

PRIME MINISTER

VENICE ECONOMIC SUMMIT

Your main opportunity to brief yourself for the Summit will be on the flight to Venice (2½ hours). This note sets the scene, and identifies the principal issues.

Organisation

There are three main events for you:

- the Heads of Government dinner on the Monday. Discussion will concentrate on political issues, notably East/West relations, arms control, terrorism, and the Gulf. The Canadians will raise South Africa. This will be the occasion to decide what statements the Summit should issue and put in hand the necessary work. Drafting is likely to be completed only after your departure from Venice. You will need to see the Foreign Secretary after dinner and leave him with clear instructions.

- bilateral with President Reagan. You will go to his hotel for a talk at 0845 on Tuesday, and then travel with him to the opening session of the Summit. You will want to use the meeting to establish how far he is prepared to go in the Economic Declaration in committing the Administration to action to reduce the Federal deficit: to find out what he wants from the Summit on the Gulf: to persuade him away from a declaration on East/West relations: to consider the stage reached on arms control: and to try to hold the United States back from relaxing restrictions on Syria. You will also want to mention the possibility that you might make a short working visit to Washington in the second half of July.

- first working session of Heads of Government. This will be the occasion for the main discussion of economic issues. It tends to be a succession of statements. We shall have a

speaking note for you, which Bernard could draw on with the press after you have spoken. You will want to stress in your remarks the points you will want to see reflected in the final Economic Declaration.

There will be no time for any other bilaterals or a press conference. But before or after the dinner you may want to speak briefly to Mr. Nakasone; and raise with Chancellor Kohl problems over what the NATO Foreign Ministers should say at Reykjavik about negotiations on systems under 500 km.

Political Issues

The main political issue at the Summit will be East/West relations. Discussion is likely to be general. Heads of Government will have to decide whether to issue a declaration. Its probably best not to do so. There is nothing new to say. If you have a statement on East/West, the Canadians will press even more strongly for one on South Africa. But the Americans may insist, in which case we should support their text rather than the milk and water consensus version prepared by the Sherpas. But whichever text is adopted, it must have our sentence drawing attention to the continuing role of nuclear deterrence in preserving peace.



There may be some discussion of arms control and the INF negotiations. And a risk that the Germans will raise the problem of negotiations on systems under 500 kms. The Summit is not the place to try to resolve this.

The Americans will raise the Gulf. It is not clear what they want. But we could agree a statement which underlines the importance of freedom of navigation, welcomes the various efforts being made to protect it, and calls for close cooperation between countries with naval forces in the area (but not joint operations or a joint force). There could also be a reference to a mandatory UN Security Council resolution on Iran/Iraq. We have a contingency draft.

Canada will raise South Africa, and press for a statement and creation of a Summit working group. There should be a solid majority against this. Its the wrong time and the wrong place for an initiative. The Canadian purpose is publicity for Mulroney.

We shall want a strong statement on terrorism, and there are some good drafts around. There will probably be the usual problems with French reluctance to see Summit cooperation institutionalised (although this is a Mitterrand obsession, and does not seem to be shared by Chirac).

Economic Issues

You will want to encourage a generally positive message from the Summit about world economic prospects. This should come in two parts: confirmation of the policies which have been successful in the past, and action to deal with obstacles to continued growth. The main threat to growth comes from major current account imbalances. The best outcome from the Summit would be specific political commitments, by the Americans to  cut the federal budget deficit, by the Japanese to expand domestic demand and improve access to her markets, and by  Germany to promote stronger domestic demand growth. This will be very difficult to obtain, but is nonetheless worth pressing hard for. You will want to find out in your bilateral how far President Reagan is prepared to go (he may find it useful vis-a-vis Congress to show that the United States is under pressure: but he will see it only in terms of reducing expenditure, not raising taxes). You will also want to urge Mr. Nakasone very strongly to volunteer appropriate commitments by Japan in the Declaration. There is probably not much that can be done to influence the Germans unless the Americans and Japanese are forthcoming.

It will also be helpful if the final declaration contains an approving reference to Britain's improved economic performance. That is primarily for our Sherpas to secure.

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The other main points to work for are:

- a strong commitment to a successful GATT trade round, with the Summit countries undertaking to table negotiating proposals soon. You will want to resist likely Canadian pressure to agree now to hold a Ministerial review meeting in 1988. We simply do not know yet whether there will be sufficient progress to make it worthwhile.

- an equally strong commitment to reform of world agricultural trade. We shall want the Summit at least to endorse the recent OECD Ministerial communique; and to show that the main industrial countries have the courage to take the necessary tough decisions, above all to reduce levels of support. We have some communique language to table.

- support for the Chancellor's initiative on sub-Saharan African debt, while preventing expensive and unrealistic commitments on other aid issues.

* Detailed briefs are attached. The only essential ones are the steering brief and the speaking note on economic issues.

CDP

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4 June, 1987.

* I will keep the briefs for the aircraft. I attach only the main speaking note.

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