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PRIME MINISTER

TORONTO ECONOMIC SUMMIT

Before you see Mr. Mulroney tomorrow, you may wish to have a summary of the main points which arose at the Third Sherpa meeting in Paris on Thursday and Friday.

There is general agreement that there should be only two Declarations, one Economic and one Political, succinctly and crisply drafted.

ECONOMIC: There is unlikely to be disagreement about the main message to come from the Summit:

The need for continued reduction in budgetary and trade imbalances and the strengthening of structural adjustment policies, while maintaining the fight against inflation

The challenge for the Summit will be to present this now hackneyed, but nonetheless right, message in a way which conveys, particularly to the financial markets, the commitment, credibility and confidence of economic policies.

The Sherpas think that this message might be conveyed by capitalising on the fact that this Toronto Summit is the last in this round of seven summits. The Summit might note that since the first - at Versailles in 1982 - as the successive Summit Declarations bear witness, economic policy has been transformed:

The replacement of the seventies' reliance on fiscal stimulation as the route to growth by the recognition that growth comes through controlling inflation, structural reform, enterprise and the freeing of markets.

This transformation of economic policy has brought about a substantial and sustainable improvement in the world economy.

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The next round of Summits have to continue this work.

Such an approach would permit the Summit leaders, most of whom will have been at all or most of the last Seven Summits, to take credit for real achievements, put current policies into context and give a coherent direction to future work. This approach might be particularly welcome to President Reagan - as a summing up of the achievements of his Presidency, while allowing the other leaders to make the point that there is still work to do, eg, reducing the US imbalances.

Just as important, this approach would provide a framework for addressing what clearly will be the two divisive issues at the Summit - trade and agriculture, global examples of the need for structural reform.

On trade, we emphasised in our Paris discussions your interest in improving the effectiveness of GATT, notably the dispute settlement procedure; and we will do more work on this so that your position is well prepared before Toronto.

On agriculture, there is a yawning gap between the United States' position of zero tolerance for agricultural subsidies and the Commission's grudging acceptance that the Brussels agreement is not the last word. This is another topic on which you may wish to take an active role at Toronto.

**POLITICAL:** Mr. Mulroney wants the political discussions to concentrate on East-West. I said that in addition you would wish to discuss terrorism (on which a group of Summit experts meet, at the UK's request, on 2 June to consider the Foreign Secretary's five point plan) and the Middle East; and that the East-West item could extend widely to cover eg the politics and economics of Eastern Europe, Angola, Afghanistan etc. My Canadian colleague seemed to suggest that the Canadians would raise South Africa.

**OTHER ISSUES LIKELY TO COME UP AT THE SUMMIT:** The US are likely to raise drugs, which is emerging as a major issue in

the Presidential Campaign. Quite what aspect is still unclear: maybe suggestions for international action against laundering drug money. We will try to find out more. Both the Germans and the Italians will raise aspects of the environment (the Brundtland Report, the ozone layer, global warming, reducing sulphur dioxide and freezing of NOX emissions, dangerous wastes, East-West cooperation, etc). Mr. Takeshita will raise the Human Frontier Science Programme mainly as courtesy to the memory of Mr. Nakasone whose brain child this was. The Italians may want to report the outcome of the Fifth Conference on Bioethics held recently in Rome.

DISCUSSION OF LONGER TERM ISSUES: The Sherpas discussed possible topics for the new item on the Summit agenda - the informal discussion, before dinner on the second day, of "long term issues". I said that you would be interested in a discussion of health and social security provision and cost, the retirement age, etc, bearing in mind the ageing of the population. The US, German, Japanese and Commission Sherpas thought that some topic like this flowing from prospective demographic changes would provide a worthwhile discussion. My French colleague, while not dissenting, said that President Mitterrand would welcome a discussion of the impact of fast changing technologies on the labour market and on the education system; education for a technologically changing world is a centrepiece of President Mitterrand's second term programme. I said that while I had not discussed this particular topic with you, you could well share President Mitterrand's interest, especially since we had a major education reform now passing through Parliament. The Canadian Sherpa pressed, with no support, for discussion of long term environmental issues. The other Sherpas, who were interested in environmental issues wanted, sensibly, to see the issue raised on the main agenda, and not as a topic for the informal long term discussion. The Sherpas will try to agree two topics for the informal discussion at our next meeting in Toronto in a fortnight's time. If there is no agreement, it may be necessary to fall back on the unsatisfactory position of each leader speaking on his chosen topic for 10 minutes or

so.

SUMMIT FORMAT: The Canadian's latest suggestion for the Summit format is attached. It is little changed from the version you last saw. One particular point to note is the Canadian suggestion that the first session should not begin with each leader summarising developments in his own country's economy. Instead, the leaders should talk about the topic which is at the forefront of their minds. This could be the state of their economy or, for example, the world trade and agricultural situation.

I would much welcome any guidance that you, the Foreign Secretary or the Chancellor of the Exchequer might wish to give on this report.

I am sending a copy of this minute to the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer and to Sir Robin Butler.

*Suzanne*

PP (N. L. WICKS)

22 May 1988

TORONTO ECONOMIC SUMMIT: FORMAT

LEADERS

COMMUNICATIONS

DAY 1

1500-1700

SEPARATE SESSION  
- SUMMIT ECONOMIC  
PRIORITIES AND OUTLOOK

LATE P.M.

PRESS BRIEFING ON  
ECONOMIC SESSION  
(FACTUAL BRIEFING BY  
PRIME MINISTER'S  
SPOKESMAN)

1900-2100

SEPARATE WORKING DINNER  
-POLITICAL

DAY 2

1000-1015

ADOPTION BY LEADERS OF  
POLITICAL TEXT

1015-1200

PLENARY SESSION  
-DISCUSSION OF ECONOMIC  
SUMMIT PRIORITIES

1230-1400

WORKING LUNCH  
(WITH FOREIGN MINISTERS)  
-OTHER POLITICAL ISSUES

1400

FOREIGN MINISTER'S READING  
OF POLITICAL DECLARATION  
AND SUMMARY OF POLITICAL  
ISSUES

1430-1600

PLENARY SESSION  
-CONTINUATION OF  
ECONOMIC DISCUSSION

1830-2000

SEPARATE INFORMAL SESSION  
-LONG-TERM ISSUES

2000-2130

SEPARATE DINNER

DAY 3

0930-1130

PLENARY SESSION  
-ADOPTION OF ECONOMIC DECLARATION  
-FINAL DISCUSSIONS

1230-1430

GOVERNOR GENERAL'S LUNCH

1530-1600

PRIME MINISTER'S READING  
OF ECONOMIC DECLARATION