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OECD MINISTERIAL MEETING: HIGHLIGHTS**SUMMARY**

1. A SATISFACTORY, IF UNDRAMATIC MEETING, WHICH ADVANCED MOST OF OUR OBJECTIVES. CLEAR PRIORITY FOR STRUCTURAL REFORMS TO FOSTER ECONOMIC GROWTH. GREEN LIGHT FOR INFORMAL CONTACT WITH NIES. US AND EC STARTED FAR APART ON TRADE AND AGRICULTURE, BUT FINALLY AGREED TO SEEK A 'FRAMEWORK APPROACH' FOR THE URUGUAY ROUND MTM.

DETAIL

2. OECD MINISTERS MET ON 18/19 MAY, WITH FELDT AND GRADIN (SWEDEN) IN THE CHAIR. YOU, THE CHANCELLOR AND THE MINISTER FOR TRADE REPRESENTED THE UK. PRESIDENT MITTERRAND, AS IN PAST YEARS, RECEIVED MINISTERS AT THE ELYSEE.

3. THE OBJECTIVES IN MY TELNO 7 WERE ACHIEVED, OR AT LEAST ADVANCED. COMMUNIQUE FAXED TO ERD.

ECONOMIC POLICIES

4. BAKER, (US), FORTIFIED BY THE LATEST TRADE FIGURES, GAVE AN UPBEAT ACCOUNT OF THE AMERICAN ECONOMY. JAPAN WAS LIKEWISE CONFIDENT. THE CHANCELLOR WITH OTHERS, WELCOMED THE PROGRESS IN CORRECTING IMBALANCES, BUT WARNED AGAINST INFLATION AND AGAINST EXCESSIVE GROWTH IN US DOMESTIC DEMAND.

5. THE CHANCELLOR, WITH VERY WIDE SUPPORT, ARGUED THAT STRUCTURAL POLICIES WERE ESSENTIAL TO FOSTER GROWTH. EC

MEMBERS POINTED TO THE CONTRIBUTION WHICH THE SINGLE EUROPEAN MARKET WOULD MAKE. MANY STRESSED THAT MACRO AND MICRO POLICIES SHOULD REINFORCE EACH OTHER: BUT FEW CALLED FOR MACROECONOMIC STIMULUS.

6. OECD'S SURVEILLANCE OF ITS MEMBERS' STRUCTURAL POLICIES WAS WIDELY WELCOMED AND ENDORSED.

DEBT AND THE NIES

7. ON SUB-SAHARAN DEBT THERE WAS NO ADVANCE ON THE POSITION REACHED AT THE IMF/IBRD DEVELOPMENT COMMITTEE. THE AMERICANS REMAIN THE CHIEF OBSTACLE.

8. OVER LUNCH ON 19 MAY MINISTERS GAVE A GREEN LIGHT TO INFORMAL CONTACTS BETWEEN OECD AND SELECTED NEWLY INDUSTRIALISING ECONOMIES(NIES). IT WAS AGREED TO DIFFERENTIATE BETWEEN THEM, EVEN BETWEEN THE ASIAN TIGERS. MR CLARK STRESSED THAT KOREA AND TAIWAN CAUSED MOST PROBLEMS, AS BAKER HAD ALREADY ADMITTED.

TRADE AND AGRICULTURE

9. YOU STRESSED THAT THE PRINCIPLES ON AGRICULTURE AGREED LAST YEAR MUST BE PUT INTO PRACTICE. THERE HAD BEEN SOME ADVANCE, NOTABLY AT THE FEBRUARY EUROPEAN COUNCIL, BUT MUCH MORE NEEDED TO BE DONE. THE OECD'S PRODUCER SUBSIDY EQUIVALENTS SHOULD BE USED TO MEASURE BOTH DOMESTIC REFORMS AND PROGRESS IN THE URUGUAY ROUND. RURAL DEVELOPMENT ALSO NEEDED MORE ATTENTION. ADEQUATE LANGUAGE WAS ALSO AGREED ON SERVICES, ON INTEGRATING DEVELOPING COUNTRIES INTO THE GATT AND ON RESISTING INVESTMENT PROTECTIONISM.

10. OPENING POSITIONS ON THE URUGUAY ROUND MID-TERM MEETING (MTM) WERE FAR APART. DE CLERCQ (EC) SAID THE MTM SHOULD ONLY BE A STOCKTAKING AND THAT 'GLOBALITY' PRECLUDED SINGLING OUT SPECIFIC ISSUES. YEUTTER (US) WANTED DETAILED 'FRAMEWORK AGREEMENTS' ON A LONG LIST OF SUBJECTS FOR THE MTM.

11. IN PROLONGED DRAFTING SESSIONS, INTERRUPTED BY EC COORDINATION, WE TRIED TO MOVE THE COMMUNITY TOWARDS THE MIDDLE GROUND STAKED OUT BY THE OECD SECRETARIAT AND CAIRNS GROUP MEMBERS. BUT IN THE END, YEUTTER MADE A BILATERAL DEAL WITH DE CLERCQ, ABANDONING ALL HIS SPECIFIC DEMANDS ON BOTH AGRICULTURE

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AND OTHER SUBJECTS IN RETURN FOR A COMMITMENT TO SEEK A
'FRAMEWORK APPROACH' ON ALL ISSUES FOR THE MTM. DE CLERCQ
PERSUADED THE FRENCH AND OTHER DOUBTERS THAT, AS THIS
PRESERVED 'GLOBALITY', IT COULD APPLY NOT ONLY TO THE URUGUAY
ROUND IN GENERAL BUT ALSO TO AGRICULTURE, WHERE THE CAIRNS
GROUP IDEA OF COMBINING SHORT AND LONG TERM ELEMENTS SURVIVES.

12. THIS OUTCOME, THOUGH UNDRAMATIC, SHOULD GIVE A GENERAL
PUSH TO WORK IN THE URUGUAY ROUND OVER THE NEXT SIX MONTHS,
FROM TORONTO TO MONTREAL.

