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From: T L Richardson

Date: 1 June 1988

Mr Braithwaite

cc: Sir J Fretwell
(with enclosures)
Mr Sheinwald,
Planners

FOURTH SHERPAS' MEETING

1. I submit briefing for the final preparatory meeting, and a covering letter from you to Mr Wicks; he has asked to receive the briefs by lunchtime today.
2. You have already seen the steering brief in draft; Brief No 2 will follow when we have seen the Canadian draft communiqué.
3. I have included, for your set of papers only, the G8 paper on 'Debt, Trade and Protectionism' (which the Mexican Ambassador wants to go over in detail with you after the Sherpas' meeting this weekend). You may like to ask the Canadians, as Summit hosts, how they propose to handle the paper. What normally happens is that each Summit participant replies to messages from third parties after the Summit. We would not object if the Canadians replied to the G8 on behalf of all participants, but in practice there is never time to clear a common text. You will also be aware (from Montevideo telno 140, attached) that President Sanguinetti, as in previous years, will be sending the Summit 7 a further "Cartagena Eleven" document on external debt. The same considerations apply: the Prime Minister sent a reply to President Sanguinetti after the Venice Summit.
4. You might also like to take with you past communiqués: I attach a set covering Rambouillet to Venice.

T L Richardson
Economic Relations Department
WH 413 270 2670

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DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM: R Q Braithwaite

Reference
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DEPARTMENT: TEL. NO:

Your Reference

BUILDING: ROOM NO:

SECURITY CLASSIFICATION

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TO:

N Wicks Esq CBE

10 Downing Street

Copies to:

Sir G Littler

Sir J Fretwell

SUBJECT:

TORONTO ECONOMIC SUMMIT:

FOURTH MEETING OF PERSONAL REPRESENTATIVES, 3-5

JUNE

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CAVEAT

1. I enclose briefing for the Sherpas' meeting this weekend. John Fretwell, Geoffrey Littler and I will be accompanying you.

2. The briefs are as follows:

- 1 Steering Brief
- 2 Comments on the draft communique (to follow)
- 3 Trade (including UK objective of strengthening GATT) and Agriculture
- 4 Drugs
- 5 Political issues (including terrorism)
(revised draft text on East-West relations to follow)
- 6 Short notes to update briefing for last

Sherpas' meeting:

- 6(i) World Economy
- 6(ii) Developing Country Issues
- 6(iii) NICs

Enclosures flag(s)

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- 6(iv) Structural reform
- 6(v) International investment
- 6(vi) Health care in the 1990s
- 6(vii) Environment
- 6(viii) AIDS
- 6(ix) Science Issues (including HFSP and bioethics)

3. On Brief No 2, we hope to receive the draft
communique from the Canadians in the course of
today, and shall prepare a paragraph by paragraph
commentary (on Thematic Paper lines) for you to
take to Toronto on Friday. If you need to refer
to previous Summit communique, I shall have a
full set with me.

4. The notes at Brief No 6 update the briefing
prepared for the third Sherpas' meeting which
otherwise still stands. (I understand you still
have copies.) In some cases the supplementary
material offers new points to make; in others it
simply consists of a further paragraph or two of
background. You might also wish to keep to hand
your copy of our commentary on the Canadian
Thematic Paper. We gather the Canadians are
revising it, but hope it will not take up too
much of the meeting's time.

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5. As you know, Ministers have been consulted about the draft UK communique language on major issues, included at Brief No 2 and in the relevant subject briefs. We may need to amend or add to the texts before leaving for Toronto (this applies particularly to the language on trade). But ^{we} will not want to clear them again with Ministers at this late stage.

where I cover
supplementary language
on the strengthening of CATT,
as you requested, below
(Brief No 3),



TORONTO ECONOMIC SUMMIT:
FOURTH MEETING OF PERSONAL REPRESENTATIVES, 3-5 JUNE

BRIEF NO 1:

STEERING BRIEF

1. Ottawa telno 370 (attached) reports that the Canadians are revising their Thematic Paper. In practice, however, we expect this final preparatory meeting to concentrate on discussion of communique language. We await the Canadian draft economic declaration. Brief No 2 will provide a commentary on it, and at annex suggested UK language on various subjects. (UK draft communique language is also covered in the relevant subject Briefs Nos 3-6.)

Economic Issues

2. You will be able to judge tactics on the spot. You might table our texts on trade and (in response to proposed Japanese language) on the Human Frontier Science Programme (HFSP) during the meeting. But you will want to discuss our language on debt with the Canadians before tabling it (and probably with the French too; see paragraph 5 below). Our text on agriculture will need to be played even more carefully; depending on discussions in the margins, you might leave our preferred language with Mrs Ostry at the end of the meeting. You could hold in reserve our texts on drugs and the environment until the leading players (the US and Italy respectively) have shown their hands. You did not ask for specific drafting suggestions for the macroeconomic paragraphs; but in general terms we want the communique to be more upbeat than the Thematic Paper, and will review the Canadian draft with this in mind. Summit leaders have a good story to tell since this present cycle began in 1982.

3. The three key areas for us at this final meeting will be trade/agriculture, debt and (because the US will be submitting detailed new proposals) drugs. Brief Nos 3, 6(ii) and 4 contain points to make and background. On trade, our objective is Summit language that prepares the ground for substantive progress at the



Mid Term Meeting (MTM) in Montreal in December; looks towards agreement there on issues such as dispute settlement and the strengthening of the GATT system; sets the scene for agreement at the MTM on the principles that should guide further negotiations in Geneva on 'new issues' like services, investment and intellectual property; and generally rejects narrow French interpretations of 'globality' and recalls the provisions in the Punta del Este declaration that early agreements may be reached where possible prior to the formal conclusion of the Uruguay Round negotiations. You can expect general support from the Canadians, but difficulties with the Americans and French at opposite ends of the spectrum.

4. Agriculture will be still more contentious, unless the Prime Minister's meeting with President Reagan on 2 June reveals signs of greater US flexibility. Our general objectives are to persuade the US to abandon its insistence on the objective of zero support by the year 2000 as a precondition for considering any proposals for short term action; and to edge EC Summit participants, including the Commission, towards the Cairns Group approach of a long term framework for reductions in all forms of support, coupled with a "downpayment" of immediate reductions in support and increases in access. We want communique language that commits participants (if necessary in rather more opaque language) to seeking such an outcome at the MTM. Details are in Brief No 3.

5. It looks as if the new French Government may take the initiative on debt at Toronto (Brief No 6(ii)); and that they may offer not only RTA on aid debts of the poorest African countries (conversion of aid loans into grants, which the UK has already done) but also new proposals on interest rate relief on Paris Club debt. We are seeking clarification. But the French may not be able or willing to reveal their hand at the final Sherpas meeting. We and the French are leading players in Africa. If their proposals are consistent with the Chancellor's initiative, then you will want to welcome them while claiming our share of the credit. If they are inconsistent or inadequate, Ministers will want to consider Summit tactics further. There may also be Canadian sensitivities about their own ideas for debt relief. We shall want to save faces while working for an agreed outcome as close as possible to our own original initiative.



The Americans will remain hostile.

6. On drugs (Brief No 4) we can take a fairly positive line. But we have reservations about two of the proposals that we gather the US will put forward. The first comes close to using development aid as a sanctions weapon, and we also dislike the idea of using Central Banks to police international flows of drug money.

7. Of other 'ancillary' issues which tend to surface at the end of the economic declaration, we have a short line on the HFSP. It looks as though the environment may not have too high a profile, although we understand the Italians gave Mr Mulroney a text last week to serve as an 'annex' to the declaration.

Political issues

8. Political Directors will discuss the political declaration. We want this to cover East-West relations, the Middle East (both Iran-Iraq and Arab-Israel) and terrorism. We do not anticipate major difficulties over producing declaration language on the first two. The East-West element should reflect the outcome of the Moscow Summit. On Iran-Iraq, we want a substantive passage calling for the end of hostilities covering UN activity, freedom of navigation, and CW use. On Arab-Israel, the main point is to reaffirm the urgency of a negotiated settlement, taking account of Shultz' efforts.

9. Summit Seven terrorism experts will meet in Ottawa on 2 June, so the way ahead on that front should be clearer by the time Sherpas and Political Directors gather in Toronto. The French are traditionally prickly on this subject, but they and others in the Twelve have welcomed UK proposals for follow-up to the Kuwaiti hijacking; and the Canadians (at least in the DFA) seem disposed to be positive. We should press hard for a robust passage with specific proposals for action.

10. The Canadians may again say that the price of discussing the Middle East is discussion at Heads of Government level of South Africa. We should again express doubt about the value of further discussion at this level, particularly given the short time



available for political subjects in Toronto. We should make clear that we could agree to discussion of South Africa by Foreign Ministers (and reference to it in the Chairman's summary). But if the Canadians insist and others go along with them, we should agree to discussion by Heads of Government, making clear that the Prime Minister will once again explain the basis for our policy and challenge the view that additional sanctions would improve the situation in South Africa. We should continue to resist a reference to South Africa in the main political declaration.

11. We should try to get all other foreign policy subjects delegated to Foreign Ministers, but should aim to deal as sensitively as possible with Japanese suggestions for discussion of Asian subjects. We (and the Americans and Canadians) want to ensure that the Summit reflects and strengthens Japan's participation in the Western consensus on foreign policy issues.

Other issues

12. Mrs Ostry is likely to report the results of her trawl for topics for the informal session on the second evening. The Prime Minister has let Mr Mulroney know of her own interest in a discussion of health and social security provision and cost; and our Embassy in Washington has reported that neither Wallis nor Danzansky see any particular US electoral sensitivities on the proviso that the discussion is informal and off the record. Such a discussion could well fit with the French proposed theme of the impact of technology on education (which the Prime Minister is not opposed to), under an umbrella title like 'demographic change'; if the French pursue their theme at your meeting, we shall commission a brief on the subject for the Summit. You might like to confirm with Mrs Ostry that this informal session will be entirely off the record, and that no reference will be made to it in the Chairman's briefing of the press.

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AND TO DESKBY 310900Z WASHINGTON

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YOUR TELNO 284 TO CANBERRA: GATT AGRICULTURE

SUMMARY

1. THE CANADIANS ARE REVIEWING THEIR PAPER FOR THE TORONTO SUMMIT, PARTICULARLY THE SECTION ON AGRICULTURE, IN THE LIGHT OF THE OECD MINISTERIAL. WHILE THEY UNDERSTAND THE RELUCTANCE OF THE US TO ABANDON THE ZERO/2000 OPTION THEY ARE TRYING HARD TO FIND A MIDDLE APPROACH TO WHICH THE EC AND THE US CAN SUBSCRIBE. AT THE MOMENT THEY ARE STILL CONSIDERING A PERCENTAGE REDUCTION IN EXPENDITURE BUT IT IS POSSIBLE THEY THEY WILL COME ROUND TO OUR PSE APPROACH IN THE NEXT FEW DAYS.

DETAIL

2. WE SPOKE TO DENNIS (NOW THE CHIEF NEGOTIATOR ON THE MTNS UNDER SYLVIA OSTRY) ON 27 MAY AND WENT THROUGH THE ARGUMENTS IN YOUR TUR. DENNIS LISTENED CAREFULLY. HE AGREED THAT IT WAS NOT REALISTIC TO ANTICIPATE THE ZERO OPTION FAVOURED BY THE US. NONETHELESS HE UNDERSTOOD THE RELUCTANCE OF THE US TO MORVE OFF THIS WHILE THE EC WAS NOT WILLING TO ESPOUSE FUNDAMENTAL REFORMS FOR THE LONG TERM.

3. THE CANADIANS HAD CONSIDERED THE OUTCOME OF THE OECD ON THE MTNS AS POSITIVE IN SETTING THE FRAMEWORK. THE CANADIANS WERE REVIEWING AND REVISING THEIR THEMATIC PAPER FOR THE TORONTO SUMMIT. THEY BELIEVED THAT IT SHOULD BE POSSIBLE TO GO A LITTLE BEYOND THE OECD MINISTERIAL ON AGRICULTURE AT TORONTO. MUCH DEPENDED ON WHAT CAME OUT OF THE MULRONEY/KOHL MEETING IN GERMANY.

4. DENNIS SAID, HOWEVER, THAT HE BELIEVED THAT THE UK AND CANADA HAD A LOT OF ELEMENTS IN COMMON IN THEIR APPROACH TO THE MTNS. THE CANADIANS WERE TRYING TO FLESH OUT THEIR OBJECTIVE ON AGRICULTURE. AT THE MOMENT THEY WERE STILL WORKING ON THE IDEA OF PERCENTAGE REDDUCTIONS IN EXPENDITURE BUT HE SUSPECTED THAT THE PSE APPROACH WOULD BE MORE LIKELY TO BRING THE EC AND US

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TOGETHER.

5. HE SUGGESTED THAT WE SHOULD HAVE LUNCHEON WITH HIM AND GIFFORD, (THE MAIN AGRICULTURE OFFICIAL IN THE TRADE NEGOTIATIONS OFFICE) ON 31 MAY. HE HOPED THAT BY THAT STAGE CANADIAN VIEWS ON WHAT TO WORK FOR ON AGRICULTURE AT THE TORONTO SUMMIT WOULD HAVE CRYSTALISED RATHER MORE. (IF THERE ARE ADDITIONAL POINTS TO PUT TO THE CANADIANS, GRATEFUL TO RECEIVE THESE BY 1600Z ON 31 MAY.)

6. DENNIS HAD NO PROBLEM WITH THE OUTLINE OF A FRAMEWORK APPROACH AS SET OUT IN PARA 4 OF YOUR TELNO 883 TO WASHINGTON. HE ASKED WHETHER WE WOULD INCLUDE SURVEILLANCE UNDER INSTITUTIONAL QUESTIONS AND IF SO, WHETHER WE HAD SPECIFIC IDEAS. AS FOR MAKING PROGRESS ON THE NEGOTIATING BASIS OF TARIFFS, HE WAS IN FAVOUR BUT THERE WAS A LOT OF DEFENSIVE POSTURING. UNTIL WE HAD MORE SENSE OF WHAT THE NEWLY INDUSTRIALISED ECONOMIES WERE WILLING TO DO TIT WOULD BE DIFFICULT TO MOVE FORWARD.

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ADDITIONAL 2

FRAME

MR WICKS NO 10 DOWNING ST

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Canadian High Commission



Haut Commissariat du Canada

31 May 1988

Dear Colleague

I am writing at this time to provide you with a proposed program for our last preparatory meeting, which will be held at the Millcroft Inn at Alton, Ontario.

In order to accommodate the possibility that Jacques may have to return to Paris on June 4, I have modified our accustomed meeting program as we had discussed in Paris. It is my proposal that we meet with Political Directors for a late lunch on June 4, continuing our plenary discussions, as necessary, over into the morning of June 5. I think it is important that we dedicate sufficient time to plenary discussion, as this will be our last opportunity before the Summit to grapple with substantive questions. As I mentioned to you in Paris, we will be sending the revised thematic paper to you on June 1. This paper will attempt to reflect our recent discussions in Paris, and should provide the basis for further useful exchanges at Alton.

Yours sincerely

SYLVIA OSTRY

Mr Nigel Wicks, CBE
Principal Private Secretary
to the Prime Minister
Prime Minister's Office
10 Downing Street
LONDON SW1

PROGRAM

MEETING OF SUMMIT PERSONAL REPRESENTATIVES
ALTON, ONTARIO, JUNE 3-5, 1988

Friday, June 3

Sherpas, Sous-Sherpas and assistants arrive at Pearson International Airport, Toronto, and are transported to the Millcroft Inn, Alton.

(Note: Political Directors and assistants will be meeting at the Four Seasons' Hotel in Toronto).

- 1900-2000 Opening Reception.
- 2000-2200 Separate dinners for Sherpas and Sous-Sherpas.

Saturday, June 4

- 0730-0830 Breakfast (no meeting).
- 0900-1300 First Plenary.
- 1330 Arrival of Political Directors from Toronto.
- 1330-1530 Reception and Luncheon for Sherpas and Political Directors.
- Separate Luncheons for Foreign Affairs and Finance Sous-Sherpas.
- 1530 Political Directors depart for Toronto.
- 1600-1645 Logistical Briefing.
- 1645-1830 Second Plenary.
- 2000-2200 Separate dinners for Sherpas and Sous-Sherpas.

Sunday, June 5

- 0730-0830 Breakfast (no meeting).
- 0900-1100 Third Plenary.
- 1145-1315 Separate Luncheons for Sherpas and Sous-Sherpas.

1330

Depart Millcroft Inn.

1430-1530

Site visit of the Metro Toronto Convention Centre for Sherpas, Sous-Sherpas, and Political Directors.

