

CONFIDENTIAL

REVISED CANADIAN THEMATIC PAPER
PLUS
UK COMMENTARY

* indicates subjects on which UK draft communique language
(annexed) has been prepared.

NBlAPI

CONFIDENTIAL

May 31, 1988

TORONTO ECONOMIC SUMMIT
THEMATIC PAPER

INTRODUCTION

1. The world economy has undergone profound changes during the 1980s. The information-technology revolution, deregulation and the globalization of markets have increased economic interdependence and shifted the division of labour among nations. It is now essential - even unavoidable - for decision-makers to consider fully the international dimensions of their decisions.

2. Summits have provided a forum for leaders to promote and catalyze the evolving process of international collaboration essential to cope with a changing world.

3. At Summits, especially since mid-decade, Leaders have achieved consensus on broad objectives:

- a shift from short-term considerations to a medium-term framework for the development and implementation of economic policies;
- a greater reliance on market forces to improve efficiency and adaptability;
- a strengthened role for structural reform to respond to change and stimulate growth;
- enhanced international policy coordination to achieve greater stability of exchange rates;
- the importance of strengthening the multilateral trading system of the GATT;
- an effective strategy to deal with development and debt.

DEVELOPMENTS SINCE VENICE

4. Since the Venice Summit, there have been a number of positive developments in the world economy:

- the industrialized countries have grown at a robust rate and are now in their sixth year of economic expansion. Employment has continued to expand, inflation has been restrained, and progress has been made toward the correction of major external imbalances;
- international economic cooperation has been strengthened by intensification of the process of policy coordination, including structural policies which improve the prospects

*Get in
idea now
(update)*

INTRODUCTION

Para 1: not a very snappy opening for communique. Why not bring up para 43 and highlight theme of successful completion of second 7 year cycle of Summits?

- Para 3, fourth tiret: assume No 10 would be content with this.

- Fifth tiret: suggest adding "and of adjusting agricultural policies" (a straight crib from the Venice communique).

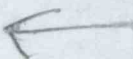
DEVELOPMENTS SINCE VENICE

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for sustainable non-inflationary growth in the years ahead;

- the situation of some developing countries was improved by the recovery in their terms of trade and strong growth in world trade. On aggregate, debt-export ratios declined for the first time since 1982. *Is 1984*

5. These encouraging economic developments are cause for optimism, but not for complacency. A number of challenges face Summit-country governments:

- to continue narrowing the large international imbalances; *external + internal + thereby to greater XR stabil*
- to spur job creation and reduce the high unemployment in a number of countries, particularly in Europe;
- to forestall any resurgence of inflationary pressures;
- to foster the process of structural adjustment;
- to resist protectionist pressures and strengthen the multilateral trading system; 
- to provide support for developing countries in their efforts to implement effective programs of structural reform and macroeconomic adjustment, which would increase capital formation and ease external debt-servicing difficulties. *conclude*

To meet these challenges, Summit-country governments must reinforce their commitment to economic cooperation. This will enhance credibility, the key to market confidence.

POLICY COORDINATION

Macroeconomic Policies and Exchange Rates

6. To manage the transition over the medium term to more sustainable economic and financial positions in the context of non-inflationary growth, governments will follow the agreed strategy of coordinated efforts to reduce spending in countries with large external deficits and sustain the momentum of domestic demand in countries with large external surpluses.

7. The reduction of external imbalances will require the cooperation not only of the Summit countries, but also of some of the smaller European economies and of newly industrializing economies with rapidly growing external surpluses.

8. The Summit countries have undertaken a series of fiscal and structural policies to foster the adjustment of

Para 5: very similar to paragraph 3 of the 1988 OECD Ministerial communique. More upbeat than previous draft - tone of 'optimism but not complacency' seems about right. 'Commitment, credibility and confidence' theme spelled out (though not very punchy).

- Fifth tirit: suggest adding after "pressures",
", implement a concerted reform of agricultural policies"
(again a crib from Venice).

- Sixth tirit: last phrase ("which would increase capital formation" etc) is surely too detailed for communique language.

