



Foreign and Commonwealth Office

London SW1A 2AH

26 May 1987

Dear Charles

Venice Economic Summit: Agriculture

In my letter of 8 May, I said that we proposed to delay sending you a draft reply to President Reagan's message to the Prime Minister on agriculture until we knew the outcome of the OECD Ministerial meeting. I enclose the relevant extracts from the OECD communique.

I now enclose a draft, which has been agreed by officials in the MAFF, DTI and Treasury. If the Prime Minister is content with it, we shall ask the Embassy in Washington to deliver it, and to take soundings about US intentions on agriculture at the Summit when they do so.

I am copying this letter to Alex Allan, Richard Mottram and Shirley Stagg.

Yours ever

(R N Culshaw)
Private Secretary

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13 May 1987

carrying out the standstill and rollback commitments they have entered into and by opposing domestic protectionist pressures. In keeping with the Punta del Este Declaration, Ministers reaffirmed that the conduct and the implementation of the outcome of the negotiations shall be treated as parts of a single undertaking. However, agreements reached at an early stage may be implemented on a provisional or a definitive basis by agreement prior to the formal conclusion of the negotiations. Early agreements shall be taken into account in assessing the overall balance of the negotiations.

17. Ministers noted the welcome progress on trade in services in the Organisation. This is of particular importance in the light of the inclusion of services in the Uruguay Round. Further related work will be needed to refine the concepts for liberalisation of trade in services as well as continuing efforts to strengthen the OECD Codes of Liberalisation of Invisible Operations and of Capital Movements. This will be pursued actively.

18. Ministers welcome the agreement recently reached by the Participants in the Arrangement on Guidelines for Officially Supported Export Credits in response to directives from the 1984 and 1985 meetings of the Council of the OECD at Ministerial level. The agreement will strengthen substantially the Arrangement and reduce the risk of trade and aid distortions. Ministers also welcomed the recent agreement on the related DAC guiding principles. These are a tangible sign of co-operation in a difficult period.

X Agriculture

19. The joint report of the Trade and Agriculture Committees * was approved. This important work clearly highlights the serious imbalances that prevail in the markets for the main agricultural products. Boosted by policies which have prevented an adequate transmission of market signals to farmers, supply substantially exceeds effective demand. The cost of agricultural policies is considerable, for government budgets, for consumers and for the economy as a whole. Moreover, excessive support policies entail an increasing distortion of competition on world markets; run counter to the principle of comparative advantage which is at the root of international trade; and severely damage the situation of many developing countries. This steady deterioration, compounded by technological change and other factors such as slow economic growth or wide exchange rate changes, creates serious difficulties in international trade, which risk going beyond the bounds of agricultural trade alone.

20. All countries bear some responsibilities in the present situation. The deterioration must be halted and reversed. Some countries, or groups of countries, have begun to work in this direction. But, given the scope of the problems and their urgency, a concerted reform of agricultural policies will be implemented in a balanced manner.

* "National Policies and Agricultural Trade".

21. Reform will be based on the following principles:

- a. The long-term objective is to allow market signals to influence by way of a progressive and concerted reduction of agricultural support, as well as by all other appropriate means, the orientation of agricultural production; this will bring about a better allocation of resources which will benefit consumers and the economy in general.
- b. In pursuing the long-term objective of agricultural reform, consideration may be given to social and other concerns, such as food security, environment protection or overall employment, which are not purely economic. The progressive correction of policies to achieve the long-term objective will require time; it is all the more necessary that this correction be started without delay.
- c. The most pressing need is to avoid further deterioration of present market imbalances. It is necessary:
 - on the demand side, to improve prospects as much as possible inside as well as outside the OECD area;
 - on the supply side, to implement measures which, by reducing guaranteed prices and other types of production incentives, by imposing quantitative production restrictions, or by other means, will prevent an increase in excess supply.
- d. When production restrictions are imposed or productive farming resources withdrawn by administrative decision, these steps should be taken in such a way as to minimise possible economic distortions and should be conceived and implemented in such a way as to permit better functioning of market mechanisms.
- e. Rather than being provided through price guarantees or other measures linked to production or to factors of production, farm income support should, as appropriate, be sought through direct income support. This approach would be particularly well suited to meeting the needs of, amongst others, low-income farmers, those in particularly disadvantaged regions, or those affected by structural adjustment in agriculture.
- f. The adjustment of the agricultural sector will be facilitated if it is supported by comprehensive policies for the development of various activities in rural areas. Farmers and their families will thus be helped to find supplementary or alternative income.
- g. In implementing the above principles Governments retain flexibility in the choice of the means necessary for the fulfilment of their commitments.

