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Sir Geoffrey Littler KCB
Second Permanent Secretary

14 June 1988

Dear Nigel,

TORONTO SUMMIT: DRAFT COMMUNIQUE

Thank you for your letter of 10 June. I have the following comments on your draft.

Pages 1-2: I think your list of principles confuses two ideas - that of the main Summit themes generally, and that of the bases of economic strategy. If you want to cover both, I suggest keeping your five introductory lines and then four indents:

(A)

- the development and implementation of a sound financial framework of policy over the medium-term, giving priority to the reduction of inflation;
- structural reform of our economies, including greater reliance on competitive forces, so as to improve their efficiency and adaptability, while acting to cushion the impact of change on those least able to protect themselves;
- strengthening the open multilateral trading system in the GATT and reshaping agricultural policies;
- recognising that healthy development of the world financial and economic system requires active international cooperation.

and implement a concerted reform of agricultural policies

Alap

~~Then amend the last sentence on the page to read:~~

"The wide acceptance of these principles represents a fundamental and historic shift to a more effective basis for economic policy. Their application in our countries, and more generally, has greatly strengthened our economies and the world economy as a whole, and has guided us in tackling the imbalances between our economies and in supporting developing countries in their efforts to overcome debt problems."

(A)

Nigel Wicks Esq CBE
10 Downing Street.

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✓ Page 3: I should leave the main passage in. In the last but one line, six would read four (on my amendment above).

Page 4: I think some slight reordering and redrafting:

B "Developments in the wake of the financial market disturbances last October demonstrated the effectiveness and resilience of both our economies and our cooperation. We intend to continue to develop and strengthen our cooperation. We welcome the progress made in the Group of Seven in developing collective analysis of economic performance and prospects and we encourage them to continue their regular review process.

"We will continue to pursue sound financial policies to forestall any resurgence of inflation, to promote structural changes to strengthen our economic performance and to foster the continued adjustment of international imbalances and greater exchange rate stability. We will follow, and where necessary strengthen, our efforts to reduce the growth of *domestic* demand [spending] in countries with large external deficits and to sustain the momentum of domestic demand in countries with large external surpluses in order to manage the transition to more sustainable economic and financial positions while maintaining robust non-inflationary growth. As part of.....[as drafted]." B

Pages 10-11: I would collapse much of this material, perhaps on the following lines:

L "The main international financial institutions will continue to play a central role in the debt strategy, and continued official financing, by them and creditor countries, will remain important. In this connection speedy approval and subscription to the General Capital Increase of the IBRD is essential and steps by the IMF to give increased support for medium-term structural adjustment are welcome. L

"As regards debts to commercial banks, in recent years....[and continue as in final para of section]"

Finally, I attach a self-contained passage on debt of the poorest, anticipating an agreement of which we are becoming more confident, although we do not of course yet have it in the bag.

I am copying this to Rod Braithwaite.

Yours.

Geoffrey

(Geoffrey Littler)

DRAFT COMMUNIQUE PASSAGE

ANNEX

[Link to Africa if possible]

[SUB-SAHARAN AFRICAN DEBT]

[Direct quote]

Heads of Government recalled their decision at Venice to ease the debt burden of the poorest African countries that are undertaking adjustment efforts.

[Cannot say more. No actual progress on RTA]

They welcomed the progress made since then in the Paris Club, by way of agreement on longer repayment periods for these countries. They took note of the various proposals made in recent weeks towards a definitive solution of the problem. Heads of Government agreed to implement a new scheme of debt relief, the burden of which should be shared equitably among creditor governments on a clearly-defined basis. In their view, this basis should provide for differing forms of direct debt relief. [Some creditors might reduce the interest rates charged, in exchange for a shorter repayment term. Others would extinguish part of the debt, recovering the balance in a shorter time. A third group might wish not to make immediate concessions, but to accept the greater risk of rescheduling their claims over longer periods than have been agreed so far.] The relative contributions of these different groups would need to take account of [these] differing levels of risk, particularly of those which might arise in the event of any further rescheduling.

