

Ref. A087/1573

MR POWELL

Venice Economic Summit

During my visit to Rome on 2 June, apart from calling upon Signor Fanfani (on which I have reported separately), I spent some hours with Signor Ruggiero discussing the Italian first draft of the Economic Declaration.

2. I found that Signor Ruggiero had decided, as a matter of policy, that his responsibility as (in effect) the Chairman of the Personal Representatives would be best discharged by following closely the structure and indeed the wording of the Thematic Paper. As we went through the draft, I tried to propose changes with a view to incorporating more political language and to shortening the draft; some of the changes which I proposed were accepted, but in general Signor Ruggiero was reluctant to alter language which had been agreed only after considerable discussion at meetings of Personal Representatives.

--- 3. I attach herewith a copy of the Italian draft, as amended in the light of our discussion. It is really too long, and the language is in many cases not what I would have chosen. Nonetheless, I think that the substance is generally acceptable. I daresay that the Prime Minister will not wish to be troubled with detail at this stage, but I should note the following points:

a. I think that most if not all of the "downside" points which worried the Prime Minister in the Thematic Paper have now been removed or greatly softened. The key note is intended to be to the general effect that the policies to which successive Summits have committed themselves over recent years have produced reasonably non-inflationary



growth in the industrialised countries and that much has been achieved thereby, though problems - above all the major imbalances - remain to be dealt with.

b. There are specific references to the United States fiscal deficit as a major problem in paragraph 4 and paragraph 7. Japan, however, is referred to only by implication. I tried to persuade Signor Ruggiero to include specific references both to Japan and Germany; but he felt unable to include such references in a Chairman's draft, because of the resistance to specific references by the representatives of the countries at previous meetings. I gave notice that I should be likely to be pressing for specific references and commitments when we considered the draft during the night of Tuesday 9 June.

c. The specific references in paragraph 18 to what the Japanese Government are doing to increase their assistance to developing countries has been revised in the light of the latest Japanese package.

d. I tried to persuade Signor Ruggiero to include in the draft a specific reference to the Chancellor of the Exchequer's initiative on debt. He was reluctant to do so in the Chairman's draft, partly because he felt that, if he referred to the Chancellor's initiative, he would be bound to refer to the proposals put forward by the French Government, the Japanese Government and the Canadian Government. Once again I gave notice that I could well be reverting to this when we came to discuss the draft Declaration in Venice.

4. On political issues Signor Ruggiero was clearly very worried about the possibility that the United States Administration would come forward with an entirely new draft on East-West relations. He had been given a draft copy of what the

Americans had in mind when he was in Washington the previous week, and he feared that, if such a draft were tabled, it would lead to the kind of wrangle we had had at Williamsburg, with the Americans and the French in particular at each others throats. There was a great danger that a wrangle of this kind could spill over into the discussion on the morning of Tuesday 9 June, and limit the amount of time which Heads of State or Government spent on economic issues. There was also a danger that any such wrangle would become known to the media, and that the noises coming out of the Summit would all be of dissension on East-West relations: this could overshadow the outcome of the rest of the Summit, and diminish the success of the Summit at a delicate political moment for his Government, which had an election on 14 June, and perhaps also for ours. As you know, I have written separately to the Foreign and Commonwealth Office about this.

5. Signor Ruggiero took it for granted that President Reagan would raise the subject of the Gulf at the Summit, but had formed no impression while he was in Washington of the detailed line they would take or whether they should be coming forward with specific proposals.

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

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ROBERT ARMSTRONG

3 June 1987

Revision 2
2nd June, 1987 - time 4.00pm

VENEZIA SUMMIT CONFERENCE
Venezia Economic Declaration

1. We, the Heads of State or Government of the seven major industrialized countries and the representatives of the European Community, have met in Venice from 8 to 10 June, 1987, to review the progress that our countries have made in the domestic context and in the framework of international cooperation, in carrying out the policies and programmes to which we addressed ourselves at earlier Summits, and to discuss, in the light of changing world economic conditions, how these policies and programmes can best be carried forward so as to serve our continuing aims of growth, prosperity and stability for our own countries and for the world economy.

2. Since the Tokyo Summit, economic performance in our countries has shown some improvement despite some persistently 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. Interest rates have generally declined. Changes have occurred in relationships among leading currencies which over time will contribute to a more sustainable pattern of current account positions and have brought exchange rates 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.

3. Since Tokyo the Summit countries have intensified their economic policy coordination with a view to ensuring internal consistency of domestic policies and their international compatibility, and achieving greater convergence of positive economic performance. This is essential to attain the goals of stronger global growth, reduced external imbalances and more stable exchange relationships. Given the policy commitments made by our countries as a result of the meetings at Le Louvre and in Washington, further substantial shifts in exchange rates could prove counterproductive to efforts to increase growth and facilitate adjustment in the Summit countries and in the world economy. We reaffirm our commitment to the swift and full implementation of those policies.

