scope for a statement on arms control. They will report to a final meeting of Personal Representatives from 15 to 17 May, which will also agree upon a final version of the thematic paper and finalise the arrangements for the Summit.

CONFIDENTIAL



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

RA

ROBERT ARMSTRONG

5 May 1987

## Agriculture

21. Reform will be based on the following principles:

- a. The long-term objective is to allow market signals to determine, more directly and more freely, by way of progressive reduction of agricultural support, the orientation of agricultural production; this will bring about a better allocation of resources which will benefit consumers and the economy in general.



b. Agricultural policies take into consideration social and other concerns, such as food security or environment protection, which are not purely economic. The progressive correction of policies to achieve the long-term objective will thus require time; it is all the more necessary that this correction be started without delay.

c. The most pressing need is to avoid further deterioration of present market imbalances. It is necessary:

- on the demand side, to improve prospects as much as possible inside as well as outside the OECD area;
- on the supply side, to implement measures which, by reducing guaranteed prices and other types of production incentives, by imposing quantitative restrictions, or by any other means, will prevent an increase in excess supply. When support linked to production is granted to farmers, it should be set within specific limits.

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d. When quotas are imposed or productive farming resources withdrawn by administrative decision, these steps should be taken in such a way as to minimise possible economic distortions and should be conceived and implemented in such a way as to permit better functioning of market mechanisms.

e. Rather than being provided exclusively through price guarantees or other measures linked to production or to factors of production, farm income support should increasingly be sought through direct income support designed to meet the needs of low-income farmers or those in particularly disadvantaged regions.

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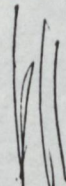
f. The adjustment of the agricultural sector will be facilitated if it is supported by comprehensive policies for the development of various activities in rural areas. Farmers and their families will thus be helped to find supplementary or alternative income.

g. In implementing the above principles Governments should have some flexibility in the choice of the means necessary for the fulfilment of their commitments.

22. The Uruguay Round is of decisive importance for agricultural reform. It will provide the framework for most of the necessary measures, especially with regard to a progressive reduction of assistance to and protection of agriculture on a multi-country and multi-commodity basis. Expeditious and comprehensive implementation of these negotiations based on the Ministerial Declaration of Punta del Este will be pursued vigorously and comprehensive negotiating proposals will be tabled by OECD Governments over the coming months.

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23. In order to permit a de-escalation of present tensions and thereby enhance prospects for the earliest possible progress in the Uruguay Round as a whole, OECD governments will carry out expeditiously their standstill and rollback commitments and, more generally, refrain from actions which would worsen the negotiating climate. They will, inter alia, avoid actions which would result in stimulating production in surplus agricultural commodities, in isolating the domestic market further from international markets, in pursuing aggressive trade practices, or in disruptive disposal of surplus stocks.



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24. Agricultural reform is not solely in the interests of member countries. Developing countries which are agricultural exporters will benefit from a recovery on world markets. Developing countries which are importers of agricultural produce will be encouraged to base their economic development on more solid ground, by strengthening their own farm sector.

25. Agricultural reform poses vast and difficult problems for Member countries. Strengthened international co-operation is needed to overcome these problems. The OECD will continue to contribute to their solution by deepening further its work, by improving the analytical tools it has begun to develop and which will prove particularly valuable in many respects; by monitoring the implementation of the various actions and principles listed above. The Secretary-General is asked to submit a progress report to the Council at Ministerial level in 1988.

UK ~~text~~  
1 May 87

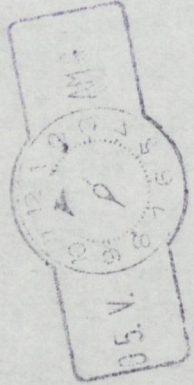
ELEMENTS FOR A SUMMIT SEVEN STATEMENT ON TERRORISM, JUNE 1987

We, the Heads of State or Government of seven major democracies and the representatives of the European Community assembled here in Venice

- Recognise both the right of our citizens to enjoy and the obligations of our Governments to ensure protection from terrorism;
- Reiterate our belief that terrorism whatever its motives has no justification.
- In view of developments since we last met in Tokyo in May 1986 renew our determination to consolidate and extend international cooperation to deal with terrorism both amongst Summit Seven partners and with all other like minded countries concerned to eradicate the bane of terrorism.
- Affirm our commitment to the principle of making no substantive concessions under duress to terrorists or their sponsors.
- Remain determined to take all possible measures to counter the sponsorship of terrorism by states. We are prepared to examine the case for additional specific measures against such countries in the event of their involvement being proven
- Commit ourselves to maintain and support the rule of law in bringing terrorists to justice. In particular we reaffirm the principle of trying or extraditing those involved in these criminal acts.



