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MR POWELL

Venice Economic Summit

At their meeting over the weekend, the Personal Representatives agreed a final version of a thematic paper for the Venice Summit.

2. I do not think that the thematic paper contains any great surprises, or indeed any major changes of substance from earlier versions.

3. The United States Personal Representative accepted a specific reference to the fiscal deficit of the United States (in the first sentence of paragraph 2.3); indeed, he welcomed it, since he said that it could be of assistance to the Administration domestically. Attempts to refer specifically to Japan in the context of balance of payments surpluses and the need to open domestic markets to foreign goods and services were, however, resisted by the Japanese Personal Representative, and were not in the end sustained from the Chair, though there are references which clearly carry a Japanese label in paragraphs 2.2, 2.3 and 3.2.

4. On trade, a Canadian attempt to seek a meeting of the GATT Trade Negotiating Committee at Ministerial level in 1988 was fended off, and the thematic paper does no more than refer to the possibility of a "mid-term" Ministerial meeting being useful (paragraph 3.5).



5. On agriculture, the thematic paper does no more than refer to and welcome the useful language in the OECD Ministerial communique agreed two days before (paragraph 3.6). New language will have to be found in due course for the Summit economic declaration.
6. In the discussion on developing countries and debt strategy, French attempts to include references to commodity price stabilisation schemes were readily fended off: they were resisted by the Germans and ourselves, as well as by the Americans. The thematic paper includes, in paragraph 4.10, a passage on the debt problems of the Sub-Saharan African countries which accepts the need for special treatment, and accommodates the Chancellor of the Exchequer's proposals. We tried to include in the paragraph a reference to the need for reduced interest rates on the debt of these countries, but this was resisted by the United States and German Representatives who, while not excluding the possibility, did not want to commit themselves to it publicly and thought it wise vis-a-vis other developing countries not to refer to it specifically.
7. A reference to the forthcoming UNCTAD Seven meeting, which is in fact cribbed straight from the OECD Ministerial communique, was included (paragraph 4.11), subject to a reservation by the United States, who implied that the reference in the OECD communiqué had got by when the United States Treasury Representative was missing.
8. I am sending copies of this minute to the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

ROBERT ARMSTRONG

18 May 1987

Final May 17, 1987
2.00 p.m.

THEMATIC PAPER FOR VENICE SUMMIT

1. INTRODUCTION

1.1 Since the Tokyo Summit, economic performance in the Seven countries has shown some improvement notwithstanding the persistence of large domestic and external imbalances.

Growth is continuing into its fifth consecutive year, albeit at lower rates. Average inflation rates and inflation differentials have come down. During this period interest rates have generally declined. Exchange rate changes have occurred among leading currencies which over time will contribute to a more sustainable pattern of current account positions and have brought currencies within ranges broadly consistent with economic fundamentals. In volume terms the adjustment of trade flows is under way, although in nominal terms imbalances so far remain unacceptably large.

Some progress can be seen also in the situation of the developing world, although the picture is mixed. In

middle-income non-oil developing countries there has been substantial external adjustment coupled with accelerating growth. Debt service ratios, which worsened in 1986, are expected to move lower.

Since Tokyo there is a stronger consensus among the Summit countries on the need for close and continuing coordination of economic policy with a view to ensuring consistency of domestic policies and their international compatibility, and achieving greater convergence of positive economic performance.

In the context of the meetings at Le Louvre and in Washington the commitment of the Group of seven Finance Ministers to policy coordination has been intensified. There is a consensus that a more stable exchange rate environment is highly important for the promotion of global growth and thus the reduction of existing imbalances. Given the policy commitments made, further substantial shifts in exchange relationships could prove counterproductive to efforts to increase growth and facilitate adjustment in the Summit countries and in the world economy.

The credibility of this strategy requires swift and full implementation of the policy commitments by the countries concerned.

1.2 On the other hand, this year, according to recent forecasts by international organizations, domestic demand in the Summit countries as a whole is expected to slow to below three percent and output is expected to grow no faster than in 1986.

This is partly because of rapid exchange rate movements and the unfavourable balance of adjustment so far to those movements and to changes in oil prices.