POLICY COORDINATION

Macroeconomic Policies and Exchange Rates

Para 6: rephrase in order to make clearer - "... governments will continue to follow the agreed strategy of coordinated efforts to reduce the growth of domestic demand in countries with large external deficits and ...".

Para 7: "Countries" has been changed to "economies" (so could include Hong Kong and Taiwan). If "large" is substituted for "rapidly growing", the finger will be pointed more clearly at Taiwan and Korea.

international imbalances which is underway. Efforts in those directions must continue if the progress to date is to be sustained. In particular, the existing pattern of relative growths of domestic demand and income across countries should be maintained and where feasible strengthened.

9. The large exchange rate changes in the past three years, especially the real depreciation of the U.S. dollar against the Japanese yen and the major European currencies, have played a major role in the adjustment of real trade balances. Under present circumstances, further large exchange rate changes would not serve the adjustment process and could be counterproductive.

10. Monetary policy has actively supported international policy coordination. On occasion, however, it may have been overburdened by being assigned a number of potentially conflicting objectives: to sustain growth, control inflationary pressures, and stabilize exchange rates. It is imperative that both fiscal and structural policies play a greater role if non-inflationary growth is to be sustained in a context of stable exchange rates.

11. At the Tokyo and Venice Summits and in the G-7 forum, the Summit countries have developed and strengthened the process of policy coordination. The Summit welcomes the progress made in refining the analytical use of indicators, as well as the agreement to include a commodity-prices indicator.

Structural Reforms

✓ 12. International cooperation involves more than macroeconomic policies. Summit countries have increasingly been concerned with monitoring and promoting structural policies. ✓ By removing impediments to the working of markets, structural policies complement macroeconomic policies and enhance their effectiveness. In so doing, they facilitate the sectoral adjustments associated with the correction of international imbalances. Moreover, a more efficient use of existing production possibilities improves the prospects for sustained strong growth. [This is all the more important in countries where spare capacity is becoming a constraint on non-inflationary growth.] *could*

13. Summit countries will continue to pursue structural reforms by:

- removing barriers, controls and regulations;
- increasing exposure to market competition;

Make sure you use G-7 text.

Coordinate policies amongst G-7 macro policies G.L.

Get in idea

Take out incl of

Paras 8 to 11: generally very thin on macroeconomic policy, particularly country-specific details. Expand?

Para 8: repeats much of para 6.

Para 10: delete "to sustain growth" if possible.

Para 11: whether the second sentence will be valid depends on how far the Deputies and Finance Ministers get in agreeing indicators for commodity prices. Otherwise acceptable (no mention of surveillance).

Structural Reforms

Para 12: close to parts of paragraph 4 of OECD Ministerial communique which made links between macro and micro policies with which we disagreed. But this version is better (it does not, as the OECD document did, go on to say that prospects for strong growth "make structural adjustment more attractive and rewarding").

Last sentence is very odd. Spare capacity can hardly be a constraint on growth. Surely it should be "countries where lack of spare capacity is becoming a constraint".

Para 13: suggest add separate tiret on tax reform, to give this a higher profile than it has buried in para 18.

But does there

NLW Two Parts to get in
 1. Cashier cuts of quality part
 2. Improve and health

Make clear, long
 education
 improve opportunities for members

flexibility here

Europe

Put in
 OECD order

Put
 earlier
 at start
 round first
 samples
 into

- removing ^{dis} providing incentives to the private sector through tax reform; and by
- improving the stock of human capital. ←

14. In Europe, structural reforms to complement macroeconomic policies are particularly called for in order to spur job creation and to realize Europe's growth potential. Desirable structural reforms would include further liberalization of capital movements, removal of impediments to labour mobility, and the strengthening of competition policy. Especially important for promoting significant structural reform and growth potential is the programme to complete the European Community internal market in 1992. A promising start has been made, but full and timely implementation must be assured. A faster pace of structural reform in the Federal Republic of Germany, in addition to fostering growth and contributing to price stability in Germany, would also lead to a more sustainable pattern of external balances within Europe.

15. In Japan, structural reforms are necessary to support and sustain the greater reliance on domestic demand-led growth which has quickened remarkably over the past year. Japan could undertake to promote reform of government regulations in key sectors, the tax system, the distribution system, and in the areas of agricultural and land-use policies.