[Kept vague]

[Two key words:
- equitably
- defined]

[NB: direct, ie not Japanese idea of 'equivalent measures']

[Enumerate all 3 if possible; with UK option first. If not, at least insist on trade-off sentence below]

[ie more than 20 years, to make US give]

[Emphasise idea of trade-off. Keep, in addition to 3 options]

[Stake out position on subordination]

[Timetable and remit: clear lead but no dictation to other PC creditors]

Heads of Government urged the Paris Club to complete the definition of a workable scheme, to enable finance ministers of the creditor countries to reach final agreement at the time of the IMF/IBRD annual meetings in Berlin in September.

ECON POL: Toronto Summit P124



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Foreign and Commonwealth Office

London SW1A 2AH

14 June 1988

N L Wicks Esq CBE
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London W1

Dear Nigel,

TORONTO ECONOMIC SUMMIT: DRAFT COMMUNIQUE

Thank you for your letter of 10 June and enclosed draft. I think you have done a very good job; and like you I doubt if the final version will be any shorter. I attach detailed comments.

Yours ever,

Rodric

Rodric Braithwaite

Copy to Sir G Littler

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✓ Page 1, para 2. You might point up a little more explicitly the difference between 1982 (and the seventies) and now, which is one of our objectives. One way would be to insert after "countries" in line 3: "has radically transformed the depressing economic legacy of the previous decade and". In line 2 delete "applied" and in line 7 "our cooperation".

✓ Page 1, para 3. We need to work into the opening some recognition that we don't seek prosperity for our seven countries alone (cf the thematic paper on "responsibilities to the wider community of nations"). After "low inflation" you could add "and development, or "and a better world" or "industrialised and developing countries alike" - I leave you to judge.

✓ Page 2, first turet: Geoffrey Littler may have views, but what about "progressive correction of" or "continued progress in correcting"? Your formula could imply that little or no correction has taken place, which could raise unnecessary hackles.

1 Page 2, second turet: in line 4, "of", not "on".

→ Page 2, fourth turet: you might try "implementing a concerted reform of agricultural policies" (Venice) and then gracefully fall back to your formula (which is also Venice language).

✓ Page 2, last turet: if you decide to omit page 3 (which mentions debt for the first time) in the interests of brevity, I think you will somehow have to work a reference to debt into this sentence. Thematic paper language is "and so ease debt servicing difficulties". But my own guess is that something on the lines of page 3 will be wanted.

✓ Page 2, final passage: "these principles" in line 1.

✓ Page 4, line 9: again subject to Geoffrey's views I suspect you will come under US pressure to refer to commodity indicators; but no need to volunteer language.

Page 4, line 16: I know this is thematic paper language, but doesn't the phrase "to reduce spending" - or "the growth of spending" - let the Americans off the hook of tax increases or "revenue enhancement"? I would prefer the more general formulation "to reduce domestic demand", but realise you may think it unwise to reopen thematic paper wording.

✓ Page 4, line 22: on the other hand, I expect the Americans will want "continued reduction" of budgetary deficits, as in the thematic paper; and although the size of the FY 1986-7 reduction was partly

dictated by one-off factors and the deficit may eventually rise in 1987-8 and beyond, I suspect you will have to concede this.

Page 5, lines 6 and 9: insert "to" before "increase" and "improve".

✓ Page 5, line 7 of the paragraph on structural reforms. You could expose yourself to argument that privatisation does not always mean more competition (British Gas). Perhaps you should add "and deregulation". More generally, I assume you have deliberately not referred to financial markets (para 15 of the thematic paper). ✓

→ Page 6, first paragraph on trade and agriculture. At the end, I think you will need a balancing sentence on the aspirations of developing countries. The last sentence of para 21 of the thematic paper would do, turned into communique style, though as you know we prefer the DTI's formulation: "We recognise the legitimate interests of the developing countries in a balanced outcome of benefit to all participants". ✓

✓ Page 6, second paragraph. As you know, we may not get away with "negotiating framework" (as against "framework approach"); nor with the sentence on early results. But we should try. Banal though it may seem, we do need a sentence on the need to resist protectionism: it is one of those things that has to be said for the record. It could go in either of the paragraphs on this page. In line 5, I would redraft as follows: "We reaffirm the principle to which we committed ourselves at Punta del Este that agreements reached at an early stage in the negotiations may be implemented on a provisional or definitive basis by agreement prior to the formal conclusion of the negotiations". This is lengthy, but a direct quote will be harder for others to oppose.

