



Foreign and Commonwealth Office

London SW1A 2AH

23 June 1988

N Wicks Esq CBE
10 Downing Street


Jean Forster

SUMMIT SUPPLEMENTARIES

- / 1. As promised, I enclose a full set of supplementaries for the Prime Minister's statement on the Summit this afternoon. A copy also goes to our Parliamentary Relations Unit who will additionally be sending it over to No 10 in the usual way.

Yours ever,
Tom

T L Richardson
Economic Relations Department



1. GENERAL

- Highly successful Summit.
- Confidence justified. But Summit leaders were not complacent about the world economy. More to be done but we are on the right course.
- Would single out agreements on debt, drugs and terrorism as particular achievements at Toronto.

2. FOREIGN POLICY ISSUES

(A) East-West Relations

Purpose of another statement on East-West?

Common interpretation of developments in East-West relations a crucial challenge for West. Economic summits a unique forum for shared views and policies going beyond both EC and NATO: glad to see declaration supported much of our own stress on realism as basis of policy, while welcoming changes in the Soviet Union.

Declaration underestimates progress in East-West relations/depth of change in Soviet Union?

Statement gives balanced over-view of East-West relations. Welcomes impressive progress so far (Afghanistan, INF). Product of resolution and unity of West. Right also to highlight remaining problems (conventional imbalance, Soviet military build-up in Far East, human rights). Must not lower guard or make unwarranted concessions.

(B) Terrorism

What is work underway in ICAO (International Civil Aviation Organisation)?

Includes measures to investigate future hijackings, to offer

assistance to countries dealing with hijackings, and to strengthen security guidelines. As the statement makes clear, a fourth proposal to endorse the principle that hijacked aircraft should not be allowed to take off once they have landed, except in specific circumstances, has been adopted by the ICAO Council.

What are Montreal and Rome agreements?

The Montreal Protocol for the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation extends the provisions of the Montreal Convention (which makes an offence of activities likely to endanger the safety of an aircraft in service to international airports). Rome agreement is the IMO Convention on the Suppression of Unlawful Acts against the Safety of Maritime Navigation.

Statement hypocritical in light of French deals involving hostages?

French Government assure us they have paid no ransom to hostage takers and release of their hostages will not change policy towards the area. Summit statement expresses position of all seven countries.

Statement meaningless - Kuwaiti airline hijackers still free?

Deplore the fact that hijackers and murderers in this incident went free. That is why our initiative in ICAO, which was endorsed by Summit Seven, included steps to encourage countries not party to the Hague Convention to become so (which obliges them to prosecute or extradite hijackers) and to seek to keep hijacked aircraft on the ground once landed so that there is a better chance of apprehending the hijackers.

(C) Arab-Israel

Point of Arab-Israel statement?

Reaffirmation of international concern at Arab-Israel dispute.

Focus on best way forward - international conference; support for continuing US effort.

(D) Iran-Iraq

Point of Iran-Iraq statement?

Reiterated commitment to seeking settlement based on Security Council resolution 598 and to any necessary follow-up resolution to secure implementation. Expressed appreciation of Secretary General's efforts. Renewed commitment to upholding principle of freedom of navigation in Gulf.

Chemical Weapons?

Condemned use of chemical weapons in Iran-Iraq conflict. Foreign Secretary made specific proposals in his speech to UN Special Session on Disarmament to bolster authority of 1925 Geneva Protocol and facilitate automatic international response to alleged CW use.

Ballistic missile proliferation in the Middle-East?

Deplored proliferation of ballistic missiles in region. Proliferation a serious threat to regional and world security. We welcome internationally agreed measures to curb spread of these missiles.

Integration of UK/Belgian/Netherlands Minesweeping forces in the Gulf?

- Aware of press reports about developing cooperation of UK/Belgian/Netherlands minesweeping forces. Discussions have been taking place between naval experts.
- [If integration has been approved]: an announcement will be made shortly.
- [If no decision has been made] Remains under consideration.

(E) South Africa

Will you make further appeal for Sharpeville Six?

Legal process not yet exhausted. So premature to make further bilateral representations. Our appeals for clemency stand. Naturally hope they will be heeded.

Pressure for sanctions?

Remain firmly opposed to sanctions. Would not help end apartheid.

Angola/Namibia/Cairo talks?

Strongly support negotiations. Hope all involved will show necessary flexibility to bring peace to Angola and independence to Namibia.

(F) Cambodia

Point of statement?