4. Thus the pursuit of the general lines of policy which we have set for ourselves over successive Summit meetings has led to steady progress in the attainment of our aims. Nonetheless the world economy still faces a number of problems. These include: large external disequilibria in major countries; market uncertainty with respect to exchange rates; persistently high unemployment, particularly in Europe; large public sector deficits in some countries, notably the United States, Italy and Canada; high levels of real interest rates in most countries; continuing trade restrictions and increased protectionist pressures; the persistent weakness of many primary commodity markets; and reduced prospects for developing countries to grow, find the markets they

need and service their foreign debt, partly because of slower rates of growth in the industrial world.

5. Foremost among our priorities is to maintain the momentum of non-inflationary growth. This will facilitate the correction of external imbalances and contribute importantly to the reduction of unemployment in our economies, the improvement of the developing countries' situation and the alleviation of tensions in world trade.

6. Our countries can and will 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 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, we call on other industrial countries to participate in this effort. We 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.

7. 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 remain committed to following fiscal and monetary policies designed to strengthen domestic demand and reduce external surpluses, within a framework of medium-term fiscal objectives. It is also important that coordination of monetary policy among the seven countries should be improved 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.

8. We agree on the need to support the 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. To this end we 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 the improvement of the functioning of international financial markets.

9. Following our agreement in Tokyo last year, improved policy coordination and multilateral surveillance are an ongoing process and we fully accept the discipline that they involve. Recognizing that domestic policies have important international repercussions which in turn exert a feed-back effect on domestic performance, we 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, we reaffirm our undertaking to strengthen the process of policy coordination. In this connection, we :

- welcome the progress made by the Finance Ministers in implementing policy coordination and in improving the functioning of the international monetary system;
- invite the Finance Ministers to refine procedures for carrying out multilateral surveillance of objectives and projections, using the agreed indicators, including exchange rates, and drawing on 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.

10. We note with grave concern the rising protectionist pressures which have become an immediate threat to the world economy and reaffirm our determination to halt and dismantle protectionist measures and avoid tendencies towards bilateralism. The Uruguay Round can play an important role 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. Recognizing the interrelationship between growth, trade and development, we 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 efforts by both 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.

11. 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.

12. We endorse fully the commitment to adopt appropriate measures in compliance with the principles of stand-still and rollback which have been reaffirmed in the Ministerial Declaration on the Uruguay Round. It is important to establish 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. This extension of the multilateral trading system will also be beneficial to developing countries in fostering growth, enhancing trade, investment and technology transfers.

13. Basing ourselves on the Ministerial Declaration on the Uruguay Round and on the principles of the GATT, we 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 will table a wide range of substantive proposals in Geneva over the coming months. Progress in the Uruguay Round will be kept under close political review. In this context 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, and should be taken into account in assessing the overall balance of the negotiations. A strong, credible, working GATT is essential to the well-being of all trading countries and is the best bulwark against mounting bilateral protectionist pressures. The functioning of the GATT should be improved through enhancing its role in maintaining an open multilateral system and its ability to manage disputes; and ensuring better coordination between the GATT and the IMF and the World Bank. We 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.

14. At the Tokyo Summit we recognised the serious nature of the agricultural problem. We agreed that the structure of agricultural production needed to be adjusted in the light of world demand, and expressed our determination to give full support to the work of the OECD in this field. In doing so, we all recognised the importance of agriculture to the well-being of our rural communities. In the past year, we have actively pursued the approach outlined at Tokyo, and we take satisfaction from the agreement in the Ministerial Declaration adopted in Punta del Este on the objectives for the negotiations on agriculture in the Uruguay Round. We reaffirm our commitment to the important agreement on agriculture set out in the OECD Ministerial communique of May 13, 1987; in particular, the statement of the scope and urgency of the problem which require that a concerted reform of agricultural policies be implemented in a balanced manner; the assessment of the grave implications, for developed and developing countries alike, of the growing imbalances in supply and demand for the main agricultural products; the

acknowledgement of shared responsibility for the problems as well as for their equitable, effective and durable resolution; the principles of reform and the action required. The long-term objective is to allow market signals to influence the orientation of agricultural production, by way of a progressive and concerted reduction of agricultural support, as well as by all other appropriate means. We underscore our commitment to work in concert to achieve the necessary adjustments of agricultural policies, both at home and through comprehensive negotiations in the Uruguay Round. We have undertaken to table comprehensive proposals for negotiations in the coming months to be conducted in accordance with the mandate in the Ministerial Declaration. We intend to review at our next meeting the progress achieved and the tasks that remain. In the meantime, in order to create a climate of greater confidence which would enhance the prospect for rapid progress in the Uruguay Round and as a step towards the long-term result to be expected from those negotiations, we have agreed, and call upon other countries to agree, to refrain from actions which, by further stimulating production, increasing protection or destabilizing world markets, would worsen the negotiating climate and, more generally, damage trade relations.

