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THE VENICE ECONOMIC SUMMIT

8 – 10 JUNE, 1987

PRESS COVERAGE

VENICE ECONOMIC SUMMIT
PRESS COVERAGE

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date May 19 *Publication* Journal of Commerce

Europeans to Pursue Own Goals at Meeting

THE VENICE SUMMIT

A STAFF REPORT

LONDON — The four European nations attending the Venice economic summit will press the United States to reduce its budget deficit and urge Japan to open up its markets. But there will be a far-from-united European front on every issue.

In particular, West Germany is likely to be on the defensive over international demands to reflate its economy, arguing that proposed tax cuts over the next few years will provide a major fiscal stimulus.

This story written by Janet Porter, Andrew Mutter, Jess Lukomski and Peter Dreyer.

West Germany, together with France, also is concerned about proposed agricultural reforms and international efforts to dismantle farm subsidies.

The British and Italian prime ministers, however, will be regarding the three-day gathering more as an electoral platform. [illegible] Margaret Thatcher goes to the polls on June 11, the day after the summit ends, while the Italian premier, Amintore Fanfani, faces an election June 14.

Mrs. Thatcher, who attended the 1983 Williamsburg summit during an election campaign, is well aware of the vote-catching kudos of being seen on the world stage at such a crucial time. Mr. Fanfani, presiding over a caretaker government, will be seeking credibility and trying to convince both the Italian electorate and the rest of the world that political stability can be restored as he plays host to the six other world leaders.

Domestic considerations apart, the main issue in Venice is likely to be agriculture. Every summit seems to plump for a particular matter on which to focus. In London three years ago it was the world debt crisis. At the 1985 Bonn summit, whether or not to implement a new General Agreement on Tariffs and Trade multilateral trade round was the key topic. Last year's Tokyo summit was overshadowed by the Chernobyl disaster. This year it looks very much as if the question of how to eliminate food subsidies and liberalize farm trade will be the major preoccupation.

Britain, whose farmers are among the most efficient in the world, fully supports the recent initiative of the 24 leading industrialized nations in the Organization for Economic Cooperation and Development to cut agricultural aid in the drive to reduce food surpluses.

But although West German Economics Minister Martin Bangemann agrees the European Community's agricultural markets should be opened up, the West German government faces opposition at home from farmers who claim that, per capita, the nation is already the largest importer of agricultural produce with an annual deficit of 20 billion deutsche marks (about $11 billion).

The French government also faces a powerful farmers lobby that will strongly resist pressure to cut the level of support and make the industry more competitive.

Ranged alongside the question of farm subsidies is the broader issue of protectionism. Britain, West Germany, France and Italy will be pressing both individually and through the European Community (also represented at the summit), for a reduction in the U.S. budget and trade deficits in order to ward off the risk of an international trade war. And, while welcoming the recent fiscal expansion measures announced by Japan

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Stress on Economics Anticipated in Venice

CONTINUED FROM PAGE 1A

European leaders are likely to be critical of Japan's continued refusal to lift trade barriers.

Britain, Italy and France probably won't complain publicly about West Germany's economic slowdown. Nevertheless, Chancellor Helmut Kohl is bound to explain to the other six that the three stages of tax cuts between January 1987 and January 1990 add up to $50 billion, a stimulus larger than that which any other country can boast.

With the federal budget deficit forecast to rise to DM30 billion next year, Mr. Kohl will claim the country's fiscal and monetary policies are making a very significant contribution to a better-balanced world economy, with the economy likely to be growing by 3% to 4% by the end of the year.

The Louvre Accord of last February, when finance ministers from the United States, Japan, Britain, West Germany and France agreed to try to stabilize exchange rates around prevailing levels, will be reviewed in Venice.

European countries will tell the United States that any further decline of the dollar would be unacceptable, and that exchange rates should be allowed to consolidate around present levels.

Britain likely will raise the question of Third World debt and seek support for Chancellor of the Exchequer Nigel Lawson's proposal that the world's poorest countries, especially in sub-Saharan Africa, should be offered special relief.

Agenda Eyed For Summit

Journal of Commerce Staff

LONDON — Heads of state and government from the seven most powerful economies in the Western world will gather in Venice next month for the 13th Economic Summit.