13. DETAILED REPORTS FOLLOW.

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MR SIMMONDS MAFF

NNNN



Mr. Wicks

cc: Sir. G. Littler,
Mr. Braithwaite,
Mr. Bayne

OECD MINISTERIAL

1. The main clash was predictably over trade and agriculture, but this note deals first with the other agenda items. Attached are:-

- the final communique
- texts of our two Ministerial speeches.

Macro-Economic

2. As before, the US painted a sunny picture of developments; drew attention to the reduction in the major countries' imbalances; and praised Japan and the FRG for their efforts. Baker also referred to the forthcoming (G7) agreement to use a commodity price indicator.

3. Some concern was expressed about the risks of an increase in inflation (Delors, Wilson, the Chancellor). The Chancellor aimed to defuse calls by some European countries - mostly the southerners - for concerted European macro policies to promote growth, reduce unemployment, ease the pains of structural adjustment etc.

4. This gave rise to the only serious difficulty in communique drafting. In his intervention, the Chancellor had emphasised the proper roles of macro and micro policies: "Macroeconomic policy has been directed to the control of inflation, while microeconomic measures have been used to tackle the rigidities in our economies which get in the way of healthy growth and more jobs." This assignment - macro policies to inflation, micro policies to sustainable growth - he also argued over lunch, but received surprisingly little support, despite the fact that nearly all G7 countries have in practice accepted this as a medium term proposition.

5. Contrary arguments ranged from the strongly felt, if not clearly thought out, insistence on the complementarity between macro and micro policies to a deep reluctance on the part of the United States and many smaller OECD countries to downplay the role of macro policies in sustaining the growth of output.

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6. For the new French government, Beregovoy made a speech which could have come from Balladur: fiscal rectitude, fighting inflation, opening up capital markets. No new privatisations, but no renationalisation either. The French would put proposals to the G7 on international monetary reform.

Structural Adjustment

7. The Chancellor stressed the role of structural policies in the successful performance of the UK economy. Several others commended UK achievements, e.g. in deregulation and tax reform.

8. A range of other speakers built up the importance of structural reforms, both for their own sake and as contributing to macroeconomic performance and the correction of imbalances. The US, Japan, Canada and New Zealand all made effective contributions. Many Europeans, notably Germany (Genscher) and the Netherlands, as well as the Commission, pointed to the stimulus which would be imparted by achieving the Single European Market.

9. Surveillance of structural policies will be given priority in OECD's future work.

Debt and Developing Countries

10. We made no progress on the Chancellor's SSA debt initiative; but equally did not have to retreat. The outcome was communique language very close to that of the April Development Committee. The US remain hostile; at lunch the French and Germans confused the issue by talking of a debt write-off (they clearly had aid RTA in mind, not Paris Club debt).

Newly Industrialised Countries

11. Over lunch on the second day Ministers discussed the question of contacts between the OECD and NICs: what agenda, which countries, and what to say in the Communique. The US wanted language that singled out the Four Dragons and told them what the OECD required of them. Most other countries make a distinction between what the Communique said in public and what the OECD should seek in private as and when discussions actually began. They also distinguished helpfully between the Four Dragons, and it was generally agreed that Korea and Taiwan were the main problems. The US was upset by this "soft" approach, but it suits us well since:-

- (a) we don't yet know whether Hong Kong will want to talk to the OECD and
- (b) we don't want to tar Hong Kong with the Taiwan brush.



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12. It was left that Paye will now ask the recently established OECD Council Working Group to develop specific proposals on modalities and "interlocutors" (i.e. which countries to approach). We would prefer country-by-country contacts, but much depends on how the OECD propose to handle Taiwan. In short, a green light from the Ministerial subject

to the Council's agreement upon some rather important detail. The Japanese did not press their proposal for an informal OECD/NIC seminar, but will presumably relaunch it in the Council Working Group.

Trade and Agriculture

13. The main disputes were over what the communique should say on trade in the MTM (para 21). EC reform efforts in agriculture (para 26) and especially agriculture in the MTM (para 28). The final outcome was satisfactory, but might have been better. For details, see separate note to follow.

14. In plenary, one of two other trends emerged on trade:-

- (i) suspicion of bilateral free trade deals, calls for them to be GATT-compatible, and fears (which Delors sought to dispel) of a Fortress Europe after 1992. (Japan, Australia and in the US/Canada Free Trade agreement context, Italy and FRG);
- (ii) Japanese criticism of US anti-dumping duties and controls on foreign direct investment.

15. On agriculture, both Chancellor and Foreign Secretary spoke; Sir Geoffrey Howe devoted all his speech to this subject. He stressed the importance of putting into practice the principles agreed at OECD last year. There had been some efforts to do this, notably by the EC at the European Council, but much more needed to be done, and urgently. He advocated (with support from Canada) greater use of PSEs to measure both domestic reform efforts and progress in the Uruguay Round. Rural development also needed more attention, to show farmers that "there is life after agricultural reform".

N. P. Payne

19 May 1988

for T L RICHARDSON



OECD MINISTERIAL: TRADE AND AGRICULTURE

1. As expected, communique drafting highlighted the sharp difference of view between the EC and US on the objectives for the Montreal mid term meeting, especially on agriculture. The final communique text represented a compromise which fell far short of the initial US position but picked up the main points of the Cairns group formula, to an extent generally satisfactory to the UK and its like-minded allies in the Community.

2. The discussion principally focused on language by which the OECD countries could commit themselves to give political impetus to the preparation for the mid term meeting. The US initially took an unyielding position on wording which reflected their own negotiating objectives for the complete phasing out of agricultural support and protection - the zero option. The Commission, under strong pressure from France, Germany, Ireland and Italy argued for bland generalities. Canada, with Australia and New Zealand, offered a bridging formula which the UK, Netherlands, Denmark and Spain urged the Community to accept. This anticipated agreement at the mid term meeting on a negotiating framework, including long and short term elements, without however specifying the exact content.