16. The most promising areas of structural reform in Canada would be implementation of the Free Trade Agreement with the United States, the implementation of sales tax reform, and the proposed liberalization of the financial services sector.

17. For the United States, where recent indications that the declining trend in private savings may have bottomed out are encouraging, it is nonetheless a priority to increase incentives to save. Reform of agricultural support policies is essential for both domestic and international reasons.

18. The governments of all Summit countries have undertaken, or will be pursuing, tax reform to remove distortions and to render their tax systems more equitable.

19. Summit countries should welcome the further development of the OECD's surveillance of structural reform. Analysis and monitoring of government subsidies to industry and agriculture are particularly important to reveal their impact on government budgets, consumer prices, and international trade.

20. Reform of agricultural policies is fully consistent with, and can assist, the maintenance of a viable rural economy. Many of the declared objectives of agricultural

Take out agricultural from
 include items - put
 smoothly in US doc

Para 14: last sentence is close to the OECD Ministerial communique reference (in paragraph 12): "Stepping up the pace of structural reform in Germany will, inter alia, strengthen domestic demand and contribute to a reduction of its persistently large current account surplus and hence to a better distribution of external balances within Europe..."

Why should it? Might make it an ever more powerful export machine?

Para 17: it is odd to assign a priority to increasing incentives to save in the US without saying how.

Para 19: very helpful - gist for communique.

Para 20: change from previous draft. Usefully sets agriculture firmly in context of structural adjustment.

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policies, such as satisfactory levels of farm incomes, the preservation of rural communities, and environmental protection, can be achieved more efficiently by policies aimed directly at the desired objectives. The Summit should welcome the OECD's increased emphasis on structural adjustment and development in the rural economy.

21. Financial and technological innovations are rapidly integrating financial markets internationally, contributing to a better allocation of capital but also increasing the speed and extent to which disturbances in one country may be transmitted to other countries. Summit countries should continue to cooperate amongst themselves and with other countries in the examination of the functioning of the global financial system, including securities markets.

22. To realize fully the benefits of structural policies to liberalize markets and enhance competition, it is crucial that an open international trading system be maintained. Thus, a successful Uruguay Round is of critical importance.

MULTILATERAL TRADING SYSTEM/URUGUAY ROUND

23. The multilateral trading system [is fragile and] must be strengthened. Countries must continue to resist protectionism and the temptation to adopt unilateral measures or bilateral arrangements outside the framework of GATT rules.

24. The Summit should welcome the Free Trade Agreement (FTA) between Canada and the United States, which is not only consistent with international obligations but extends trade liberalization to new areas such as services. The Agreement should serve as a catalyst for progress in the Uruguay Round. Summit leaders are committed to ensure that such regional cooperation as the Canada-USA FTA, intensification of economic relations in the Pacific region and between the EC and EFTA and completion of the European internal market do not weaken, but rather strengthen, the open, multilateral trading system and the liberalizing impact of the Uruguay Round.

25. A successful Uruguay Round will assure the integrity of an open, predictable multilateral trading system based on the rule of law, permitting trade expansion to resume its role as the engine of world economic growth and development. At Punta del Este, Ministers committed themselves to further trade liberalization across the wide range of goods and services, including such new areas as trade-related intellectual property and investment measures.

Harles
ques Gull

Last sentence, para 20: a reference to OECD Ministerial
communique (paragraph 30).

Para 21: Last sentence still fails to give details of the
form this cooperation would take. We don't want new
machinery.

MULTILATERAL TRADING SYSTEM/URUGUAY ROUND*

Para 23: acceptable although the fixation about "fragility"
is rather overdone: it could be argued that the system has
shown itself to be quite robust recently. Suggest delete
"is fragile and".

Para 24: we would be prepared to welcome the FTA but this is
rather gushing. End of first sentence: the FTA does not
"extend" trade liberalisation nor (second sentence) is it a
"catalyst" but it may offer some lessons.

Third sentence: the reference to "intensification of
economic relations in the Pacific region" is of a different
kind than to the FTA, EC, EFTA etc. But since we do not
want a Pacific free trade area with barriers against the
rest of the world, it is in our interest to support this
vague language. (The whole of this sentence responds to
Japanese concerns).