Late PM

Departures from Pearson International Airport.

Telephone and Fax numbers:

Millcroft Inn : (519) 941 8111.

When conference is in session, urgent messages may be left with Canadian Secretariat Office in Paisley Room (ext 321).

Millcroft Inn : fax (416) 859 6130.

TORONTO ECONOMIC SUMMIT: FOURTH MEETING OF PERSONAL
REPRESENTATIVES, 3-5 JUNE

BRIEF NO. 3

TRADE AND AGRICULTURE

POINTS TO MAKE

Trade

- Summit should agree need for substantive progress in Uruguay Round, especially at Mid Term Meeting (MTM) in Montreal in December. Focus of MTM should be on the major issues of strengthening the GATT system, agriculture, services, intellectual property, investment and integration of developing countries.
- We should avoid using narrow interpretations of globality (ie holding back progress on all subjects to the pace of the slowest, and resisting mention of priority issues) as an excuse for resisting progress. We are all committed to making a success of the Uruguay Round.
- Nor are we bound by the wording of the OECD Communique if we can see areas where we can contribute to strengthening commitments.
- Examples of such areas are tropical products, agriculture and the 'new issues' of the Round (services, investment, intellectual property) we should highlight the importance of these subjects as we did at the 1986 Tokyo and 1987 Venice Summits.
- We also need to underline the urgent need to make improvements in the GATT system, including the strengthening of the dispute settlement procedure. There is every prospect that agreement on most aspects of institutional

questions can be reached by the MTM; we should signal our hopes in this respect.

- We need a strong reference to the closer integration of developing countries into the open multilateral system as a central requirement for preserving that system and promoting growth. Needs to be balanced by Summit Countries' preparedness to negotiate on subjects of interest to LDCs (tropical products, agriculture, market access, textiles and safeguards).

- We would like the Communique to endorse the principle (in the Punta del Este Declaration) of early agreements being made where possible. This does not commit us to specific interim results at the MTM and is fully consistent with globality.

Agriculture

- Toronto Summit important opportunity to press forward process of agricultural reform.

- Communique should re-affirm and take further commitment on agriculture in OECD Ministerial Communique of 19 May: in particular elaborate OECD commitment to agree on framework approach, including short term as well as long term elements to promote reform process.

- UK believes that MTM package reconciling major differences could:

= Clearly enshrine principle of reducing levels of assistance without trying to set the final target.

= Agree aggregate measure framework to achieve this.

= Provide an immediate "down payment" towards long term goal of liberalisation of agricultural markets.

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- Important that Summit gives impetus to substantial progress at MTM: otherwise faced by politically and economically costly tensions and market disputes.

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BACKGROUND

Trade

- Important that Toronto Summit should develop consensus on issues on which substantive progress can be made at GATT Mid Term Meeting (MTM) in Montreal in December.

- OECD Ministerial on 18-19 May noted that there was satisfactory progress on the Uruguay Round to date and underlined the need to maintain the momentum of these negotiations. The Communique referred to the need to agree on a "framework approach" on all issues so that the MTM can establish a base for completion of the Round. This came close to conceding the French aim that progress on all issues (agriculture is their main concern) should be kept to the pace of the slowest. The Communique also recognised the importance of liberalisation of trade in services, both in the Round and in further OECD work.

- While reaffirming the need for substantive progress across the board at the MTM the Summit Communique should aim to improve on the generalised terms of the OECD Declaration by looking towards agreements at the MTM on issues such as dispute settlement and better functioning of the GATT system. It should also urge early progress on agriculture and the 'new issues' of the Round so as to set the scene for agreements in December on the principles to guide further negotiations on some or all of these issues, and in particular on agriculture and services.

- We should not be inhibited, by the French desire for a narrow interpretation of 'globality' from pressing for early action on these major issues: the Punta del Este Declaration specifically provides for early agreements to be made where possible.

- Development of regional trade agreements (eg US/Canada FTA) should not prejudice multilateral commitment to

reduction of trade barriers, and in particular, should not encourage further barriers to external trade.

- The attached commentary provides references to past texts on which the language of the present Communique is based.

Agriculture

- Heads of Government in Tokyo and Venice made clear their commitment to urgent reforms. Toronto provides opportunity to give further impetus to negotiations on agriculture in GATT, in particular in run up to Mid Term Meeting (MTM).

- Sharp differences of opinion remain, particularly between EC and US. US wants MTM to agree on long term target for reform (zero support by year 2000), and has rejected proposals for short term action without long term agreement. EC has put forward imprecise proposals for short term market sharing (which others and UK dislike) to ease immediate difficulties, but sees US insistence on zero/2000 as unrealistic.

Cairns Group, including Canada have adopted more flexible approach comprising long term framework and "down payment" of immediate reductions in support and increases in access in 1989/1990.

- Commission and some other member states (eg France) reluctant to address long term in detail. France has argued that need for "globality" precludes early agreement on agriculture at MTM.

- OECD Ministerial communique on 19 May spoke of seeking to agree on a "framework approach" including short term as well as long term elements (hiding wide divergences of view). US appear still likely to insist on establishment of their long term target (zero/2000) before agreeing to short term measures. UK also sympathetic to long term goal.

- We are looking for more substantial outcome for MTM along lines of Cairns Group proposals. CAP reforms agreed in Brussels in February represent important first step in right direction, but much more is needed. We hope that gap between EC and US can be bridged by a package (along Cairns Group lines) at the MTM comprising:

- = Commitment to substantial and progressive reductions in levels of support and protection over long term.
- = without necessarily specifying target (in terms of timing or amount for long term at this stage).
- = Establishment of PSE type framework (product and policy coverage and base line reference period).
- = Freeze in support at most recent PSE levels.
- = Specific commitments to early reductions eg from 1986 PSE levels.

SUMMIT COMMUNIQUE LANGUAGE ON TRADE POLICY

Commentary

The chosen wording is intended to give added political impetus to our major objectives for the MTM, expressed as far as possible in terms previously used by Summit members, whether at earlier summits, the Gatt meeting in Punta del Este or the recent OECD Ministerial meeting (though we are not of course bound to past wording, particularly that from OECD). It is a balanced whole but where there is scope for flexibility without compromising our aims, it is indicated below.

Paragraph 1

First sentence: "Full and Comprehensive Outcome": see OECD declaration, paragraph 21:

"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... hold a mid term review... that establishes a solid base for the full and complete success of the negotiations in accordance with the Punta del Este Declaration."

Second and Third Sentences: "Integration of LDCs": The general principles governing negotiations set out in the Punta declaration reaffirm that developing countries will not be obliged to make reciprocal concessions inconsistent with their needs (section B v) but goes on to record those countries' expectation of improving their contribution to the Gatt

"with the progressive development of their economies and improvement in their trade situation" (section B vi)

Similarly on 18-19 May OECD Ministers stated:

"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" (paragraph 22).

Paragraph 2

First sentence: At MTM demonstrate that substantive progress can be made in all areas of the Round: our nod to 'globality', picking up the OECD's

"The greatest possible advance must be made in the negotiations 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". (paragraph 21)

but then going on to say

"including these to which we gave special emphasis at our previous meeting in Tokyo...":

the intention is to justify our inclusion of these specific issues by reference to paragraph 12 of the Tokyo Summit Communique:

"We support... the ^{bringing} ~~beginning~~ of new issues under international discipline. The New Round should, inter alia, address the issues of trade in services and trade related aspects of intellectual property rights and foreign direct investment"

Which was reaffirmed by the Venice Summit (paragraph 14 of their Communique):

"It is important to establish in the Gatt a multilateral framework of principles and rules for trade in services, trade related investment measures and intellectual property rights".

Second sentence: "In these areas, as well as others, the establishment at an early date of an agreed negotiating framework...". Our aim is to agree at the MTM a framework of principles to guide subsequent negotiations on agriculture and on services. It is not realistic to expect agreement by that date on the detailed substance, as distinct from basic principles, but it will be necessary to agree principles in order to push the negotiations on and demonstrate progress on these major issues. At the OECD meeting this became diluted into

"should seek to agree on a framework approach on all issues".

Supporting arguments for our wording (which is designed to recover some of the ground lost at OECD) are that it is not exclusive (and is therefore consistent with a broad interpretation of globality), nor is it specifically tied to agreement at the MTM itself (though that is our aim).

Paragraph 3

First sentence: "the provision in the Punta del Este Declaration permitting the implementation of agreements reached at an early stage in the negotiations".

This is the principal argument against narrow interpretations of globality. It is not an interpretation of the declaration but a direct reference to one of the general principles (B ii) in it:

"The launching, the conduct and the implementation of the outcome of the negotiation shall be treated as parts of a single undertaking. However, agreements reached at an early stage may be implemented on a provisional or a definitive basis by agreement prior to the formal conclusion of the Negotiations. Early agreements shall be taken into account in assessing the overall balance of the negotiations."

We should resist the inclusion in this Communique of the close paraphrase of the Punta passage in paragraph 15 of the Venice Summit Communique:

"Progress in the Uruguay Round will be kept under close political review. In this context the launching, the conduct and the implementation of the outcome of the negotiations should be treated as parts of a single undertaking; however, agreements reached at an early stage might be implemented on a provisional or definitive basis by agreement prior to the formal conclusion of the negotiations, and should be taken into account in assessing the overall balance of the negotiations."

We could live with it at a pinch though it would distort the focus on major negotiating issues rather than processes that we are seeking to incorporate into the present Communique.

Second and Third sentences: Strengthening the Gatt: There is a broad consensus that measures to strengthen the Gatt system in the three areas specified should be ready for agreement at the MTM, though there is not yet unanimity on the details, least of all on procedures for dispute settlement, which are of particular interest to the Prime Minister. The Tokyo Summit agreed:

"We support the strengthening of the system and functioning of the Gatt" (paragraph 12)

and the Venice Summit:

"The functioning of the Gatt should be improved through enhancing its role in maintaining an open multilateral system and its ability to manage disputes" (paragraph 16)

OECD Ministers stated recently that they

"recognise the need to strengthen the multilateral trading framework and the importance of better functioning of the Gatt" (paragraph 20)

and

"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".

A further institutional issue (closer links between the Gatt and the international financial institutions) is also under discussion but is less likely to be ready for the MTM than those mentioned in our text.

To secure the widest agreement to our wording we have limited it to describing the issues to be settled, not their detailed content, and have related dispute settlement in particular to the impeccable sentiment that disputes should be resolved "speedily, conclusively and fairly".

Paragraph 4

"The countries participating in this meeting" explicitly attributes the views expressed to the Summit Seven and rules out any implication of aspiring to speak for the other Gatt contracting parties.

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FOLLOWING FOR PRIVATE SECRETARY TO THE FOREIGN SECRETARY

MIPT: TORONTO ECONOMIC SUMMIT: COMMUNIQUE LANGUAGE: TRADE
1. THE TEXT ON TRADE IS AS FOLLOWS:

WE REAFFIRM OUR COMMITMENT TO MAINTAINING AND EXTENDING THE OPEN WORLD TRADING SYSTEM, INCLUDING THE MULTILATERAL REDUCTION OF TRADE BARRIERS, AS AN ESSENTIAL FOUNDATION FOR WORLD ECONOMIC GROWTH AND AS A DEFENCE AGAINST PROTECTIONISM. SUSTAINED PROGRESS IN THE URUGUAY ROUND LEADING TO A FULL AND COMPREHENSIVE OUTCOME OF BENEFIT TO BOTH DEVELOPED AND DEVELOPING COUNTRIES IS THEREFORE OF PARAMOUNT IMPORTANCE. FOR THIS TO BE ACHIEVED ALL CONTRACTING PARTIES MUST BE READY TO MAKE THE FULLEST CONTRIBUTION TO THE NEGOTIATIONS AND BE PREPARED TO ACCEPT LEVELS OF OBLIGATION CONSISTENT WITH THEIR DEGREE OF ECONOMIC DEVELOPMENT.

WE RECOGNISE THAT THE MID TERM MEETING TO BE HELD IN MONTREAL IN DECEMBER OFFERS A VALUABLE OPPORTUNITY TO DEMONSTRATE THAT SUBSTANTIVE PROGRESS CAN BE MADE IN ALL AREAS OF THE ROUND INCLUDING THOSE TO WHICH WE GAVE SPECIAL EMPHASIS AT OUR PREVIOUS MEETING IN TOKYO, NAMELY TRADE IN SERVICES, INTELLECTUAL PROPERTY RIGHTS AND FOREIGN DIRECT INVESTMENT. IN THESE AREAS, AS WELL AS OTHERS, THE ESTABLISHMENT AT AN EARLY DATE OF AN AGREED NEGOTIATING FRAMEWORK WOULD REPRESENT A SIGNIFICANT STEP TOWARDS A SUCCESSFUL CONCLUSION.

WE ALSO SHARE THE HOPE THAT AS FULL USE AS POSSIBLE WILL BE MADE AT THE MID TERM MEETING OF THE PROVISION IN THE PUNTA DEL ESTE DECLARATION PERMITTING THE IMPLEMENTATION OF AGREEMENTS REACHED AT AN EARLY STAGE IN THE NEGOTIATIONS. IN THIS CONTEXT, A HIGH PRIORITY MUST BE THE STRENGTHENING OF GATT ITSELF. WE ARE DETERMINED TO WORK FOR THE EARLIEST POSSIBLE AGREEMENT ON WAYS OF REINFORCING THE GATT PROCESS, THROUGH GREATER INVOLVEMENT OF MINISTERS, INTENSIFICATION OF SURVEILLANCE OF TRADE POLICIES AND GREATER EFFECTIVENESS OF DISPUTE SETTLEMENT PROCEDURES TO THAT DISAGREEMENTS CAN BE RESOLVED SPEEDILY, CONCLUSIVELY AND FAIRLY.

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WE AFFIRM THAT THE COUNTRIES PARTICIPATING IN THIS MEETING WILL
BE GUIDED BY THESE OBJECTIVES IN MAKING THEIR CONTRIBUTIONS TO
THE PREPARATION FOR MONTREAL .

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**TORONTO SUMMIT COMMUNIQUE: ALTERNATIVE LANGUAGE ON TRADE
POLICY**

The open multilateral trading system is an essential foundation for world economic growth. Sustained progress in the GATT Uruguay Round is therefore of paramount importance. All contracting parties must contribute fully, and accept levels of obligation consistent with their degree of economic development.

We call for substantive progress at the Montreal Mid-Term Meeting in December in establishing negotiating frameworks, in particular in the areas we emphasised in Tokyo, namely trade in services, intellectual property rights and foreign direct investment. Full use should be made of the early implementation provision in the Punta del Este Declaration.

Strengthening the GATT itself, particularly surveillance and dispute settlement procedures, is a high priority. We must make the system operate more effectively and ensure that disputes are resolved speedily, conclusively and fairly. GATT discipline must be tightened so that members accept their obligations, and recommendations on dispute settlement are implemented.

We will be guided by these objectives in preparing for Montreal.

**TORONTO SUMMIT COMMUNIQUE: ALTERNATIVE LANGUAGE ON TRADE
POLICY (STRENGTHENING GATT)**

Strengthening the GATT itself, particularly surveillance and dispute settlement procedures, is a high priority. We must make the system operate more effectively and ensure that disputes are resolved speedily, conclusively and fairly. GATT discipline must be tightened so that members accept their obligations, and recommendations on dispute settlement are implemented.

COMMUNIQUE LANGUAGE: AGRICULTURE

1. As evidenced by our meetings in Tokyo and Venice, agricultural policy reform remains a priority for our Governments. Important first steps have been taken to bring supply into better balance and to restrain the rising costs of agricultural support to taxpayers and consumers. However, far more needs to be done to achieve our long-term objective of liberalising agricultural markets through progressive and sustained reductions in support and protection, while facilitating the development of a viable and dynamic agricultural sector in developed and developing countries. We recognise, therefore, the urgent need for early action on a concerted, multilateral basis, consistent with our long-term goals, to prevent the deterioration of market imbalances, the continuation of self-defeating export subsidy competition, and any increase in the isolation of our markets.

2. At Venice we noted the importance of agriculture in the Uruguay Round and made a clear commitment to table comprehensive proposals. Considerable progress has been made. Recognising that agriculture is a key element in the success of the Uruguay Round as a whole, we endorse the view of the OECD Ministerial Communique of 19 May 1988 that it is important that the Mid Term Review add impetus to the negotiating process. We give our full backing to the OECD commitment to seek to agree at the MTR a framework approach for the long term with short term elements. This will enable substantive negotiations to be engaged on the basis of mutually agreed principles. We commit ourselves to seeking results at the MTR on this basis.