3. Discussion in the plenary drafting sessions made no progress and the Commission and US negotiators were left to work things out together. Eventually, the Commission's proposal, which represented a slightly weaker version of Canadian language, was accepted by the US with only minor amendments. By combining with the Cairns group and putting sustained pressure on the Community, the US could certainly have achieved more.

4. The eventual compromise on agriculture centered upon a reference to a "framework approach" for the mid term meetings and, more importantly, established a link between work on short and long term elements. This will provide a useful basis which can be built on in the coming months. The latter wording should also help to reconcile the divergence between the US and EC proposals tabled in Geneva with their respective emphases on the long and short term, although it far from clear that US yet realises the implication.

5. The compromise wording achieved on agriculture was carried into the negotiation of the passage (paragraph 21) covering progress in the MTM on trade issues generally. Here again, the US held out for a generally unacceptable passage setting out



their detailed objectives, only to retreat to the Community's preferred formula. France for reasons of "globality" and consistency, insisted upon applying the words, "framework approach" to all issues while maintaining that the wording was untranslatable into their own language. However, the essential reference to "tangible progress", by the end of the year remained and an attempt to reduce the mid term meeting to a mere stocktaking was averted.

6. The result is a sufficient basis for positive progress to be made in the preparation for the mid term meeting on both trade and agricultural issues.

Paris, 18th May 1988

MEETING OF THE COUNCIL AT MINISTERIAL LEVEL
18th and 19th MAY 1988

UNITED KINGDOM

Statement by

The Rt Hon. Nigel LAWSON MP
Chancellor of the Exchequer

World Economy and Exchange Rates

It is now clear that the world economy was a good deal stronger last year than was generally recognised at the time. At the Ministerial meeting here last year, the OECD experts expected growth to be 2 1/2 per cent in both 1987 and 1988. In fact, the world economy picked up strongly in the second half of last year, and for the year as a whole, growth in the OECD was 3 per cent. And despite the stock market collapse, activity has continued to be buoyant into 1988.

2. At the same time, useful progress has been made in correcting the current account imbalances between the major countries. As a percentage of GDP, the current account surpluses of Japan and Germany have already fallen well below their 1986 levels, and may be no more than 2 1/2 - 3 per cent of GDP by next year. The US deficit may decline from 3 1/2 per cent in 1987 to below 2 1/2 per cent next year. By any standards, this would be a major step in the right direction.

3. However, further adjustment is still needed. That requires not a further depreciation in the dollar - it is clear from yesterday's trade figures that US exports are responding strongly to the sharp fall that has already occurred - but rather a slowdown in the growth of US domestic demand, which in these circumstances is currently rising uncomfortably fast. Indeed, looking at commodity prices and other indicators, some resurgence of world inflation, albeit not on the scale of the 'seventies, looks to be a greater danger than world recession.

The Importance of the Supply Side

4. One reason for the stronger and steadier performance of recent years has been a switch in the emphasis of economic policy. Macroeconomic policy has been directed to the control of inflation, while microeconomic measures have been used to tackle the rigidities in our economies which get in the way of healthy growth and more jobs. This assignment is not only correct; it is also crucial.

5. The key point is that the medium-term performance of an economy depends mainly on the supply side: on efficient markets and the climate for enterprise.

6. Some people still advocate demand expansion at the first sign of any slowing of growth. This is wrong for two reasons. First, it is pointless to worry unduly about small fluctuations in the pace of expansion. Growth cannot always be smooth and some fluctuations are bound to occur - indeed, by the time they have been correctly identified, it is often too late to act anyway. Second, and more important, artificial boosts to demand are not the way to sustainable growth.

7. Getting the supply side of the economy right is neither quick nor easy. It depends on a whole series of measures: removing barriers and regulations; privatising state industries; reforming taxes; and generally fostering a climate of freedom, change, and competition. These changes require hard and detailed work, and can often be highly controversial. So it is tempting in some quarters to look for a short cut through changes in macroeconomic policy. But trying to remedy poor growth performance through macroeconomic means - particularly fiscal expansion - will do no good; it can only do harm. Whereas supply-side measures will, over time, have a real and beneficial effect.

8. I very much welcome the increased attention which the OECD is giving to these questions of structural adjustment. I have no doubt that supply-side reform, rather than macroeconomic adjustments, must today be the priority for all our countries.

9. Supply-side reform has certainly been crucial in the UK. In 1979, Britain was one of the most inflexible and over-regulated of the major economies. For nine years, now, we have been gradually putting that right.

10. The job is by no means finished. But the benefits are already clear, with growth averaging 3 per cent a year for the past seven years now, productivity improving fast, and record numbers of new businesses. This has not been because of any fiscal or monetary stimulus: we have a balanced budget and interest rates above the world average. It is the supply side that has enabled the growth to come through. It is important that other major European countries - and Japan - free up and open up their markets to allow this process to occur.

Trade and Agriculture

12. Opening up markets on a world scale is of course what the GATT round is all about. This is now well underway, with the mid-term meeting coming up in Montreal in December, where it is important that we give a new impetus to the Round. In particular, we must agree principles to guide further work in the "new areas" of services, including financial services and intellectual property; and also, of course, agriculture. It is up to us in the OECD to give a lead, by actions as well as words.

13. Most of all, we have to seize the opportunity of the GATT round to get on top of the chronic problems in world agriculture.

14. The scale of the subsidies to agriculture is now well known, not least because of the excellent work of the OECD. And it is getting worse. The OECD's figures show that the net levels of assistance to agriculture in the OECD as a whole, as measured by the producer subsidy equivalents, or PSEs, have risen from 30 per cent in 1979-81 to 47 per cent in 1986. In other words, nearly half of farmers' incomes result from Government support of one sort or another.

