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UNDER SECRETARY OF STATE
FOR ECONOMIC AFFAIRS
WASHINGTON

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MEMORANDUM FOR HOWARD H. BAKER
AND FRANK C. CARLUCCI
THE WHITE HOUSE

SUBJECT: Substantive Preparations for Venice Economic Summit

The final preparatory meeting for the Venice Economic Summit was held in Venice May 15-17. I was joined by Ambassador Ridgway for the discussion of political issues and by David Mulford and Stephen Danzansky for the economic issues. At this meeting, as throughout the preparations for the Venice Economic Summit, the three have provided valuable advice and help in developing and arguing our positions.

On the political side, the President and George Shultz will have to convince their colleagues of the need for strong statements on East-West relations and terrorism. I have bracketed the entire draft statement on terrorism as French editing has removed its strength.

On economics, the challenge will be to:

- write a strong political statement in support of agricultural reform;
- cement the economic policy coordination instituted by Jim Baker at Tokyo; and
- convince our Summit partners that lasting economic growth can only be encouraged by allowing market forces to operate freely in the domestic market.

Margaret Thatcher will not remain in Venice beyond lunch on June 9, and she may leave at the end of the morning session. As Francois Mitterand plans to leave after the communique reading June 10, the Italian President now plans to host a lunch on June 10, rather than a dinner.

The ceiling in the Cini Foundation under which the Sherpas will draft the Summit communique is inscribed "Ex glorioso labore, sincere voluptas."

Allen Wallis
Allen Wallis

Attachment: Report of Venice Preparatory Meeting

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CONFIDENTIALReport of Fourth Preparatory Meeting for
Venice Economic Summit
Venice, May 15-17, 1987I. INTRODUCTION

The fourth preparatory meeting for the Venice Economic Summit was held in Venice May 15-17, 1987. U.S. participants were Allen Wallis, Personal Representative, David Mulford, Assistant Secretary of the Treasury for International Affairs, Stephen Danzansky, Senior Director for International Economic Affairs, NSC and Rozanne Ridgway, Assistant Secretary of State for European Affairs.

Political issues were discussed May 15, first among Political Directors and then among Sherpas and Political Directors. On May 16 the Sherpas, Finance and Foreign Ministry officials met in plenary session to discuss economic issues. On May 17, Sherpas met alone to conclude consideration of the thematic paper.

II . ECONOMIC ISSUES(A) Macroeconomic Situation

There is a consensus among Summit countries on the need for continuing close coordination of economic policy with a view to achieving greater convergence of positive economic performance. The conclusions reached by Finance Ministers at the Louvre in February and during the April IMF/IBRD meetings in Washington were reaffirmed. All agreed that the key medium term priority is to sustain non-inflationary growth while correcting external imbalances.

Certain European countries prefer to talk about what other countries should do to promote growth rather than what they might do for themselves. At the Summit, the U.S. will have to reject this view forcefully. The U.S. has a solid record of undertaking structural reform; the results are visible in a dynamic, flexible economy which has created more than 12 million additional jobs in the last five years. None of our Summit partners has followed our example to any meaningful extent. They need to:

- promote competition and deregulation to speed up industrial adjustment;
- improve functioning of labor markets through greater mobility and adaptability;

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- open internal markets;
- remove capital market restrictions;
- reduce the economic drag of social programs.

The objective of promoting growth should drive the economic discussion at Venice.

(B) Agriculture

To avoid a protracted debate on agriculture, one which risked re-opening the satisfactory consensus achieved with great difficulty at the May 12-13 OECD Ministerial, participants (at our suggestion) simply endorsed the OECD conclusions. Everyone recognized the key role agriculture will play in the Uruguay Round and a need for Heads of State and Government to review progress at their 1988 meeting.

However, the Venice Communique cannot just note the OECD language. We will have to try to go a step further by preparing a concise political statement in support of agricultural reform. The statement should identify governments' role in creating the problems and our resolve to carry out comprehensive reform along market principles.

(C) Trade

There is general consensus on the need to continue resisting vigorously the increasing protectionist pressures, to dismantle existing trade barriers and to avoid restricting international trade further. In addition, all agreed it was essential to improve the multilateral trading system based on GATT rules and principles and to improve the ability of the GATT to carry out its mandate effectively. Only the French are reluctant (for reasons of domestic politics) to support a mid-term ministerial meeting of the Uruguay Round Trade Negotiating Committee.

(D) Debt and LDC's

There is general consensus that while some developing countries have taken politically courageous steps to reform their economies, much remains to be done. The growth-oriented case-by-case strategy ('Baker Plan') remains the only viable approach. This entails:

- comprehensive macroeconomic and structural reforms;
- increased lending by IFI's, in particular the IBRD;
- adequate commercial lending in support of debtor structural reform.