TORONTO ECONOMIC SUMMIT:
FOURTH MEETING OF PERSONAL REPRESENTATIVES, 3-5 JUNE

BRIEF NO 4: DRUGS

Points to Make

1. Since PM's initiative on drugs at 1985 Bonn Summit good progress made on international cooperation in other fora.
2. Strong UK contribution to work in UN and Council of Europe.
3. UK and US have signed reciprocal agreement to confiscate traffickers' assets. Signature of UK/Canada agreement imminent. Summit Nations should join in developing international network of such agreements.
4. UK has also signed memorandum of understanding on cooperation with USSR. Already resulted in significant seizure of drugs.
5. Washington report that US intend to raise following points. If they do:
 - a) Increasing anti-narcotics assistance/conditionality of development aid. We have increased our assistance. But not UK policy to make development aid conditional on performance in drug eradication and control programmes.
 - b) Central banks to strengthen controls on money laundering and international money flows. Not role of Central banks to control financing of drug trafficking. Specific legislation much more effective. Judicial cooperation between nations to deny international traffickers proceeds of their crimes best way forward.
 - c) Expert group on drugs to be re-convened. Agree, but ensure work carried out in other fora not duplicated.

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6. Draft UK communique language is attached. [We have not sought to take account of US points; the Americans will presumably submit draft language of their own. We could accommodate c) above, but not a) and b) in their present form.]

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Background

1. The Prime Minister opened up a discussion of drugs at the 1985 Bonn Summit. A group of experts was set up. They recommended that Summit nations should increase participation in existing international drugs bodies and their political commitment to fighting the drugs problem.

2. Considerable progress has been made on both scores, and an international consensus has developed to combat drug abuse. Last year's International Conference on Drug Abuse and Illicit Trafficking, attended by 138 countries, agreed on a wide range of actions at national, regional and international levels. The UN Convention on Illicit Trafficking is due for adoption at the end of this year. There is wide support of the UN Fund for Drug Abuse Control. Cooperation in Europe is being pursued in the Council of Europe Pompidou Group (which UK has chaired since 1985).

3. The UK Drug Trafficking Offences Act (1986) created significant new powers to trace, freeze and confiscate the proceeds of drug trafficking and created a new criminal offence of money laundering. These powers can be made available in the UK to other countries through reciprocal agreements, which will also enable UK court orders and requests for assistance to be put into effect overseas. Our aim is to create a network of bilateral agreements with other countries. This will enable law enforcement agencies to combat trafficking by going after the assets of the traffickers on an international scale. In February we signed a drugs agreement with the US. It is likely that the Prime Minister will sign a UK/Canada Treaty after the Summit. We have agreed draft texts with Switzerland, Australia and the Bahamas, and are talking to some 20 other countries. We should urge Summit nations to join in establishing a network of reciprocal agreements. The draft UK communique language reflects this policy. It has been approved by Ministers as necessary.

4. In March the UK became the first western country to sign a memorandum of understanding with the USSR on drugs cooperation. This has already resulted in a customs seizure of 3½ tons of cannabis.

US policy

5. The Americans want Toronto to give a high profile to action against drugs. Not only have President and Mrs Reagan declared war on drugs, but it has become a major issue in the Presidential campaign.

6. Washington reports that the State Department briefing for the President will focus on the following:

a) Increasing anti-narcotics assistance/conditionality of development aid

We have substantially increased our assistance. Home Office funding for drugs-related assistance overseas has increased from £500,000 in FY 1987/88 to £2 million per year for FY 1988/89, 1989/90 and 1990/91. The FCO has some £500,000 pa for drugs-related assistance. The ODA are instructing all Departments to consider the possibility of a drugs-related element in each review of country plans. We have also increased the amount of overseas training by HM Customs and police.

The Americans, however, are making their international aid increasingly conditional on narcotics cooperation. For the last two years the President has been required to certify to Congress that certain specified countries are cooperating satisfactorily in the fight against drugs. Failure to achieve certification means automatic penalties: reduction/suspension of all narcotics-related assistance and instructions to US representatives on international financial institutions such as the IMF or World Bank to vote against any loans to the offending country. It is not clear whether the Americans are now proposing to make all development aid conditional on satisfactory cooperation. But the proposals sound very much like sanctions by another name: an approach with which we would have great difficulty. We have regularly resisted the politicisation of the Fund and Bank.

b) Central Banks should re-think their controls on money laundering and international money flows.

We do not believe that Central banks should have a policing role in connection with the laundering of drug money (not least because the Bank of England has no formal policing powers). Our approach to money laundering is described in paragraph 8 above.

c) Expert Group on drugs to be re-convened

We have no reason to oppose this suggestion, since the Group was set up after the Prime Minister's initiative at Bonn. But experts will have to avoid setting up permanent Summit machinery, and take account of similar work already being undertaken in other fora. These areas are:

i) Uniform export control measures on precursor chemicals

The UK has developed informal arrangements with other countries, particularly in Western Europe, for monitoring movements of precursor chemicals. The new draft UN Convention on Illicit Drug Trafficking envisages more detailed mandatory controls.

ii) Coordination of Anti-Narcotics Assistance

The Summit nations are all major donors to the UN Fund for Drug Abuse Control. The need for better coordination of assistance to drug producing and transit countries is recognised and is being tackled. In addition, the EC Commission has undertaken to collate and distribute information of its and Member States' overseas drug-related assistance.

iii) Anti-Narcotics Research and Development

US intentions are not clear. The United Nations makes research findings on drugs widely available. In Western Europe, there have been joint studies conducted under the auspices of the Council of Europe's Pompidou Group.

TORONTO ECONOMIC SUMMIT: UK DRAFT COMMUNIQUÉ LANGUAGE:
DRUGS

Since we last met there has been further progress in developing international cooperation to combat drug trafficking. The International Conference on Drug Abuse and Illicit Trafficking has agreed on a useful range of actions. A UN Convention on Illicit Trafficking is due to be adopted this year. But this is not enough. To fight international crime successfully requires concerted action across national boundaries. We shall take steps to develop an interlocking network of arrangements to provide each other with the legal means to ensure that drug traffickers will not profit from their crimes.



TORONTO ECONOMIC SUMMIT 4TH MEETING OF PERSONAL REPRESENTATIVES,
3 - 5 JUNE

BRIEF NO 5: POLITICAL ISSUES

Objectives

1. To secure agreement that Heads of Government should discuss East-West, Middle East, and Terrorism, and include all three in Political Declaration.
2. To avoid proliferation of other foreign policy subjects at Head of Government level.
3. To express doubt about the value of further discussion of South Africa; to resist its inclusion in the Political Declaration; but, if Canadians insist and others agree, to accept discussion by Heads of Government, indicating the line the Prime Minister is likely to take.
4. In discussion of language for the Political Declaration, we should argue for:
 - a) a balanced statement on East-West, welcoming progress under Gorbachev, saluting Reagan Administration contribution and reaffirming need for Western strength and resolution;
 - b) a substantive passage on Iran-Iraq, referring to UNSCR 598, the Secretary General's efforts, condemning CW use and expressing concern about proliferation of ballistic missile technology;
 - c) expression of support for US initiative on Arab-Israel;
 - d) a passage on terrorism, which is as robust and specific as possible.



5. To deal sensitively with any Japanese effort to cover Asian topics, but as far as possible to delegate these and other regional issues to Foreign Ministers.

6. To preserve consensus in favour of a single Political Declaration, reflecting discussion by Summit leaders as crisply as possible.

7. To prepare topics for separate Foreign Ministers' discussion.

Points to Make

East-West Relations

1. East-West relations developing well. Unity and resolve of West have achieved progress on arms control (INF), regional issues (Afghanistan) and human rights (less repression, greater openness, more emigration). Russians have moved towards us. Reflects Western persistence in standing firm in defence of peace and freedom. Political Declaration should record this.

2. Aim is a dialogue within which problems and crises can be dealt with calmly and sensibly. Relationship likely to remain adversarial for foreseeable future. Need is for stability to replace tension and unpredictability.

3. Developments within Soviet Union make clear that we have won battles of ideas. Although Gorbachev cannot fully admit it, his reforms accept the importance of market forces and the need for greater individual liberty. Without them economic regeneration is illusory.

4. Political and economic reform go hand in hand. Gorbachev's colleagues acknowledge need for latter, but many hesitant or opposed to political change. Party Conference will provide opportunity to give perestroika new momentum. 'Theses' (conference terms of reference) a victory for Gorbachev's views, even if they do not go



as far as he might like. But still not clear how much will be possible. Recently Gorbachev has been trying to prevent exaggerated expectations.

5. Moscow Summit may have important role in reinforcing Gorbachev's position/prestige in run-up to Conference. Will be looking (cf Washington Post interview) for progress on arms control. Possibility of 5th Summit to sign START agreement? For West solid and steady progress is aim. Good deals, not quick deals.
6. More widely, Soviet foreign policy undergoing major review in response to past failures and firm stance of West. Afghanistan a major success for us. Need to press Russians to repeat experiment elsewhere (Angola, Cambodia, Ethiopia) and play constructive role in eg Middle East.
7. In Europe Russians maintain massive conventional presence, aggressive forward deployment, huge CW capability. And progress on openness and human rights still limited. Need to tackle underlying system not occasional high-profile case. Open up flow of information, ideas and people across East/West divide in Europe. Substantive and balanced outcome of Vienna CSCE meeting would be important step in right direction. Signals from East still conflicting.
8. Eastern Europe bubbling. Declining living standards, rising political expectations. Neither Jaruzelski nor Solidarity have answer to Poland's problems. Romania deep in the mire. Election of Grosz and sweeping changes in Hungarian Politburo point to Party's desire to go for radical prescriptions. But not clear where this would lead: Hungary already most reform-minded country in CMEA. And GDR still rejecting any idea of perestroika. A worrying picture - not least as seen from Moscow.
9. Political Declaration should cover broad East/West issues, and refer to:



- progress in recent years, particularly on arms control and Afghanistan.
- fact that West is winning battle of ideas.
- need for West to remain strong and resolute, while keen to negotiate worthwhile agreements.
- key role of openness and human contacts (particularly in Europe) in reducing tension and mistrust; building confidence.
- and (briefly) regional issues and Eastern Europe.

10. [If raised] No objection if others strongly in favour of reference to UN Special Session on Disarmament, but must be related to progress in actual negotiations, eg INF, START.

Middle East

11. Heads of Government should cover both Iran-Iraq, and Arab-Israel conflicts.

a) Iran-Iraq

UN Activity

12. International diplomacy in delicate phase. SCR 598 remains only internationally accepted basis for a negotiated settlement. Must preserve it.

13. UN process stalled. UNSG working hard, but Iraqis refusing to cooperate so long as Iranians continue to reject SCR 598. Must maintain pressure on both sides. Little prospect of early progress on arms embargo against Iran. But Summit should reaffirm commitment to enforcement of SCR 598.

CW and Ballistic Missile Technology

14. Favour strong condemnation of CW use in line with UNSCR 612. Important to keep up pressure on Iraq. Should also express concern



about risks of proliferation of ballistic missile technology in the Middle East. Military uncertainty complicates search for political solutions.

Attacks on Shipping

15. Must maintain principle of freedom of navigation in international waters of Gulf in face of continuing attacks by both parties.

Declaration

16. So declaration should:

- reaffirm commitment to UNSCR 598;
- support the efforts of the UNSG for implementation of SCR 598;
- agree to work for arms embargo resolution if Iran continues non compliance with SCR 598;
- condemn use of CW and express concern over spread of ballistic missile technology;
- reaffirm principle of freedom of navigation in international waters in the Gulf.

b) Arab-Israel

17. Disturbing tendency in some quarters to write off long-term prospects for advancing peace process. Breakthrough unlikely before US and Israeli elections in November. But not enough just to sit back and wait. Essential to push forward process.

18. Therefore greatly appreciate Mr Shultz' continuing efforts, [and President Reagan's useful exchanges with Mr Gorbachev]. Important for Summit to set seal on progress so far achieved, highlight way forward ("territorial compromise", international conference).



19. [If anyone questions wisdom of endorsing US plan]: Even if parties are not now playing along with Mr Shultz' proposals, they represent best platform for sustaining process and for re-launching peace effort when conditions become more favourable.

20. Declaration should refer to OT unrest, need for negotiated settlement, reiterate support for international conference (on which international consensus remains constant) and endorse Shultz' efforts.

Terrorism

21. Kuwaiti hijacking has highlighted weaknesses in international defences. Cannot let the Summit pass without high profile reaffirmation of Summit stance on terrorism. Public opinion and media will expect Summit to say something.

22. Need to stress Summit Seven unity, not divisions. Therefore concentrate on preventive not punitive measures, looking to the future.

23. Our terrorism experts had full discussions on 2 (and 3) June. [To be updated in Toronto by Mr Slater: our aim is that terrorist experts will recommend to Sherpas that issues arising from their discussion be reported to the Summit. If agreed, the Sherpas would propose a draft text for the declaration. In our view, the declaration should be robust and refer to specific proposals for improving counter-terrorism regime, particularly in ICAO on the lines proposed by the Foreign Secretary.]

24. (If Japanese propose reference to Seoul Olympics/North Korean-sponsored terrorism): Have no objection to reference in declaration to KAL bombing. But might reference to Olympics in this context frighten public? Perhaps best to refer in Chairman's summary to moves towards democracy in South Korea and express hope that Olympics will pass off successfully and safely.

South Africa

25. Appreciate high levels of domestic and international concern over South Africa. Developments there and in the region of great importance.

26. Summit participants united in opposition to apartheid. But

(i) little time to discuss full range of important subjects;

(ii) given differences of approach on sanctions among Summit Seven, discussion of language for political declaration bound to take disproportionate time. Could give impression of disunity and distract attention from main Summit business.

27. Therefore suggest discussion by Foreign Ministers and language in Chairman's Summary.

28. [If discussion by Heads of Government has to be conceded] Prime Minister of course willing to explain basis for our policy and to challenge view that additional sanctions would improve the situation in South Africa.

Other Foreign Policy Subjects

29. Suggest all other subjects should be discussed by Foreign Ministers, together with any aspects of the main topics which Heads were not able to touch upon.

Korea and Philippines

30. Agree that Chairman's summary should support moves toward democracy in South Korea and Philippines.

31. Korea: Main concern is relationship with North, and Soviet role. Must try to engage Soviet Union in constructive discussions about how to resolve North-South differences. Could refer to Olympics in Chairman's summary.

32. [If raised] UK support Philippines 'mini- Marshall plan' in



principle. UK contribution likely to be modest, although European global contribution could be substantial.

China

33. We see no obvious focus for discussion on China, but happy to discuss if others wish. Politics satisfactorily stable. Economic reform a key area for China: success will depend on ability to reform prices and allow market forces to prevail.

34. Chinese arms sales continue apparently unchecked. Seem to be based entirely on economic considerations without concern for wider international opinion or for foreign policy consequences.

Horn of Africa

35. Happy to discuss among Foreign Ministers. Ethiopia may well again be in the spotlight, due to the linked problems of worsening famine, civil war, and expulsion of relief personnel from the North.

Central America

36. Again, not a priority topic for UK. Discussion would presumably focus on progress in talks between Sandinistas and Contras, following extension of ceasefire. Contras weakened and divided; Sandinistas giving no real ground on democratisation. Elsewhere in region, peace process barely alive, with instability and polarisation in El Salvador, Honduras and Guatemala; Noriega holding his own in Panama.

Technology and Foreign Policy

37. Understand Shultz wants to raise this again. Intriguing subject. Many strands:

- growing multipolarity of international system, evolution of Soviet global role, prospect of more cooperative East-West relationship;
- increased importance of regional groupings;



- significance of Japan, politically and economically;
- new international actors, eg Brazil, India;
- effects of economic change and information technology on world political system.

38. Any US thoughts on specific policy conclusions to draw from this?

Procedure

39. Current Canadian draft appears to set aside (separate) dinner on 19 June and lunch (with Foreign Ministers) on 20 June for discussion among Heads of foreign policy issues. Yet declaration adopted early on morning of 20th. Correct? Chairman's summary of Political issues planned for afternoon of 20 June, ie before second Foreign Ministers' meeting. Will this exclude some material?

Organisation of Foreign Ministers' Meetings

40. Assume Shultz will lead on East-West and Arab-Israel; and Japanese on some if not all Asian subjects. Think Sir G Howe would be content to lead on Iran-Iraq and/or terrorism.