15. Some significant steps have already been taken to control agricultural support, notably by the European Community at the European Council at Brussels in February, and also by the United States and Japan. Rather than attack each other for the protection that remains, we must all now work together constructively to make further progress. The measures taken so far, while not to be derided, are clearly not enough.

16. I hope, therefore, we can agree at Montreal on three things:

- first, to work for liberalisation of world agricultural markets, through significant reductions in overall support and protection;

/second,

- second, to determine a framework for the GATT negotiations, that focusses specifically on an overall measure of support, such as the Producer Subsidy Equivalent;

- and third - because we clearly cannot sit on our hands until the end of the GATT round - to make, as the Cairns group has suggested, a clear multilateral commitment to specific early action that not only prevents the situation getting worse, but makes real headway towards our long-term objective.

Debt

17. Reform of agriculture is also vital for the developing countries, particularly the debtor countries.

18. I am especially concerned about the poorest debtor countries, in sub-Saharan Africa. There have some been encouraging developments since I drew attention to the special position of these countries last spring. But there is still a need for further progress on the reduction of the interest burden on official debt. We all know that there is no way in which some of the poorest countries can meet even their interest payments. Without some relief, their problems can only get worse.

19. Creditor countries may wish to choose different ways of reducing the burden. But, as I said in Washington last month, what is important is that, in one way or another, all creditor countries join in giving relief.

Conclusion

20. In conclusion, Mr Chairman, let me say this. The world economy is doing better than most people predicted. And it should continue to improve, provided we use the right tools for the right jobs, so as to hold inflation down, prevent exchange rate turbulence, and, above all, reform the supply side of our economies, reducing both internal and external barriers to competition.

Paris, 18th May 1988

MEETING OF THE COUNCIL AT MINISTERIAL LEVEL
18th and 19th MAY 1988

UNITED KINGDOM

Statement by

The Rt. Hon. Sir Geoffrey HOWE, QCMP

Secretary of State for Foreign and Commonwealth Affairs

1988 OECD MINISTERIAL COUNCIL
SPEECH BY SECRETARY OF STATE FOR FOREIGN AND
COMMONWEALTH AFFAIRS OF THE UNITED KINGDOM
THE RT. HON. SIR GEOFFREY HOWE QC MP

I should not follow the United States' example of firing all our three barrels at the same time. Nigel Lawson spoke this morning; I am speaking this afternoon; and my colleague Alan Clark is holding himself in impatient reserve until tomorrow.

I make no apology for coming back to the subject that most people have dealt with at most length - and it has certainly dominated my interventions at the last three meetings here. Back to agriculture. Because we all now know that it is in a mess right the way round the world. We all know that we are all milking our taxpayers to force-feed our cows, paying huge subsidies to make two blades of wheat grow where one is more than enough. And we have got to take action, and take action together if this economic folly is not to lead - as it has already - to mounting political tensions.

All that is common ground; it is all accepted. At our meeting last year we made the intellectual breakthrough to agree on these principles for agricultural reform. The question is: how well are we doing? We have got to turn these principles into practice. We mustn't allow our virtuous agreement on principle to be the high water mark of our success. We have got to get at it in the Uruguay Round; we have got to get at it in our own domestic policies. And my fear is that we are reaching a point of stagnation.

Our fierce task master, our faithful servant the Secretary-General of the OECD, who is - I don't know if any of you remember the Walt Disney movie Pinocchio, but in that movie

there was a very tiresome character called Jiminy Cricket who was the conscience of Pinocchio. Our Secretary-General is really the Jiminy Cricket of the industrialised world. He has said very clearly in his reports: "There have been no major moves towards the dismantling of trade distorting measures. Reform is needed more urgently than ever." He is absolutely right and we have got to get ahead with this. Indeed agricultural support has actually grown over the last year. We haven't begun to reconcile the different formulas for reform that have been tabled in Geneva. So as Commissioner de Clercq said, we do need to get ahead with clear guidelines for the next stage.

Now how do we tackle that? We have got to our hands, I believe, an instrument that we must make use of for that purpose, namely the Producer Subsidy Equivalent. It is not the most engaging piece of jargon that we have had invented. But I would describe it as the Index of Sinfulness. For 2,000 years of course the church has battled against the Seven Deadly Sins, with limited success, it must be acknowledged. We have got to do a great deal better against the Seven Deadly Subsidies of agricultural protectionism. I have worked out a list for those who want to have the details, but we don't need to invent them, we know them only too well. We have got to move more quickly than Mother Church.

And PSE - Producer Subsidy Equivalent - is an intellectually respectable concept that does give us the yardstick we can use if we are to measure our success together. The trouble is, that if that is to be regarded as a common language, it has got to do a great deal better. At the moment it is about as widely understood and widely appreciated as Esperanto, and I hope that the Esperanto movement will not criticise me too severely for using them as an example. We have got to get a framework for the conduct of an orderly negotiation, and I believe the PSE is that. I find it increasingly useful, going round the world talking to other countries, and looking at their position on the PSE chart.

If we are to tackle this burden of sinfulness, then, as in the church, we have got to recognise that we are all sinners; we have got to seek salvation together; we have got to avoid denouncing each other; we have got to recognise each others' difficulties and work together to overcome them. That is why I will put in a word of tribute, if I may, to the work that the European Community has actually done. It may not look like a miracle from the other side of the Atlantic, but I can assure our American friends that we have in the Community been struggling hard to achieve the result. Those of us who were at the Brussels Summit didn't think it was a holiday weekend. We are determined to put the reforms that we have already achieved into effect. There is a great deal more to be done.

And I think that, just alongside that, I would like to stress one component which we haven't perhaps said enough about. If we are tackling agricultural surpluses, then this is an area where structural adjustment is of enormous importance. Again, as the Secretary General has pointed out, rural development is a key component of structural adjustment that has to go hand in hand with reform of agricultural policies.