Para 25: is fine apart from the fact that the Gatt is not a
rule of law but a system of agreed rules and principles.

26. Nowhere is the need for progress more evident than in agriculture. Reflecting the clear terms of reference provided by the Punta del Este Declaration and the political impetus provided by the 1987 OECD Ministerial and the Venice Economic Summit, good progress was made during 1987 in the Uruguay Round negotiations on agriculture, with the tabling of major proposals. However, this promising start now faces the difficult task of moving the negotiations themselves forward. Building upon the 1988 OECD Ministerial, the Summit should provide fresh political impetus to reinforce and underpin the efforts at domestic reform, and to advance the process of agricultural trade reform and liberalization in the multi-country, multi-commodity context of the GATT round.

27. It is necessary to ensure that the Mid-Term Review in Montreal in December 1988 spurs the negotiating process in this as in other fields. Summit countries should agree on a framework approach, including a commitment to concrete short-term as well as long term elements which will promote the reform process as launched last year and relieve current strains in agricultural markets by reducing agricultural surpluses and trade distorting effects. More precisely, this would be facilitated by agreement on the measures to be included and the target depth of cuts in the aggregate ^{measure} level of support and protection. Also in this context, ways should be developed to take account of concerns about food security. Any short term measures to prevent agricultural trade distortions from becoming worse would need to be consistent with long term goals. The prime objective of the framework would be to make the agricultural sector more responsive to market signals.

Common - say too detailed - more general

28. Underlining our concern to improve the functioning of the GATT would be an important step in ensuring that the liberalization of trade in goods and services achieved by the Uruguay Round is secured and enhanced. The GATT should become a dynamic organization able to undertake a leading part in trade policy; Ministers should take on a greater role in the GATT; and linkages among GATT, the IMF and the World Bank should be strengthened. As a first step in that direction, Summit countries could make a commitment to greater transparency by allowing GATT surveillance of all trade policies. It would also be necessary to strengthen the GATT dispute settlement system.

Put in pt develop countries interests in liberalizing trade

29. The future role of developing and newly industrializing economies in the GATT system should also be a major part of this message. These countries (especially the NIEs), should be encouraged to undertake increased commitments and obligations and a greater role in the GATT, commensurate with their importance in international trade and the international adjustment process, as well as their respective

AGRICULTURE*

Para 26: generally OK if anodyne. Query "good" progress during 1987. Addition of the word "independent" before "domestic" in line 11 would underline the importance of also continuing reforms not directly related to the GATT negotiation eg CAP reforms; US Farm Bill. Last sentence is curiously drafted (better alternative would be "... liberalisation in the Gatt Round on a multicountry multi commodity basis").

Para 27: is more crucial. Helpfully aims to go further than OECD communique in spelling out the "framework approach" but is too ambitious eg in referring to agreeing a "target depth of cut" (the French, Italians, Commission and probably the Germans won't wear it). We should try to preserve some kind of definition which refers to fundamental reduction in support and protection, plus concrete short term and long term elements. "Food security" is still in as a sop to the Japanese, but the reference to 'ways of sharing food in times of scarcity' has been helpfully deleted.

Para 28: reasonable para on the functioning of the Gatt system though start of second sentence is curiously phrased - better: 'Gatt should be revitalised to play its traditional role in strengthening the multilateral trade system etc'. Dispute settlement (in final sentence) should be given more prominence by raising it into second sentence; our text is stronger and better on this point.

Para 29: second sentence: we would prefer to spell out "increased levels of commitment".

stages of development. Equally, developed countries should consider what they are prepared to do to meet the legitimate need of developing countries for greater, more secure access for their exports.

30. As the Uruguay Round enters a more difficult phase, it is vital to ensure the momentum of these ambitious negotiations. The Mid-Term Review will provide a unique opportunity to send a credible political signal to the trading world. The greatest possible advance must be made in the months to come, in all areas of the negotiations, so as to reach before the end of the year the stage where tangible progress can be registered. Thus Summit countries are committed to ensure that the Mid-Term Review establishes a solid base for the full and complete success of the negotiations, in accordance with the Punta del Este Declaration.