References

- A: Draft language on East-West
- B: Draft language on Iran-Iraq
- C: Draft language on Arab-Israel
- D: Draft language on Terrorism
- E: Possible language (if necessary) on South Africa
- F: Foreign Secretary's original five-point action plan on terrorism following Kuwaiti hijacking (Luxembourg 25 April)
- G: 1978 Bonn Declaration on terrorism
- H: Venice 1987 political statements
- I: Draft Toronto Summit programme

Background

1. In Venice there were statements on East-West relations, terrorism and the Gulf war.

Iran-Iraq

UN Activity

2. Iraqis have rejected the UNSG's proposals for proximity talks intended to lead to implementation of UNSCR 598. They argue that Iran must first accept the Resolution clearly, and unconditionally; that Iran continues to prevaricate; and that action should turn to the preparation of an arms embargo Resolution.
3. We, the Americans and the Russians have tried to change the Iraqis' mind. Their decision is a tactical mistake, but they seem unbending. We should mobilise support for UNSG's efforts, and maintain pressure on Iran to accept UNSCR 598. Iran remains major obstacle to diplomatic process.
4. UNSG's initiative is the more important since work on an arms embargo resolution against Iran designed to enforce SCR 598 has become bogged down. The Soviet Union is foot-dragging, perhaps

because of concern about relations with Iran during the withdrawal from Afghanistan. The Chinese, French and Germans also appear reluctant. We remain committed to working for an arms embargo, and should seek to consolidate Western support at the Summit.

Gulf Shipping

5. Attacks on neutral shipping by both sides continue. The US have extended the assistance they will offer to friendly neutral-flagged merchant ships under attack in the Gulf. The RN's work in the Gulf remains unaffected. We continue to accompany over 60 entitled merchant ships every month through the Strait of Hormuz, the area of major threat.

CW and Ballistic Missiles

6. UNSCR 612 passed on 9 May, condemning use of CW in the conflict, urging both sides to refrain from use, and encouraging states to stop exporting precursors to both sides. The Resolution followed a report by the Secretary-General which failed to name Iraq. Iran has since accused Iraq of further limited use of CW in mid May.

7. Western efforts to inhibit proliferation through export controls (coordinated in the 19-Nation 'Australia' Group) have had only limited success. Iraq has largest regional CW capability but Syria, Libya, Iran, Israel and Egypt also sources of concern. Although there are technical difficulties, some countries may seek to produce chemical warheads for ballistic missiles. The UK is currently considering whether any extension of the missile technology control regime would be practically or politically feasible.

Arab-Israel

8. In Israel, there appears to be little chance of a majority emerging in November elections which is committed to "land for peace". Peres, speaking to the Secretary of State at the EC Cooperation Council on 24 May, appeared depressed at the prospects for movement and concerned that the Jordanian option was not likely to convince the Israeli electorate. Shamir continues to hold out against "land for peace" (and an international conference) and remains the main obstacle to the Shultz proposals.

9. After the murder of Abu Jihad (16 April), the mood among the Arabs appears to be hardening. It is as yet unclear how far the resulting Syria-PLO rapprochement extends, or how far it affects PLO ties with Egypt and Jordan. But it is likely to weaken the hand of King Hussein in the short-term, especially with the Arab League Summit in Algiers (7 June). King Hussein has engaged in exchanges with the Americans over the Shultz initiative, but his room for manoeuvre is becoming increasingly limited while the uprising in the Occupied Territories continues (over 200 Palestinians dead); and for the short term at least, he may retreat into the comparative safety of the Arab fold. Shultz will visit the region again on 3-8 June, and will brief the Secretary of State in London beforehand.

Terrorism

10. The Canadians had still, by 31 May, not produced a draft text. We had prepared a text on a contingency basis, taking into account ideas the Canadians had expressed to us and our exchanges with the US. The text was put to the Secretary of State for approval. His only comment was that it should contain more specific references to the five-point plan. The UK draft at Reference D takes account of this. (To be updated in Toronto by Mr Slater depending on discussion among terrorism experts in Ottawa on 2/3 June).

11. The Americans had two further suggestions in mind which they may put forward at the terrorism experts' meeting (or at the Sherpas' meeting): that we should note agreement to coordinate our aviation security training (as we, the US and the Canadians already do); and that the Summit should mandate experts to examine the evidence of Iranian complicity in the Kuwaiti hijacking and to consider the possibility of joint action under the Bonn Declaration against Iran. We would have no difficulty with either of these in the declaration, but would expect other partners to oppose the second quite strongly.

12. The Japanese MFA have said that they would like the Summit to refer to Korea: they are concerned that the opposition in the South will start to make trouble after the Olympics and that the North will engage in terrorist activities designed to disrupt them. They may propose that a reference to North Korean terrorism should appear

in the part of the political statement dealing with terrorism. We would have no difficulty with inserting a reference to the KAL bombing as one of the recent terrorism incidents (second turet of present text). We do not have strong views about a specific reference to North Korea and the Olympics, but it may be best to refer to the Olympics and South Korean democratisation in the separate Chairman's summary.

South Africa

South Africa Internal

13. The restrictions on extra-parliamentary opposition imposed in February remain in force. Violence attributed to political unrest is at a relatively low level, but largely as a consequence of large scale detentions and of firm security measures. Following appeals from Summit Heads of Government, and others, in March the sentences on the Sharpeville Six were suspended. Legal argument continues over the admissability of fresh evidence and on whether or not the trial of some or all should be reopened. The draft "Promotion of Orderly Internal Politics Bill" (to control foreign aid programmes) is in committee. Signs are that it will be watered down and its adoption delayed until later this year or next.

14. In a speech to parliament on 21 April, President Botha opened up the prospect of token black participation at high levels of government. They are trying to encourage participation of moderates in municipal elections in October. There will be some limited reform of the Group Areas Act, but in its approach to reform the government are inhibited by the need not to provoke further defections to the Right.

International Attitudes

15. They have been dominated of late by the reaction to the South African Government's (SAG) intention to increase control of foreign funding of organisations and individuals. The SAG say that they will not interfere with "socio-economic upliftment" but that the use of foreign funds for political objectives or to encourage violence is unacceptable. The churches and other opposition groups have appealed for additional sanctions as a means of blocking the

legislation. Delegations representing the churches have recently toured several Summit Seven countries (they saw the Foreign Secretary on 17 May before going to Germany).

Sanctions Pressures

16. The Germans favour some form of diplomatic action and are considering a visa regime. There is talk of measures against air links. But we believe the Chancellery will oppose additional economic measures. The new French government are likely to agree to additional measures in due course. They are toying with a ban on import of fruit and vegetables. The US administration are opposed to the additional measures but face pressure in Congress - an extreme draft is likely to be approved in the House of Representatives, but to fail in the Senate. A compromise bill is a possibility. The Italians are in favour of additional measures, and have voted in favour of mandatory Security Council action. The Japanese are hoping to reduce pressure on them, as the largest trade partner of South Africa, by voluntary restraint of exports. Finally, the Canadians are in the throes of preparation for the second meeting of Commonwealth Foreign Ministers in Ottawa in September. They want to tighten the screw, but have yet to declare their hand.

South Africa External

17. The last round of the US-led negotiations on Angola took place in London on 3/4 May, involving the US, Angola, Cuba and, for the first time, South Africa. The talks took place in a constructive atmosphere and there was some progress. The South Africans reiterated their commitment to UNSCR 435 for the independence of Namibia. The South Africans and Angolans held a bilateral at Brazzaville on 13 May. This did not, however, cover the same ground as the US-led quadripartite talks. The next round of the latter is due to take place on 8/9 June (place yet to be decided). There are many differences yet to be resolved.

18. South Africa is also engaged in negotiations with Mozambique. There are prospects both for rehabilitation of the Cahora Bassa project in Mozambique and for a revival of the Nkomati Accord. (The first meeting of the South Africa/Mozambique joint Security

Commission since 1985 was held last week.)

Other Foreign Policy Subjects

19. There have been various proposals for Summit discussion (usually by Heads) of other regional issues: Horn of Africa (Italy); China, Korea, Cambodia, and Philippines (Japan); Central America (FRG). We would like them all to be taken by Foreign Ministers, except Cambodia which can be absorbed under East-West.

Philippines

20. Secretary of State visited Philippines 27-29 May, and discussed proposed mini-Marshall plan for aid to the Philippines (under auspices of World Bank).

Ethiopia

21. Four of the Seven (UK, USA, Canada and Italy) take a close interest in Ethiopia. The Canadians recently proposed a donor Conference on Ethiopia, to be held in Paris on 16/17 May. It did not take place for lack of response.

Technology and Foreign Policy

22. This was discussed by the Seven Foreign Ministers in Venice and again in New York in September 1987 on the basis of an exposition by Shultz. There was to have been an informal Ministerial meeting in the FRG this spring to follow it up, but convenient dates could not be found. Shultz is expected to revert to the subject in Toronto, but will probably leave any further action, eg in New York this September, to the Canadians as Summit Chairman.

Policy Planning Staff

31 May 1988

TORONTO ECONOMIC SUMMIT: POLITICAL DECLARATION
UK DRAFT LANGUAGE ON EAST-WEST RELATIONS

1. In the wake of President Reagan's fourth summit meeting with Mr Gorbachev, we discussed East/West relations. We welcome the significant progress made, in the 8 years since President Reagan took office, towards our shared goals of preserving peace and extending freedom and democracy. We have created new possibilities to develop East/West relations, to reduce mistrust and build confidence. Basing ourselves on firmness of resolve, alliance unity and a determination to deter aggression, we have encouraged others - in particular the Soviet Union - to work with us in building a safer and more stable world. Our principles are as firmly held as ever. Our arguments are increasingly accepted and our policies vindicated.

2. Developments in the Soviet Union and Eastern Europe give grounds for cautious optimism. There are signs of greater diversity and pluralism. There is a belated willingness to acknowledge the failure of the socialist system to satisfy the needs and aspirations of their peoples: and to accept, that the dynamism and creativity of their citizens must be released, not suppressed for economic and political success to be achieved. We hope this will lead to greater openness and full respect for fundamental human liberties as well as the greatest possible interchange of people and ideas between our societies. These issues lie at the heart of differences between East and West: progress on them is essential if we are to see a sustainable improvement in relations. The Soviet approach to the CSCE follow-up meeting in Vienna will be a key test of their intentions.

3. The year since we last met has been marked by two historic developments. First the INF Treaty, the first agreement ever to abolish an entire class of weapons, or to reduce the stock of nuclear weapons. This treaty is the

direct result of Western firmness and unity in pursuing the zero option, originally proposed by President Reagan in 1981, and our willingness to deploy nuclear weapons in response to the threat posed by Soviet SS20s. It is based on two principles on which we have long insisted and which will be central to future arms control agreements: asymmetrical reductions and intrusive verification arrangements. The INF Treaty thus sets a vitally important precedent for future agreements. We now look to a treaty incorporating deep reductions in US and Soviet strategic nuclear systems, and for measures to tackle the huge conventional imbalance in Europe and the terrifying dangers of chemical weapons. A safer world depends not on statements but on practical steps to make war less likely and more difficult to wage.

4. Secondly, the beginning of Soviet withdrawal Afghanistan marks the turning of the tide of Soviet expansionism. A brave and determined people, resolutely supported by the world community, have successfully resisted Soviet attempts to subjugate their country by armed force. We hope that the lesson of Afghanistan will be learnt. We now call on the Soviet Union to complete withdrawal as soon as possible so that the refugees can return and the Afghan people can determine their own future. The task of the international community, to which we pledge our firm support, is to help the Afghans repair the devastation caused by the Soviet occupation.

5. We have noted Mr Gorbachev's statement that Afghanistan should serve as a model for the resolution of other regional conflicts. We take him at his word and look for full withdrawal of Vietnamese troops from Cambodia and Cuban troops from Angola.

CONFIDENTIAL

6. Profound differences between East and West exist and are likely to remain in many areas. We are committed to ensuring that constant dialogue, based on strong and credible defence and the building of confidence, allows whatever problems flow from these differences to be resolved calmly and peacefully

CONFIDENTIAL

TORONTO ECONOMIC SUMMIT: POLITICAL DECLARATION

UK DRAFT LANGUAGE ON IRAN/IRAQ

Heads of State and Government expressed their serious concern at the continuing conflict between Iran and Iraq. They warmly appreciated the efforts of the Secretary-General to work for a settlement on the basis of SCR 598 and reiterated their determination to secure compliance with this mandatory resolution by means of a follow-up resolution if Iran remained non-compliant. They reiterated their commitment to upholding the principle of freedom of navigation in the Gulf, their condemnation of the use of chemical weapons by either party and their deep concern over the proliferation of ballistic missiles in the region and appealed to all countries of goodwill to work with them to control the further spread of these weapons.

CONFIDENTIAL

TORONTO ECONOMIC SUMMIT: POLITICAL DECLARATION

UK DRAFT LANGUAGE ON ARAB/ISRAEL

The Summit 7 made clear their concern at the continuing instability in the Near East. The current unrest in the Occupied Territories is one sign that the status quo offers no basis for a secure and peaceful future for the region. An early negotiated settlement to the underlying Arab/Israel dispute is essential. The Summit 7 declare their support for the convening of an international conference as a framework for the necessary negotiations between the parties directly concerned. They salute current efforts aimed at achieving a settlement, including the initiative launched by Mr Shultz in March, and urge the parties to respond positively.

CONFIDENTIAL

TORONTO ECONOMIC SUMMIT: POLITICAL DECLARATION

UK DRAFT LANGUAGE ON TERRORISM

Heads of State and Government strongly reaffirmed their condemnation of international terrorism in all its forms and their commitment to statements on terrorism made at previous summits.

- They deplored recent threats to air security, in particular the hijacking of the Kuwaiti aircraft and the loss of life involved. They expressed regret and serious concern that the hijackers and the murderers had been allowed to go free.

condemned

- They reiterated their determination to deter and combat threats to the safety of all travellers by every means possible. In this context, they reviewed and endorsed the positive contributions which had been made to travellers' safety in the last year, in particular the Montreal Protocol for the ~~S~~uppression of ~~U~~nlawful ~~A~~cts of ~~V~~iolence at ~~A~~irports ~~S~~erving International Civil Aviation signed at Montreal on 24 February 1988, and the IMO Convention and on the ~~S~~uppression of ~~U~~nlawful ~~A~~cts ~~A~~gainst the ~~S~~afety of Maritime Navigation signed at Rome on 10 March 1988.

- They also endorsed work currently ~~u~~nder ~~w~~ay in the International Civil Aviation Organisation, in direct response to the recent Kuwaiti airline hijacking, aimed at strengthening international protection against such hijackings. ~~/~~ These include:

a) The proposal to establish a group under ICAO auspices which would be available to investigate future hijackings, at the invitation of the country handling the hijack.

b) The proposal that ICAO should compile a list of names of experts in dealing with hijacks, on whose advice Member States could draw in the event of a hijack on their territory.

c) The strengthening of existing security guidelines which are compiled under ICAO auspices.

d) To give formal endorsement to the principle that hijacked aircraft should not be allowed to take off once they have landed, apart from in specific exceptional circumstances.

They undertook to cooperate at ICAO and to give their full support to the adoption of these measures.

- They reaffirmed their commitment to cooperate to apprehend and prosecute terrorists. They urged other governments to join them in this commitment and condemned governments who in any way assisted or tolerated terrorism. In this context, they appealed to all countries who were not party to the international conventions on terrorism to accede as a matter of priority.

TORONTO ECONOMIC SUMMARY: CHAIRMAN'S SUMMARY

UK DRAFT LANGUAGE ON SOUTH AFRICA

- Extensive discussion
- Condemnation of apartheid; opposition to violence; call on SAG to take lead in bringing about its peaceful, negotiated end.
- Welcome [or if not possible a neutral reference to] President Botha's 21 April speech. Hope it marks return to path of reform. Recent repressive measures should be withdrawn.
- SAG should heed humanitarian calls for clemency for Sharpeville Six, and refrain from action against foreign assistance to organisations and individuals.
- Further repression by SAG, aggression against neighbours, or interference with foreign aid programmes would severely strain relations with Summit participants [resist automatic link to sanctions].
- Welcome positive steps in region - Mozambique, Angola/Namibia negotiations.

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FOREIGN AFFAIRS COUNCIL MEETING, LUXEMBOURG, 25 APRIL: KUWAITI
AIRLINES HIJACKING

Secretary of State's Five Point Action Plan

(1) An international task force to investigate the hijacking, and to examine security arrangements at the relevant airports, should be set up under ICAO auspices.

(2) Again, under ICAO auspices, a group of international counter terrorism experts should be on permanent stand-by to advise governments during future hijackings.

(3) The feasibility of making mandatory existing international guidelines for airport security should be urgently studied, including the imposition of sanctions where security is lax.

(4) The Hague Convention should be strengthened so that countries would be legally bound not to let hijacked aircraft take off once they had landed.