In the developing world rural development means the production of irrigation, the production of means to sustain the primary production. For us it must mean the establishment of alternative or supplementary sources of income; fish farms, farm shops, garden centres, craft centres, leisure related activities of every kind; theme parks, leisure centres, golf clubs. It used to be one of our objectives to beat our swords into ploughshares. Today we should be trying to beat our ploughshares into golf clubs. I say that - whether you spell plough "plow" or "plough" - on both sides of the Atlantic that should be the objective.

And I think that we haven't learnt enough, we haven't begun to teach each other enough about how we actually tackle that task of rural development. We have got to be able to look our farmers in the face and tell them that there is life after agricultural reform, that there is a future ahead of them.

And I think that it is in that spirit that we have to approach the milestones that now lie ahead of us. We have got to find a link between the immediate measures that we are taking and ought to be taking and the longer term objectives. We shouldn't get stuck, if I may say so, in an argument about the precise definition of ultimate virtue. We must not allow arguments about the definition of the best to stand in way of progress towards the good.

But I was struck by what Secretary Lyng said when he said that we must start on that progress now. So let's be determined to start down the road, do not let us be too preoccupied in defining the final end of perfection. And let us look for some kind of down-payment which will allow us to move towards the long term objective we have set ourselves. We have got to go beyond statements of principle. We have got to move out from our initial bargaining positions and get down to the hard graft of detailed technical work both here and in the GATT.

And I think that we must take practical advantage of every opportunity. December at Montreal is one such key opportunity. This meeting is another. We must, here and in Montreal, achieve measurable and significant progress in the right direction.

If we are to achieve progress that is measurable, we need to agree on the method of measurement and a common method of measurement. We cannot go on debating the issues indefinitely. I believe the Producer Subsidy Equivalent is a tool of immense value.

We have got to take steps of this kind if we are to avoid living in a world where agricultural support in the OECD countries goes on doubling every five years. We have turned away from that in principle. Today we must be absolutely clear that we are taking a clear, committed step away from it in practice.

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C/MIN(88)7(1st rev.)
Paragraphs 1 to 18
and 31 to 38

DRAFT COMMUNIQUE

1. The Council of the OECD met on 18th and 19th May at Ministerial level. The meeting was chaired by Mr. Kjell-Olof Feldt, Minister of Finance and Mrs. Anita Gradin, Minister for Foreign Trade, of Sweden. The Vice-Chairmen were Mr. James A. Baker III, Secretary of the Treasury of the United States, and Mr. Panayotis Roumeliotis, Minister of National Economy of Greece. The following records the agreements reached by Ministers.

I. Achieving better economic performance and job creation

2. There are encouraging features in the current economic situation:

- Growth in OECD countries quickened in the second half of 1987, and expansion is entering its sixth year; world trade is growing robustly.

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- Average OECD inflation has decelerated over the past years and now stands at a low rate.
- OECD economies proved more resilient in the face of the October stock market crisis than expected.
- Major external imbalances are narrowing gradually.
- International cooperation has been reinforced - notably through efforts to achieve greater coordination of economic policies and to foster greater stability of exchange rates following accords among the major industrialised countries and through the new round of multilateral trade negotiations.
- Tax reform, deregulation, reduction of subsidies and other structural reforms undertaken in Member countries are improving the functioning of economies.
- While most developing countries are still facing difficult problems, the situation of some of them is being eased by stronger growth of world trade and firmer commodity prices, adjustment policies pursued by many of the developing countries themselves, and a widening menu of techniques dealing with debt problems.

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3. OECD Governments will build on these developments in order to enhance job-creating, non-inflationary growth and to sustain it over the forthcoming years. There are no grounds for complacency. Important challenges remain:

- to ensure the continued reduction of large external imbalances which remain a major source of uncertainty and potential instability;
- to reduce unemployment, which continues to be unacceptably high in many countries, notably in Europe;
- to remain vigilant against any signs of a renewal of inflationary pressures;
- to make steady progress in reducing structural rigidities and distortions within economies and internationally;
- to strengthen the open, multilateral trading system;
- to combat and curb protectionism in all its manifestations;
- to cooperate with developing countries in addressing their problems and in working towards the full realisation of their economic potential;

- to ensure that economic growth is compatible with environmental concerns.

II. Policy Directions

4. Macroeconomic policies and structural adjustment policies support each other and must be exploited to the full. Improving the quality of structures and the flexibility of markets strengthens the responsiveness of economies, enhances the effectiveness of macroeconomic management and improves the prospects for strong and sustainable growth. In turn, such prospects make structural adjustment more attractive and rewarding. International cooperation is an important ingredient of both macro- and microeconomic policies.

5. All OECD Governments will contribute to the cooperative effort through the pursuit of monetary and fiscal policies aimed at supporting job-creating, non-inflationary growth, correcting external imbalances, containing budget deficits, striking appropriate balances between domestic saving and investment, maintaining orderly financial markets and achieving greater exchange-rate stability. They will intensify their action, nationally and internationally, to reform structural policies especially in such areas as trade, agriculture, industrial subsidies, tax systems, financial markets and international investment. In this context, they consider it important to promote widespread understanding and acceptance of structural reforms among business, labour and the public at large. Dialogue involving social

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C/MIN(88)7(1st rev.)
Paragraphs 1 to 18
and 31 to 38

partners has made a contribution to this end in a number of countries.

6. Ministers welcome the report on the reform of structural policies by the Economic Policy Committee [C/MIN(88)4] and endorse the priorities identified in Section II of this report. They invite the Secretary-General to develop further and strengthen the OECD's surveillance of structural reform and call for a report at next year's Ministerial meeting.