31. Summit countries all recognize the critical and expanding role of international investment in the world economy. They share a deep concern that increased protectionism would undermine the benefits of open investment policies. Governments should express their resolve to progressively liberalize international investment policies.

NEWLY INDUSTRIALIZING ECONOMIES

32. (The international integration of goods and financial markets and the rapid diffusion of new technologies have been changing the pattern of international specialization of production.) Certain newly-industrializing economies (NIEs) in the Asia-Pacific region have become increasingly important in world trade in manufactures. Although these economies differ in many important respects, they are all characterized by dynamic, export-led growth which has allowed them to treble their share of world trade since 1960. Other outward-oriented Asian countries are also beginning to emerge as rapidly-growing exporters of manufactures, and intra-regional investment and trade are progressively integrating the economies of the region.

33. With increased economic importance come greater international responsibilities and a strong mutual interest in enhanced cooperation. There is a need for improved constructive dialogue between the industrialized countries and the Asian NIEs, as well as the other outward-oriented countries in the region. The dialogue should centre on cooperative efforts to achieve the international adjustment necessary for sustained, balanced growth of the world economy. The development of informal processes which would facilitate multilateral discussions of issues of mutual concern should be encouraged.

3 Objectives
- Strong political message,
- language clear (6/27/79)

US: Need to insert some of Uruguay + get across part it covers wide range of problems macro + micro

Use G7 language

in the near term

Page 2
349
G7 language.

to reduce

get in macro, macro, X rate, trade, subsidies, market access.

Para 29, last sentence: the developing countries would not find this sentence an impressive or reassuring commitment. There is no harm in recognising the legitimate interest of the developing countries in the Uruguay Round and the need for a balanced outcome of benefit to all participants.

Para 30: last sentence is straight OECD language (paragraph 21 of OECD communique). Very unambitious; by contrast with agriculture, this draft does not seek to build on OECD. We should work for a reference to specific/interim results eg at end of penultimate sentence wording such as "and to allow for early agreements where appropriate".

NEWLY INDUSTRIALISING ECONOMIES

Para 32: "integration" (first sentence) has particular Gatt connotations. Suggest instead of "international integration", "increasing globalisation". This para little changed from previous draft except that countries not mentioned by name.

Para 33: last sentence: we need to be cautious about "multilateral discussions" if this means treating Asian NICs plus other emerging NICs as a group. Obvious problems over Taiwan, and in any case there is great diversity between the four dragons.

With appropriate
market oriented
policies,

DEVELOPING COUNTRIES AND DEBT

34. The performance of developing countries and their role in world trade have become increasingly important to the world economy. The situation of individual developing countries varies widely; many still face serious economic difficulties. Central to the prospects of all is a global economic environment conducive to strong and sustainable growth, an open trading system, and a commitment to economic reform.

adequate
foreign
flows

Middle-Income Countries

market oriented

35. The market-oriented, growth-led strategy based on the case-by-case approach for dealing with the debt problems of the highly indebted middle-income countries remains the only viable strategy. This strategy has met with some success:

achieved sig progress in a few years.



- the risk to the international financial system has been greatly lessened as commercial banks have strengthened their financial positions;
- many indebted countries have begun the process of macroeconomic adjustment and structural reform necessary for sustained progress, encouraging the return of flight capital and new investment flows;
- lending from official sources has continued to grow at a significant rate; and
- the 'menu approach' has continued to expand and has facilitated the channelling of commercial bank lending into productive uses.

36. Progress toward a lasting solution, however, has been slower than earlier expected. High debt ratios persist and the return to creditworthiness for many countries remains distant. The financing situation generally is expected to remain difficult.

37. Official financing and the international financial institutions have played and will continue to play a central role in the debt strategy:

- most net new lending to the debtor countries is from official sources;
- through the Paris Club, over \$73 billion of principal and interest have been consolidated since 1983. Export credit agencies will continue to play a flexible role;

for finance
in many cases

DEVELOPING COUNTRIES AND DEBT

Middle Income Countries

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- the \$74.8 billion General Capital Increase (GCI) for the World Bank will substantially increase available resources. Speedy approval and subscription to the GCI by all governments is essential;
- the modified Extended Fund Facility (EFF) will provide financing on ~~more favourable terms~~ and will place greater emphasis on medium-term structural adjustment. Also, the incorporation into Fund programs of external contingency mechanisms would assist countries adhere to their adjustment programs in the face of unexpected adverse external events.