(5) Non-signatory countries should be pressed without delay to accede to The Hague Convention.

DECLARATION ON HIJACKING MADE AT ECONOMIC SUMMIT IN BONN:

16/17 JULY 1978

The Heads of State and Government, concerned about terrorism and the taking of hostages, declare that their Governments will intensify their joint efforts to combat international terrorism.

To this end, in cases where a country refuses the extradition or prosecution of those who have hijacked an aircraft and/or does not return such aircraft, the Heads of State and Government are jointly resolved that their Governments shall take immediate action to cease all flights to that country.

At the same time, their Governments will initiate action to halt all incoming flights from that country or from any country by the airlines of the country concerned.

They urge other governments to join them in this commitment.



Verbatim Service

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THURSDAY 11 JUNE 1987

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EAST-WEST RELATIONS

Statement on East-West relations issued by the seven heads of government at the Venice Economic Summit on 9 June 1987:

1. We, the Heads of State or Government of seven major industrial nations and the Representatives of the European Community, have discussed East-West relations. We reaffirm our shared principles and objectives, and our common dedication to preserving and strengthening peace.
2. We recognise with pride that our shared values of freedom, democracy and respect for human rights are the source of the dynamism and prosperity of our societies. We renew our commitment to the search for a freer, more democratic and more humane world.
3. Within existing alliances each of us is resolved to maintain a strong and credible defence which threatens the security of no-one, protects freedom, deters aggression and maintains peace. We shall continue to consult closely on all matters affecting our common interest. We will not be separated from the principles that guide us all.
4. Since we last met, new opportunities have opened for progress in East-West relations. We are encouraged by these developments. They confirm the soundness of the policies we have each pursued in our determination to achieve a freer and safer world.
5. We are following with close interest recent developments in the internal and external policies of the Soviet Union. It is our hope that they will prove to be of great significance for the improvement of political, economic and security relations between the countries of East and West. At the same time, profound differences persist, each of us must remain vigilantly alert in responding to all aspects of Soviet policy.
6. We reaffirm our commitment to peace and increased security at lower levels of arms. We seek a comprehensive effort to lower tensions and to achieve verifiable arms reductions. While reaffirming the continuing importance of nuclear deterrence in preserving peace, we note with satisfaction that dialogue on arms control has intensified and that more favourable prospects have emerged for the reduction of nuclear forces. We appreciate US efforts to negotiate balanced, substantial and verifiable reductions in nuclear weapons. We emphasise our determination to enhance conventional stability at a lower level of forces and achieve the total elimination of chemical weapons. We believe that these goals should be actively pursued and

translated into concrete agreements. We urge the Soviet Union to negotiate in a positive and constructive manner. An effective resolution of these issues is an essential requirement for real and enduring stability in the world.

7. We will be paying close attention not only to Soviet statements but also to Soviet actions on issues of common concern to us. In particular:

- We call for significant and lasting progress in human rights, which is essential to building trust between our societies. Much still remains to be done to meet the principles agreed and commitments undertaken in the Helsinki Final Act and confirmed since.
- We look for an early and peaceful resolution of regional conflicts, and especially for a rapid and total withdrawal of Soviet forces from Afghanistan so that the people of Afghanistan may freely determine their own future.
- We encourage greater contact, freer interchange of ideas and more extensive dialogue between our people and the people of the Soviet Union and Eastern Europe.

8. Thus, we each seek to stabilise military competition between East and West at lower levels of arms, to encourage stable political solutions to regional conflicts, to secure lasting improvements in human rights, and to build contacts, confidence and trust between governments and peoples in a more humane world. Progress across the board is necessary to establish a durable foundation for stable and constructive relationships between the countries of East and West

THREAT OF TERRORISM

Statement on terrorism by the seven heads of Government at the Venice Economic Summit on 9 June 1987:

We, the Heads of State or Government of seven major democracies and the Representatives of the European Community assembled here in Venice, profoundly aware of our peoples' concern at the threat posed by terrorism,

- reaffirm our commitment to the statements on terrorism made at previous Summits, in Bonn, Venice, Ottawa, London and Tokyo,
- resolutely condemn all forms of terrorism, including aircraft hijackings and hostage-taking, and reiterate our belief that whatever its motives, terrorism has no justification,
- confirm the commitment of each of us to the principle of making no concessions to terrorists or their sponsors,
- remain resolved to apply, in respect of any State clearly involved in sponsoring or supporting international terrorism, effective measures within the framework of international law and in our own jurisdictions,
- welcome the progress made in international cooperation against

particular the initiative taken by France and Germany to convene in May in Paris a meeting of Ministers of nine countries, who are responsible for counter-terrorism.,

- reaffirm our determination to combat terrorism both through national measures and through international cooperation among ourselves and with others, when appropriate, and therefore renew our appeal to all like-minded countries to consolidate and extend international cooperation in all appropriate fora.,
- will continue our efforts to improve the safety of travellers. We welcome improvements in airport and maritime security, and encourage the work of ICAO and IMO in this regard. Each of us will continue to monitor closely the activities of airlines which raise security problems. The Heads of State or Government have decided on measures, annexed to this statement, to make the 1978 Bonn Declaration more effective in dealing with all forms of terrorism affecting civil aviation.,
- commit ourselves to support the rule of law in bringing terrorists to justice. Each of us pledges increased cooperation in the relevant fora and within the framework of domestic and international law on the investigation, apprehension and prosecution of terrorists. In particular we reaffirm the principle established by relevant international conventions of trying or extraditing, according to national laws and those international conventions, those who have perpetrated acts of terrorism.

ANNEX

The Heads of State or Government recall that in their Tokyo Statement on international terrorism they agreed to make the 1978 Bonn Declaration more effective in dealing with all forms of terrorism affecting civil aviation. To this end, in cases where a country refuses extradition or prosecution of those who have committed offences described in the Montreal Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation and/or does not return the aircraft involved, the Heads of State or Government are jointly resolved that their Governments shall take immediate action to cease flights to that country as stated in the Bonn Declaration.

At the same time, their Governments will initiate action to halt incoming flights from that country or from any country by the airlines of the country concerned as stated in the Bonn Declaration.

The Heads of State or Government intend also to extend the Bonn Declaration in due time to cover any future relevant amendment to the above Convention or any other aviation conventions relating to the extradition or prosecution of the offenders.

The Heads of State or Government urge other governments to join them in this commitment.

EFFORTS TO END GULF WAR

Issued by the seven heads of government at the Venice Economic Summit on 9 June 1987:

We agree that new and concerted international efforts are urgently required to help bring the Iraq-Iran war to an end. We favour the earliest possible negotiated end to the war with the territorial integrity and independence of both Iraq and Iran intact. Both countries have suffered grievously from this long and tragic war. Neighbouring countries are threatened with the possible spread of the conflict. We call once more upon both parties to negotiate an immediate end of the war. We strongly support the mediation efforts of the United Nations Secretary-General and urge the adoption of just and effective measures by the UN Security Council. With these objectives in mind, we reaffirm that the principle of freedom of navigation in the Gulf is of paramount importance for us and for others and must be upheld. The free flow of oil and other traffic through the Strait of Hormuz must continue unimpeded.

We pledge to continue to consult on ways to pursue these important goals effectively.

ENDS VS025/87



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


TORONTO ECONOMIC SUMMIT: FOURTH MEETING OF PERSONAL
REPRESENTATIVES, 3 - 5 JUNE

BRIEF 6(i) WORLD ECONOMY

New Points to Make

1. On the relationship between macro and micro policies:
 - i. Stronger economic growth is not a precondition for microeconomic policy reform.
 - ii. The role of macro policy is not demand management but to ensure that, over the medium term, growth of money demand is consistent with sustainable non-inflationary growth ie with a low rate of inflation, accommodating growth of potential real output.
 - iii. Within such a macroeconomic framework, the role of microeconomic policies is to improve economic efficiency and economic growth.
2. On global demand management:
 - i. Agree on need for further reduction in trade and budgetary imbalances to sustainable levels; and reaffirm commitments to the adjustment policies to achieve this.
 - ii. But express great scepticism about attempts to 'fine tune' the world economy. Given delays before policy actions take effect, imperfections in forecasting etc, such attempts are liable to be destabilising in practice - as demand management policies have been so often before at a national level.

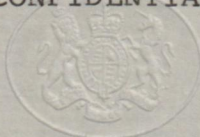
BACKGROUND

Despite our efforts to get it changed, the OECD Ministerial Communique asserted that strong growth facilitates structural adjustment (see final sentence of extract below). It also might be read (even in the final version) as implying that structural adjustment creates room for reflation.

"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".

2. Among some countries there appears to be a strong - but not clearly thought out - insistence on the complementarity between macro and micro policies. We may need to resist attempts to introduce these muddled ideas into the Economic Summit Communique.

3. The Canadian Thematic Paper dwells excessively on the problem of imbalances and often tends towards the language of demand management.



TORONTO ECONOMIC SUMMIT:

FOURTH MEETING OF PERSONAL REPRESENTATIVES, 3-5 JUNE

BRIEF NO 6(ii): DEVELOPING COUNTRY ISSUES (DEBT; AID)

Objectives

Debt

1. Emphasise continuing validity of the case by case approach, but distinguishing between the middle income and poor debt-distressed sub-Saharan countries.
2. Secure language in the communique which reflects the Chancellor's debt initiative.

Aid

3. Stress the quality of UK aid, while avoiding any commitment significantly to increase the level of aid or establish a timetable to reach the UN target of 0.7%.

Points to make

1. Still firmly believe that interest rate cuts on rescheduled debt proposed by Chancellor best way forward for sub Saharan debtors.
2. [if French proposals similar to Chancellor's] Warmly welcome these proposals. Will report to Ministers, and discuss tactics to take them forward.
3. [if French proposals differ] Will have to consider further.
4. [if French proposals unclear] Who will benefit? How much off interest rates envisaged? Tactics for taking forward? Prepared to implement unilaterally, or with a few other creditors?



5. [if language proposed on Canadian idea] Appreciate efforts to find compromise. Believe Chancellor's proposal better. Must keep language on Canadian ideas square bracketed until Summit.

6. (if raised) Net official developmental assistance (oda) in 1987 is estimated at £1151 million, equivalent to 0.28% of GNP.

7. The aid/GNP figure (of 0.28%) reflects the strong growth in the UK economy last year and the fact that in 1987/88 a larger proportion of aid spending took place in the last quarter than was the case in the previous financial year.

BACKGROUND

Middle-income debtors

1. Since 1982 most middle-income debtors have put in place reform programmes and made significant progress on the external front: the Baker 15 has had a balance of trade surplus of over \$20 billion per year since 1983. But debt/export ratios have risen, and per capita income has declined. Most middle-income countries have moved further from creditworthiness. The world economy has been supportive of debtors in some respects: 3½% pa growth in the main industrialised countries since 1982. But real interest rates are still high, and the Baker 15's terms of trade have fallen sharply, particularly for raw materials exporters.

2. Creditor exposure to debtors is rising only slowly. The share of commercial banks is declining relative to official creditors. The World Bank is now the main provider of net new resources. Commercial banks have strengthened their capital bases, and the systemic risk is now much diminished. Amongst individual debtors, Mexico and Chile continue to make good progress, while Brazil has recognised the failure of its moratorium, and is now negotiating with the banks and the IMF. On the downside neither Egypt nor Nigeria seems ready to reach new agreements with the IMF, and Argentina's commitment to reform is still weak.

3. There have been several encouraging recent developments in debt management which helped to make debt relatively uncontentious at the IMF/IBRD spring meetings: the \$75 billion General Capital Increase for the World Bank; the MIGA convention came into force following UK and US ratification; progress in the IMF on the establishment of a Compensatory and Contingency Financing Facility which will help to ensure that IMF programmes stay on track as well as compensating for losses of export earnings; support for increased use of the Extended Financing Facility to support sound 3 year adjustment programmes for countries with a good track record. For their part the commercial banks have shown greater willingness to use innovative financing techniques such as debt/equity swaps, exit bonds, conversion of debt

into bonds (Mexico) and even debt buy back (Bolivia). We believe there is greater scope for imaginative voluntary agreements between banks and debtors to reduce levels of debt. But we should continue to oppose global solutions and if possible secure communique language which rejects them.

4. The Mexican Ambassador has delivered to us a paper on debt, trade and protectionism on behalf of the G8 Latin American countries, which is intended to influence Summit thinking. We understand that representatives of the Cartagena Group (which overlaps with G8) are due to meet shortly to prepare a further letter for President Sanguinetti to send to G7 Summit leaders about debt. Individual leaders have acknowledged similar letters after previous Summits.

Sub-Saharan Africa

5. There has been increasing recognition of the need for special help for the poorest most indebted sub-Saharan countries. The IMF's Enhanced Structural Adjustment Facility will provide a further SDR 6 billion of new conditional lending on concessional terms for IDA eligible countries with serious balance of payments difficulties. The UK contribution will subsidise up to one sixth of the new lending. The World Bank has secured new commitments of balance of payments support of up to \$6.4 billion from donors for the low income debt-distressed countries in sub-Saharan Africa over the next 2 years. About half is believed to be additional. The UK pledged £250 million over 3 years.

6. Good progress has been made on the first two elements of the Chancellor's initiative to help the poorest most heavily indebted sub-Saharan countries following sound economic policies: more RTA, and longer rescheduling and grace periods. But there is still no consensus on cutting interest rates charged when these countries' debt is rescheduled in the Paris Club. Amongst the G7 Canada and Italy support us, and the French may be changing their view (para 8 below). The Chancellor made clear at the Spring meetings that he could accept, as second best, readily measurable and monitorable equivalent measures by creditors who were unable to agree interest

rate cuts. The Spring Development Committee and OECD Ministerial communiqués referred only to agreements that proposals to ease the burdens of the poorest countries undertaking structural adjustment merited further consideration.

7. The Canadians have floated informally a proposal to divide creditors into two groups: those prepared to grant interest relief and those who are not. Group A would reschedule over shorter periods at below commercial rates of moratorium interest; Group B over longer periods at commercial rates. The Chancellor discussed this proposal with Canadian Finance Minister Wilson on 16 May. He told Wilson that he regarded the Canadian proposal as very much second best, though we would consider it further. The Prime Minister made no comment when Mr Mulroney said the Canadians had worked out a compromise proposal which might be better than nothing when they met on 23 May.

8. In the meantime, the French hinted at the OECD Ministerial and Anglo-French Foreign Ministry talks on 20 May that they were considering their own initiative. Paris report that this initiative would relieve the debt of the poorest and most indebted countries, especially in Africa. The details have not yet been fully settled, but the initiative was likely to cover the cancellation of some aid debts, and a reduction of interest rates on other debts. It could therefore be consistent with the Chancellor's initiative. The French wanted to sound out certain partners, including the UK, before the initiative was announced, but it was unclear how far they would have got by this week's final Sherpas' meeting. We are trying to find out more details of the French proposals, in particular whether they envisage a substantial cut in moratorium interest rates, or just a cut in the small spread which export credit agencies charge over LIBOR when rescheduling. (This is an unsatisfactory compromise which they attempted to push through earlier this year.) It is also unclear how many other creditors the French would want to agree before going ahead with their scheme.

9. The Chancellor has decided that he is not ready at the final Sherpas to indicate any willingness to move to the Canadian compromise until we know precisely what the French have up their

sleeve. We have therefore not included any language on the Canadian proposal in our draft communique language, and any that the Canadians propose should be square bracketed. Sherpas will nevertheless provide a good opportunity to seek further details of the French proposals which would then have to be considered by Ministers.

Aid

10. The UK aid programme currently stands at some £1.3 billion. In 1986 it was the sixth largest amongst Western donors and the fourth largest in the EC. It is also one of the most effective (eg some 80% of British aid goes to low-income countries, a higher proportion than for OECD donors generally. Aid to the poorest countries is given on grant terms).

11. The Aid programme is planned to increase in real terms into the 1990s:

	<u>Net aid budget: £m</u>	<u>Cash increase over 1987/88 budget: £m</u>
1988/89	1,305	70
1989/90	1,375	140
1990/91	1,420	185

12. There are three UN targets:

(a) aid at 0.7% of GNP - It was announced in Parliament on 23 May that UK net official development assistance in 1987 is estimated at £1,151 million, which is equivalent to 0.28% of GNP. This compares with aid/GNP figures of 0.31% for 1986 and 0.35% in 1980.