ECON. POL: Venice Economic ... mil: Pt 22



Porto Cervo, Thursday, April 30 1987

PROGRAMME OF THE VENICE ECONOMIC SUMMIT

(8-9-10 June 1987)

Monday, June 8 1987

14.30 hrs

Beginning of arrivals in reverse protocol order at "Marco Polo" Airport.

The Heads of Delegation are welcomed by the President of the Council of Ministers.

Brief encounter with the President of the Council of Ministers.

Transfer of Delegation to residential accomodation by motorboat.

18.30 hrs - 19.30 hrs

Reception for Heads of Delegation, Foreign Ministers, Finance Ministers and other members of the official Delegation hosted by the President of the Council of Ministers at Palazzo Ducale (Sala del Maggior Consiglio).

20.15 hrs

Separate working dinners:

20.25 hrs

Heads of Delegation (Ca' Corner)

20.35 hrs

Foreign Ministers (Palazzo Volpi)

Finance Ministers (Palazzo Volpi)

Personal Representatives  
(Ca' Corner)

22.15 hrs

End of working dinners

22.25 hrs

End of working dinners

22.35 hrs

End of working dinners

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Tuesday, June 9 1987

09.00 hrs Transfer to the Island of San Giorgio in reverse protocol order.  
The Heads of Delegation are welcomed by the President of the Council of Ministers.

09.30 hrs Group photographs in the Palladian Cloister of the Cini Foundation.

09.45 hrs Working Session for Heads of Delegation at the Cini Foundation (Biblioteca Longhena)  
Working Session for the Foreign Ministers (Sala Barbantini)  
Working Session for the Finance Ministers (Sala del Consiglio)

12.45 hrs End of working session

13.00 hrs Working lunches at the Cini Foundation:  
Heads of Delegation ("Foresteria")  
Foreign Ministers ("Sala del Chiostro dei Cipressi")  
Finance Ministers ("Sala del Capitolo")

15.00 hrs Personal Representatives ("Sala del Soffitto")  
Plenary session for Heads of Delegation, Foreign Ministers and Finance Ministers

18.00 hrs End of working session  
The Heads of Delegation, Foreign Ministers, Finance Ministers leave the Island of San Giorgio in protocol order.

20.30 hrs Working dinners:  
Heads of Delegation and Foreign Ministers (Palazzo Grassi)  
Finance Ministers (Palazzo Volpi)  
Personal Representatives (Palazzo Grassi)

22.30 hrs End of working dinners

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Wednesday, June 10 1987

09.00 hrs Transfer to the Island of San Giorgio in reverse protocol order.

09.30 hrs Plenary session

12.30 hrs End of Plenary session

13.00-14.30 hrs Plenary working lunch ("Sala del Cenacolo Palladiano") at the Cini Foundation.

15.40 hrs Heads of Delegation are escorted to their seats in the "Sala degli Arazzi".

15.45 hrs The President of the Council of Ministers of Italy presents the Joint Declaration (Sala degli Arazzi).

20.00 hrs Dinner for Heads of Delegation and their spouses, Ministers and Personal Representatives (without spouses), hosted by the President of the Republic of Italy.

Thursday, June 11 1987

Departure of Heads of Delegation and Ministers.

Outline  
of  
the Comprehensive Economic Measures  
(Provisional Translation)

April 24, 1987  
Liberal Democratic Party

I. Economic Measures for the Expansion of Domestic Demand

There is an urgent need for Japan to do its best to rectify its external imbalances.

At the same time, forceful measures are also urgently needed to stimulate the economy in the face of economic stagnation, deteriorating employment, and other difficulties stemming from the yen's sharp appreciation.

Such economic policy actions will promote economic growth led by domestic demand while contributing to further progress in structural adjustment.

Accordingly, the party proposes, based on Basic Policy Guidelines for the Expansion of Domestic Demand decided earlier, that immediate steps be instituted for the expansion of domestic demand, accompanied by fiscal measures amounting to more than ¥5 trillion and with particular emphasis on the following items.