15. The objectives of growth and prosperity of the world economy include stable economic progress in developing countries, with all their 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. We salute the courageous efforts, in a framework of democracy, of many of these countries to achieve economic growth and stability.

16. For the major middle-income debtors, we continue to 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 countries; 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, we reaffirm our commitment to foster a supportive world economic environment of sustained growth and expanding trade. The debt strategy has proved to be a flexible and effective framework for a number of agreements which have allowed some resumption of growth and correction of imbalances, and have made possible significant progress in restoring the creditworthiness of 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 financial markets have an especially important part to play.

17. There is a need to restore an adequate, timely and effective mobilization of lending by commercial banks. In this context, we 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.

18. We underline the continued importance of official development assistance and welcome the increased efforts of some of our countries in this respect. We strongly support the activities of international financial institutions, including those regional development banks which foster policy reforms by borrowers and finance their programmes of structural adjustment. In particular :

- we support the central role of the IMF through its advice and financing and encourage closer cooperation between the IMF and the World Bank, especially in their structural adjustment lending. (In this connection we welcome the proposal by the Managing Director of the IMF for a tripling of the resources of the Structural Adjustment Facility over three years and each of us will be considering the extent to which we can participate)(*);
- we support the expanded role of the World Bank in the debt strategy;
- we note with satisfaction the contribution made by the Eighth replenishment of the International Development Association (IDA);
- we support a general capital increase of the World Bank when justified by increased demand for quality lending;
- we welcome the initiative of the Japanese Government in bringing forward a scheme which will increase the provision of resources from Japan to the developing countries, particularly the debtor ones, by more than US\$ 20 billion, partly bilaterally and partly through the international financial institutions. We urge other countries in a position to follow that example to do so.

19. Measures should be taken, particularly by debtor countries, to facilitate non debt-creating capital flows, especially direct investment. In this connection, the Multilateral Investment Guarantee Agency (MIGA) should begin to serve its objectives as soon as possible. It is important that there should be the necessary flexibility on the part of export credit agencies in promptly resuming or increasing cover for countries that are implementing comprehensive adjustment programmes.

20. We recognize the problems of developing countries whose economies are solely or predominantly dependent on exports of primary commodities the prices of which are persistently depressed. It is important that the functioning of commodity markets should be improved - for example, through better information and greater transparency - and that further diversification of these economies should be encouraged, with the help of the international financial institutions, through policies to support their efforts for improved processing of their products, to expand opportunities through market access liberalization, and to strengthen the international environment for structural change.

21. We 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 and heavy reliance on one or two commodities, and the fact that their debt is owed for the most part to governments of industrialized

(*) Italian suggestion not previously discussed

countries themselves or to international financial institutions. Noting the various proposals made by the Italian, British and French Governments in different fora such as the IMF, the World Bank and the Paris Club to deal with the problems of such countries, we urge a speedy conclusion of discussions on appropriate measures in this area. Agreement should 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. We also call on the IMF and the World Bank to arrange further discussions on aspects of the problem within their responsibilities.

22. We 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.

23. Further to our previous commitment to preserve a healthy environment and to pass it on to future generations, we welcome the report by the environment experts on the improvement and harmonization of techniques and practices of environmental measurement. Accordingly, we 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. We underline our own responsibility to encourage efforts to tackle effectively environmental problems of worldwide impact such as stratospheric ozone depletion, climate change, acid rains, endangered species, hazardous substances, air and water pollution, and destruction of tropical forests. We also intend to examine further 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. We welcome the important progress achieved since Tokyo in enhancing effective international cooperation, particularly in the International Atomic Energy Agency, with regard to safety and security in the management of nuclear energy.

24. We 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. We are grateful for the informal opportunities our scientists have had to take part in some of the discussions of the Japanese Feasibility Committee. We note that the Committee will continue its work and would be pleased to be kept informed about its deliberations.

25. We 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.

Statement on DRUGS

The Heads of State or Government 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. They emphasize the importance of undertaking a strategy in support of national, regional and multilateral campaigns in order to overcome this problem. They intend to continue their fight against illegal production and distribution of drugs and to create all necessary conditions for more effective international cooperation. They will 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 Nations are convening next week in Vienna.

26. We shall continue to review 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 Federal Republic of Germany in 1986 and by Canada in 1987 - we welcome the Italian government's offer to host the next bioethics Conference in Italy in April, 1988.

27. We have agreed to meet again next year, and have accepted the invitation of the Canadian Prime Minister to Canada.

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Statement on AIDS

On the basis of the concern already shown in the past for health problems (London Chairman's oral statement on cancer and Bonn Chairman's oral statement on drugs), the Heads of State or Government 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, they 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 (WHO) 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 WHO 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 Heads of State or Government welcome the proposal by the United Kingdom Government to co-sponsor, with the WHO, an international conference at ministerial level on public education about AIDS;
- further cooperation should be promoted for basic and clinical studies on prevention, treatment and the exchange of information (as in the case of the E.C. programme). The Heads of State or Government welcome and support joint action by researchers in the Seven 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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