(b) official and private flows at 1% of GNP. We have exceeded the UN target of 1% for official and private flows in every year since 1979 except 1985 and 1987. Over the most recent three-year period for which figures are available (1984/86) the value of Britain's direct private investment to the developing countries, at over \$2 billion a year, has been not much less than the average \$2.5 billion pa from all other European DAC countries put together; and

(c) aid to LDCs at 0.15% of GNP - UK aid (including imputed multilateral share) to LDCs in 1985/86 was equivalent to 0.1% of GNP, higher than the (then) average of 0.08% for all DAC members.

13. Like its predecessors, the Government has resisted the establishment of timetables for reaching the first or third UN targets described above. As a general principle the UK should not be associated with language that does so. At UNGA 40 (in 1985) the UK "reaffirmed its commitments, subject to known constraints on Government expenditure, to make its best efforts to reach these targets". In the UNCTAD Final Act (in 1987) Britain acquiesced in language by which "developed countries are requested to attain the internationally agreed targets of 0.7% of gross national product (GNP) for total oda and of 0.15% of GNP for oda to LDCs or doubling their oda to these countries as soon as possible. In this connection, the recommendations of the IMF/IBRD Development Committee's Task Force on concessional flows were recalled".

TORONTO ECONOMIC SUMMIT: UK DRAFT COMMUNIQUÉ LANGUAGE:
SUB SAHARAN DEBT

We recognise that the problems of the low-income debt-distressed countries in sub-Saharan Africa remain acute. Many of these countries are making brave efforts to reform their economies, but are hampered by their poverty, their dependence on one or two commodities, and their unsustainable debt burden. We welcome the progress made since we last met to increase the flow of resources to these countries which are pursuing sound economic policies. In particular we welcome the enhancement of the IMF's Structural Adjustment Facility, and the granting of longer rescheduling terms in the Paris Club, both of which we advocated at Venice, as well as the World Bank's Special Programme of Action, [and further moves towards cancellation of old aid loans]. But the debt burden continues to grow, and we [the majority of Summit countries] agreed [that proposals to ease the burdens of the poorest countries undertaking structural adjustment efforts therefore merit further careful consideration, including, where possible, interest rate reductions on rescheduled debt] [or alternative measures having a similar impact] to reduce interest rates on rescheduled commercial debt in the Paris Club for the poorest most heavily indebted sub-Saharan countries.

-9 MAI 88 - 012092

Le Président du Club de Paris

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Monsieur,

Les discussions intervenues le 20 avril dernier, dans le cadre d'une session de méthodologie consacrée au traitement en Club de Paris de la dette des pays les plus pauvres et les plus endettés engagés dans un effort d'ajustement, ont permis, pour ces pays, de se rapprocher d'un accord sur :

- 1) La prise en compte, dans le texte des Procès-Verbaux agréés en Club de Paris, de l'application aux consolidations de dettes nées de l'aide publique au développement de taux d'intérêt inférieurs aux taux du marché.
- 2) La réduction, voire l'annulation, de la marge appliquée au-dessus des taux du marché, pour la consolidation des dettes nées des créances commerciales garanties.
- 3) La possibilité de parvenir à un résultat équivalent à l'abaissement, en dessous des taux de marché, des taux d'intérêt appliqués aux consolidations des dettes commerciales garanties, par l'accroissement de l'aide publique au développement.

Quelques délégations ont cependant réservé leur accord à ce stade sur ces différents points.

Il a par ailleurs été décidé de poursuivre les discussions sur les propositions suivantes, parmi celles qui figuraient dans le document informel distribué par le Secrétariat sur les procédures du Club :

- 1) Accélération des négociations bilatérales, par l'assistance technique des agences de crédit aux pays débiteurs, par la fixation, à l'occasion des négociations multilatérales, des dates de négociations bilatérales, et enfin par une certaine harmonisation des accords.

Toutes les délégations ayant exprimé leur accord de principe sur ces mesures, il sera nécessaire de reparler de leurs modalités d'application.

HMT (WALSA)
ERD (Drummond)



2) Accords de rééchelonnement pluriannuels à modalités variables.

Ces accords serviraient de cadre aux négociations en Club de Paris intervenant annuellement ou au début de chaque période couverte par un accord de confirmation approuvé par le FMI. L'objet de ces négociations serait limité à la fixation des quotités consolidées et de la durée intermédiaire de consolidation.

3) Accords de consolidation "à deux vitesses".

Selon la suggestion originelle du Secrétariat, la fixation d'un "super seuil de minimis", appliqué à l'encours de dette, permettrait, pour les pays créanciers "de minimis", d'accorder au pays débiteur un rééchelonnement pluriannuel concernant tout l'encours de la dette, dont les termes (durée de la période de remboursement et/ou taux d'intérêt) pourraient être plus généreux que ceux d'un accord de rééchelonnement ordinaire.

Plusieurs délégations ont évoqué la possibilité de variantes par rapport à ce schéma originel. A été notamment évoquée la possibilité, pour les créanciers, de choisir entre deux options :

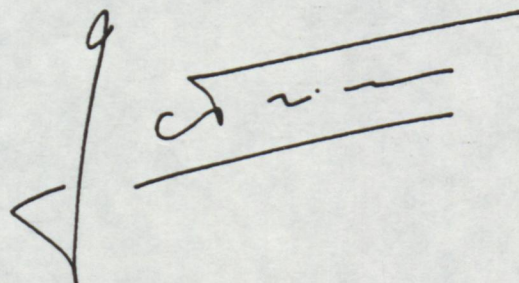
* Groupe A (de pays créanciers) : période de remboursement limitée à 10 ans et taux d'intérêt inférieur aux taux du marché ;

* Groupe B : période de remboursement allongée (15 ou 20 ans) et taux d'intérêt de marché.

L'ensemble des créanciers sont convenus de la nécessité d'approfondir les discussions sur les modalités possibles de ces deux catégories d'éventuels accords de consolidation : pluriannuels à modalités variables et "à deux vitesses".

4) La délégation de l'Autriche a également évoqué la possibilité d'indiquer dans les Procès-Verbaux des Clubs de Paris que les pays créanciers seraient disposés à réajuster les intérêts moratoires prévus dans les accords antérieurs, tombant dans la nouvelle période de consolidation, en fonction des conditions actuelles de marché. Cette dernière suggestion pourrait également être discutée à nouveau.

Je vous prie d'agréer, Monsieur, l'expression de mes sentiments distingués.



Signé : Jean-Claude TRICHET



TORONTO ECONOMIC SUMMIT:
FOURTH MEETING OF PERSONAL REPRESENTATIVES, 3-5 JUNE

BRIEF NO 6(iii): THE NEWLY INDUSTRIALISING ECONOMIES

Points to Make

- Need to differentiate between the four Asian dragons (let alone other NIEs). Should concentrate on the two running large current account surpluses and maintaining trade restrictions (Korea and Taiwan). Hong Kong and Singapore are open door economies.

- Welcome proposed informal contacts between OECD and the Asian NIEs. However, stress need for caution in dealing with Taiwan: even informal contacts could be misinterpreted by the PRC or exploited by the Taiwanese, and Hong Kong could also have difficulty in sitting down at the same table. Hope OECD Working Group will produce a satisfactory solution, recognising the four dragons' diversity.

- OECD communique language is balanced, and could serve as the basis for the Summit communique. [If US argues for tougher wording: no disagreement on the need for Summit countries (OECD) members to press strongly for policy reforms in any private contacts with Korea/Taiwan. But we first have to get the horse to the water; what we say publicly should be directed to this end.]

References

- Brief prepared (prior to OECD Ministerial) for third meeting of Personal Representatives
- UKDel OECD Telno 24, recording discussion at OECD Ministerial meeting, 19 May, and including the relevant passage in the OECD communique
- Mr Richardson's letter to Mr Davies (UKDel OECD) of 23 May, giving further background

Background

1. Relations between the OECD and the NIEs were discussed informally over lunch at OECD Ministerial Council on 19 May. UK was represented by Mr Clark.
2. Ministers agreed to go ahead with informal contacts between OECD and selected NIEs. Paye will ask the new OECD Council Working Group on relations with the NIEs to develop specific proposals on modalities and interlocutors. Working Group meets today (1 June). Paye is thinking in terms of a report by the end of the year: we would prefer it by September at the latest.
3. Ministers agreed to differentiate between the NIEs, even between the "four tigers", let alone other ASEAN countries and the Latin Americans. Baker (US) helpfully admitted that Korea and Taiwan were the main problems. Japanese supported limiting contacts to the four Asian NIEs and stressed need to avoid unilateral pressure or over-institutionalised arrangements. They have offered to host and finance an informal seminar.
4. Our main political problem remains Taiwan. In view of Chinese sensitivities we would have great difficulty in participating in talks - even informal - involving representatives of the Taiwanese Government. So would Hong Kong. We must see what proposals emerge from the Working Group: it may be possible to finesse Taiwanese

participation somehow. But we will prefer OECD contacts with individual "dragons", not the four as a group, not just because of Taiwan but because we do not want Hong Kong (or Singapore) tarred with the Korea/Taiwan brush, which might lead to renewed US pressure in Hong Kong to appreciate its currency against the US dollar.

5. In terms of Summit communique language, we much prefer the more balanced OECD text to previous G7 statements. So, we imagine, do at least the Canadians and Japanese.

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Foreign and Commonwealth Office

London SW1A 2AH

23 May 1988

H L Davies Esq
UKDEL OECD
PARIS

Jean Hughes

OECD AND THE NICs

1. I promised to send you a record of OECD Ministers' 19 May lunchtime session given over to discussion of the NICs (mainly but not exclusively the four Asian dragons) and of the relationship that the OECD should attempt to establish with them.

2. Although this discussion was intended to reach agreement on the disputed bits of paragraph 19 of the OECD communique (copy attached for some addressees' ease of reference), I don't think it worth spelling out the position of each OECD Minister on the wording of the communique. As you know, the upshot was that:

(i) a large majority of Ministers prevailed in deleting US language that sought to establish the agenda for any future OECD/discussions. No one disputed that balance of payments, trade imbalances and so on would inevitably feature. But most Ministers took the view that OECD members could not impose a one-sided agenda, and that if the organisation wished to induce the NICs to take part in discussions, the less said about the agenda for these the better in a communique intended for publication;

(ii) Ministers were fairly evenly split on whether to add "particularly in Asia" after the reference in the first sentence "the newly industrialising economies"; and I was surprised that Paye carried the day so easily in proposing these words' omission. It is worth noting that those who wanted the words out advanced a number of different - and often contradictory - arguments. Some (France and Portugal) envisaged talks with non-Asian countries (the Latin Americans). Others (the Commission, Italy, Switzerland) argued that everyone knew that "newly industrialising economies" meant the four Asians, and it wasn't necessary to labour the point. The Dutch turned this argument on its head and wanted no reference to "Asian" because that might imply early discussions with other ASEAN countries. And they, Canada and the UK stressed that the real problem was not the four but the two: Korea and Taiwan.

3. An encouraging feature both of the lunchtime discussion and of plenary was precisely this recognition that Korea and Taiwan were in a different situation from Hongkong and Singapore, and presented different problems. Baker said so in plenary (on paper anyway, a great advance on US activities in the G7 and elsewhere

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over the last year directed at tarring all four NICs with the same brush). Mr Clark made the same point forcefully over lunch, echoed by the French. And Paye noted helpfully that only two of the four had large surpluses, and the other two were very open. He and Clark of Canada also referred to the political sensitivities (meaning Taiwan and Hongkong). I did not hear anyone else doing so, except Uno (Japan) who said he had not visited Taiwan on his recent swing through the four NICs because Japan had no formal relations with the island.

4. Only Paye and Uno touched on the NICs' own views about possible contacts with the OECD. Paye noted that Korea already participated in the shipbuilding committee, and that it had asked informally about the conditions for membership. Uno reported that Singapore would consider it "a great honour" to take part in talks with the OECD; but that Korea, while willing to do so, did not welcome one-sided criticism from industrialised countries. Incidentally, Uno raised a few eyebrows by claiming that Japan represented the Asians at Economic Summits.

5. There was relatively little discussion of the way forward. It was agreed that the OECD should begin with informal contacts. A number of countries (beyond the UK, Canada and the Netherlands) appeared to advocate a country-by-country approach (Greece, Switzerland). The Japanese did not press hard for their proposed seminar, but will no doubt urge it when the OECD Council working group next meets on 1 June.

6. Most Ministers accepted that the agenda could not be wholly one-sided and that the NICs would have their own shopping list. The US irritably accused OECD members of wimpishness. This is unfair: Mr Clark was robust on the need for Korea and Taiwan to open up their markets, and the argument at lunch was about the choice of communique language, not the substance of OECD positions. But we must be careful to avoid an unnecessary quarrel between the Americans and the European members of OECD. If it is agreed that we are really talking about Korea and Taiwan in the first instance, then I doubt whether US and European policy prescriptions are that far apart.

7. Paye summed up usefully that the working group would now need to agree on modalities, agenda priorities and interlocutors, if possible by the end of the year. This seems too slow. You and I will be in touch before the 1 June meeting about the line you should take. Meanwhile we shall have to digest Oyake's lengthy paper, copies of which I shall send to Far Eastern and one or two other posts in the near future.

T L Richardson
TLR

cc Mr Braithwaite
Mr Carrick o/a
Mr Hutton DTI
Mr Evans HMT

T L Richardson
Economic Relations Department

Chanceries: Tokyo, Seoul, Singapore, Washington
UKRep Brussels, UKMis Geneva, Hongkong
FED, HYD, SEAD, ECD(E), NAD

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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.

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

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MY TEL NO 22(NOT TO ALL): OECD MINISTERIAL: NEWLY
INDUSTRIALISED ECONOMIES (NIES)

SUMMARY:

1. CONTACTS WITH NIES NOT ON FORMAL AGENDA, THOUGH PROBLEMS AND CHALLENGES POSED BY NIES MENTIONED BY SEVERAL SPEAKERS IN PLENARY. THIN AND UNSTRUCTURED DISCUSSION OVER LUNCH DID AT LEAST AGREE COMMUNIQUE LANGUAGE. COUNCIL WORKING PARTY TO TAKE MATTERS FORWARD.

DETAIL:

2. FOR REASONS OF SENSITIVITY, RELATIONS WITH NIES HAD BEEN KEPT OFF THE MAIN AGENDA, TO BE DISCUSSED OVER LUNCH ON THE SECOND DAY. BUT SEVERAL SPEAKERS, INCLUDING BAKER (US), DELORS (EC), UNO (JAPAN), AND MR LAWSON MENTIONED THE SUBJECT IN THEIR INTERVENTIONS ON THE GLOBAL ECONOMY.

3. BAKER SINGLED OUT THE NICS OF ASIA, 'PARTICULARLY KOREA AND TAIWAN', AS HAVING TO PARTICIPATE MORE FULLY IN THE EXTERNAL ADJUSTMENT PROCESS. HE CALLED FOR SPECIFIC REFORMS IN EXCHANGE RATES, TRADE, TAXATION, DERREGULATION, INVESTMENT AND CAPITAL MARKET ACCESS. DELORS REFERRED TO 'THE NICS, ESPECIALLY THE FOUR ASIAN TIGERS' AND SAID THAT THEY MUST BE ENCOURAGED TO 'PROGRESSIVELY JOIN THE CLUB AND TAKE THEIR RESPONSIBILITIES WITH REGARD TO TRADING PRACTICES AND EXCHANGE RATES'. UNO SPOKE OF IMPACT ON AND OPPORTUNITIES FOR OUR ECONOMIES PROVIDED BY EMERGENCE OF 'A CERTAIN NUMBER OF ECONOMIES IN ASIA'. HE EMPHASISED THEIR VULNERABILITY, THE NEED NOT TO TREAT THEM AS A HOMOGENEOUS GROUP AND THE DESIRABILITY OF A 'GENERAL' DIALOGUE ON HOW TOGETHER TO PROMOTE WORLD STRUCTURAL ADJUSTMENT. THE CHANCELLOR PICKED UP BAKER'S REFERENCE TO KOREA AND TAIWAN AND ADDED THEM TO THE LIST OF THOSE WHO SHOULD FREE UP AND OPEN UP THEIR MARKETS.

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4. OVER LUNCH ON THE SECOND DAY, AFTER INTRODUCTIONS BY PAYE (SEC. GEN.) AND UNO AND TAMURA (JAPAN), MINISTERS LARGELY CONCENTRATED ON COMMUNIQUE LANGUAGE MAKING LITTLE ATTEMPT TO TAKE A BROADER VIEW. PAYE SET THE SCENE IN HELPFUL TERMS, AND SUGGESTED INFORMAL CONTACTS AS A FIRST STEP. UNO AND TAMURA OUTLINED RECENT JAPANESE CONTACTS WITH 3 OF THE ASIAN NIES (NOT TAIWAN), SUPPORTED LIMITING THE CURRENT DISCUSSION TO ASIAN NIES, AND REPEATED NED TO AVOID UNILATERAL PRESSURE OR OVER-INSTITUTIONALISED ARRANGEMENTS. (AT THE END OF THE AFTERNOON SESSION, UNDER OTHER BUSINESS, UNO REVERTED TO JAPANESE OFFER TO HOST AN INFORMAL SEMINAR, AND OFFERED TO FINANCE THIS.)