1. Public works implementation will be front-loaded as never before. (The contract rate in the first half of this fiscal year should be at least 80%.) In the course

of the budgetary allocations, all due attention should be paid to the situation in depressed industries and areas.

2. A large-scale supplementary budget will be formulated, public works will be added through the acceleration of the long-term plan for public works and public investments will also be increased for the improvement of facilities used for such purposes as research and development and education. The priority will be given to those projects with lower land acquisition costs, quicker impact, and wider ripple effects.

3. Budget request guidelines for investment expenditures will be reviewed.

4. Tax reform will be achieved and income tax reductions implemented. Tax reductions to stimulate domestic demand-oriented capital investments such as research and development in the private sector will also be implemented.

5. Measures to promote housing-related investments including housing enlargement and rebuilding and the installation of housing-related equipment will be improved and reinforced.

6. Deregulation will continue to be promoted and drastic measures will be taken with a fixed time limit to promote the utilization of private-sector vitality and projects conducive to the revitalization of local economies.

7. Adjustment policies for small and medium-sized enterprises will be expanded through such measures as the lowering of interest rates of Government-related financial institutions and the designation of additional specified areas.

8. The reduction of working hours, such as the promotion of the five-day work week, will be pursued. Employment policies will be strengthened through such measures as the promotion of the Employment Development Programme for 300 Thousand People.

9. Passing along the benefits of yen appreciation will be vigorously continued.

10. Monetary policy will be implemented in an appropriate and timely manner through the reduction of the Trust Fund Bureau depository rate and other means.

## II. External Economic Measures

The international economic situation as it affects Japan, including Japan-U.S. bilateral relations, is extremely difficult, and there is an urgent need to make the utmost efforts to rectify external imbalances, to formulate harmonious external economic relations, and thus to contribute positively to the vitalization of world economy.

Accordingly, the Liberal Democratic Party proposes that the necessary measures be promptly taken with particular emphasis on the following items.

1. Import Expansion

- (1) The necessary measures will be taken, including earmarking a special emergency fund, to promote the government procurement of foreign manufactured goods.
- (2) Institutional improvements will be made in the field of government procurement. (These include enlarging the scope of coverage, and those concerning transparency and academic discounts in the procurement procedures for super-computers.)
- (3) Further efforts will be made to encourage the private sector to increase its imports of manufactured goods.
- (4) Import credit facilities for manufactures will be expanded.
- (5) Implementation of the Action Program will be further promoted.

2. Contributing to the International Society

- (1) Implementation of the third Medium-Term Target for ODA will be moved up (at least two years' advance implementation of the target to double the ODA amount in seven years).
- (2) A Financial Recycling Promotion Scheme will be set up for the developing countries (especially the debtor countries) with the combined financial resources of



the Export-Import Bank of Japan, the Overseas Economic Cooperation Fund, and the private sector.

- (3) Technical cooperation, including the dispatch of experts, and international research and development cooperation will be expanded.
- (4) The necessary measures will be taken to positively support Sub-Saharan African and other least developed countries.

Major Progress in Economic Structural Adjustment --  
Follow Up of the Maekawa Report

April 27, 1987

1. Introduction

(1) The recommendations of the Maekawa Report (1986. 4. 7) have become basic policy guidelines for the Government as the Ministerial Conference on Economic Measures decided upon the Outline of Procedures for the Promotion of Economic Structural Adjustment in line with the report (1986. 5. 1). In particular, the Government set as "a national policy goal" to steadily reduce the nation's current account imbalance to one consistent with international harmony.

(2) Accordingly, the Government has implemented various concrete measures as described below.

Some of the Maekawa report recommendations can be implemented by the Government on its own discretion, but in major policy changes the Government is statutorily required to seek the views of the relevant councils which are composed of knowledgeable and experienced members. The Government may also need to ask the Diet for the amendment of the related laws, if it is required. These necessary steps are steadily being taken.

(3) Moreover, the report has had a significant educative effect on the Japanese people to impress on them the necessity of transformation of the Japanese economy to a domestic-demand oriented one.

(4) In addition, recent sharp appreciation of yen (by IMF formular, more than 70% appreciation since the Plaza announcement) seriously affected industries in various fields, urging them to make a drastic adjustment. Recent trade statistics clearly reflect the changes in the economic environment. Japan's export in 1986 decreased by 15.9% from the previous year in the yen terms (1.3% decrease in volume terms), and import increased by 12.5% in volume terms. In particular, manufactured imports increased drastically by 31.4% in dollar terms and by 24.4% in volume terms. The ratio of manufactured imports showed an unprecedented ratio of 41.8% (31% in 1985).

