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FM WASHINGTON
TO IMMEDIATE FCO
TELNO 1517
OF 152215Z JUNE 88
INFO PRIORITY OTTAWA, BONN, PARIS, ROME AND TOKYO

OUR TELNO 1504 (NOT TO ALL): BRIEFING ON TORONTO SUMMIT GIVEN BY SECRETARIES SHULTZ AND BAKER

SUMMARY

1. BAKER PREDICTS THAT DECISIONS WILL BE TAKEN ON DEBTS OF SUB-SAHARAN AFRICAN COUNTRIES, IMPLEMENTATION OF A COMMODITY PRICE INDICATOR AND STRUCTURAL ADJUSTMENT PROBLEMS. IMPROVED COOPERATION ON DRUG MONEY LAUNDERING EXPECTED. SHULTZ LOOKING FOR SUBSTANTIAL CONTRIBUTION FROM JAPAN TO PACKAGE FOR PHILIPPINES AND AFGHANISTAN.

DETAIL

2. BAKER PREDICTED THAT THE ECONOMIC TOPICS AT THE SUMMIT WOULD BE QUOTE AGRICULTURE, TRADE, THIRD WORLD DEBT, AND THE PROCESS OF INTERNATIONAL ECONOMIC POLICY CO-ORDINATION UNQUOTE. HE EXPECTED DECISIONS TO BE REACHED ON THE PROBLEM OF THE DEBTS OF SUB-SAHARAN AFRICAN COUNTRIES. BAKER REAFFIRMED HIS OVERALL DEBT STRATEGY BUT DISTINGUISHED BETWEEN THE DEBT OF MIDDLE INCOME COUNTRIES, WHICH IS OWED TO BANKS, AND THE AFRICAN COUNTRIES' DEBT, WHICH IS MAINLY OFFICIAL. IT WAS ON THE LATTER THAT HE EXPECTED PROGRESS BUT DID NOT GO INTO DETAILS.

3. BAKER NOTED THAT THE LATEST US TRADE FIGURES WERE ENCOURAGING. THE DECREASE IN IMPORTS SUGGESTED THAT DOMESTIC DEMAND GROWTH WAS SLOWING DOWN WHICH HE FELT WOULD PLEASE OTHER G7 MEMBERS. IN RESPONSE TO A QUESTION ABOUT THE DOLLAR, HE REPLIED QUOTE IT'S MY VIEW THAT ALL OF THE G7 COUNTRIES ARE VERY PLEASED WITH THE STABILITY IN EXCHANGE RATES WE HAVE SEEN SINCE DECEMBER 22, 1987 UNQUOTE.

4. BAKER WAS INEVITABLY ASKED IF HE WOULD BE LEAVING SOON TO MANAGE THE CAMPAIGN OF VICE PRESIDENT BUSH. HE TOLD REPORTERS QUOTE YOU GOT YOUR BAKER RESIGNATION YESTERDAY UNQUOTE AND ADDED THAT QUOTE FOR NOW MY JOB IS AT THE TREASURY DEPARTMENT AND THAT'S WHERE I EXPECT TO STAY UNQUOTE.

5. SHULTZ PREDICTED THAT THERE WOULD BE DISCUSSION OF THE DRUG PROBLEM AND BAKER ADDED THAT QUOTE HOPEFULLY WE COULD FIND A WAY TO IMPROVE OUR COOPERATION ON MONEY LAUNDERING UNQUOTE. ON SOUTH AFRICA, SHULTZ STRESSED THE NEED TO MAINTAIN CONTACTS AND

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EXPRESSED HIS OPPOSITION TO BILLS THAT WOULD END ALL TRADE WITH, AND INVESTMENT IN SOUTH AFRICA. HE DIDN'T SEE ANY NEED FOR FURTHER SANCTIONS.

6. IN CENTRAL AMERICA SHULTZ HOPED THE SUMMIT PARTNERS WOULD EXPRESS SUPPORT FOR THE DEMOCRACIES AND SUPPORT FOR THEIR ABILITY TO DEVELOP THEIR ECONOMIES. HE FELT THAT IT WAS NOW QUITE OBVIOUS THAT QUOTE THE NICARAGUAN COMMUNIST GOVERNMENT HAS NOT BEEN NEGOTIATING IN GOOD FAITH UNQUOTE. THE THRUST TOWARDS DEMOCRACY NEEDED AN EXTRA SHOVE AND SHULTZ HOPED THAT QUOTE PERHAPS SOME OF THE CENTRAL AMERICAN COUNTRIES CAN HELP US WITH THAT UNQUOTE.

7. SHULTZ WAS ASKED ABOUT PROGRESS ON A PACKAGE FOR THE PHILIPPINES AND AFGHANISTAN. HE SAID THAT HE HAD BEEN TALKING TO OTHER COUNTRIES AND TO CONGRESS ABOUT QUOTE A MULTILATERAL PACKAGE OF ASSISTANCE TO THE PHILIPPINES. AND THE COUNTRIES AT THE SUMMIT MEETING ARE AMONG THOSE THAT WE'VE TALKED TO, SO WE'LL BE EXAMINING THAT FURTHER. SIMILARLY WHEN IT COMES TO THE AFGHAN REFUGEES, OF COURSE WE'RE SUPPORTING THE UN EFFORT THERE, AND THEY'RE AROUND NOW BEGINNING TO LOOK FOR FINANCIAL RESOURCES ... UNQUOTE. HE ADDED THAT QUOTE EVERYBODY SORT OF FIGURES THE JAPANESE CONTRIBUTION WILL BE HEAVY IN ANY ONE OF THESE PLEDGINGS UNQUOTE. HE THOUGHT THE JAPANESE WOULD BE PREPARED TO MAKE A SUBSTANTIAL CONTRIBUTION QUOTE AS LONG AS THE PROGRAMME IS SENSIBLE UNQUOTE.

COMMENT

8. NO SURPRISES BUT BAKER WENT OUT OF HIS WAY TO EMPHASISE WHAT HE DESCRIBED AS THE SLOWDOWN IN US DOMESTIC DEMAND. THE APRIL TRADE FIGURES AND THE 0.1 PERCENT RISE IN RETAIL SALES IN MAY SUPPORT HIS CASE, BUT IT IS A LITTLE PREMATURE TO ACCEPT THAT DOMESTIC DEMAND GROWTH HAS SLOWED DOWN AND IS NOW GROWING AT A SUSTAINABLE LEVEL.

9. FCO PLEASE ADVANCE TO RICHARDSON AND SIR G. LITTLER, LANKESTER AND EVANS (TREASURY) AND WARE (BANK).

ACLAND

ADVANCE 12

.ECONOMIC SUMMIT
MR BRAITHWAITE
MR CARRICK
MR N WICKS, NO 10 (D.S.)
HD/ERD
HD/PLANNING STAFF

SIR G LITTLER, HM TRSY
RICHARDSON, HM TRSY
LANKESTER, HM TRSY
EVANS, HM TRSY
WARE, BANK OF ENGLAND
RESIDENT CLERK