Page 7. I would put the second paragraph on the Free Trade Agreement and 1992 at the end of this section, on page 8, so as not to interrupt the flow of objectives for Montreal. At the end of this paragraph, the Americans will probably press for "progressively liberalising" investment (paragraph 25 of the thematic paper, with which we have no problems as long as the proposition remains general).

→ Page 7, third paragraph. As you deal with the MTM on page 8, the first sentence might simply read: "The Tokyo and Venice Summits made reform of agricultural policy a priority for our Governments". In lines 8-10, could you use the language in the enclosure to my letter of 9 June: "but we all need to do far more to achieve our

X
X

agreed long-term objectives ... in support and protection"? If that does not run, we should use Venice/OECD language: "our agreed long-term objective of allowing market signals to influence the orientation of agricultural production, by way of a progressive and concerted reduction of agricultural support, as well as by all other appropriate means". But this is very long-winded. Over the page insert "and" between "imbalances" and "continuation" and replace "and any increase" by "and to reduce" (if as I assume the purpose of this line is to get at the Japanese).

Page 8, second paragraph. Given the weakening of paragraph 23 of the thematic paper, by comparison with earlier versions, this language will be hard to achieve. You will have trouble with the reference to "downpayment", because it is a Cairns Group buzzword. Fallback language might be "which would relieve current strains in agricultural markets" (OECD). Earlier in this paragraph I would like to include a reference to agreement on a measuring device (as per the thematic paper); but the Americans are unenthusiastic and without them we cannot bring pressure to bear on the Japanese. We should discuss whether or not to show the Canadians these paragraphs on agriculture in advance of the full text. I also attach an alternative paragraph at the end which reflects the language I sent you on 9 June.

Page 8, last paragraph. In line 3 insert "the strong mutual interest".

Page 11, penultimate paragraph. Could we try for "alleviating debt problems, and we hope that developing countries will welcome and encourage such investment".

Pages 12-13. I look forward to Geoffrey Littler's passage on African debt. As a minimum, I would like the communique to say that we are all committed to take further action to alleviate the African debt burden, within an agreed range of options; and that we have instructed our officials to reach agreement on the details as soon as possible, and not later than the Annual Meetings.

Page 14, second paragraph. You will remember that the DOE thought this language a bit too gloomy. But I have not checked whether they could live with it.

Page 15. In the last paragraph on drugs, I would prefer "a special task force of officials from Summit countries...", ie leaving

governments to decide on representation. I see that the Italians share our doubts about naming specific departments.

Page 15. In the brief on Bioethics, Cabinet Office express reservations about the Commission's offer to host a conference, on the general ground that we do not want the Commission to claim any competence for legislation in this sensitive area. Our view is that we should accept the invitation as a fait accompli, and not put the Prime Minister up to expressing reserves about it. We have covered the point under "Other Issues" in the steering brief; the Cabinet Office are content with the line taken there, and your communique language therefore stands.

Alternative paragraph
to 2nd para on Page 8

☞ *Recognising that agriculture is a key element in the success of the Uruguay Round, we endorse the view of the OECD Ministerial communique that it is important for the Mid-Term Review to add impetus to the negotiating process. We give our full backing to the OECD commitment to seek to agree on a framework approach including short-term as well as long-term elements. For this purpose we shall need a device to measure support and protection, agreement on the commodities and measures to be included, and a baseline. Our short-term measures should pave the way for the achievement of our agreed long-term goal. These measures should include a commitment to freeze support at present levels, and should contribute to relieving current strains in agricultural markets. We commit ourselves to make concrete progress towards agreement on these matters at the Mid-Term Meeting.

] P