## 2. Economic growth led by domestic demand

(1) Since the Maekawa report was made public, the Government implemented a series of Comprehensive Economic Measures in April 1986 (front-loading of public works and passing along of the benefits of yen appreciation) and in September 1986 (total scale of projects amounted to ¥3.6 trillion, equivalent to 1.1% of GNP)

On April 24 this year, the Liberal Democratic Party decided upon the Outline of Comprehensive Economic Measures which include:

- o Domestic demand expansion measures accompanied by fiscal measures amounting more than ¥5 trillion.
- o Unprecedented front-end loading of public works implementation
- o Income tax reductions
- o Promotion of government procurement of foreign manufactures
- o Accelerated implementation of the third Medium-Term Target for ODA
- o A Financial Recycling Promotion Scheme for developing countries

(2) The official discount rate was reduced five times from 5.0% in January 1986 to 2.5% in January 1987, the lowest rate in history.

(3) As a result, Japan's real GNP growth rate in 1986 was 2.5% in which the growth of domestic demand (3.9%) compensated for the drop in net export (-1.4%). The Government economic outlook shows that the economic trend of domestic demand-led economic growth will continue also in 1987: 3.5% real GNP growth with 4.0% contribution of domestic demand and -0.5% net export.

(4) Improvement in Housing and Social Infrastructure

Five-year plans have been formulated and steadily implemented in such areas as housing, sewers systems, and

urban parks. In the housing field, for example, the Government has taken such measures as improving the tax treatment of housing acquisition and the relaxing the restrictions on construction and land use.

(5) Three public corporations have been denationalized and other regulations have been eased.

The former public corporations are: NTT, Japan Tobacco Inc. (both founded as joint stock companies on April 1, 1985), and the group of six Japan Railways companies and the Japan Freight Railway Company (privatized on April 1, 1987).

(6) Promoting new projects by mobilizing private sector vitality

The Tokyo Bay Bridge and Tunnel Project

The Akashi Straits Bridge

The Kansai International Airport

3. Tax reform proposal

The first comprehensive tax reform proposal since the Shaup Recommendation of 1949.

4. Reduction of domestic coal supply

Based on the report submitted by the Coal Mining Council, the Government is now taking concrete steps to reduce domestic coal supply from 18 million tons (the present level) to 10 million tons in FY 1991.

5. Agricultural policy reform

(1) Based on the report submitted by the Agricultural Policy Council entitled "Basic Direction of Agricultural Policies towards the 21st Century", the Government is now formulating new agricultural policies by adopting price policies more based upon the principles of market mechanism, and expanding the size of a farm as a production unit.

(2) Rice is the staple of the Japanese diet and a key product in Japanese agriculture. Nevertheless measures are being taken to reduce the area planted with rice; in fiscal 1987, stronger measures will be taken to reduce rice paddy hectarage by 770,000 ha, a figure corresponding to 27.1% of total paddy area. (The fiscal 1986 figure was 600,000 ha.)

6. Improving market access

The majority of points addressed in the three-year Action Program for Improved Market Access, adopted July 30, 1985, have now been implemented, some in advance of their implementation schedule.

(1) Customs tariffs affecting 1,853 items have been lowered or abolished; the average tariff rate has been reduced from 5.0% to 3.9%).

(2) 74 out of 91 changes in standards and certifications and import procedures scheduled to be implemented over three years between July 1985 and July 1988 have already been carried out.

7. Expanding direct investment

Direct overseas investment is undergoing rapid expansion.

Direct overseas investment trends

	Fiscal 1985	April 1986- February 1987
Value (billion dollars)	12.2	19.5
Percent growth with respect to same period of previous year	20.3%	84.6%

Note: Based on direct overseas investments reported to the Ministry of Finance.

8. Reduction of working hours

Employees of banks and other financial institutions and civil servants now have longer holidays. In addition, an amendment to the Labor Standards Law was put before the Diet on March 9, 1987, that sets the 40-hour week as an official target and seeks to shorten legal working hours in stages.

9. Liberalization of financial and capital markets

(1) The Tokyo Offshore Market was created on December 1, 1986.

