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cc CAP*

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From the Principal Private Secretary

7 June 1988

Jes Rodric,

TORONTO ECONOMIC SUMMIT: THE PRIME MINISTER'S SPEAKING
NOTE FOR THE OPENING SESSION

As you know, the Prime Minister has agreed to Mr. Mulroney's request to open the discussion at the first session of the Economic Summit. The purpose of this initial discussion is for the Heads to describe their main priorities for the Summit.

Mr. Mulroney's hope is that she will speak without notes in order to encourage the informality of the occasion. Nevertheless, I think that it would help the Prime Minister if she had a speaking note on which she could base her intervention.

I now attach the first draft of such a note and should be glad for your comments and amendments. You will see that there are some requests for comment and information. Could I ask, in particular, that Geoffrey Littler should provide the "facts" requested in paragraphs 3 and 4 of the notes. I should welcome comments from both of Geoffrey and yourself as well as drafting suggestions where appropriate, on the references in the other square brackets.

BF // Please could I have comments by 5pm on Thursday 9 June. If you would like to talk, please let me know.

Please could I ask Geoffrey to provide, in shorter time, a two page speaking note on our view on the prospects for the world economy. This is a subject which is supposed to be covered at the first session and it would be helpful to have a note available. But I hope that we can avoid it clogging the flow of the Prime Minister's main intervention.

I am sending a copy of this letter to Geoffrey Littler (H M Treasury) and Tom Richardson (Foreign and Commonwealth Office).

*Yours truly
Nigel Wicks*
N. L. WICKS

Rodric Braithwaite, Esq., C.M.G.

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DRAFT SPEAKING NOTE FOR THE PRIME MINISTER TO USE AT THE
OPENING SESSION OF THE ECONOMIC SUMMIT

1. Any initial courtesies which are necessary
e.g. welcoming Mr. De Mita and Mr. Takeshita
congratulating President Mitterrand
saying farewell to President Reagan
thanking Mr. Mulroney for the Summit
arrangements, etc.

 2. The annual Economic Summits are a time for sharing, quite
informally, experience on the economic situation and a
time for resolution on the common economic action which
we should follow in the year ahead.

 3. This is the last of this series of Summits which
President Mitterrand initiated in Versailles in 1982.
President Mitterrand, President Reagan and the President
of the Commission (who was present as the French Minister
of Finance) will remember the problems which faced us at
that Summit.
- [3 or 4 gloomy facts about the world economic situation
in 1981-82]

4. The problems of the world economy are all solved. Far from it. There is still a grievous situation in some of the developing countries, especially in Africa. And unemployment is still too high in many countries. But there has been an enormous improvement in the world economic situation in the last six or seven years.

[3 or 4 facts to demonstrate that point.]

5. That improvement has not come about by accident. The seventies were a decade of financial irresponsibility, economic mis-management and economic opportunity foregone. But in the Eighties, the Summit countries have lead the way in implementing a change in economic policy of historic proportions. Successive Summit declarations bear witness to that change. And many other countries are now following our lead.

Priority has been given to inflation and to prudent fiscal and monetary policies;

But the real innovation has been the emphasis on "structural reform", tax reform, abolishing controls, introducing competition, privatisation and, latterly, the reform of the world trading system and of agriculture, following our discussion at the Tokyo Summit 1986.

6. The recent record of economic history shows the rightness of these policies.

The world economy could not have withstood so well the shock of last Autumn's fall in stock prices unless our policies had built sound foundations.

7. I suggest that our task at this Summit is to consider how to carry these policies through the rest of the Eighties and into the Nineties, so that we can carry on the progress already made. That will require,

first, continuing action to reduce trade and budgetary imbalances;

second, progress with our national structural reform programmes;

third, a successful conclusion to the Uruguay Round; and as part of that, fourth, continuing action to - and here I use the words in the Economic Declaration issued in Tokyo in 1986 - "to adjust structure of agricultural production in the light of world demand."