7. For the **United States**, the essential requirement is to reduce further the Federal budget deficit. The U.S. Administration and Congress are agreed on this objective, and action will be taken to ensure that the budget deficit is brought down substantially in 1989 and subsequent years. Structural reforms will be pursued with a view to improving the overall investment/saving balance, to strengthening the international competitiveness of the industrial sector and to reducing government spending, as well as removing distortions created by policies -- for example, agricultural support. Monetary policy will be guided by the objective of ensuring that the economy remains on a path towards price stability, while nurturing orderly conditions in financial and foreign exchange markets. Continued budget deficit reduction and stronger private saving will ease pressures on monetary policy and will forestall domestic inflation pressures. Moreover, these actions will make room for continued strong expansion of U.S. exports and will contribute to a reduction of the U.S. current account deficit and hence to

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greater financial stability. Resisting protectionism remains a priority objective, as is the early implementation of the Free Trade Agreement with Canada in conformity with international obligations and the objective of maintaining and strengthening the open, multilateral trading system.

8. In Japan, the current process of growth led by strong domestic demand and accompanied by rapidly rising imports, which has been contributing to international adjustment, needs to be sustained. The short-term outlook in this respect is favourable. The Japanese Government will seek to ensure that this process continues. Fiscal policy will remain flexible within the medium-term framework of fiscal consolidation. Monetary policy will be conducted with care to contain the provision of liquidity within ranges consistent with non-inflationary growth of demand, while continuing to contribute to external adjustment. Sustained structural reforms will contribute to reduced inflation risks and to adjustment, thereby expanding consumption opportunities and increasing imports. Policies are being designed and implemented, inter alia, to improve market access and to further promote deregulation as well as structural adjustment in wide-ranging fields including agriculture, land use policy, the tax system and the distribution system.

9. In Europe, structural reforms will be continued and intensified. These reforms, combined with flexible implementation of macroeconomic policies, are essential to maintain growth in

demand and production and to enhance the economic potential of Europe. This will build confidence, improve the responsiveness of economies, create a better climate for investment and thereby strengthen the prospects for non-inflationary growth and better employment. While taking account of the differences between countries, European governments will continue to cooperate in the conduct of their structural and macroeconomic policies so as to maximise the benefits from reform and to increase the scope for policy action by individual countries.

10. The programme of the European Community to complete the internal EC market by 1992, together with joint efforts by the Community and EFTA countries to deepen and extend their cooperation beyond the current free trade agreements to create a European Economic Space, are imparting a strong momentum to structural policy reform and to growth. These moves will be taken in line with the objective of maintaining and strengthening the open, multilateral trading system and in conformity with international obligations.

11. Particular attention will be given by European Governments to the following reforms:

- Increasing the flexibility of markets, including continuing liberalisation and integration of financial markets, by reducing regulation and, more generally, removing barriers to internal and external competition;

- Reforms of agricultural policies, including the continuing implementation of those recently agreed in the EC aimed at achieving a better balance between supply and demand in agricultural markets;
- Reorienting government finances away from support of agriculture and industry towards reduced taxation and stronger, growth-supporting infrastructure investment;
- Reducing distortions created by tax systems, including the reduction in marginal rates of taxation where these remain excessive;
- Improving the flexibility of labour markets through education, training and other measures, including new legislation where required.

12. These reforms will create expanding opportunities for innovation and employment. They will also contribute to dissipating inflationary risks and to an environment conducive to lower interest rates. Stepping up the pace of structural reform in Germany will, inter-alia, strengthen domestic demand and contribute to a reduction of its persistently large current account surplus and hence to a better distribution of external balances within Europe and globally. Mutually supportive fiscal and monetary policies in Europe will take full advantage of the scope for growth created by

structural reforms and contribute to a climate of confidence, productive investment, price stability and lower unemployment.

13. Canada, New Zealand and Australia will pursue thorough structural reform. In the period ahead, Canada will undertake a second stage of tax reform and implement the recently concluded Free Trade Agreement with the United States in conformity with international obligations and in line with the objective of maintaining and strengthening the open, multilateral trading system. In addition, Canada will continue to give priority to reducing its budget deficit. It will also pursue further reforms in a broad range of sectors, including in agriculture, to reduce economic distortions. New Zealand, which has undertaken the most far-reaching market reforms of any OECD country to open its economy to international competition and dismantle extensive government intervention in domestic markets, will continue to implement this programme. Australia will continue its broad programme of structural reform, including deregulation of domestic markets and extending significantly exposure to international competition.

Developing Countries

14. The situation and performance of developing countries vary widely. However, central to the prospects of all is a global economic environment conducive to strong and sustainable growth. The OECD countries have made a commitment to this objective. They will do all possible to ensure more open markets for the exports of

developing countries, and they consider it important to maintain and as far as possible increase both official development assistance, particularly in grant form, and other financial flows. They will also encourage industrial and technological cooperation, and direct investment.

15. The developing countries, in turn, have important responsibilities in improving their own performance and policies, strengthening their credit-worthiness, creating a more attractive climate for investment and ensuring more open markets. The necessary, far-reaching domestic policy efforts are often difficult. Nonetheless they are essential. Many countries have already embarked on major growth-oriented reforms, whose success, in part, depends upon continued OECD support.

16. A number of middle-income countries with large debt burdens continue to have difficulty in achieving the financial stability and resumed investment necessary for sustainable growth. Generalised approaches or across-the-board measures cannot provide the appropriate answer to their differing problems. All parties involved must therefore continue efforts, on a case by case basis, to deal efficiently with debt problems and new financing needs, including a broad "menu" of market-oriented options for commercial bank debt. Such approaches should take due account of the adjustment efforts of the developing countries concerned. To support these directions for the debt strategy, it is important that the IMF, the World Bank and other international financial institutions

be equipped with adequate facilities and resources. In this regard, Ministers welcome the recent agreement on a General Capital Increase for the World Bank and the ongoing adaptation of the IMF's policies and instruments aimed at strengthening its central role in the debt strategy. They also welcome the efforts made in the Paris Club.

17. The important contribution that international direct investment, too, can make to adjustment and growth is now gaining wider recognition in developing countries. However, significant obstacles to the flow of direct investment remain and should be addressed by both host and home countries, and through cooperative action. The welcome new activities of the Multilateral Investment Guarantee Agency and the International Finance Corporation will help stimulate international investment in developing countries.