Negative factors include:

- continuing large disequilibria in current payments and associated net foreign positions of the major countries, which represent a serious threat to the stability of the international economic and monetary system;
- market uncertainty with respect to exchange rates and protectionist pressures, which affects confidence and investment decisions;
- persistently high unemployment, particularly in Europe;
- large public sector deficits in the US, Italy, Canada and some other countries;
- high real interest rates in most countries;
- continuing trade restrictions and increased protectionism;

- the ongoing problems of many developing countries in managing their external debt;
- the persistent weakness of many commodity markets with the prospect of slow growth or, in some cases, a reduction in export earnings of primary producing countries;
- reduced prospects for developing countries to grow, find the markets they need and service their foreign debt, partly because of the slowdown of domestic activity in the industrial world.

2. POLICY COORDINATION FOR SUSTAINED GROWTH AND ADJUSTMENT

2.1 Summit countries should reaffirm that their key medium-term priority is to sustain non-inflationary growth while correcting external imbalances. This would contribute importantly to the reduction of unemployment in their countries, the improvement of the developing countries' situation and the alleviation of tensions in world trade.

2.2 Summit countries should stress their determination to play a central role in a cooperative effort to sustain economic activity worldwide. The correction of payments imbalances will be a long and difficult

process. Exchange rate changes alone will not solve the problem of correcting the imbalances while sustaining growth. In present circumstances further significant changes in exchange rates could indeed be counterproductive. Surplus countries should design their policies to strengthen domestic demand and reduce their external surpluses while maintaining price stability. Deficit countries, while following policies designed to encourage steady low-inflation growth, should focus on reducing their domestic imbalances and external deficits. In recognition of the fact that the pursuit of worldwide growth must be a collective endeavour, the Summit countries should call on other industrial countries to participate in this effort. Summit countries should also call on newly industrialized countries with large external surpluses to assume greater responsibility for preserving an open world trading system by reducing trade barriers and pursuing policies that allow their currencies to reflect more fully underlying fundamentals.

2.3 Among the Summit countries, budgetary discipline remains an important medium-term objective and the reduction of existing public sector imbalances a necessity for a number of them, and especially for the

United States. Tax reform and other supply policies can provide incentives to stimulate growth and investment, and improve efficiency in resource use. In addition those Summit countries which have made significant progress in fiscal consolidation and have large external surpluses should reaffirm their commitment to follow fiscal and monetary policies designed to strengthen domestic demand and reduce external surpluses, within a framework of medium-term fiscal objectives.

Summit countries should also improve the coordination of their monetary policies to support non-inflationary growth and foster stability of exchange rates. In view of the outlook for low inflation in many countries, a further decline of interest rates in these countries - in particular a market-led decline of long-term rates - would be helpful.

- 2.4 Summit countries should agree on the need to support their macroeconomic strategy with effective structural policies. The purpose of these policies should be to sustain progress towards non-inflationary growth, reduced external imbalances and employment creation which has been insufficient, notably in Europe, to match the increase in the size of the

labour force. Summit countries should stress the need to :

- promote competition in order to speed up industrial adjustment;
- reduce major imbalances between agricultural supply and demand;
- facilitate job creating investment;
- improve the functioning of labour markets through greater mobility and adaptability;
- promote the further opening of internal markets;
- encourage the elimination of capital market imperfections and restrictions and improve the functioning of international financial markets.

2.5 The cooperative management of economic policies by the Summit countries should be seen in the context of the Tokyo agreement on policy coordination and multilateral surveillance. Summit countries should stress that they now consider improved policy coordination to be an ongoing process and they fully accept the discipline that it involves. Recognizing that domestic policies have important international repercussions which in turn exert a feed-back effect on domestic performance, Summit countries should reaffirm that the focus for coordination should be the compatibility of policies designed to attain over the

medium term stronger non-inflationary growth, more balanced external positions and a more stable pattern of exchange rates.

In the present situation, in which there is a need to avoid a further slowdown in economic activity, Summit countries should re-emphasize their commitment to strengthen the process of policy coordination. In this connection they should:

- welcome the progress made by the Finance Ministers in implementing policy coordination and in improving the functioning of the international monetary system;
- invite Finance Ministers to refine procedures for carrying out multilateral surveillance of objectives and projections, using the agreed indicators, including exchange rates, and with the assistance of the Managing Director of the International Monetary Fund (IMF), and for reaching understandings on the remedial measures to be adopted when there are significant deviations from the intended policy course;
- welcome the work done by the IMF to analyze and refine the instruments for effective surveillance, focusing attention on inconsistencies in national policies and on incompatibility and interactions among the policies of the larger countries.