Since the first such gathering in Rambouillet, France, in 1975, world leaders from the United States, Canada, France, West Germany, Italy, Japan and the United Kingdom, together with the president of the European Community Commission, have met each year to review economic and, invariably, political issues.

This year's meeting, set for June 8-10, will be focusing primarily on trade and budget imbalances and the rising tide of protectionism.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date May 20

Publication Globe and Mail

In need of central banks and other saviors

PETER COOK

It may be the world's biggest debtor, but the United States continues to behave as though it is the world's richest creditor.

The old Reaganite rhetoric of a few years back, of the dollar as a strong currency and of an economy that is vibrant and entrepreneurial in a way that others cannot match, still lingers — and perhaps will for the remainder of this Administration's term.

To go with this harmless exercise in self-deceit, the Americans have a less endearing habit of stamping their foot and pouting.

Thus, we have everyone else being blamed for a U.S. trade deficit that is largely of Washington's making. And we have an unwillingness to face uncomfortable political realities, such as that the U.S. budget deficit must be reduced and things that frighten foreign investors — a falling dollar, too-low interest rates relative to that falling dollar, an obstinate refusal to consider tax increases, and Congress's desire to lash out at other countries on trade — must be dealt with in the interests of retaining international confidence in U.S. economic management.

That, as Britons and Canadians and French and Italians and other mendicants know, is the way debtors get by in times of economic trouble. They do it by being nice to the people they are borrowing money from.

The Americans, however, persist in their wilful ways.

Where this will lead is not clear. The United States is a country that can write its IOUs in its own currency and therefore get away with a degree of indiscipline that others can not.

However, foreign investors who are being turned off, and are turning away from investing in U.S. Treasury securities, are the ones who must bail out the U.S. economy over the long term.

And if the United States continues to kick sand in their face and pretend it is the world's muscleman, it will do so at the risk of a much lower dollar or much higher interest rates or both (which will be bad for everyone).

The point is made forcefully by a report from Townsend Greenspan and Co. of New York, the firm headed by former presidential economic adviser Alan Greenspan, which calculates that foreign central banks, not private investors, did the job of financing the U.S. deficit in the first quarter of this year.

By Mr. Greenspan's reckoning, Japan's central bank poured $12.5-billion (U.S.) into U.S. Treasury securities over the period; the European central banks $12.7-billion; and our own Bank of Canada, anxious to stem the rise in the Canadian dollar, $3.5-billion.

That amounted to an infusion of nearly $29-billion versus only $2-billion from the same central banks in the last quarter of last year.

Why the difference? Because capital from private foreign sources went on strike — out of alarm about where the U.S. dollar was headed, what would happen to U.S. interest rates and whether the U.S. Congress would start a world war over trade. As private investors drew back, other currencies rose abruptly against the U.S. dollar. And that necessitated massive intervention by their central banks.

When it comes to bailing out the United States, the issue has never been whether a continuing, financial rescue can be accomplished, but on what terms.

The flip side of the deficit is a pileup of dollars abroad that must be exchanged at some point for U.S. goods or used to make U.S. dollar investments. But as the flood of dollars mounts, foreigners are going to demand a greater premium for investing them back in the United States and greater value for the U.S. goods they buy.

The implications are clear; interest rates will have to be higher, the dollar lower.

One person in Washington who has been worrying, and warning, about the trade-off is Federal Reserve Board chairman Paul Volcker.

Time and again, he has told Congress that deficits that must be financed by making huge demands on foreigners' savings are not sustainable. Recently, he made it known that the Federal Reserve pushed up short-term interest rates at the end of April with the express purpose of making U.S. dollar investments more attractive to foreigners.

Congress has not listened, or not understood. Meanwhile, the message from international political gatherings, such as the one held by the OECD in Paris last week, is that a brotherly consensus between Washington, Tokyo and Bonn prevails and the dollar can be defended at its current level.

Few people believe this any more. And the evidence of a massive need for central bank bailouts to prop up the dollar suggests it is mostly based on wishful thinking.

To many dispassionate observers, the U.S. dollar cannot be salvaged at its present level. They see an inevitable further slide that will take it down to 120 or even 100 Japanese yen, force much higher interest rates and threaten the global economy with a recession. The way to avoid this, if it is avoidable, is for Washington to change its ways and curb its deficits and gag its fractious Congress.