18. For the poorer developing countries the IDA replenishment, World Bank co-financing arrangements with bilateral donors and the Enhanced Structural Adjustment Facility of the IMF will help alleviate their situation. Improved terms for consolidating the debt of the poorest developing countries notably in Sub-Saharan Africa are also making a contribution. Nevertheless, debt burdens continue to mount. Proposals to ease these burdens for the poorest countries undertaking structural adjustment efforts therefore merit careful consideration, including, where possible, interest rate reduction in official reschedulings or alternative measures having a similar impact. Improved official development assistance, in quality and in quantity, is essential.

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Paris, drafted: 19 May 1988

dist: 19 May 1988

C/MIN(88)7(1st revision)
Paragraph 19

Or. Engl./Fr.

MEETING OF THE COUNCIL AT MINISTERIAL LEVEL

DRAFT COMMUNIQUE

Relations with Newly Industrialising Economies

19. Important actors in the world economy are emerging from among the newly industrialising economies. This is a welcome development. It provides these economies with the opportunity to play an increased role in the cooperative effort to manage the open world economy and confers upon them a greater responsibility in the international adjustment process commensurate with their capacity. Discussions involving these actors -- recognising mutual interests and taking into account the diversity of the economies concerned -- could contribute to better understanding and the convergence of views on policy cooperation for the continued growth and development of the world economy.

Trade

20. The world trade picture shows a number of contrasts. Trade is growing robustly. However, protectionist pressures and trade tensions remain strong. While OECD Governments have generally resisted these pressures, a fairly significant number of import restrictions have been either extended or introduced; there are still many serious bilateral disputes -- though it is encouraging to note a more marked tendency to look for settlements within the GATT framework; the propensity for unilateral measures or bilateral agreements which are sometimes discriminatory remains a particularly serious threat to multilateralism. In order to create an environment conducive to the success of the Uruguay negotiations, resolute efforts will be made by the OECD countries to fight protectionism and to resolve trade frictions on an amicable and non-discriminatory basis. In this context, Ministers recognise the need to strengthen the multilateral trading framework and the importance of better functioning of the GATT. Within the Organisation broad ranging work, including strengthened monitoring of trade policies, will support these efforts.

21. The Uruguay Round has been proceeding satisfactorily in line with the timetable set in January 1987. A number of important proposals on the issues to be negotiated have been lodged, including on subjects such as agriculture, tropical products, services, intellectual property, safeguards and institutional issues such as dispute settlement and GATT functioning. As they enter their more

difficult phase, it is vital to ensure the momentum of these ambitious negotiations, which aim to strengthen the multilateral system and adapt it to the needs of the modern world. The greatest possible advance must be made in the months to come, in all areas of the negotiations, so as to reach before the end of the year the stage where tangible progress can be registered. To this end, Member countries should seek to agree on a framework approach on all issues. ~~i.e. reform of the GATT system and rules, market access, agriculture and new issues (such as trade in services, trade related intellectual property rights, trade related investment measures).~~ Thus it will be possible to hold a mid-term review, at the meeting scheduled for December in Montreal, that establishes a solid base for the full and complete success of the negotiations in accordance with the Punta del Este Declaration.

22. The Uruguay Round should lead to positive results which ensure mutual advantage and increased benefits for all participants. The negotiations must take duly into account the growing and differentiated role of developing countries in the world economy, hence their interests and the responsibilities which they must bear, according to their level of development. In accepting higher levels of obligation within the GATT framework the more advanced developing countries would contribute to, and benefit from, the strengthening of the multilateral system. For developing countries, as for OECD members, trade liberalisation can play a positive role in rationalising and invigorating their economies.

23. The behaviour of Member countries in trade matters will inevitably influence the climate of the Uruguay negotiations. It is essential, therefore, that, in line with commitments made, particularly at Punta del Este, standstill undertakings be strictly adhered to and that efforts be intensified to rollback protectionist measures that have been in force for a number of years. The abuse of anti-dumping and countervailing procedures will have to be avoided.

24. The adjustment and growth policies which Member countries intend to pursue and intensify should also contribute to the success of the Uruguay negotiations by improving the expansion of activity and exchange market stability.

25. Liberalisation of trade in services remains an important objective for OECD members, because of the growing contribution of marketable services in their economies and those of their trading partners. The Organisation will persevere with its work in this field, particularly on approaches to a multilateral services agreement and on the strengthening of the OECD Codes.

Agriculture

26. Ministers took note of the joint report of the Agriculture and Trade Committees [C/MIN(88)5] and endorsed its conclusions. There has been some recent improvement in the market balance for certain commodities, resulting partly from supply control policies or from producer responses to market signals and stock disposal measures, and partly from weather conditions. Despite this

improvement, supply in the OECD area, stimulated by policies which prevent an adequate transmission of market signals to farmers, continues to exceed effective demand. The resulting economic and trade problems remain acute. Since the beginning of the decade, according to OECD Secretariat estimates, the cost of agricultural support for the OECD as a whole imposed on tax payers and consumers has nearly doubled, reaching about 200 billion ECUs per year in 1984-1986. It is difficult to make an assessment of the trend of policies and their consequences over a relatively short period. Some encouraging efforts have been undertaken, but it is clear that there has been only limited progress overall since the Ministerial Council in May 1987. It is therefore imperative that policy reform efforts be strengthened by all Member countries as a matter of urgency. ~~In this context it is essential that measures already introduced by some are underpinned and not undermined by the actions of others.]~~ ^{by further positive measures.} This will contribute to much-needed structural adjustment as well as to the success of the Uruguay Round.

27. Further measures will be taken, based upon the principles agreed upon at the last Ministerial Council, to allow market signals increasingly 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, while consideration may be given to social and other concerns. Concerted international action on a multi-country, multi-commodity approach will strengthen the process of reform. Ministers reaffirm that the Uruguay Round is of decisive importance in this context.