3. STRENGTHENING THE OPEN MULTILATERAL TRADING SYSTEM

3.1 Summit countries should note with grave concern the rising protectionist pressures which have become an immediate threat to the world economy and should reaffirm their determination to halt and dismantle protectionist measures and avoid tendencies towards bilateralism. For this purpose, they should stress the important role the Uruguay Round can play in maintaining and strengthening the multilateral trading system, and achieving increased liberalization of trade for the benefit of all countries. To this end it is essential to improve the multilateral system based on the principles and rules of the General Agreement on Tariffs and Trade (GATT) and bring about a wider coverage of world trade under agreed, effective and enforceable multilateral discipline.

3.2 Recognizing the interrelationship between growth, trade and development, Summit countries should underline the importance of a supportive international environment, notably an improved functioning of the international monetary system, sustained growth, control of the debt burden and the reduction of external imbalances. Frictions arising out of these imbalances should be reduced through the expansion of

trade with cooperative policy efforts both by surplus and deficit countries, including measures to open markets and stimulate economies, as well as to increase competitiveness. Protectionist actions would be counterproductive and would increase the risk of further exchange rate instability.

3.3 Summit countries should also stress that further trade liberalization and effective structural adjustment are mutually supportive and should be pursued with determination by both industrial and developing countries for the benefit of their own economies and of the world economy at large.

3.4 Summit countries should endorse fully the commitment to adopt appropriate policies and concrete measures in compliance with the principles of stand-still and rollback which have been reaffirmed in the Ministerial Declaration on the Uruguay Round.

Summit countries should reaffirm the importance of establishing in the GATT a multilateral framework of principles and rules for trade in services, trade-related investment measures and intellectual property rights, with a view to the further liberalization and expansion of world trade. Within the framework of a comprehensive outcome of the negotiations, this

extension of the multilateral trading system will also be beneficial to developing countries in fostering growth, enhancing trade, investment and technology transfers.

3.5 Basing themselves on the Ministerial Declaration on the Uruguay Round adopted in Punta del Este and on the principles of the GATT, the Summit countries should call on all Contracting Parties to negotiate comprehensively, in good faith and with all due despatch, with a view to ensuring mutual advantage and increased benefits to all participants. In order to advance the negotiating process across the board, Canada, Japan, the United States and the European Community should table a wide range of substantive proposals in Geneva during the coming months. Progress in the Uruguay Round will be kept under close political review. In this context, the Summit countries should bear in mind that the launching, the conduct and the implementation of the outcome of the negotiations should be treated as parts of a single undertaking; however, agreements reached at an early stage might be implemented on a provisional or definitive basis by agreement prior to the formal conclusion of the negotiations. Early agreement should

be taken into account in assessing the overall balance of the negotiations.

A strong, credible and effective GATT is essential to the well-being of all trading countries and is the best bulwark against mounting bilateral protectionist pressures. Summit countries should recognize the importance of improving the functioning of the GATT through enhancing its role in maintaining an open multilateral system and its ability to manage disputes; promoting effective surveillance of trade policy and structural adjustment; and ensuring better coordination between the GATT and the IMF and the World Bank (IBRD). They consider that it would be useful to have, as appropriate, in the course of the negotiations, a meeting of the Trade Negotiating Committee at the ministerial level.

3.6 At the Tokyo Summit the Heads of State or Government and the representatives of the European Community recognised the serious nature of the agricultural problem and expressed their determination to give full support to the work of the OECD in this field.

Summit countries should welcome the agreement on agriculture expressed in the May 14, 1987 OECD Ministerial Communiqué, and particularly: the statement of the problem and the assessment of its

implications; acknowledgement of shared responsibility for the problem as well as for its resolution; principles of reform and action required.

- 3.7 Summit countries should underscore their commitment to pursue their work, at home and in the international fora, to achieve the necessary adjustments of agricultural policies. This will be of decisive importance in the Uruguay Round, and the Uruguay Round will be of decisive importance for these adjustments. They agree to review at the 1988 Summit the progress achieved.

4. DEVELOPING COUNTRIES AND INTERNATIONAL DEBT PROBLEMS

- 4.1 The objectives of growth and prosperity of the world economy should include stable economic progress in developing countries, with all their present diverse situations and needs. The problems of many heavily indebted developing countries are a cause of economic and political concern and can be a threat to political stability in countries with democratic regimes. Summit countries should salute the courageous efforts, in a framework of democracy, of many of these countries to achieve economic growth and stability.