The U.S. economy has to be managed better and some hope held out that creditors of the United States are not, by investing in the dollar, throwing good money after bad.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date May 20 Publication N.Y. Times

Look: An Honest Bank

Any bank that reports a $2.5 billion loss in a single quarter must be in serious trouble, right? Wrong. Citicorp's dramatic decision to set aside enough cash to cover a fifth of its loans to poor countries simply acknowledges facts that have been known for years. The institution remains a major player in global banking, one that deserves credit for injecting a constructive note of reality to negotiations over third world debt.

Like most big banks, Citicorp lent billions to countries with ailing economies in the 1970's on the assumption that governments would never permit their loans to default. But the assumption was mistaken. Now, unlike most American banks with big loans outstanding to poor countries, Citicorp has joined European and Japanese lenders in concluding that stockholders prefer to know the worst.

The gamble appears to have paid off. Market analysts view the one-time hit as a shrewd psychological coup that will distract attention from past errors and reinforce Citicorp's image as a flexible and imaginative competitor. Other benefits are quite tangible: the write-off frees the bank to pursue an aggressive policy of selling dubious debts for less than 100 cents on the dollar. And it pre-empts debtors tempted to use the threat of formal default to demand more favorable settlements.

The market's positive response makes it more likely that other U.S. banks will follow Citicorp's lead toward honest disclosure of shaky loans. If most take the plunge, the secondary market for their debts will surely boom. Someday soon, private investors and pension funds may be able to add discounted portions of Brazilian and Argentine debt to their portfolios of corporate stocks, Treasury securities and mortgage-backed bonds. That wouldn't reduce the dollar cost of defaults. But it would reduce the adverse impact of any such losses on the financial system by spreading the risk to a much larger pool of savers.

There's a more important possible effect. The banks' implicit acknowledgment that impoverished nations will never repay their loans in full could open the way to realistic settlements. Private banks can't be expected to provide the infusions of foreign capital so desperately needed by countries like Mexico and the Philippines. That's a job for multilateral lenders, like the World Bank and International Monetary Fund, that are backed by the credit of the major economic powers.

Nevertheless, formal agreements to write off substantial chunks of the loans, or to accept less-than-market interest rates, would at least stanch the flows of capital from poor lands to rich. Citicorp's show of strength in adversity was intended to serve its stockholders. It also serves the public.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date MAY 20 *Publication* FINANCIAL TIMES OF LONDO

A self-interested way t avoid death in Venice

Martin Feldstein looks at the prospects for next month's economic summit

THE Economic Summit in Venice next month is heading for failure. Although it is likely to produce the kind of harmony so beloved of politicians, it will be counterproductive in its impact on the economic policies of the world's key nations.

The critical test by which the summit should be judged is whether it leads to expansionary economic policies in West Germany and Japan and to reduced budget deficits in the US. Without such steps, unemployment will rise in Europe and Japan, and the US will remain on a path leading to higher real interest rates and reduced investment in plant and equipment.

Unfortunately, if international discussions continue on their present course, the summit will actually reduce the prospects for appropriate changes in national economic policies. If the summit participants reaffirm their commitment to stabilising the dollar at its current level, they will provide themselves with a false basis for concluding that other changes in their domestic policies are not urgently needed.

Thus if the Government of Japan believes that the yen will stabilise at 140 to the dollar, it will relax its efforts at expansion, comforted by the view that Japanese exports will not deteriorate much further and that the recently announced expansion of public works will be adequate to reverse the rise in unemployment. Similarly, if the West German Government believes that the D-Mark will not strengthen beyond the current exchange rate, there will be a complacent view that the country's unemployment will not get worse and no sense of urgency about providing additional fiscal stimulus.

But the premise that the dollar will not decline further is false. The market forces will continue to depress the US currency as it becomes clearer to investors around the world that the present level would continue to result in a US current account deficit that simply cannot be financed.

Another 15 per cent decline in the value of the dollar would probably bring the US back to trade balance by the early 1990s. But even that would still leave a massive current account deficit because of the interest and dividends that the US will have to pay on its rapidly growing external debt. And on top of the needed adjustment of the real exchange rate, higher inflation in the US than in West Germany and Japan means that the dollar must fall an additional 3 or 4 per cent a year just to maintain existing competitiveness.