28. The Uruguay Round negotiations are providing a setting within which Member countries will continue to seek agreements reinforcing the attainment of viable long term reform in agriculture as defined by Ministers in 1987. It is important that the mid-term review add impetus to the negotiating process in this as in other fields. To this end Member countries should seek to agree on a framework approach, in conformity with paragraph 21, including short term as well as long term elements which will promote the reform process as launched last year and relieve current strains in agricultural markets.

29. Since trade tensions on agricultural markets remain very serious, notably due to the persistence, and in some cases intensification of all forms of support, including export subsidies and import restrictions, Member countries are urged to take measures in conformity with the Ministerial Communiqué of 1987, including its long term objective, in order to avoid confrontational and destabilising trade policies.

30. The Organisation will pursue its work on the monitoring of agricultural reform and the process of structural adjustment in agriculture. In this context, it will carry out thorough analysis of the effects of measures which are envisaged or have been taken. The improvement and updating of the analytical tools, such as the PSE/CSE and the OECD agricultural model, will be pursued. The Organisation will also study the possible contribution to

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agricultural reform that might be made by measures such as the quantitative limitation of production or resources used in agriculture; direct income support; other measures aimed at facilitating structural adjustment; and policies for rural development including environmental aspects. The work on the economy-wide effects of agricultural policies in the OECD countries will also be actively pursued and broadened.

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Financial Markets

31. Liberalisation and regulatory reform in financial markets have improved the efficiency of financial intermediation and strengthened competition, thus enlarging the role for market judgements in guiding investment decisions. However, the stock market crisis of October 1987 and, in particular, the speed and pervasiveness with which shocks were transmitted between markets and across countries, have raised concerns about potential vulnerabilities and the limits of policies based on purely national approaches. International cooperation to ensure the smooth working of financial markets will be extended both within the OECD and more widely. The Organisation will intensify its efforts to analyse the nature and functioning of the emerging global financial system and to identify gaps and inadequacies in the coverage and coordination of prudential arrangements, especially in the case of securities markets.

International Investment

32. International investment has a significant role in the promotion of structural adjustment and technical advance, easing payments imbalances and contributing to economic efficiency and growth. Signs of emerging protectionist pressures in the investment area are therefore worrying. Ministers express their determination to resist such protectionism; to maintain an open investment climate; to fulfil their international commitments

in this respect, notably those in the OECD Codes ; and to strengthen the OECD National Treatment instrument. The review of the 1976 Declaration on International Investment and Multinational Enterprises provides an important opportunity to reinforce the international framework for furthering liberalisation and maintaining an open investment climate in the OECD economies. A progressive step-by-step approach will be developed towards extending the application of National Treatment. Backsliding must be avoided. Ways to set in place an effective process for further liberalisation will be explored. The balance that has characterised the Organisation's approach to international investment questions, including between the different elements of the Declaration, should continue to prevail.

Technology

33. Technological progress is one of the major driving forces in the development of the world economy. Among the aspects which figure prominently on the policy agenda of Member Governments are: the process of generation and diffusion of new technologies; their potential contribution to more dynamic economic performance and greater social welfare; the interaction between technology and society; and the implications for environment. Recognising the growing importance of these questions and their international dimension, Ministers welcome the broad orientation for the future work of the Organisation contained in the Progress Report of the Secretary-General and invite the Secretary-General to report in due

course to the Council at Ministerial level. They also welcome the recent Recommendation by the OECD Council on Principles for International Cooperation in Science and Technology* which, reflecting the importance of science and technology to economic growth and social development, will promote openness in this area.

Environment

34. While taking account of their differing situations, environmental protection and enhancement are important objectives in all Member countries. To this end, environmental considerations should be taken fully into account in a balanced and efficient manner in all appropriate areas of governmental decision making, thereby contributing to sustainable growth, as underlined in the report of the World Commission on Environment and Development. The Organisation's work on the integration of environmental and economic considerations in policy making will be extended and strengthened accordingly. Priority is also placed on continued efforts to address environmental problems of a transboundary nature. Furthermore, the Organisation will intensify its efforts on global issues, including climate-warming, and on environmental degradation in developing countries. In this context, the Organisation should continue its work on developing common approaches to the environmental review of bilateral and multilateral assistance projects as a further contribution to sustainable development.

* PRESS/A(88)21

Education and Training for Better Employment

35. Occupational adaptability has become increasingly important in the modern work-place. Education systems must be geared to provide all young people with the fundamental competence to acquire skills and to adapt through their working life. Every effort should be made to have public and private opportunities for training and retraining available to meet the needs of all members of the workforce and all those wishing to join it. It is important that work-place opportunities for individual adaptation and redeployment be as widespread as possible. Attention should be given to the problem of the long-term unemployed.

Social Protection

36. Social protection systems, which are of considerable importance not only for the security and well-being of individuals but also for the efficiency and adjustment capacity of economies, are generally under budgetary constraint. This is particularly the case for publicly funded health care and pensions. These issues will be at the centre of the discussion at the meeting of Ministers of Social Policy on 6th-7th July.

Energy

37. The energy situation has changed considerably over the last several years. In the present circumstances, security of supply in

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the short term at reasonable conditions is available. Nonetheless, energy security remains a central objective in both the short and the long term, through emergency preparedness and through structural changes leading to a more sustainable energy mix. Structural adjustments are taking place in all energy markets and industries in response to changing supply and demand patterns and prices, and new technologies, and as a result of government policies. Meanwhile, important issues relating to energy trade, to research and development, to environment and safety, to emergency preparedness, and to non-Member countries are receiving greater policy attention.

38. In this situation, agreed energy policies regarding diversification of energy sources, development of indigenous energy resources, greater energy efficiency, enhancement of emergency response mechanisms and further liberalisation of energy trade should be continued. Careful monitoring and analysis of energy developments in Member countries and, increasingly, elsewhere in the world will continue, in order to ensure that structural and policy adaptations necessary to maintain energy security take place.

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