4.2 For the major middle-income debtors, Summit countries should reaffirm that they support, and see no feasible alternative to, the present growth-oriented case-by-case strategy. This calls for a cooperative approach by all concerned parties in an effort to strengthen the growth prospects of debtor countries as essential to resolving their debt problems.

Three elements are needed to this end: the adoption of comprehensive macroeconomic and structural reforms by debtor nations; the enhancement of lending by international financial institutions, in particular the World Bank; and adequate commercial bank lending in support of debtor country reforms. In addition, Summit countries should reaffirm their commitment to foster a supportive world economic environment of sustained growth and expanding trade, which is an essential requirement of the strategy.

4.3 The debt strategy has proved to be a flexible and effective framework for a number of agreements which, through a combination of adjustment measures, debt reschedulings and provision of new money, have allowed some resumption of growth and correction of imbalances, despite unfavourable developments in export earnings for some countries.

4.4 Summit countries should stress that progress in restoring creditworthiness has already been significant in some countries. There is still, however, in some important cases, a lack of adequate policies for structural adjustment and growth designed to encourage the efficient use of domestic savings as well as the repatriation of flight capital and increased flows of foreign direct investment. In particular, reforms of their financial markets have an especially important part to play.

4.5 There is a need to restore an adequate, timely and effective mobilization of lending by commercial banks. In this context, Summit countries should support efforts by commercial banks and debtor countries to develop a menu of alternative negotiating procedures and financing techniques for providing continuing support to debtor countries.

4.6 Summit countries should underline the importance of official development assistance and welcome the increased efforts of some of them in this respect.

4.7 Summit countries should strongly support the activities of international financial institutions, including those regional development banks which

foster economic policy reforms by borrowers and finance their programmes of structural adjustment.

In particular, Summit countries should:

- support the central role of the IMF through its advice and financing and encourage closer cooperation between the IMF and the IBRD, especially in their structural adjustment lending;
- support the expanded role of the IBRD in the debt strategy;
- note with satisfaction the contribution made by the Eighth Replenishment of the International Development Association (IDA);
- support a general capital increase of the IBRD when justified by increased demand for quality lending;
- welcome the initiative of the Japanese Government in increasing its provision of resources to the IBRD and to the IMF, and encourage further development along similar lines.

4.8 Measures should be taken, particularly by debtor countries, to facilitate non debt-creating capital flows, especially direct investment. In this connection, it is to be hoped that the MIGA will begin to serve its objectives as soon as possible. Summit countries should recognize the importance of the necessary flexibility on the part of export credit

agencies in promptly resuming or increasing cover for countries that are implementing comprehensive adjustment programmes.

4.9 Summit countries recognize the problems of developing countries whose economies are solely or predominantly dependent on exports of commodities whose prices are persistently depressed. They should emphasize the importance of improving the functioning of commodity markets - for example, through better information and greater transparency. They should, also, encourage further diversification of the economies of such countries with the help of the international financial institutions, through policies to support their efforts for improved processing of their products; to expand opportunities for such countries through market access liberalization; and to strengthen the international environment for structural change.

4.10 Summit countries should recognize that the problems of some of the poorest countries, primarily in Sub-Saharan Africa, are uniquely difficult and need special treatment. These countries are characterized by such features as acute poverty, very limited resources to invest in their own development, unmanageable debt burdens, heavy reliance on one or

two commodities, and the fact that their debt is owed for the most part to governments of industrialized countries themselves or to international financial institutions.

Noting the various proposals made in different fora such as the IMF, the IBRD and the Paris Club to deal with the problems of such countries, Summit countries should urge a speedy conclusion of discussions on appropriate measures in this area. In particular, they urge that agreement be reached in the Paris Club on measures - for instance, longer repayment and grace periods - to ease the debt service burden of those countries that are undertaking adjustment efforts. They should also call on the IMF and the IBRD to arrange further discussions on aspects of the problem within their responsibilities.

4.11 [This paragraph is subject to reconsideration]

Summit countries should note that UNCTAD VII provides an opportunity for a discussion with developing countries with a view to arriving at a common perception of the major problems and policy issues in the world economy.