The combination of the real exchange rate adjustment and the inflation offset means that within the next three to five years the dollar must decline by at least 30 per cent from its present level, implying a dollar exchange value of about 100 yen and DM1.35.

There is no way of knowing how quickly the financial markets will become convinced enough of the dollar's inevitable decline to trigger the selling that will eliminate its overvaluation. Neither massive government exchange market intervention nor the pronouncements of finance ministers and central bankers will be able to avoid or significantly slow the dollar's decline.

Although the central banks of Europe and Japan bought more than $60bn (£36bn) of US securities in the first four months of 1987 (enough to finance not only the entire US current account deficit during that period but also significant net selling of dollar securities by private investors around the world) the dollar has continued its rapid decline. The central banks cannot continue to buy dollar securities at the recent unprecedented rate. And when a consensus develops among private investors that the dollar must decline further, the avalanche of selling will be overwhelming.

The coming decline of the dollar will depress exports and raise unemployment in Europe and Japan unless further steps are taken to stimulate domestic demand. And the improved US trade balance will automatically shrink the capital inflow to the US and push up interest rates, unless legislative steps are taken to reduce future budget deficits.

The repeated assertion by officials of the summit countries that the dollar will not decline further induces a complacency that makes the necessary macro-economic policy changes unlikely. Although Japan and West Germany are exhorted by the US to stimulate their economies in order to increase imports from the US and the developing countries, that is not a compelling enough reason for those two governments to abandon their domestically popular commitments to fiscal restraint. A far more persuasive argument for adopting expansionary fiscal policies is that the failure to do so would mean rising domestic unemployment as the declining dollar reduces their net exports.

Similarly, the American Government will not accept the political pain of cutting the budget deficit through a reduction of spending on middle class entitlements and an increase in personal taxes simply to satisfy the requests of its summit partners. The recognition that the inevitable decline of the dollar would otherwise push up interest rates and shrink domestic investment would be far more compelling.

Although a summit meeting is a proper time to reaffirm international interdependence and the spirit of international co-operation, there can be no doubt that self-interest is a stronger motivating force for national decisions than the principle of altruistic international co-operation. If the summit participants would only recognise the inevitability of the dollar decline and the futility of co-operative efforts to stabilise the dollar, self-interest would lead to the appropriate economic policies—policies that would help the individual countries themselves and the rest of the world

If the seven heads of state have the courage and the wisdom to do what is right in Venice, they will say something like this:

"The necessary correction of the world trade imbalance has begun to raise unemployment in Europe and Japan and increase interest rates in the US. We recognise that the inevitable further decline of the dollar will exacerbate these problems unless we take appropriate countervailing measures. The governments of Japan and the European summit nations will, therefore, adopt fiscal policies aimed at increasing domestic demand and employment, while the US Government will pursue tougher budget reduction to avoid further rises in interest rates.

"Because those governments are eager to avoid the accumulation of additional national debt and the enlargement of government activity, the fiscal stimulus will take the form of targeted tax changes designed to induce private consumers and investors to accelerate the pace of spending. Such measures could include temporary reductions in value added taxes or the use of temporary tax credits for business investment and residential construction. Revenue neutral changes, in which the fiscal incentives are offset by temporary general, personal or business tax increases, would stimulate the economies without any increase in government debt.

"The US Administration will work with the Congress to develop a legislative package of reduced spending on middle-class entitlements and an increase in tax revenues that will cause the deficit to decline at a rate of $40bn a year. To minimise any adverse effects of such changes on individual incentives, the additional revenue will be obtained without increasing personal tax rates, by raising excise taxes and by reducing the automatic inflation adjustment of personal tax rates.

"All of the participants in this summit will, of course, continue to work to strengthen international trade in goods and services and to provide the kind of economic environment conducive to a resolution of the international debt problems of the developing countries."

The author is president of the National Bureau of Economic Research and Professor of Economics at Harvard.

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DEPARTMENT OF EXTERNAL AFFAIRS

MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date May 21 Publication Globe + Mail

OECD truce eases farm-trade talks for Ottawa

BY DAVID STEWART-PATTERSON
The Globe and Mail

OTTAWA

For the 14 agricultural exporting countries that form the Cairns group, the two-day meeting beginning tomorrow in Ottawa is the easy part.

The countries have a common interest in finding ways to stop the subsidy war between the United States and the European Community, a war that is impoverishing farmers and national treasuries alike in less populous and less wealthy countries.

