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Handwritten initials: JR COB/1

10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

10 June 1988

Dear Lynn,

**TORONTO ECONOMIC SUMMIT: THE PRIME MINISTER'S SPEAKING
NOTE FOR THE OPENING SESSION**

As you know, the Prime Minister has agreed to Mr. Mulroney's request to open the discussion at the first session of the Economic Summit. The purpose of this initial discussion is for the Heads to describe their main priorities for the Summit.

Mr. Mulroney's hope is that she will speak without notes in order to encourage the informality of the occasion. Nevertheless, I think that it would help the Prime Minister if she had a speaking note on which she could base her intervention.

I attach a draft of such a note, which reflects Departmental comments. I should be glad to know whether the Foreign Secretary has any views on it. The speaking note is long and I doubt whether the Prime Minister will wish to use it all at the first session. But it could provide a quarry for use elsewhere during the Summit.

I am sending a copy of this letter to Alex Allan in the Treasury, and should be grateful to know whether the Chancellor of the Exchequer has any comments on the draft. A copy also goes to Trevor Woolley in Sir Robin Butler's office.

Handwritten signature: Nijel Wicks

(N.L. WICKS)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

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DRAFT SPEAKING NOTE FOR THE PRIME MINISTER TO USE AT THE
OPENING SESSION OF THE ECONOMIC SUMMIT

1. Any initial courtesies which are necessary
e.g. welcoming Mr. De Mita and Mr. Takeshita
congratulating President Mitterrand
saying farewell to President Reagan
thanking Mr. Mulroney for the Summit
arrangements, etc.

2. The annual Economic Summits are a time for sharing, quite informally, experience on the economic situation and a time for resolution on the common economic action which we should follow in the years ahead. The Summit forum alone can see every dimension of the global issues before us. Summits have provided, in the past, opportunities for leaders to take charge of issues from the bureaucrats and give them a political push which can only come from the very top. This Summit should be no exception.

[Paragraphs 3-10 can be omitted in the interests of brevity.]

- [3. This is the last of this series of Summits which President Mitterrand initiated in Versailles in 1982. President Mitterrand, President Reagan and the President of the European Commission (who was present as the French

Minister of Finance) will remember the problems which faced us at that Summit.

(i) World recession in the period 1980-82: output growth averaged under 1 per cent over these three years, and output actually fell in 1982.

(ii) Inflation in the industrialised countries averaged about 10 per cent in 1981 and 1982.

(iii) Interest rates were very high: short term dollar rates averaged 16 per cent in 1981.

4. The problems of the world economy are not all solved. Far from it. But there has been an enormous improvement in the world economic situation in the last six or seven years. In particular:

(i) growth has averaged a good 3 per cent a year since 1982;

(ii) inflation has come down to and stayed at around 3 per cent;

(iii) ~~interest rates~~ have declined to around 7 per cent;

(iv) in many countries, unemployment is falling.

But there remain serious problems: the fiscal deficit in

the United States, and trade imbalances there and in Japan and Germany; the protectionist threat; high unemployment, especially in Europe; the massive scale of agricultural protection and support; and the serious position in many developing countries, especially in Africa.

5. That improvement has not come about by accident. The seventies were a decade of financial irresponsibility, economic mis-management and economic opportunity foregone. But in the Eighties, the Summit countries have lead the way in implementing a change in the approach to economic policy of historic proportions. Successive Summit declarations bear witness to that change. And many other countries are now following our lead. International cooperation fell apart in the Seventies and has been gradually rebuilt during the current series of summits. Priority has been given to inflation and to prudent fiscal and monetary policies. But the real innovation has been the emphasis on "structural reform", tax reform, abolishing controls, introducing competition, privatisation and the need for freer world trade especially in agriculture, following our discussion at the Tokyo Summit 1986.
6. The recent record of economic history shows the rightness of these policies. The world economy could not have withstood so well the shock of last Autumn's fall in stock prices unless our policies had built sound

foundations.

7. I suggest that our task at this Summit is to consider how to carry these policies through the rest of the Eighties and into the Nineties, so that we can carry on the progress already made. That will require,
- first, continuing action to reduce trade and budgetary imbalances;
 - second, progress with our national structural reform programmes;
 - third, a successful conclusion to the Uruguay Round; and as part of that,
 - fourth, continuing action to - and here I use the words in the Economic Declaration issued in Venice in 1987 - "... allow market signals to influence ... agricultural production ...",
 - fifth, supporting the developing countries in their efforts of economic reform; and I want to say something on the various debt initiatives in a moment.

The Imbalances

- X X 8. First on the imbalances. Despite the progress, more has to be done in the years ahead to reduce the imbalances, and I will want to say more about that in our session tomorrow.

Structural Reform

9. It is vital that the surplus countries too play a full part in resolving the imbalances problem. But it is through structural reforms to open their markets and invigorate their economic performance - not through fiscal stimulus - that they must make their contribution.