5. ENVIRONMENT

Further to their previous commitment to preserve a healthy environment and to pass it on to future generations, Summit countries should welcome the report by the environment experts on the improvement and harmonization of techniques and practices of environmental measurement. Accordingly, they should encourage the United Nations Environment Programme (UNEP) to institute a forum for information exchange and consultation in cooperation with the International Organization for Standardization (ISO) and the International Council of Scientific Union (ICSU), assisted by other interested international organizations and countries, so that continuing progress in this important field can be ensured.

The priority environmental problems identified by the environment experts in their report should receive full attention.

Summit countries should underline their responsibility to encourage efforts to tackle effectively environmental problems of worldwide impact such as stratospheric ozone depletion, climate change, acid rain, endangered species, hazardous substances, air and water pollution, and destruction of tropical forests.

Summit countries should also examine further possible environmental issues such as stringent environmental

standards as an incentive for innovation and for the development of clean, cost-effective and low-resource technology as well as promotion of international trade in low-pollution products, low-polluting industrial plants and other environmental protection technologies.

Summit countries should welcome the important progress achieved since they last met in Tokyo a year ago in enhancing effective international cooperation, particularly in the International Atomic Energy Agency, with regard to safety and security in the management of nuclear energy.

6. HUMAN FRONTIER

Summit countries welcome the initiative of the Human Frontier Science Programme presented by Japan, which is aimed at promoting, through international cooperation, basic research on biological functions. They are grateful for the informal opportunities their scientists have had to take part in some of the discussions of the Japanese Feasibility Committee. They note that the Committee will continue its work and they would be pleased to be kept informed about its deliberations.

7. EDUCATION

Summit countries should welcome the positive contribution made by the Conference of High Level Experts on the future role of education in our society, held in Kyoto in January 1987.

8. BIOETHICS

Summit countries should continue to take into account in the future the examination of the ethical implications of developments in the life sciences. Following the Conferences sponsored by Summit Governments - by Japan in 1984, by France in 1985, by the FRG in 1986 and by Canada in 1987 - they take note that the Italian government will host in Italy the next bioethics Conference in April, 1988.

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AIDS

(Separate statement to be textually agreed
but released by the Chairman)

On the basis of the concern they have already shown in the past for health problems (London Chairman's oral statement on cancer and Bonn Chairman's oral statement on drugs), Summit countries should affirm that AIDS is one of the biggest potential health problems in the world.

National efforts need to be intensified and made more effective by international cooperation and concerted campaigns to prevent AIDS from spreading further, and will have to ensure that the measures taken are in accordance with the principles of human rights.

In this connection Summit Countries should agree that:

- international cooperation will not be improved by duplication of effort. Priority will have to be given to strengthening existing organizations by giving them full political support and by providing them with the necessary financial, personnel and administrative resources. The World Health Organization (W.H.O.) is the best forum for drawing together international efforts on a worldwide level to combat AIDS, and all countries should be encouraged fully to cooperate with the W.H.O. and support its special programme of AIDS-related activities;
- in the absence of a vaccine or cure, the best hope for the combat and prevention of AIDS rests on a strategy based on educating the public about the seriousness of the AIDS epidemic, the ways the AIDS virus is transmitted and the practical steps each person can take to avoid acquiring or

spreading it. Appropriate opportunities should be used for exchanging information about national education campaigns and domestic policies. The Summit countries should welcome the proposal by the United Kingdom Government to co-sponsor, with the W.H.O., an international conference at Ministerial level on public education about AIDS;

- they will promote further cooperation for basic and clinical studies on prevention, treatment and the exchange of information (as in the case of the E.C. programme). They welcome and support joint action by researchers in the Summit countries (as in the case of the joint programme of French and American researchers, which is being enlarged, and similar programmes) and all over the world for the cure of the disease, clinical testing on components of the virus, and the development of a successful vaccine.

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DRUGS

(Oral statement by the Chairman)

The Summit countries have examined the drug abuse problem, which causes a tragic loss of human life and now affects people all over the world, especially the young and their families. The governments of the Summit countries

emphasize the importance of undertaking a strategy in support of national, regional and multilateral campaigns in order to overcome this problem. Our goals are to prevent illegal production and commercialization of drugs and to create all necessary conditions for more effective international cooperation. We should also work for the eradication of illegal cultivation of natural drugs and for its replacement with other types of production which will further the aims of social and economic development.

The leaders welcome the agreements already reached on bilateral and multilateral bases, and look forward with confidence to a successful International Conference on Drug Abuse and Illicit Trafficking, which the United Nation is convening next week in Vienna.