5. IN SUBSEQUENT DISCUSSION THE US HELD STRONGLY TO ITS WISH TO MAKE COMMUNIQUE LANGUAGE MORE SPECIFIC, SETTING OUT WHAT THE OECD REQUIRED OF THE NIES (ON LINES OF BAKER'S INTERVENTION ABOVE). THEY RECEIVED ALMOST NO SUPPORT. MOST OTHER COUNTRIES DISTINGUISHED THEMSELVES BETWEEN WHAT THE COMMUNIQUE SHOULD SAY IN PUBLIC AND WHAT THE OECD SHOULD SEEK IN PRIVATE AS AND WHEN DISCUSSIONS ACTUALLY BEGAN. OPINION WAS EVENLY DIVIDED WHETHER TO REFER TO ASIAN NIES. MR CLARK EMPHASISED THE NEED TO DIFFERENTIATE AMONG THE NIES, AND TO CONCENTRATE ON THE TWO (KOREA AND TAIWAN), RUNNING SUBSTANTIAL CURRENT ACCOUNT SURPLUSES. IF WE WERE TO OPEN DOORS TO THEM, THEY MUST RECIPROCATE. IT WAS ESSENTIAL FOR SUCCESS IN THE URUGUAY ROUND TO BE CLEAR ABOUT THE ISSUES.

6. THE OUTCOME WAS:

(A) COMMUNIQUE LANGUAGE AS BELOW (NO MENTION OF ASIA, NO SPECIFIC SUBJECTS FOR DISCUSSION.

(B) PAYE TO ASK THE NEW OECD COUNCIL WORKING GROUP TO DEVELOP SPECIFIC PROPOSALS ON MODALITIES AND INTERLOCUTORS. FIRST MEETING OF WORKING GROUP ON 1 JUNE.

7. PARA 19 9F COMMUNIQUE READS:

QUOTE: RELATIONS WITH NEWLY INDUSTRIALISING ECONOMIES 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 PLAN 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. DISCUSSION INVOLVING THESE ACTORS - RECOGNISING MUTUAL INTERESTS AND TAKING INTO ACCOUNT THE DIVERSITY OF THE ECONOMIES CONCERNED -

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COULD CONTRIBUTE TO BETTER UNDERSTANDING AND THE CONVERGENCE OF
VIEWS ON POLICY COOPERATION FOR THE CONTINUED GROWTH AND DEVELOPMENT
OF THE WORLD ECONOMY. UNQUOTE.

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TORONTO ECONOMIC SUMMIT: FOURTH MEETING OF PERSONAL REPRESENTATIVES,
3-5 JUNE

BRIEF 6(iv) STRUCTURAL REFORM

NEW POINTS TO MAKE

1. Welcome continuing OECD work, particularly work to develop and strengthen OECD surveillance of structural reform. OECD appropriate forum for this work.
2. Agriculture and trade are clear examples of need for structural reform, where dismantling trade barriers and domestic intentions will be more effective, and often politically easier, if done multilaterally.

BACKGROUND

1. OECD Ministerial Communiqué welcomed Economic Policy Committee report on reform of structural policies and endorsed the priorities - tax reform, financial markets, agriculture, trade policies, subsidies to industry - for future progress. The Secretary-General was asked to develop further and strengthen the OECD's surveillance of structural reform and to report to the 1989 Ministerial meeting.

2. Discussion at the third Sherpa meeting suggests general agreement that economic growth comes through structural reform, encouraging enterprise and freer operation of markets. Summit could give clear direction to further reform, especially the areas where international cooperation is helpful.

3. Trade and agriculture are clear examples of need for reform; particularly helpful to consider in structural adjustment context.

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TORONTO ECONOMIC SUMMIT: FOURTH MEETING OF PERSONAL
REPRESENTATIVES 3-5 JUNE 1988

BRIEF 6 (v): INTERNATIONAL INVESTMENT

Points to Make (if raised)

- All those present will have endorsed Ministers' reaffirmation at the OECD Ministerial Council on 18-19 May of their interest in maintaining and improving an open international climate for direct investment in both developed and developing countries.

- (If raised by the USA)

We support the USA in pressing for a better application of the principle of National Treatment in the OECD Guidelines provided this does not exclude consideration of other matters of concern to us, eg on conflicting requirements (ie competing jurisdictions).

Department of Trade and Industry

27 May 1988

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BACKGROUND

1. The OECD Ministerial Council on 18-19 May dealt satisfactorily with the need to emphasise the importance of an open international climate for direct investment. The subject does not therefore require the attention of the Summit.
2. If however the US presses for language, we could draw on paragraph 32 of the OECD communique, which, referring to OECD economies, stated that:

"Ministers express their determination to resist ... 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."
3. In its passages on Developing Countries the communiqué emphasised the importance of investment flows equally to such countries and also the need for progress to be made in their performance and structural reforms. Paragraph 17 noted that:

"Significant obstacles to the flow of direct investment remain and should be addressed by both host and home countries, and through co-operative action."
4. The US remains very interested in seeking a review of abuses of the National Treatment principle in the OECD 1976 Guidelines on International Investment and Multinational Enterprises, and could conceivably raise the matter at the Summit. As noted in Brief 9 for the Second Meeting ("Attitudes of Major Players") we would generally support the US objective of improving the application of this principle, provided the work does not crowd out examination of other important issues, eg conflicting requirements (ie competing jurisdictions) and the application of OECD principles at sub-national level.

Department of Trade and Industry
27 May 1988

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TORONTO ECONOMIC SUMMIT: FOURTH MEETING OF PERSONAL REPRESENTATIVES, 3-5 JUNE

BRIEF 6: HEALTH CARE IN THE 1990s

BACKGROUND: HEALTH

1. Demography

The population of elderly people (aged 65+ in England) is projected to rise by only 1.3% between 1991 and 2001 [7.6M to 7.7M]. However, the population of very elderly people (aged 85+), is projected to rise by 32% over the same period [748K to 991K].

2. Effect of rising numbers of elderly people on health care services

The main effects of the very significant projected increase in the numbers of very elderly people, who are the heaviest users of services, will be

* increased demand for local authority social services, for community nursing services and for hospital and nursing home based services for elderly people

* pressure will also be felt in those acute medical and surgical specialties (e.g. orthopaedics) with a high level of demand from elderly people.

However, the overall effect of demographic pressure (ie across all age groups) on the health services is expected to decline in the early 1990s, but to rise again to present levels in 1995 before tailing off quite significantly by the end of the century. The future effects of current trends in health prevention and the adoption of healthier lifestyles are uncertain.

BACKGROUND: SOCIAL SECURITY

1. Demography

The main points to note are

- * the number of pensioners will rise by about 40% by 2033
- * the ratio of workers to pensioners will fall from 2.3 to 1.6 by 2033

2. Social Security into the next century

2.1. Common issues to be faced are

* demographic change putting the burden on a smaller number of workers to cover a larger number of pensioners

* higher standards of living expected in retirement, to keep up with living standards generally

* maturing of the generous state pension schemes

* the need to preserve independence and choice by ensuring adequate finance both for the individual and for services.

2.2. The UK has already acted to

* encourage the development of non-state sources of income in retirement to ensure both that the financial burden is shared and that individuals enjoy higher income than the state can guarantee

provide. Over 85% of pensioners have income besides state pension

* trim over-generous features of the state earnings related pension scheme introduced in 1978, halving its expected ultimate cost;

and is

* considering the problem of pension age equalization between the sexes and what the pension age should be. Conflicting demands here for greater leisure and shorter working life, whereas demographic trends and improving mortality suggest the reverse is desirable to maintain steady financing.



TORONTO ECONOMIC SUMMIT : FOURTH MEETING OF PERSONAL
REPRESENTATIVES, 3-5 JUNE

Brief No 6 (vii) Environment

Objective

- to avoid inclusion of references to specific environmental issues in the communique.

Points to make

1. Now too late to consider the wide range of issues raised in the German and Italian papers.
2. Whilst we could support number of individual points, both papers include items which are likely to cause all of us difficulty.
3. Before looking at new issues, should we not be considering whether we have discharged commitments, on other environmental issues, given at Venice summit?

(For use if reference to environment inevitable)

4. We would suggest a broadly-based paragraph in the communique, along the lines of :

"In the light of the Report of the World Commission on Environment and Development (the Brundtland Report) the summit states call upon all countries and relevant international organisations to examine what they are doing to integrate environmental and other policies and to publish their strategies for achieving sustainable development".

Background

1. At the last Sherpas' meeting, the German and Italian Sherpas circulated papers which proposed language on a wide range of environmental issues for inclusion in the Summit communique. Neither are acceptable to us; the German paper is particularly contentious. We are still of the view that it would be preferable to avoid detailed discussion of environmental issues and, thus, it would be inappropriate to incorporate in the communique substantial references to the environment. This view is reinforced by the apparent absence of follow-up to commitments made at the Venice Summit (paras 29-31 of the Venice communique) in respect of a number of environmental issues.

2. Nonetheless, the Germans and Italians are likely to press for references in the communique. It might be possible to persuade them to drop their detailed proposals in favour of a shorter passage along the lines of that suggested in Points to Make.

Translation

Federal Ministry for the Environment, Nature Conservation
and Nuclear Safety

Bonn 13 May 1988

Proposed Text for a Contribution on Environmental
Protection for the Economic Declaration

Environmental policy is to be further integrated into economic policy. In view of the ever increasing global environmental problems the principle of precautionary environmental policy should be applied throughout the world. Wherever possible, the best technological means available should be used to avoid or restrict environmental pollution at source.

Latest scientific findings mean that measures to protect the ozone layer and to prevent global climate change must be given top priority. We therefore welcome the conclusion of the Montreal Protocol on Substances that Deplete the Ozone Layer in 1987. We welcome the fact that the negotiations on a protocol on emissions of nitrogen oxides within the framework of the Geneva Convention on Long-range Transboundary Air Pollution are nearing completion and that the protocol is due to be signed this autumn.

The measures on the basis of these agreements as well as those adopted under the protocol on a reduction in sulphur dioxide emissions only represent the first important steps. They must be followed by further drastic

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measures, both via the planned supplementary international agreements and via more far-reaching national provisions.

An effective policy on the environment also requires more intensive East-West cooperation. We therefore expect that the current follow-up conference to the CSCE will also make concrete stipulations with regard to cooperation on the environment.

Environment

As regards environment, what is needed to-day is something which makes governments and people move from statements to action and coalesces therefore a new and strong political will. The Seven Heads of State or Government should emphasises once more and in stronger and more solemn terms than in the past, the urgency and global character of this problem: it is intersectoral, international, and intergenerational. If it remains unattended and unsolved, in the end it will paralyse everything, including our own future. Indeed, what is lacking nowadays in the field of environment, both at national and international levels, is the perception of its global character.

Mr De Mita thinks that the Summit should welcome in the communiqué the Bründtland Report, of which an important follow-up has been the recent International Meeting held in Milan. This Report maintains very clearly that there is no longer an environment problem versus a development or growth problem; if we want a "sustainable growth" in the long term and for future generations, both environment and growth have to be addressed simultaneously and dealt upon in a global, integrated and common framework.

In brief, Toronto should restate the commitments taken at the Venice Summit to cooperate in a few priority areas, such as ozone protection, air and water pollution, hazardous substances, endangered species, destruction of tropical forests, etc. The forthcoming Summit should represent a unique opportunity to make an appeal for the collaboration and participation of all countries, North and South, East and West, in order to achieve an initial success in the fight for a better environment, a problem which is becoming dramatic and knows no boundaries. Moreover, as all participating countries are worried by the

degradation of many important, historic, and art cities, the Summit should recommend the recourse to the "city technologies" in order to preserve the quality of urban life and the landmarks of the past.

As regards the practical steps, the Summit should stress the need to complete and enlarge the work in progress. As regards ozone, the Seven Leaders should invite the countries which have not yet done so, to sign and/or to ratify the Vienna Convention of 1985 and the Montreal Protocol of 1987 as soon as possible. We wonder whether it would not be advisable to go "beyond Montreal", should the prospective deterioration of the ozone protective layer pointed out in the very recent Report submitted by the "Ozone Trend Panel" be confirmed. In such a case there is the need for larger cuts in CFC emissions than those envisaged in the Protocol.

A second field to which the Summit should draw the attention of all the countries of the world is the freezing of the nitrogen oxides emissions. Negotiations are going on in Geneva; they would certainly get a boost by the open and convinced support of the Seven Leaders assembled in Toronto.

Finally, the efforts of UNEP for an agreement on the international traffic of dangerous wastes should be welcomed and encouraged; the forthcoming negotiations could be speeded up by the warm support declared by the Seven most industrialized countries, that is the countries that potentially are the main sources of such wastes.

By now it should be clear that these partial initiatives, as well as any other which will materialise in the future, are just stepping stones on the very long way to that international global agreement, all-encompassing and far-reaching, for the protection of environment, which is clearly recommended by the Brundtland Report.

Rome, May 17 1988

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TORONTO ECONOMIC SUMMIT: FOURTH MEETING OF PERSONAL REPRESENTATIVES,
3-5 JUNE

F The resolution on "avoidance of discrimination in relation to HIV-infected people and people with AIDS" that the UK introduced at the World Health Assembly in Geneva (2-13 May) (see para 4 of background of brief for Third Meeting) was adopted by consensus (final text attached). It attracted 71 cosponsors, including all of the Seven and the Twelve. The UK is now working closely with other Western countries and with the WHO in the preparation of AIDS resolutions for ECOSOC and for the UN General Assembly.

NARCOTICS CONTROL & AIDS DEPARTMENT

31 May 1988

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A41/A/Conf. Paper No. 2

(2) to protect the human rights and dignity of HIV-infected people and people with AIDS and of members of population groups, and to avoid discriminatory action against and stigmatization of them in the provision of services, employment and travel;

(3) to ensure the confidentiality of HIV testing and to promote the availability of confidential counselling and other support services to HIV-infected people and people with AIDS;

(4) to include in any reports to WHO on national AIDS strategies information on measure being taken to protect the human rights and dignity of HIV-infected people and people with AIDS;

2. CALLS ON all governmental, nongovernmental and international organizations and voluntary bodies engaged in AIDS control programmes to ensure that their programmes take fully into account the health needs of all people as well as the health needs and dignity of HIV-infected people and people with AIDS;

3. REQUESTS the Director-General:

(1) to take all measures necessary to advocate the need to protect the human rights and dignity of HIV-infected people and people with AIDS, and of members of population groups;

(2) to collaborate with all relevant governmental, nongovernmental and international organizations and voluntary bodies in emphasizing the importance to the global strategy for the prevention and control of AIDS of avoiding discrimination against HIV-infected people and people with AIDS;

(3) to stress to Member States and to all others concerned the dangers to the health of everyone of discriminatory action against and stigmatization of HIV-infected people and people with AIDS and members of population groups, by continuing to provide accurate information on AIDS and guidance on its prevention and control;

(4) to report annually to the Health Assembly through the Executive Board on the implementation of this resolution.

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TORONTO ECONOMIC SUMMIT : FOURTH MEETING OF PERSONAL REPRESENTATIVES,
3-5 JUNE 1988

BRIEF NO 6 (IX) SCIENCE ISSUES

POINTS TO MAKE

a) HUMAN FRONTIER SCIENCE PROGRAMME

1) The UK agrees to the inclusion of a reference to the progress of the Japanese Government's proposals for a Human Frontier Science Programme in the Summit communique. However, we do not consider there is any issue here which needs discussion at the Summit itself.

2) The proposed Japanese language for the communique implies the support of Summit countries. This is premature as we still await clear proposals from the Japanese. As yet only the Feasibility Study Committee of scientists and experts has reported to the Japanese Government. We should prefer an alternative that confirms Japan's responsibility for the programme and for any further initiative. An acceptable wording would be:

- We note the successful conclusion of Japan's feasibility study of the Human Frontier Science Programme, and we are grateful for the opportunities our scientists were given to contribute to the study. We look forward to receiving the Japanese Government's proposals for the implementation of the programme in the near future.

b) CONFERENCE ON BIOETHICS

1) Since we expect no substantive discussion of bioethical issues at the Toronto Summit, the UK is not convinced of the need to include any mention in the communique of the recent bioethics conference in Rome.