(2) To promote financial deregulation, the minimum denomination of large denomination time deposit and MMC (Money Market Certificate) has been lowered and the ceiling on each bank's issue of CD (Certificate of Deposits) and MMC has been increased.

(3) 9 foreign banks are now in the trust banking activities and 36 foreign securities companies are now operating in Japan.

10. Official development aid (ODA) and recycling of funds to the developing countries

(1) ODA has been steadily increased in line with the existing mid-term ODA target of doubling before 1992 the level reached in 1985. In the fiscal 1987 budget, ¥658 billion were allocated to ODA in the ordinary account, an increase of 5.8% over the previous fiscal year's figure (US\$4.3 billion or a 9.4% increase over the previous fiscal year in dollar terms).

(2) Japan lent the IMF 3 billion SDRs through a loan contract signed December 24, 1986.

A special World Bank fund has been established and additional public and private funds totaling ¥330 billion over three years beginning in fiscal 1987 will be recycled to the developing countries (Basic Agreement on Establishment of a Special World Bank Fund, December 26, 1986).

11. The Report of the Economic Council's Special Committee on Economic Restructuring

This report, published on April 23, goes beyond Maekawa report in presenting future policy guidelines and has made concrete proposals for the policies which require concentrated work in the coming few years. The Government and the Liberal Democratic Party will study the proposals in the report.



19. The joint report of the Trade and Agriculture Committees [C/MIN(87)4 Final] was approved. This important work clearly highlights the serious imbalances that prevail in the markets for the main agricultural products. Boosted by policies which have prevented an adequate transmission of market signals to farmers, supply substantially exceeds effective demand. The cost of agricultural policies is considerable, for government budgets, for consumers and for the economy as a whole. Moreover, excessive support policies entail an increasing distortion of competition on world markets; run counter to the principle of comparative advantage which is at the root of international trade; and severely damage the situation of many developing countries. This steady deterioration, compounded by technological change and other factors such as slow economic growth or wide exchange rate changes, creates serious difficulties in international trade, which risk going beyond the bounds of agricultural trade alone.

20. This deterioration must be halted. Some countries, or groups of countries, have begun to work in this direction. But, given the scope of the problems and their urgency, and given the shared responsibilities of all countries in the present situation, a concerted reform of agricultural policies will be implemented.

-7-

Proposed U.S. Thematic Paper on Agriculture  
for the Venice Summit

2.6 Concerning agriculture, Summit countries acknowledge that the structural imbalance between supply and demand is reflected in depressed world market prices and rising tensions among producing and exporting countries. They found that the primary cause of this situation is farm support policies tied to production. These policies overcommit resources to agriculture, shelter producers from market realities and prevent the necessary structural adjustments to stagnating demand and rapidly-increasing productivity. They have led to large inefficiencies, over production, high consumer prices and record government expenditures. The costs of these policies are estimated at over \$140 billion annually to the economies of the industrialized countries, and have become unsustainable and untenable. These policies also have inhibited the expansion of trade by developing countries and, consequently their economic growth and their ability to service their external obligations.

2.7 Summit countries should recognize that the agricultural support and trade policies of each country have contributed fundamentally to the present difficulties in agricultural markets and their collective responsibility for developing equitable solutions. They should agree that a durable improvement of the situation in international agricultural markets requires concerted adjustments of domestic agricultural policies worldwide to reduce incentives to production. Adjustments should aim at exposing increasingly producers more directly to market signals, with the international objective being the achievement of a market-oriented trading environment. These adjustments should consist primarily of a gradual, multilateral reduction in all forms of direct and indirect support, including import barriers, within a fixed timeframe. Other means, such as production control by quotas or set-aside programs, may serve as interim measures for controlling surpluses. Each country or group of countries should be able to retain flexibility with regard to the measures to be adopted.

2.10 Summit countries should appreciate the work on agriculture carried out by the OECD in the framework of the 1982 Ministerial Mandate. They believe it should be considered as an important basis for the Uruguay Round negotiations.

2.11 Summit countries should urge the GATT to update and further develop the OECD work as necessary and to expand it to cover other countries. Summit countries should underscore their commitment to work in concert to achieve the necessary adjustments of agricultural policies through comprehensive negotiations in the Uruguay Round of trade negotiations. They should urge Ministers responsible for the Uruguay Round to develop expeditiously the elements of a comprehensive approach to achieve the objectives set forth above. They agree to review at the 1988 Summit the progress achieved in developing that approach and to consider what further action should best be taken.

