



CCP

Ref. A087/1509

MR POWELL

*-2/15 to RTA?
at top*

Your letter of 11 May to Mr Galsworthy asked me to submit a draft, cleared with other departments, for the Prime Minister to send her views on the Venice Economic Summit to Signor Fanfani.

- 2. I attach a draft herewith. I leave for Rome at lunchtime on Monday, 1 June; and I suggest that, if possible, I should be given the Prime Minister's letter to Signor Fanfani with instructions to hand it over to him when I see him on Tuesday, 2 June at 5.00 pm.
3. I am sending copies of this minute and the draft message to the Private Secretaries to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.

RA

ROBERT ARMSTRONG

29 May 1987

DRAFT MESSAGE FROM THE PRIME MINISTER TO
SENATORE AMINTORE FANFANI

Thank you very much for your message of 18 May. I am very grateful for your understanding over your proposed visit to London; and for your agreement to receive Sir Robert Armstrong in Rome on 2 June. I look forward to receiving his report. Meanwhile, ~~it might be helpful if I set out my~~ ^{I want to let you have} views on some of the main subjects which we will discuss at Venice.

This Summit comes at a delicate time, against the background of mixed signals on the world economy. Inflation in the Summit countries is generally low. The United Kingdom and Italian economies have demonstrated impressive growth in recent years. But there is real concern over the imbalances in the three major economies - the United States, Japan, and Germany. I know you share my view that these are the most important obstacle to the sustained non-inflationary growth which we all want. The financial markets will be quick to detect any language which looks unduly complacent, ^B but we should seek to reassure them of the commitment of the Summit countries at the

highest political level to take effective action on the imbalances without putting at risk the maintenance of the momentum of growth which we have now collectively sustained for five successive years.

At Venice, therefore, I hope that we shall seek to persuade ~~the~~ ^{Reagan} President, Chancellor Kohl and Prime Minister Nakasone of the need for action. I should welcome specific commitments by the American Government to make renewed and early efforts to cut the Federal budget deficit, and by the German Government to bring forward the measures they have announced for 1988 to stimulate domestic demand. And I regard it as particularly important that Prime Minister Nakasone should take the opportunity provided by the Summit to explain his recent proposals for a supplementary budget; and for structural reform. A firm and convincing political commitment in the Summit declaration to increase domestic demand and make the Japanese market much more open to imports of goods and services would reinforce the impact of the programme of "emergency economic measures" which the Japanese Government has just announced, ~~and would thus, I believe, be in the interests of the Japanese Government itself,~~

We need to know, in particular, how far we are genuinely new measures.

~~as well as of the world economy as a whole.~~

We shall be asking our colleagues to take difficult political decisions, and I believe they are entitled to ask for our fullest support. Experience in the United Kingdom has shown that, if these challenges are faced, it becomes possible to lay solid foundations for growth and increasing prosperity.

On agriculture, we have made real progress since we met in Tokyo last year. It is now generally agreed that present policies are unsustainable, and that early reform is required. The OECD Ministerial meeting agreed on the main principles which should guide the negotiations on agriculture in the GATT. I believe that the Venice Summit should endorse and build on this very encouraging outcome, and give a further political impetus to the negotiations due to start in the autumn, ~~not least because~~ This will assist ~~the~~ ^{Reagan} President in his difficult but vital task of continuing to resist protectionist pressures in the United States.

I agree with ~~your government~~ that the Summit

should also consider the problems of the developing countries. Although we should reaffirm the case by case approach to debt, I ^{believe} ~~am convinced~~ that the poorest debtor countries in sub-Saharan Africa need special treatment. I therefore hope that our colleagues will support the initiative launched by the Chancellor of the Exchequer at the IMF and World Bank meetings this April.

~~It is right that we should concentrate on the important economic issues which I have described, but we shall ^{also} ~~no doubt~~ want to find some time to exchange views on political subjects. I look forward to discussing East/West relations over dinner on 8 June, though I remain to be convinced that a declaration on this subject would be useful.~~
I do, ~~however,~~ hope that we can build on the work which we initiated at Tokyo by making a firm statement on terrorism and by agreeing on further co-operation between us.

It seems clear that President Reagan will want to discuss the situation in the Gulf.