Summit Leaders, who had received a message before the Summit from Prince Sihanouk, agreed on the need to see the withdrawal of all foreign troops and a negotiated settlement in Cambodia.

3. WORLD ECONOMY

How good has performance of world economy actually been?

- Growth of real GDP in major countries has averaged over 3 per cent a year for past 6 years. Longest period of economic expansion since the war.

- Inflation in major countries averaged over 10 per cent at start of 1980s. Current rate is 3 per cent.

Unemployment remains high?

- Considerable falls in unemployment since 1980-82 recession. Particularly in US and UK - the countries which have done most to deregulate their economies.

- Way to reduce unemployment further is not through so-called expansionary macroeconomic policies, but through market-oriented microeconomic reform to improve overall economic performance.

Growth now too fast. Risk of renewed inflation?

- There has been no pick up in consumer price inflation; average rate in major seven unchanged, at 3 per cent, for over a year.

- Summit countries agreed on need to remain vigilant against resurgence of inflation. Will pursue policies to maintain downward pressure on inflation.

Was yesterday's $\frac{1}{8}$ rise in interest rates coordinated with the Bundesbank at the Summit?

- No.

Implications of rise in commodity prices?

- Reflects recent strong growth in world economy, but also special factors, eg drought in parts of US.

- One reason for keeping a watchful eye on inflation.

- But must not exaggerate risk of acceleration in consumer prices; largest increases have been in industrial materials prices which are only small part of total costs; oil prices have not increased; domestic (mainly labour) costs have not

accelerated; rise in commodity prices has been from exceptionally low levels.

Trade imbalances

- Trade deficit of US and surpluses of Japan and Germany now falling, particularly as a proportion of GNP. Further significant reductions in prospect.

No New Agreements on International Policy Cooperation?

- Procedures for cooperation between G7 working well, as developments since October stockmarket collapse demonstrate.
- Summit endorsed policies of G7 to stabilise exchange rates.
- Japan and Germany pledged to sustain momentum of domestic demand growth to reduce their current surpluses; US to reduce growth of domestic demand relative to output.

4. STRUCTURAL ADJUSTMENT

Why such emphasis on structural reforms?

- Undertook in communique to pursue further structural reform.
- Reforms to deregulate markets and allow market forces to operate more freely are the key to sustainable growth.
- Improvement in UK's economic performance in 1980s owes much to Government's policies of deregulation, privatisation, tax reform and reduction etc.

Surely microeconomic reform is a domestic issue?

- Market-oriented policies must include open trading system. Vital to maintaining competitive stimulus for industry, wide choice for consumers and profitable opportunities for exporters.

- Scope for further structural reform in all Summit countries. Useful to exchange experiences.

- Structural reforms can contribute to reducing current account imbalances, eg by stimulating domestic demand and import growth in Japan and Germany.

What should Japan do?

- Undertook (in communique annex) to pursue further structural reform.

- In particular, should:

- continue its market opening policies.

- reduce protection of agriculture and relax controls on land use in order to free more land for residential construction.

What should Germany do?

- Communique (Annex) gave details of various elements of Germany's structural reform.


- Should include:

- reduction in subsidies to declining industries;

- more extensive deregulation of service industries. (In other countries these have been major sources of employment growth).

5. NEWLY INDUSTRIALISING COUNTRIES

- As I have said, we urged these countries to accept more obligations in the GATT. We also encouraged the development of an informal, cooperative dialogue with them, recognising that their economies differ in many important respects.



6. TRADE AND AGRICULTURE

- Summit has given real boost to GATT negotiations. Leaders gave firm commitment to resist protectionism and to tackle the serious problems affecting world agriculture.
- They also reaffirmed the Punta del Este agreement to allow where appropriate for early results in the negotiations and they specifically recognised that the Mid Term Meeting of GATT in Montreal in December could take concrete decisions if any issues were ripe for this.

What is new?

- What we now have is firm commitment to reform of agriculture - both long and short term, in a framework approach directed towards the reduction of all forms of subsidies; and clear instructions to the negotiators in Geneva to get on with it.
- We also have recognition of the value to the negotiations of an objective measurement of the amount of support and protection each country or group of countries gives its farmers. The OECD's work in this area will be a very useful basis.
- We also agreed, in very clear language, that GATT disciplines must be improved and the organisation strengthened - something I consider very important.

Why no commitment to the complete elimination of all agricultural support?

- Unrealistic. We need to move negotiations forward and aim for a progressive reduction of support. No point arguing about where we will end up.