The weekend ministerial gathering comes after a much more difficult but successful meeting of the industrialized countries that form the larger Organization for Economic Co-operation and Development.

The OECD meeting produced a carefully worded agreement in principle to call a truce in the farm-trade war while everyone haggles their way through the next round of multilateral talks under the General Agreement on Tariffs and Trade. Member countries have agreed to work out trade rules that will govern the agricultural sector.

The Cairns group, which collectively accounts for 25 per cent of the world's agricultural exports, was formed last August by countries as varied as Brazil, Hungary and Fiji, and includes Canada and Australia. It is named after Cairns in Australia where the group of countries first met to discuss international agricultural trade.

Now that the United States, the EC and Japan have all agreed to the truce, members of the group should have little difficulty in following suit. The tough part begins July 8, said a senior Canadian official, as the GATT multilateral talks on agricultural trade get under way. "That's when we would want to see the whites of everybody's eyes," he said.

Canada hopes that all participants will agree at that meeting to come forward with firm bargaining proposals by early autumn. With everybody's cards on the table, negotiations could begin in earnest.

The basic problem is that the countries of the world are growing more food than people can buy. As supply outstrips demand, governments are forced to step in with subsidies to prop up their farmers' fortunes.

The key to success in this year's talks, senior officials said, will be a radical new approach. Instead of the usual tit-for-tat of trade talks, the idea this time is to come up with a common goal.

Under this plan, all countries would agree to cut their agricultural production or their subsidy spending by a certain percentage by a fixed date.

It would then be up to each country to decide how to meet the common target. Each country would be able to shape its moves to match its own political problems.

GATT members agreed last fall to move ahead quickly on agricultural trade rules, but it will still take time to work out a deal and then put it into effect.

Still, the recent progress is a remarkable change from last year's pessimism, and Trade Minister Patricia Carney insists that Canada made no promises to any of its trading partners in its efforts to win last week's agreement on the truce in the trade war.

"There were no trade-offs. We're not paying for this agreement at the OECD," she said.

Wheat Board Minister Charles Mayer is optimistic that the truce and the trade talks will lead to concrete improvements for Canadian farmers and for the federal treasury, but neither he nor his Cabinet colleagues are predicting how soon.

He also said that for the plan to succeed, all countries will have to work together, chopping subsidies in tandem, and Canada will not be spared. "We've never said Canada is totally innocent in these things," he said.

Agriculture Minister John Wise, however, said most Canadian subsidies are a response to moves by other countries. "We are not the culprits. We are the victims."

The Government, however, remains silent on possible changes to major federal programs such a subsidies for moving grain by ra and deficiency payments to farmer when prices are bad.

Ms Carney said the trade tall these days is still about what princi ples to pursue rather than the pro grams that would be needed to put them into action.

But even the biggest users of agricultural export subsidies, the United States and the EC, recognize they cost too much. "If you have no rules, you have chaos," she said.

The OECD meeting agreed to five principles:

- Agricultural policies should respond to market prices.
- Agricultural subsidies should support farmers rather than farming, raising income levels rather than encouraging more production.
- Countries should freeze and try to reduce subsidy programs that distort the world marketplace.
- Countries should not bring in any new restrictions on agricultural imports.
- All members of the OECD should implement these basic principles collectively.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date ....May 21....... *Publication* ......Globe and Mail......

Citicorp's provision may trigger a new debt crisis in Third World

BY JOHN KOHUT
The Globe and Mail

Citicorp's decision to set aside $3-billion (U.S.) in loan-loss reserves — a move that sent a tremor through international financial markets yesterday — is likely to open a new chapter in the Third World debt crisis.

The Citicorp announcement sparked the second biggest one-day dive in the history of the Tokyo stock market, where the sell-off focused on banks, securities houses and insurance. The nervousness spilled over into the trading of gold, stocks and European and North American currencies as analysts tried to digest the possible repercussions of the Citicorp move.

By setting aside $3-billion to cover possible bad loans to Third World countries, Citicorp was for the first time recognizing that Third World debtor nations will never be able to repay all of their $1-trillion of debts, analysts said.

Citicorp shares firmed sharply on Wall Street as the market welcomed the move as a step forward for the bank holding company, the largest in the United States. For Third World debtor nations the outlook was less certain.