38. Commercial banks hold nearly two-thirds of the external debt of the middle-income countries, and their continued involvement in the debt strategy is essential. Although banks have refinanced substantial amounts of principal and interest, since 1984 private lending has declined on a net basis. In this regard, the World Bank and IMF can play an important catalytic role in mobilizing additional financing from private (and official) sources in support of debtor countries' adjustment programs.

39. In recent years there has been increasing recourse to innovative financing techniques. The important characteristics of these techniques are that they are voluntary, market-oriented, and applied on a case-by-case basis. The "menu approach" has engendered new financial flows and, in some cases, reduced the existing stock of debt. The flexibility of the present strategy would be enhanced by the further broadening of the menu approach and the encouragement of innovative financing techniques to improve the quality of new lending.

40. International direct investment can play an important role in spurring economic growth in developing countries. The positive contribution that the Multilateral Investment Guarantee Agency and the International Finance Corporations are making in stimulating international direct investment should be encouraged.

a large commitment to

Debt of the poorest

41. The debt burden of the poorest developing countries, especially in Sub-Saharan Africa, is part of a broader developmental challenge that requires the developing countries to persist with strong adjustment measures and developed countries to provide adequate concessional assistance. Progress in dealing with the debt burden has been encouraging:

Para 37, top tiret, last sentence: we would like this reflected in the communique (pressure on US to ratify).

Second tiret, delete from "will provide" to "terms and" (not true) and replace "place greater" with "support the growing".

*will support
emphasis on*

Para 38: IFIs' 'catalytic' role OK, but resist language on Fund/Bank guarantees of new commercial bank money packages (only appropriate in exceptional circumstances).

Para 40: suggest additional last sentence: "Developing countries for their part should welcome and encourage international direct investment".

Debt of the poorest*

NBlAPI

- the implementation of IDA-8 has made another \$12.4 billion available to low-income countries; *more*
- the enhancement of the IMF's Structural Adjustment Facility by SDR 6 billion will substantially increase disbursements on highly concessional terms to low-income countries; *mainly progress of structural adjustment*
- the World Bank, in conjunction with ODA agencies, has put in place an enhanced program of co-financing aimed at the poorest countries;
- Paris Club creditors are rescheduling debt at extended grace and repayment periods.

42. In cases where it is extremely difficult for countries to meet their debt-service obligations, an increase in concessional resource flows will be necessary to help those countries resume sustained growth. One proposal is to reschedule the commercial debts of the poorest countries at concessional interest rates. An alternative is for official creditors to choose between shorter repayment periods at concessional rates and longer repayment periods at commercial rates. Yet another alternative would be the provision of grants. The adoption of options, as in the menu approach, to allow creditors the choice to offer concessional interest rates with shorter maturity periods or grants in lieu of concessions would be a positive development. The relief provided would be additional to countries' existing aid programs. Other techniques for reducing the burden of debt service should also be explored, notably in the areas of ODA debt cancellation and the lowering of interest rate spreads and fees charged by export credit agencies on rescheduled debt.

FUTURE SUMMITS

43. The Toronto Summit is the 14th: the end of the "second cycle". The challenge for the future remains the same as that confronting leaders today: coping effectively with change in an increasingly interdependent world. There is a proven way to achieve this -- through an evolutionary process of improved international cooperation. That is the lesson of past Summits and the challenge for future ones.

Para 42: a highly compressed paragraph. First proposal is Chancellor's. Second is new Canadian proposal put to Paris Club. Third alternative (grants) is new.

Situation in flux. French may now be prepared to agree to some form of concessional interest rates: US (Baker in Abidjan) to accept something like Canadian scheme (important in that case that if US cannot cut interest rates they should concede longer repayment periods than present Paris Club limit, say 25-30 years). Because positions are still evolving and the real negotiation is likely to be in Toronto, we should stick to the Chancellor's proposal at this meeting, but elicit details of French and US proposals and be careful to leave the door open for later compromise.