10. Education and training is a particular element of structural reform that I want to stress. We face a decade of technological change, fewer young people coming into the workforce, and the need for training and retraining, not just for the young people but right through the working life, so that people can be re-equipped with new skills. I look forward to discussing this important issue at our informal session tomorrow.]

Trade and agriculture

11. Agriculture and trade are, in my view, priority topics this Summit. Certainly, Summits are not negotiating bodies. We cannot get into the details which are under discussion in Geneva. But we must give an impetus to those discussions and map out some common directions so as to keep up the momentum.

Trade

12. To take trade first: too often in the last few years

there have been threats of trade wars. Protectionism has inched forward. And protectionism reduces growth in our countries, puts up inflation in the short term, increases unemployment in the long term and damages the developing countries. The GATT Round provides an opportunity to turn back protectionism to the benefit of both our own economies and to the developing countries. We must seize that opportunity and maintain and extend the open world trading system by multilateral reduction of trade barriers.

13. I believe that the Mid Term Meeting (MTM), to be held in Montreal in December, offers a valuable opportunity to demonstrate that real progress can be made in all areas of the Uruguay Round. This progress should cover the areas to which we gave special emphasis at our previous meeting at the Tokyo summit, namely trade in services, intellectual property rights and foreign direct investment. A significant step towards the Round's successful conclusion would be the establishment at an early date of an agreed negotiating framework. I believe, too, that we should use to the fullest extent possible at the mid term meeting the provision in the Punta Del Este Declaration which permits the implementation of agreements reached at an early stage in the negotiations. We ~~should~~^{must} not hold up action on any issue until agreement is reached on all issues. For example, tropical products are a high priority for the developing countries for whom there is unlikely to be

R much else on the table at Montreal. If we can by then agree on other issues too, so much the better. Above all the strengthening of GATT itself ^{must be} is a high priority. We should work for the earliest possible agreement on ways of reinforcing the GATT process: through greater involvement of political Ministers; through intensification of the surveillance of trade policies; and through greater effectiveness of dispute settlement procedures so that disagreements can be resolved speedily, conclusively and fairly.

14. I suggest that these are the objectives which Summit countries should set themselves in making their contributions to the preparation for the Montreal meeting.

Agriculture

15. The Venice and Tokyo Summits made reform of agriculture policy a priority for our Governments. Present agricultural policies distort national economies by putting unfair burdens on the consumer.
16. In February the European Community took some important first steps to reform agricultural policy. We now have:
- a legally binding ceiling which will cut the growth of agricultural spending to less than 2 per cent a year in real terms, from around 10 per cent in

recent years,

- and automatic stabilisers for each individual commodity which will cut support levels if production exceeds pre-set levels, and thus discourage surplus production.

If production continues on current trends, the stabilisers will save some \$4 billion in the three years 1988/90. In cereals alone, if production continues to rise, support levels will fall by 15 per cent over the next four years. For oilseeds, where we already have a stabiliser in place, the new measures should save a further \$1 billion by 1990.

17. That agreement was a real achievement for the Community and for the world.

No-one should belittle what the Community has achieved. But far more needs to be done by all of us to achieve our agreed [i.e. in the OECD Communique] long term objective of reducing agricultural support and protection, while maintaining, at the same time, a dynamic and viable agricultural sector.

18. This Summit should make clear that the Montreal Mid-Term Review should give a good shove to the negotiating process. So far there has been a dialogue of the deaf between our officials. I believe it is for us here to

re-inject the sense of political urgency which we so successfully invoked at our Summits in Tokyo and Venice.

The aims are clear:-

- first, as our long term objective, to work for liberalisation of world agricultural markets, through major reductions in overall support and protection;
- second, to determine a framework for the GATT negotiations, that focuses specifically on an overall measure of support [such as the producer subsidy equivalent];
- third, to make operational the standstill commitments that were agreed at Punta Del Este;
- fourth, a multilateral commitment to specific early action that not only prevents the situation getting worse, but also makes real headway towards our long term objectives.

We should not try to negotiate the details now. But we should commit ourselves, here and now, to make concrete progress towards agreement on these matters at the Mid-Term Meeting in Montreal in December.

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19. ~~Finally, a word on debt.~~ I have been greatly encouraged in recent weeks by the willingness of the United States and France, in particular, to join in the search for concessional solutions. Let me urge as many as possible to do what we have advocated: cut interest rates on official debt, on the conditions we have laid down. For those unable to do this, then some other visible and additional move is vital: extending the rescheduling period to 25 or 30 years is one possibility. The important point is that all countries must take action that will bring a significant reduction in the interest burden over and above what has already been done. It is vital we now reach a conclusion on this issue.
20. There are many other issues we need to consider at the Summit - the Newly Industrialising Economies is an obvious example. But I will reserve my comments on this subject until later.
21. Mr. Chairman, this Summit gives us an opportunity to reinforce the close international cooperation of recent years and so to shape economic history for the rest of the century. Let us seize it.