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All agreed to make a special effort, in the IMF, IBRD and Paris Club, to ease the debt service burden of the poorest countries, particularly in Sub-Saharan Africa.

Italy, France and the UK wish the Venice Communique to note positively the forthcoming UNCTAD VII meeting. Pending further consultations in Washington, the U.S. has bracketed any reference to UNCTAD.

(E) Other Issues

- Environment: Language concerning the World Commission on the Environment and Development (WCED) was dropped. A reference is made in this section to progress on nuclear safety.

- Human Frontier: Japan plans to undertake a year-long feasibility study. They will invite Summit scientists to participate. Depending on the results, the proposal may be discussed at the 1988 Summit.

- AIDS and Narcotics: It is proposed to discuss increased international collaboration on AIDS and narcotics in an agreed Chairman's oral statement.

III. POLITICAL ISSUES

Together with the Political Directors, we reached agreement on the major issues that will constitute the political agenda. We made less progress on political statements.

Political Agenda: The Political Directors developed a list of issues to be discussed by Foreign Ministers (attached), and specified which Minister would open the discussion. Of these, it was agreed that at their first dinner June 8, the Heads of Government would discuss East-West relations (including arms control), South Africa and, time permitting, terrorism. The leaders will also provide guidance for political statements. The second dinner on June 9 will probably be devoted to topical regional issues.

We expect Summit discussion of political issues to be organized as follows:

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	<u>Heads</u>	<u>Foreign Minister</u>
6/8 dinners (separate)	East-West relations, South Africa, possibly terrorism, guidance on political statements	Regional issues
6/9 morning (separate)	Review possible political statements	East-West relations, terrorism
6/9 lunches (separate)	Not yet decided whether it will focus on political issues	Regional issues, narcotics
6/9 dinner (combined)	Regional issues	Regional issues

East-West Statement: There was no agreement to have a declaration on East-West relations, but no firm opposition either. A contingency draft (attached) was prepared with a decision deferred until the Summit. U.S. representatives, with support from Japan and Canada, and, to a lesser extent, Italy, pointed out the advantages of a Summit statement. France, the UK and the FRG were reserved. Mrs. Thatcher was reportedly concerned that Summit statements on East-West relations and terrorism would draw attention to the absence of one on South Africa -- which she opposed. Chancellor Kohl reportedly wanted to avoid a repeat of Williamsburg, where President Mitterrand was put under intense pressure to agree to a statement. The outcome was a contingency draft statement, characterized as "personal contribution" of the Sherpas, that could provide a basis for possible drafting at the Summit in light of guidance from the Heads of Government. This draft reflects an amalgam of U.S. themes, the Japanese draft, a UK draft and an Italian presidency draft. If there is a decision at the Summit to issue a statement, it will require further work.

Terrorism: A crisp, concise terrorism statement that included a reference to continued consultations among the Summit-Seven governments was originally drafted by a group of six of the seven counter-terrorism representatives. The French representative, however, was instructed not to participate in that exercise. When the statement was reviewed by the Personal Representatives, the French insisted on numerous changes which diluted the force of the statement. The French take the position that with the revision of the Bonn Declaration, the mandate of the counter-terrorism experts has been concluded -- a position we do not accept. Although the draft (attached) was accepted by the other six governments, the U.S. representative put a bracket on the entire text.

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South Africa: The Canadian representative stressed Prime Minister Mulroney's proposal for a Summit statement on South Africa that would establish a Foreign Ministers' group to monitor the issue. As host of this year's Francophone Summit, the Commonwealth Summit and next year's Economic Summit, Mulroney, the Canadian representative argued, will be one of the "international managers" of this issue over the next twelve months. Mulroney might propose a text, which the Canadians have given us bilaterally, either before or at the Summit. The UK representative asserted that Thatcher was firmly opposed. As instructed, U.S. representatives did not press the U.S. draft.

Other Issues: We also passed bilaterally to the Italians language on international narcotics control, the Iran-Iraq war and the spread of democracy for inclusion in the Summit Chairman's concluding press statement.

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A G E N D A

- East - West

- a) Trends in Soviet policy and in East European Countries (Herr Genscher and Monsieur Raimond)
- b) Arms control (Secretary of State Shultz)
- c) Regional issues: Afghanistan, Cambodia (Secretary of State Shultz, Minister Kuranari)
- d) Soviet policy in Asia - Pacific (Foreign Minister Kuranari)
- South Africa (Foreign Minister Clark)
- Middle East (Mr. Tindemans)
- Iran-Iraq (Minister Raimond or Foreign Secretary Howe)
- Central America (Herr Genscher)
- Latin America (Foreign Minister Andreotti)
- Terrorism (Foreign Secretary, J. Howe)
- China, Korea and the Philippines (Foreign Minister Kuranari)
- United Nations (Foreign Minister Andreotti)
- International Narcotics Control (Secretary of State Shultz)