The Imbalances

8. First on the imbalances. There has certainly been some progress. [What can we say on the US budget and trade deficits and on the German and Japanese positions? Can

we single out the growth of Japanese imports for favourable comment?] Despite the progress, I do not believe that the present scale of imbalances is sustainable. The imbalances certainly add an unnecessary element of fragility into the world financial system. More has to be done in the year ahead to reduce them.

Structural Reform

9. Second, structural reform. The thematic paper describes each country's plans for structural reform. Each of us have more actions to take. I would be particularly interested to hear from Chancellor Kohl and from Mr. Takeshita about their plans. [Should we amplify what aspects?]

10. Education and training is a particular element of structural reform that I want to stress. We face a decade of technological change, fewer young people coming into the workforce, and the need for training and retraining, not just for the young people but right through the working life, so that people can be re-equipped with new skills. I look forward to discussing this important issue at our informal session tomorrow.

Trade and agriculture

11. Agriculture and trade are, in my view, priority topics this Summit. Certainly, Summits are not negotiating

bodies. We cannot get into the details which are under discussion in Geneva. But we can give an impetus to those discussions and map out some common directions so as to keep up the momentum. That should be our task.

Trade

12. To take trade first: too often in the last few years there have been threats of trade wars. Protectionism has inched forward. And protectionism reduces growth in our countries, puts up inflation in the short term, increases unemployment in the long term and damages the developing countries. The GATT Round provides an opportunity to turn back protectionism to the benefit of both our own economies and to the developing countries. We must seize that opportunity and maintain and extend the open world trading system by multilateral reduction of trade barriers.

13. I believe that the Mid Term Meeting (MTM), to be held in Montreal in December, offers a valuable opportunity to demonstrate that real progress can be made in all areas of the Uruguay Round. This progress should cover the areas to which we gave special emphasis at our previous meeting at the Tokyo summit, namely trade and services, intellectual property rights and foreign direct investment. A significant step towards the Round's successful conclusion would be the establishment at an early date of an agreed negotiating framework. I believe, too, that we should use to the fullest extent

possible at the mid term meeting the provision in the Punta Del Este Declaration which permits the implementation of agreements reached at an early stage in the negotiations. We should not hold up action until an agreement is reached on everything. The strengthening of GATT itself is a high priority. We should work for the earliest possible agreement on ways of reinforcing the GATT process: through greater involvement of political Ministers; through intensification of the surveillance of trade policies; and through greater effectiveness of dispute settlement procedures so that disagreements can be resolved speedily, conclusively and fairly.

14. I suggest that these are the objectives which Summit countries should set themselves in making their contributions to the preparation for the Montreal meeting.

Agriculture

15. The Venice and Tokyo Summits made reform of agriculture policy a priority for our Governments. Too often, present agricultural policies distort national economies by putting unfair burdens on the consumer, straining Treasuries and wasting national resources. And agricultural policies often create strains for the world's trading system and reduce the welfare of some of the developing countries, including some of the poorest.
16. The European Community took some important steps to

reform agricultural policy in February:

agreement for effective measures, including stabiliser measures necessary to control output and spending; automatic price penalties on individual commodities if an agreed quantity of production is exceeded;

That agreement was a real achievement for the Community and for the world.

17. No-one should belittle what the Community has achieved. But I certainly agree that far more needs to be done to achieve our long term objective of reducing agricultural support, while maintaining, at the same time, a dynamic and viable agricultural sector.

18. This Summit should make clear that the Montreal Mid-Term Review should give a good shove to the negotiating process. There is an urgent need for any action. We need to agree a principle of reducing levels of assistance without getting bogged down into any precise final target. We need too to find an overall framework, as the OECD recently agreed, to measure progress in implementing this principle. There should be an immediate down-payment towards a long term goal of liberalising agriculture markets, together with a commitment to freeze support at present levels.

19. There are many other issues we need to consider at the Summit - the Newly Industrialising Economies and the developing countries are obvious examples. But I will reserve my comments on these subjects until later.

20. Mr. Chairman, this Summit gives us an opportunity to help shape economic history for the rest of the century. Let us seize it.