Chancellor has said he would be prepared to see 'equivalent measures' provided they ensured equitable burden sharing and were readily measurable and monitorable. Canadian compromise proposal unlikely to allow much burden sharing. It depends on trade off between costs of interest rate concession and longer exposure to risk of default. We are not sure that additional risk over 20 years fully compensates for initial cost of interest rate reduction. Hence the desirability of pushing the Americans out beyond 20 years.

Option of new grants would not be monitorable and could well let Japanese off the hook. We want additionality. Best to explore Japanese intentions, and reserve our position.

FUTURE SUMMITS

OTHER ISSUES

ENVIRONMENT

- protect requirements*
1. Protection and enhancement of the environment is essential. The report of the World Commission on Environment and Development has stressed that environmental considerations must be integrated into all areas of economic policy-making if the globe is to continue to support humankind. ~~Summit countries welcome the Report and endorse its concept of sustainable development.~~
the
 2. Threats to the environment recognize no boundaries. Their urgent nature requires strengthened international cooperation, not merely among the industrialized countries, but between East and West and North and South. Significant progress has been achieved in a number of environmental areas. The Montreal Protocol on Substances that Deplete the Ozone Layer is a milestone. All countries should be encouraged to sign and ratify it. Completion of negotiations on a protocol on emissions of nitrogen oxides within the framework of the Geneva Convention on Long-range Transboundary Air Pollution is important. The efforts of UNEP for an agreement on the ~~transportation~~ *of dangerous wastes* are welcomed and encouraged. *Laos*
 3. Further action is needed. Global climate change, air and water pollution, hazardous substances, deforestation, and endangered species require priority attention. A worldwide consciousness must be developed and maintained to counter threats that diminish the heritage of humankind. In this respect the Summit welcomes the Conference on the Changing Atmosphere to be held in Toronto. *desertification and prevention policy*

HUMAN FRONTIER SCIENCE PROGRAM

- Put forward and support*
4. We welcome the successful completion of the feasibility study on the Human Frontier Science Program in which scientists of the Summit countries participated, and express our continued support for Japan's initiative to implement the program as soon as possible.

BIOETHICS

5. We note that, as part of the continuing review of the ethical implications of developments in the life sciences, the Italian government hosted the fifth conference on bioethics in April 1988.

OTHER ISSUESENVIRONMENT*

We still think it inappropriate to include specific environmental issues in the communiqué/appendix but recognise pressure is building up. The 3 paragraphs are neutral and generally acceptable. At the end of the day we could live with the text. But:

para 3 is too gloomy and gives the impression that no work has been done on the areas mentioned in the second sentence.

Suggest inserting "continue to" after "species" in line 3. Unnecessary to single out a specific conference (final sentence) for endorsement. This is clearly a Canadian attempt to gain recognition for a Canadian-inspired meeting.

If they insist on keeping it in, we should insist on adding at the end of para 1, the following, "The Summit countries welcome the planned conference, scheduled to be held in Oslo in 1990, to assess progress on the Report." The Oslo conference will be far more significant than the Toronto meeting.

HUMAN FRONTIER SCIENCE PROGRAM*

Two problems with this text: "support" could imply financial support; and "implementation" is up to Japan. We would prefer our suggested language. US likely to support our line.

BIOETHICS*

Only problem is "continuing". Some Departments (Environment/Health) are beginning to argue that we don't need to continue this series of conferences. But we don't want to get out front in saying so. We would prefer our own language but this will be difficult since it is so similar to the current text apart from the reference to "continuing".

TORONTO ECONOMIC SUMMIT: UK DRAFT COMMUNIQUE LANGUAGE: TRADE

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

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: 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.

TORONTO ECONOMIC SUMMIT: UK DRAFT COMMUNIQUE 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: UK DRAFT COMMUNIQUE LANGUAGE: ENVIRONMENT

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".

TORONTO ECONOMIC SUMMIT: UK DRAFT COMMUNIQUE LANGUAGE:
SCIENCE ISSUES - BIOETHICS

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.