

Prime Minister

This is a letter which
RTA could take to Rome
on Monday, to hand to
Signor Fanfani, setting out
your views on the Economic
Summit. If you are content-

"Dear Prime Minister"

C.D.P.

SUBJECT
cc ops
master

CONFIDENTIAL



File

J03 240

cc. FCO
HMT

PRIME MINISTER'S

10 DOWNING STREET
LONDON SW1A 2AA

PERSONAL MESSAGE
SERIAL No. T 107/87

THE PRIME MINISTER

1 June, 1987.

Dear Prime Minister,

Thank you very much for your message of 18 May. I am very grateful for your understanding over your proposed visit to London; and for your agreement to receive Sir Robert Armstrong in Rome on 2 June. I look forward to receiving his report. Meanwhile, I want to let you have my views on some of the main subjects which we will discuss at Venice.

This summit comes at a delicate time, against the background of mixed signals on the world economy. Inflation in the Summit countries is generally low. The United Kingdom and Italian economies have demonstrated impressive growth in recent years. But there is real concern over the imbalances in the three major economies - the United States, Japan, and Germany. I know you share my view that these are the most important obstacles to the sustained non-inflationary growth which we all want. The financial markets will be quick to detect any language which looks unduly complacent. But we should seek to reassure them of the commitment of the Summit countries at the highest political level to take effective action on the imbalances without putting at risk the maintenance of the momentum of growth which we have now collectively sustained for five successive years.

At Venice, therefore, I hope that we shall seek to persuade President Reagan, Chancellor Kohl and Prime Minister Nakasone of the need for action. I should welcome specific commitments by the American Government to make renewed and

CONFIDENTIAL

early efforts to cut the Federal budget deficit, and by the German Government to bring forward the measures they have announced for 1988 to stimulate domestic demand. And I regard it as particularly important that Prime Minister Nakasone should take the opportunity provided by the Summit to explain his recent proposals for a supplementary budget; and for structural reform. We need to know, in particular, how far these are genuinely new measures. A firm and convincing political commitment in the Summit declaration to increase domestic demand and make the Japanese market much more open to imports of goods and services would reinforce the impact of the programme of "emergency economic measures" which the Japanese Government has just announced.

We shall be asking our colleagues to take difficult political decisions, and I believe they are entitled to ask for our fullest support. Experience in the United Kingdom has shown that, if these challenges are faced, it becomes possible to lay solid foundations for growth and increasing prosperity.

On agriculture, we have made real progress since we met in Tokyo last year. It is now generally agreed that present policies are unsustainable, and that early reform is required. The OECD Ministerial meeting agreed on the main principles which should guide the negotiations on agriculture in the GATT. I believe that the Venice Summit should endorse and build on this very encouraging outcome, and give a further political impetus to the negotiations due to start in the autumn. This will assist President Reagan in his difficult but vital task of continuing to resist protectionist pressures in the United States.

I agree that the Summit should also consider the problems of the developing countries. Although we should reaffirm the case by case approach to debt, I believe that the poorest debtor countries in sub-Saharan Africa need special treatment. I therefore hope that our colleagues will support the initiative launched by the Chancellor of the

CONFIDENTIAL

- 3 -

Exchequer at the IMF and World Bank meetings this April.

We shall also want to exchange views on political subjects. I look forward to discussing East/West relations over dinner on 8 June, though I remain to be convinced that a declaration on this subject would be useful. It seems clear that President Reagan will want to discuss the situation in the Gulf. I hope that we can build on the work which we initiated at Tokyo by making a firm statement on terrorism and by agreeing on further co-operation between us.

Yours sincerely

Margaret Thatcher

His Excellency Senatore Amintore Fanfani

CONFIDENTIAL