22. The Uruguay Round is of decisive importance. The Ministerial Declaration of Punta del Este and its objectives provide for the improvement of market access and the reduction of trade barriers in agriculture and will furnish a framework for most of the measures necessary to give effect to the principles for agricultural reform agreed upon by OECD Ministers, including a progressive reduction of assistance to and protection of agriculture on a multi-country and multi-commodity basis. As agreed in paragraph 16, the Uruguay Round negotiations will be vigorously pursued and comprehensive negotiating proposals tabled over the coming months, in this as in other fields. In the Uruguay Round appropriate account should be taken of actions made unilaterally.

23. In order to permit a de-escalation of present tensions and thereby enhance prospects for the earliest possible progress in the Uruguay Round as a whole, OECD governments will carry out expeditiously their standstill and rollback commitments and, more generally, refrain from actions which would worsen the negotiating climate: they will, *inter alia*, avoid initiating actions which would result in stimulating production in surplus agricultural commodities and in isolating the domestic market further from international markets; additionally, they will act responsibly in disposing of surplus stocks and refrain from confrontational and destabilising trade practices.

24. Agricultural reform is not solely in the interests of Member countries. Developing countries which are agricultural exporters will benefit from a recovery on world markets. Developing countries which are importers of agricultural produce will be encouraged to base their economic development on more solid ground, by strengthening their own farm sector.

25. Agricultural reform poses vast and difficult problems for Member countries. Strengthened international co-operation is needed to overcome these problems. The OECD will continue to contribute to their solution by deepening further its work; by updating and improving the analytical tools it has begun to develop and which will prove particularly valuable in many respects; by monitoring the implementation of the various actions and principles listed above. The Secretary-General is asked to submit a progress report to the Council at Ministerial level in 1988.

Financial Markets

26. The process of liberalisation in financial markets and financial institutions must continue. In order to secure the clear benefits deriving from this process and to ensure the viability and stability of these markets, efforts will be intensified in the appropriate fora with a view to increasing compatibility and convergence of policies regarding prudential supervision of these markets.

Tax Reform

27. Most OECD countries have undertaken or are considering major tax reforms. Well-constructed tax reform can considerably enhance

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DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1 +

FROM: Prime Minister

Reference

DEPARTMENT: TEL. NO:

Your Reference

BUILDING: ROOM NO:

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO: President Reagan

Copies to:

DR 2/2/85

Please type for PM's signature
AK

PRIVACY MARKING

..... In Confidence

SUBJECT:

1. Thank you for your message of 20 April about reform of world agricultural policies.

// & very much

2. ~~We entirely~~ share your view that urgent action is required to bring agricultural policies worldwide into line with market realities. ~~we~~ I agree that the costs of these policies are far too high, and that the new GATT round offers the framework for comprehensive negotiations on real reductions in all forms of government support for agriculture. This is why we have been at the forefront, at the Tokyo Summit and elsewhere, of those pressing to put agricultural reform at the top of the international economic agenda.

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3. ~~As you know,~~ The focus of international discussions on agriculture in recent months has been the OECD, where the Secretariat have done some very valuable work on the nature of the problem and possible ways of tackling it. For this reason, I have delayed replying to your message until we knew the outcome of the

CAVEAT

Enclosures flag(s)

ECON. POL: Venice Summit : Pt 22