



Foreign and Commonwealth Office

London SW1A 2AH

Mr N Wicks
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Dear Nigel,

TORONTO ECONOMIC SUMMIT

1. At our meeting on 3 February we covered the procedural side of preparations for the annual Economic Summit and touched briefly on the issues that might arise in Toronto. I shall shortly be sending a suggested list of briefs for the second meeting of Personal Representatives; but in addition you may find it useful, even at this early stage in the proceedings, to have a general overview of our thinking on substantive issues likely to come up in the Summit preparations. It is too soon to take a view on our detailed objectives. But we shall of course need to clarify our aims as we approach the Bank/Fund spring meetings (14/15 April) and the OECD Ministerial Council (18/19 May): these are a major part of the preparation for the Summit itself and it is indeed convenient to regard the three sets of Ministerial meetings as part of a single process.

2. As at Tokyo and Venice, four main economic subjects are likely to predominate: macroeconomic issues, trade, agriculture and debt. On the first of these, all Summit participants share common goals for the management of the world economy; in the medium term, an orderly unwinding of current account imbalances, and in the longer term sustained non-inflationary growth. But the difficulty of reconciling sharply divergent national interests inevitably gives rise to concerns that policy coordination may come to look increasingly unconvincing. We did not entirely avoid that danger at and after the Venice Summit. Nevertheless the Summit/G7 mechanisms provide the only framework to hand for managing the world economy in any concerted way and for the sake of market confidence at least we should make the best of it. We must hope that improved US trade performance restores a degree of stability to the foreign exchange markets; but we cannot expect any further action to reduce the budget deficit by either the Administration or Congress in an election year. The Japanese are moving, but have far to go. The Germans will probably remain unwilling to commit themselves to necessary policy changes, both macro and micro, though their confidence in the rightness of their policies may be wavering. Our influence in isolation is limited, so our aim must be to create an atmosphere which puts effective pressure on the three main players in the preparatory process and in the Summit itself.

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3. The second main economic area to be covered at the Summit is trade. We shall of course want the Summit to reiterate general opposition to protectionism, but beyond that our position will depend on progress in the Round, and on developments on US trade legislation. We may wish to put down a marker opposing the inappropriate use of national security arguments as grounds for protectionist measures, for example in the energy field in view of current debate within the US.

4. A separate aspect of the trade problem is the scope - and need - for action from the Newly Industrialised Countries (principally South Korea, Taiwan and Singapore: Hong Kong must remain a special case). The surpluses run by the NICs are of course in part the mirror image of the US trade deficit. There is a macro-economic point here. The NICs do need to take early steps to reduce their growing trading surpluses, especially with the US; and in the medium term to 'graduate' out of the privileges associated with developing country status, and to assume responsibilities commensurate with their new economic weight. The recent US action to remove GSP status from these four countries is an example of enforced integration, and a measure of US concern at this growing component in the American trade deficit. Recent G7 communique have spoken out forcefully on the subject, and I expect Toronto to do the same. We had a preliminary discussion of this on 1 February in the Executive Committee in Special Session of the OECD, and the Secretariat will be working up ideas which can be reflected at the Ministerial meeting. The DTI have launched their own campaign through the Brussels machinery. I detect a bit more willingness amongst our partners to tackle the problem. But the trick will be to find the right mix of carrots and sticks to persuade the NICs to adjust in their own self-interest. We are giving this further thought.

5. The Canadians will certainly want to highlight the closely related subject of agriculture. There is some risk that Toronto will do so in a less positive way than Venice or Tokyo now that real negotiations are imminent. At the least our objective should be to ensure that there is no backsliding from the principles for reform agreed at last year's OECD Ministerial and that the Prime Minister's position is fully protected in advance of the European Council in Hanover. These are essentially defensive objectives. We shall try to identify more positive ones over the coming months, because it is in our interests to continue to keep up the momentum of reform without necessarily going the whole way with the US and Canada.

6. We shall probably want to avoid any detailed discussion in Toronto of the mid term Ministerial review (MTR) of the Uruguay Round. The Summit is not the place for what would no doubt develop into a highly contentious and unproductive debate over the timing or content of the MTR. That is for GATT. We shall want to head off any attempt to pursue this in preparatory meetings.