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if necessary

2) If others insist, the UK would be prepared to include a brief reference in the communique on the following lines:

- We welcome the contribution made to our review of the ethical implications of developments in the life sciences by the bioethics conference held in Rome in April 1988.

Cabinet Office

27 May 1988

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TORONTO ECONOMIC SUMMIT: FOURTH MEETING OF PERSONAL
REPRESENTATIVES, 3-5 JUNE 1988

BRIEF NO 6 (IX) SCIENCE ISSUES

BACKGROUND

b. CONFERENCE ON BIOETHICS

The first of these conferences was launched by Prime Minister Nakasone at the Williamsburg Economic Summit in 1983. Since then a meeting on the ethical implications of developments in the life sciences has been held each year hosted in turn by five of the summit countries; Japan in 1984, France in 1985, the Federal Republic of Germany in 1986, Canada in 1987. The latest conference in bioethcis took place in Rome on 10-15 April 1988. It has been customary for the host country to report briefly to the summit on the outcome of the meeting. This has been reflected in the Communique, which in 1987 also contained a reference to the subsequent conference.

The UK and the US have yet to act as hosts to such meetings, and there may be a presumption amongst other summit states that they will host conferences in 1989 and 1990. The US appears to be ready to host a meeting in 1989 but will require the confirmation of the incoming Administration. With the prospect of 'Warmock' legislation in train in 1989 and 1990, the Prime Minister is anxious to avoid public examination of related issues in the UK at the same time. In the event that the question of the UK hosting a conference in 1990 arises in Ontario you may like to explain our position.

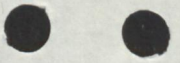
Since there will be no discussion of the outcome of the Rome bioethics conferences at the Summit and in view of the absence of any positive follow-up activity there would appear little reason to include a reference to the Rome bioethics conference in the communique. However, if there is pressure on us to include such a reference, then it should be sufficient to include a brief statement welcoming the contibution made by the Italian meeting.

CONFIDENTIAL

Human Frontier Science Program

We note with welcome that the feasibility study on the Human Frontier Science Program was successfully conducted with the participation of the scientists of the Summit countries, and express our continued support to Japan's initiative to implement the program as soon as possible.

ESSP
Cal. Office



THE HUMAN FRONTIER SCIENCE PROGRAM
THE FEASIBILITY STUDY COMMITTEE REPORT

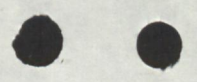
(Mr Richards has the full Report)

Fifth Conference on Bioethics
held in Rome, 11-15 April 1988

Advance communication
to the Summit "Sherpas" by Mario SARCINELLI

(The full report will be distributed
on the occasion of the last Sherpa Meeting)

CAN OFF
ESSD



1. The Fifth Conference on Bioethics of the Seven main industrialized countries was held in Rome from 11 through 15 April 1988.

The discussions were centred on the ethical and juridical implications of potential exploitation of scientific research regarding the human genome and on the current stage of research in this area.

Concerns were expressed with reference to the legislative gaps which excessively rapid scientific progress might engender and the improper use of the scientific results.

2. In his introductory address, Prof. Ruberti, the Italian Minister for Coordination of Scientific and Technological Research, pointed out that essentially, it is once more a question - and not a new one in the history of science - of being called to address a typical dilemma between science and society, between science and culture, between science on one side and ethical, legislative and juridical values on the other.

On several occasions in the past, this dilemma has been the cause of lively and, at times, dramatic debates; more often than not, it has developed into a driving force of growth and progress, through a positive impulse to the flourishing of both science and society.

Whenever medical treatment or research addresses the human body and a fortiori the genetic patrimony of the individual, the problems of privacy, confidentiality and information disclosure arise. Juridical concern for the right of every individual to be protected in this regard is not in any way a new phenomenon but, with genome sequencing, there may be a far greater number of opportunities, or a far greater temptation, to misuse information for purposes of discrimination as well as private or political "blackmail".

3. As regards the state of the art, research on the human genome

by the end of the century should provide a complete list of human genes. The knowledge of how the human genes compare to those of the mouse will enable us to know all the genes that determine mammal development and structure. Furthermore, we shall know what genes make a primate different from a mouse, and what genes are unique to the human being. Furthermore, we should even know what genes determine the structure of the brain.

This knowledge will lead to an understanding of how the organism grows from egg to adult, how each organ develops and is supported throughout life.

The DNA sequence of a human being, three thousand million bytes of information, which could be stored in five compact discs, will be discovered. However, as the variety of available different genes in the population will still be unknown, the range of combinations cannot be determined.

Detailed genetic mapping will produce lists of genes responsible for special characteristics, such as high blood pressure, predisposition to heart diseases or to cancer, sensitivity to particular drugs, etc.

This research will yield a medicine tailored to the unique constitution of each individual, only linked to his or her family inheritance. The growing ability to make predictions based on genetic findings would add greatly to the efficacy of preventive medicine. This personalized concept of medicine will have strong impact on ethical issues, since extensive knowledge of differences among individuals have to be stored in databases.

The very fact that the new genomic medicine will uniquely identify and differentiate each human being as genetically singular and different from others might afford a reconsideration of the relation of individuals to society; as one delegate said, a "genetic justice" might

be envisaged. Problems of self-determination, of the right to know or not-to-know of individuals, of ownership of genetic information, of patentability and copyright, and of secrecy were dwelt upon by various participants. These issues led to a review of the current discussion on the limits for gene therapy in somatic cells and to the necessary distinction between a gene therapy equivalent to organ transplantation and a gene therapy which interferes irreversibly with the gene line of human individuals. Furthermore, the pre-requisites and limits for prenatal diagnosis were discussed.

The delegates stressed their greatest concern over the issues of public health policy, e.g. the possibility that medical care might change, in the long run, the genotype frequency with qualitative consequences calling for a genetic epidemiology, or the agonizing problem of eugenics. Scientists should make great efforts to ensure that the exploration of animal genome will not interfere with human dignity. A continuous exchange of ideas with experts of relevant disciplines should help to clarify carefully the ethical limits which must constrain the exploitation of the new knowledge.

4. Finally I would draw your attention to recommendations 1, 3, 4, and 5 adopted by the Conference. They read as follows:

1. The delegates agreed that there are no intrinsic limitations to the acquisition of the human genome and that research in this area should be strongly encouraged;
3. The delegates agreed that publication and use of reports about genome structure and other genetic information must respect the rights and interests of the persons and groups from whom the information is obtained, ensuring among other things self-determination, privacy, and non-discrimination;

4. The delegates agreed that gene therapy of somatic cells in human beings for a specific genetic disease should be judged on the same basis as other experimental medical treatments, which is based upon research aimed at establishing prospective efficacy and safety, consent of the human subjects undergoing such treatment, respect for their privacy;
5. The delegates agreed that there are neither medical indications nor ethical justifications for intentional genetical manipulation of human germline cells at this time.



Al Direttore Generale del Tesoro

Personal Representative of the
President of the Council

Rome, June 1, 1988

Dear Colleague,

I have the pleasure to transmit herewith attached the report of the 5th Conference on Bioethics held in Rome from 11 to 15 April, 1988.

The importance of the meeting, the relevance of the subject, the great significance of the recommendations, as well as the tradition established by previous Summits make me request that mention of it be included in the Toronto Communiqué.

With best regards

sincerely yours

Mario Saraceni

Sir Nigel L. WICKS
Principal Private
Secretary to the Prime Minister
10, Downing Street
LONDON

5TH CONFERENCE ON BIOETHICS OF THE
WORLD'S SEVEN MAIN INDUSTRIAL COUNTRIES

SUMMARIZING REPORT (BENNO HESS)
AND ADOPTED RECOMMENDATIONS

I

The current stage of research in the area of the human genome analysis and the ethical issues resulting from this research were discussed at Rome from 10 to 15 April 1988 by the participants of an international Conference, which was held upon invitation of the Italian Government.

The scholars of various disciplines were sent by the Governments and Heads of State of the Economic Summit countries. The delegates were asked to analyse these issues and submit their report to the Heads of State at the next Economic Summit Conference in Toronto.

The Conference was opened in a ceremony at the Palazzo del Quirinale, and the delegates were welcomed by the President of the Italian Republic, Mr. Francesco Cossiga. Professor Tocchini-Valentini, on behalf of the Italian delegates, Justice Marshall of Canada, on behalf of the foreign delegates, and the Minister of Research, Mr. Ruberti, addressed the audience and stressed the significance of this meeting in the line of precursor meetings, which focussed attention on other areas of biological research.

II

In a first session, the state of the art of research in the analysis of the human genome was reviewed.

Advances in techniques of molecular genetics now make it possible to approach the genetics of complex organisms like ourselves in an entirely novel way. We can clone fragments of DNA, arrange collections of such DNA clones into their correct linear order, refer this ordered library to other maps of the

genome and by sequencing the DNA, ultimately specify the function of the gene. It is inevitable that this programme of research will be carried out in one way or another and the encyclopaedia produced will become the central tool for biomedical research and its applications to medicine.

The human genome project consists of:

1) Development of a genetic map of the human species consisting of DNA hybridization markers, some 3000-5000, about 1 cm (centimorgan = 1% recombination) apart, i.e. about 1 Megabase (1 million bases) apart.

2) Development of a cosmid map (about 50,000 b.p. long clones of human DNA each carried in a separate bacterial strain). Such a map consists of about 100,000 cosmids ordered with respect to each other, stretched along and defining each chromosome.

3) sequencing each of the cosmids in order to work out the total human sequence, chromosome by chromosome.

The human sequence, of 3×10^9 base pairs, will predict the structures of some 100,000 putative genes. 100,000 genes represents about 100 times more information than exists today.

Today's technology, if applied on a large scale, will allow sequencing to be done at the rate of 1 megabase/person/year. Thus 300 people can work out the human genome in 10 years.

The structure and function of each of the genes can be worked out using the information derived from the human genome sequence:

- a) by theoretical analysis of the sequence database (assuming new techniques);
- b) by comparison with other known genes (happening today);

- c) by comparison with other species;
- d) by direct experimental work using the predicted gene structure as a starting point.

By the end of the century, we should have a complete list of human genes. The knowledge of how the human genes compare to those of the mouse will enable one to know all the genes that determine mammalian development and structure. Furthermore, we will know what genes make a primate different from a mouse, and what genes are unique to the human. Furthermore, we should even know what genes determine the structure of the brain.

This knowledge of human gene products will lead to an understanding of how the organism grows from an egg to adult, how each organ develops and is supported throughout life. In medicine, the factors that support and preserve aspects of normal functioning will become known and could be made available for treatment of diseases by biotechnology.

The DNA sequence of a human being, 3 thousand million bytes of information, which could be put on 5 compact discs, will be known. However, the variety of available different genes in the population will not be known, thus the range of combinations will not be understood.

The genetic specification, i.e. the DNA sequence, although being the ultimate statement about what is determined by the genetic inheritance, does not finally determine every aspect of the individual. It is the blueprint, the plans, but the totality of the individual is further determined by:

- 1) Environmental, i.e. physical external influences
- 2) External, but human, influences, such as training, education, etc.
- 3) Internal influences, self-awareness and self-determination.

Detailed genetic mapping will produce lists of genes for quantitative characteristics, such as high blood pressure, predisposition to heart diseases, predisposition to cancer, susceptibility to medicines, etc.

This research will yield a medicine which is tailored to the unique constitution of each individual. But this will mean that extensive knowledge of differences among individuals will come available in database.

Primarily, benefit will be expected from this new knowledge for medicine and in a larger sense for the understanding of the constitution of man and his evolutionary history in this living world.

The delegates agreed that the acquisition of knowledge on the human genome should be encouraged. However, it was also stressed that this area of research should strongly be complemented by the promotion of other areas of the biological sciences such as for instance the field of neurobiology.

III

In the following sessions, the current and future application of the novel techniques of DNA-analysis to medical research and diagnosis was reviewed and discussed. Current investigations focus on the localization of genes in the human chromosomes by direct molecular cloning as well as - more commonly - by use of genetic markers, specially of the restriction fragment length polymorphisms (RFLP) which is an efficient approach to construct a detailed map of all the chromosomes. A worldwide collaboration around a centre located in Paris is currently mapping the human genome by such linkage analysis with DNA-polymorphisms. These data will allow a localization of the genes involved in disease, their isolation and then, through understanding of their function, the design of suitable treatment.

Experts reported on the growing body of knowledge of oncogenes and its relevance to the study of human cancer. It was concluded that the detailed knowledge of the human genome will profoundly influence our understanding of human cancer development, of cancer risk factors, cancer diagnosis, and later on therapies and prevention.

Furthermore, it was reported that a recent program in DNA technology has succeeded in elucidating gene abnormalities in the many types of diabetes mellitus, in coronary heart diseases, in many muscle diseases and others. In many single gene disorders, however, disease genes have not yet been identified. nor have the abnormalities of genes that cause most polygenic diseases.

The importance of research on human genome mapping and sequencing in medicine is widely recognized and has led to projects in many different countries.

Delegates pointed to the expectation that the new genome medicine will strongly influence the classical concept of medical practice, which relies fully on a probabilistic approach, which considers a diseased person as an individual case within a disease group. The new medicine, however, is tailored to the unique genomic constitution of each individual personality, only linked to his or her family inheritance. The growing ability of make predictions based on genetic findings will add greatly to the efficacy of preventive medicine. This personalized concept of medicine will have strong impact on ethical issues, which will be indicated further below.

IV

The subsequent sessions were devoted to a review and discussion of many ethical issues arising from the application of knowledge resulting from human genome research. There are ethical issues related to individuals as well as to society.

- 1 -

The very fact that the new genomic medicine will uniquely identify and differentiate each human as an individual as genetically singular and different affords a reconsideration of the relation of individuals to society in terms of - what one delegate defined - "genetic justice". Problems of "self-determination", of the right to know or not-to-know of individuals, of ownership of genetic information, of patentability and copyright, and of secrecy were defined by various participants. These issues led to a review of the current discussion on the limits for gene therapy in somatic cells, being equivalent to organ transplantation and a gene therapy which interferes irreversibly with the gene line of human individuals. Furthermore, the pre-requisites for prenatal diagnosis and their limit were discussed.

The delegates stressed greatest concern on the issues of public health policy: be it the problem evolving from the fact that medical care might change, in the long run, the genotype frequency with qualitative consequences calling for a genetic epidemiology, or the profound problem of eugenics.

The general ethics of a genomic medicine were presented by various delegates. Scientists should take greatest efforts to ensure that the exploration of animal genome will not interfere with human dignity and explore in continuous exchange with experts of relevant disciplines carefully the ethical limits of application of the new knowledge.

Various delegates stressed urgent necessity to inform the public by active and permanent distribution of all new knowledge in order to ensure the understanding and critical acceptance of this new development.

In a general discussion the delegates adopted the following recommendations:

1. The delegates agreed that there are no intrinsic limitations to the acquisition of the human genome and that research in this area should be strongly encouraged.
2. The delegates agreed that concerted national and international efforts should be undertaken through genetic mapping, sequencing and other research to allow for rapid generation and dissemination of knowledge in this field.
3. The delegates agreed that publication and use of reports about genome structure and other genetic information must respect the rights and interests of the persons and groups from whom the information is obtained, ensuring among other things self-determination, privacy, and non-discrimination.
4. The delegates agreed that gene therapy of somatic cells in humans for specific genetic disease should be judged on the same basis as other experimental medical treatments, which proceed based upon research that establishes prospective efficacy and safety and upon the consent of the human subjects and with respect for their privacy.
5. The delegates agreed that there are neither medical indications nor ethical justifications for intentional genetical manipulation of human germline cells at this time.
6. The delegates recommended that education programmes on human genetics be developed for the public at large from school-age onwards, including information programmes for leaders in industry, intellectual bodies, and particularly government officials and other decisionmakers, about the new dimensions of genetic knowledge and the consequences for humanity of this knowledge and its application. The process of education, deliberation, and

policy formation will be aided by the use of local, national, and international ethical commissions.

7. The delegates foresee the need for further national and international exploration and discussion of the following topics arising from human gene sequencing and mapping:
 - a) the development of risk prediction, of screening and of prospective diagnostic methods;
 - b) the creation of DNA banks for the study of family pedigrees of population genetics and of human diseases;
 - c) the applicability and appropriateness of patent and copyright law to the human genome.
8. The delegates agreed that the meetings are of great value and that the present cycle should be continued. Topics of interest that might be considered are organ and cellular transplantation and the area of infectious diseases and preventive medicine.
9. The delegates expressed their gratitude for the generous hospitality of the Italian Government and the excellent planning and execution of this meeting under the Chairmanship of Prof. G. Tocchini-Valentini and his staff.