European Council decision

- I believe other countries now recognise that we took some very difficult decisions in Brussels. The Toronto communique

acknowledges the "recent significant policy reform efforts undertaken by a number of parties". Much more to do but we have made a good start.

Levels of US/EC support and protection

- OECD has measured different countries', or group of countries' support up to 1986.
- Alarming increase in the figures. Europe high but Japan higher and US catching up.
- Competitive subsidies will bankrupt us all.


Must not destroy farming community

- Question is way we help them. Should not do so through prices, which benefits biggest farmers, but through specific means.
- Agriculture cannot be only major sector of production divorced from market realities.
- But we all recognised the importance of family farming and the rural economy, and said so in our communique.

7. DEBT

Poorest countries' debt?

- Welcome Summit consensus on options for providing debt relief to poorest countries undertaking adjustment programmes. Culmination of more than a year's efforts since my right honourable Friend Chancellor of the Exchequer launched the UK initiative at the IMF Interim Committee in Washington.



Aid loans?

- UK has already provided £1 billion special debt relief for poorest countries - primarily conversion of aid loans into grants including almost £300 million for 15 sub-Saharan African countries.

(Defensive)

More relief for poorest debtors?

- Summit agreement allows creditors to choose options for providing relief. If all chose to reduce interest rates by 3 per centage points, this would provide relief of \$500 million a year - a very valuable contribution. Poorest debtors can also benefit from IMF's new Enhanced Structural Adjustment Facility and from World Bank's lending on favourable terms.

US contribution too small?

- Summit agreement provides for comparability between different creditors. Paris Club to work out details by end-1988 at the very latest.

Which debtors included?

- World Bank considers three criteria in its Special Assistance Programme for Africa - poverty, debt burden and countries' readiness to undertake adjustment programmes. These seem to us the appropriate kind of criteria to use.

UK choice of option?

- My right honourable Friend the Chancellor of the Exchequer has made it clear that he believes a reduction in interest rates offers the most appropriate form of relief. It helps to prevent debt problems compounding.

Cost to the UK

- Depends on how many countries qualify and the rate at which their debts fall to be rescheduled.

Middle-income debtors?

- Not included in debt relief agreement. Stick to case by case approach. Debt owed largely to commercial banks. Therefore a matter for debtors and banks.

8. DRUGS

What specific action is HMG taking to improve international cooperation?

- Considerable activity on several fronts.
- Britain is establishing a network of agreements for mutual assistance in confiscating the proceeds of drug trafficking and curbing the laundering of drug money, using the powers created by our Drug Trafficking Offences Act. A UK/USA Agreement was signed in February. I signed an agreement with Canada yesterday. Negotiations are well advanced with many other countries.
- We are active participants in the UN Convention on illicit drug trafficking.
- We are a major contributor to the UN fund for drug abuse control, and have also contributed £0.8 million to law enforcement and rural development programmes in various countries.

What will be the principal areas of activity of the special task force?

- We do not yet know, but want it to consider some of the following areas;



Improvement of intelligence sharing;

Coordination of training assistance programmes;

Support for multilateral anti-drug organisations;

Concluding bilateral agreements to provide for the tracing, freezing, seizure and forfeiture of drugs-related assets and proceeds; and

Greater cooperation in combatting money laundering.

9. ENVIRONMENT

(A) Brundtland Report

- Gave warm welcome to Report when it was launched in London in April 1987.

- Support Report's central theme of sustainable development. Summit endorsed it.

(B) Acid Rain

Welcome Summit's call for priority attention to be given to this issue.

10. SCIENCE

(A) Human Frontier Science Programme

What is the Human Frontier Science Programme (HFSP)?

- The HFSP aims to promote basic research on biological functions, through international cooperation. It is likely to concentrate on a) brain functions and b) biological functions on the molecular level. The Venice Economic Summit (June 1987) welcomed this Japanese initiative.

What will be the UK's role in the HFSP?

- For the Japanese Government to make formal proposals to other Summit countries in the first instance. UK regards the programme as an interesting, and potentially important, initiative by Japan, and will give any Japanese proposals serious consideration.

(B) Bioethics

What is the background to the Economic Summit's involvement in Bioethics?

- Raised at the Williamsburg Summit in 1983, by the then Prime Minister of Japan, Mr Nakasone (the need for Governments and others to gain a better understanding of the scientific, social and ethical issues raised by advances in the life sciences). Annual conferences of scientists and other experts since 1984.

When will the UK host a Bioethics Conference?

The EC has offered to host the next 'Bioethics' conference in the Spring of 1989. The question of any subsequent meeting will be decided then.