7. As for discussion on debt, we shall probably want to resist Canadian ideas for shifting the emphasis of discussion unduly from the poorest indebted countries to the middle income, mostly Latin American

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debtors. We have two reasons for wanting to avoid such a shift. First, governments have less locus in Latin American debt, most of which is owed to commercial banks; and secondly we do not wish to divert attention from the good story we have to tell on help for Sub-Saharan Africa (the Chancellor's initiative - which we must continue to advocate, our generous contribution to the enhancement of the IMF's Structural Adjustment Facility, our aid contribution and our support for World Bank co-financing programmes). But the American position may be closer to the Canadian because of their political preoccupation in Latin America, and the situation on Latin American debt is increasingly fluid (witness Mexico). We must leave some room for manoeuvre.

8. Among other economic issues which may come up are Canadian proposals, currently very much at the drawing board stage, on the regulation of financial markets, and competition in the provision of concessional export credits (eg our ATP scheme, for which there is no direct Canadian equivalent). The Summit is not the place for discussion of such technical subjects: and we should re-direct such initiatives towards the appropriate bodies if they are raised at preparatory meetings. Alan Wallis may raise direct foreign investment. We share the US interest in encouraging the removal of barriers to investment, whether in developed or in developing countries. But since the US are for the moment pursuing this through the OECD, I think the Summit could content itself with giving suitable encouragement in the communique.

9. Certain 'Other Issues' have featured in past Summit declarations that are not exactly 'economic' nor yet purely 'political'. It is particularly hard to predict initiatives in this sort of area. Prime Minister Mulroney is almost certain to want to make a show, though this may be in the political field (see below). We mentioned briefly on 3 February possible American interest in discussion of expenditure on social services. The Prime Minister was cautious about this subject when it was tentatively raised before the previous two Summits, but Allan Wallis is still interested and you will want to bear it in mind as a potential topic. As you know, there have been signs that science issues (especially big science) may be raised in Toronto. Sylvia Ostry reverted to that at dinner on 4 February, without indicating that there was much Canadian enthusiasm for the subject. But she was not aware that the Americans had lobbied the Canadian and other governments for support for the US superconducting supercollider projects (the US answer to CERN), and we may hear more. We need not spend time considering the Japanese Human Frontier Science Programme; this is something that should be pursued through normal science and education channels and not at the Summit. We might try to secure a reference to AIDS and the very successful international conference in London last month, to which the declaration on AIDS issued at Venice looked forward: but there will be little enthusiasm for an extended discussion. The French may wish to pursue Mitterand's initiative at Venice for an international ethical committee on AIDS, about which we have heard nothing since we nominated three British experts. There is no particular initiative on either energy or the

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environment that we want to pursue at this stage, although the Canadians might want a further reference to the Brundtland Report, which we would not oppose.

10. As is customary, political directors will only attend the final preparatory meeting. It would be premature to attempt to set out the political agenda, which will be heavily dependent on the climate in the immediate run up to the Summit; and unforeseen events (terrorist outrage, acts of God etc) can of course force themselves onto the agenda at the last moment. Following the expected US-Soviet summit in Moscow and with the possibility of a START agreement and movement on Soviet withdrawal from Afghanistan, East/West relations is bound to be a dominant theme. We agree that the other main subject is likely to be the Middle East, both Arab/Israel and Iran/Iraq. The subject of terrorism may well arise, but we would not expect heads of government to spend long on it. Our initial view (discussed informally with the Canadians) is that, barring a major incident, we should aim to include a few crisp sentences on standing firm against terrorism in the wider political statement, rather than attempt a free-standing terrorism declaration.

11. We wish to avoid discussion of South Africa. Sylvia Ostry's colleague said at the dinner on 4 February that he thought it most unlikely that Mr Mulroney would want to revert to this divisive issue. I doubt if there will be much from the others.

12. Finally, there is a subject called 'technology and foreign policy' or 'global trends'. Shultz raised this in Venice and at the Seven Foreign Ministers' dinner in New York last September. Genscher has offered to host an informal ministerial meeting of the Seven to discuss it in the Spring (probably 30-31 March). We shall know after that whether the Foreign Ministers draw any conclusions which they wish to bring to the attention of heads of government.

Yours ever,

Rodric

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cc Sir G Littler, H M Treasury
Sir J Fretwell
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