In the spirit of the Uruguay declaration and underlining the importance of the fact that some countries have already begun to implement adjustments to their agricultural policies, Summit countries should agree that credit should be given to recent and future unilateral adjustment efforts which are consistent with the objectives set forth above.

2.12 Recognizing the crisis situation marked by market imbalances and tension between countries, there is a need to achieve early agreement on the approach to be taken in adjusting domestic policies. Agreement on the approach will enable countries to identify additional steps that could be taken to reduce the market imbalances and international tensions.

PROPOSALS IN FAVOUR  
OF THE POOREST COUNTRIES

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I - PROPOSALS IN CONNECTION WITH DEBT STRATEGY

The principles of the international debt strategy, based on cooperation and on a case by case approach should also be upheld as regards the poorest countries. In particular, the link between debt restructuring, or new financing on the one hand, and economic reforms of debtor countries, in the framework of IMF arrangements on the other hand, should be maintained.

Nevertheless, the current practice could be improved by three new provisions in favour of the poorest countries.

1/ Proposal applicable to the Paris Club : lengthening of the repayment period up to 15 or 20 years, including a proportional lengthening of the grace period, instead of a maximum of 10 years currently applied.

This should be envisaged only on a case by case approach and limited to those, among the poorest and most indebted countries, confronted with debt servicing exceeding their financial possibilities, which would have given clear indications of their will to reform their economies. Other debtor countries would remain in the classical framework (10 years maximum).

2/ Setting up of a special facility for development and debt reduction

The aim would be to refinance at highly concessional terms a significant part of the payments due under previous consolidation agreements, thereby leading to an actual reduction of the debt outstanding.

All IDA financed countries with protracted and serious balance of payments difficulties would be eligible to this facility, if they implement an IMF program (in the framework of a stand-by arrangement) and are committed to a continued and close relationship with this institution and with the World Bank.

Such an exceptional facility would have the advantage not to jeopardize the usual mechanisms of the Paris Club ; and above all, it would be tantamount to a partial write-off of debt, without entailing the substantial disadvantages pertaining to a real write-off.

The resources could be provided by voluntary bilateral contributions from creditor countries and made completed by contributions of multilateral institutions, including the World Bank, through a modest part of its benefits.

### 3/ Softening the terms of the compensatory financing facility in favour of the poorest countries

The CFF has proved to be an effective response to the problems created by the fluctuations of raw material prices. Its main features, with regard to eligibility, conditionality, and simplicity, should not be altered. However, a specific difficulty has arisen as regards the poorest countries, which cannot afford to pay the charges pertaining to the CFF, sometimes even more expensive than market conditions.

In order to restore the availability of the CFF for the poorest countries, it would be necessary to soften its financial terms for them, when they are committed to a medium-term program approved by the IMF within the framework of a SAF.

To achieve such a result, one of the simplest means would be, for the Fund, to gather concessional resources by adequate borrowing from voluntary member-States.

France would be prepared to take a share of this effort.

The Fund could be asked to submit to the Board a report along these lines, in view of a debate at the next interim committee.

## II - PROPOSALS IN ORDER TO STABILIZE COMMODITY PRICES

Primary commodity prices reached their lowest level in 1986 since the second World War. Many developing countries, in particular the poorest ones, have seriously suffered from such a drop in their export earnings.

The international community should take new initiatives to reverse a situation threatening the economic outlook of developing countries as well as their payment capacity towards their creditors.

Two means should be regarded :

### 1/ To secure a better running of commodity markets

International cooperation should endeavour to take into account the long term outlook of demand and supply. To this end, the setting-up of working groups on specific commodities would permit more transparency.

A case by case approach should also be sought in concluding commodity agreements which include price intervention measures.

The three agreements on cocoa, coffee and natural rubber, which contain sound economic provisions, can be regarded as a good basis of negotiations for other further commodity agreements.

2/ To strenghten aid mechanisms

As regards monoproducer countries (or nearly monoproducer countries), their specific situation should be better taken into account by the structural programs of both the IMF and the World Bank.

The World Bank, in particular, should devote a higher share of its ressources to diversify and streamline the output of those countries. To this aim, the World Bank should work in close cooperation with the regional development banks.

As far as the agricultural sector is concerned, a specific bilateral effort could be made in order to encourage rural development.