Analysts said Citicorp would now be able to start putting its Third World debt exposure behind it. In debt negotiations, Citicorp would be less vulnerable to threats of any action that might hurt the bank's financial statement.

"It's the beginning and the end of the brinkmanship over quarterly reporting" in the United States, blowing away the old notion that Western banks should keep providing new money to Third World nations if for no other reason than to keep the banks' debt exposure on a performing basis, one analyst said.

Whereas Canadian and European banks have been making substantial provisions for loan losses against Third World debt, the same has not been true of U.S. banks. But now Citicorp will be setting aside reserves equivalent to 20 per cent of its loan exposure, bringing it ahead of Canadian and British banks, although still behind some Western European banks, analysts said.

But debtor nations may now find it tougher to bargain with Citicorp and any others who follow suit. They may find it more difficult to obtain new bank loans because of a more widespread belief that loans will not be repaid. Lack of money could touch off political and economic instability in Third World countries. And some analysts worried that, in response, debtor nations might abandon negotiations altogether, pushing the debt problem to a crisis point that would touch off a major world recession.

Peter Toeman, a senior banking analyst with British stockbrokers Phillips and Drew, said British banks are likely to increase their reserves against risky debts to around the Citicorp level, which will be seen as a benchmark.

Britain's central bank yesterday issued a statement saying it expected a continuing increase in the provisions of British banks against Third World debt.

In Washington, U.S. officials were quoted as saying the Citicorp move was positive in that it would add momentum to the search for solutions other than injections of outright cash loans to debtor nations.

But Mr. Toeman said the Citicorp action carries some dangers for not only Third World countries, but also U.S. banks. Pressure is now on other U.S. banks to follow Citicorp's lead, but some might not have the capital reserves to do so. "It raises the chances that there will be a major U.S. bank failure," Mr. Toeman said.

Neil Withers, a senior banking analyst at Richardson Greenshields of Canada Ltd., said financial markets appeared to have settled down somewhat later yesterday, realizing that the Citicorp decision was primarily a matter of accounting.

"The world has not changed overnight, just the accounting reflecting the world," he said of the Citicorp move.

By recognizing the extent of the debt problem, Citicorp's increase in loan-loss provisions was probably a "valuable first step, but it doesn't change the world in itself."

It means a "certain amount of uncertainty for awhile," he said.

Over the longer term, solutions were more likely to come from steps on the part of individual countries to improve their economies as well as measures such as translating Third World debt into equity, he said.

Analysts said a first test of the impact of Citicorp's new strategy might be seen in the reactions of Brazil, which in February suspended interest payments on $68-billion of bank loans.

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US set to resist Tokyo plans for global chip deal

BY LOUISE KEHOE IN SAN FRANCISCO

PROPOSALS reportedly being drawn up by the Japanese for a new international semiconductor trade agreement would meet strong resistance in the US, officials said yesterday.

US industry and government officials stressed, however, that Japan had not tabled the proposals in Washington, either officially or unofficially.

They said that the reported proposals for a global chip trade agreement based upon floor prices and quotas amounted to little more than an expansion of the position adopted by Japanese officials in talks which led to last September's semiconductor agreement between the two countries.

The Semiconductor Industry Association, an influential trade group that has represented US chipmakers throughout the current trade dispute, stressed that it has always been and remains strongly opposed to industry-wide floor prices or any quantitative restrictions upon semiconductor trade. Any such arrangement would be harmful to semiconductor buyers, the SIA maintains.

US trade officials consistently rejected Japanese offers to impose price floors and regulate production throughout last year's negotiations. Instead, the US insisted upon "fair market value" pricing on a company by company basis which is intended to ensure that efficient producers maintain a market advantage.

In Washington, proposals for any international semiconductor trade agreement are unlikely to be entertained until the current dispute over implementation of the bilateral pact is settled. Last month President Reagan imposed $300m in tariffs on selected goods.

US and Japanese trade officials are scheduled to meet in Washington next week to "exchange data" on Japanese memory chip experts and prices. The Japanese hope that these talks will lead to the lifting of the tariffs, but the US appears to be in no hurry.

Japan's apparent intention to include European and South-East Asian semiconductor producers in proposals for an international trade pact has brought mixed reactions in the US. It is, said industry trade experts, "an issue that has never been raised before."

While such a proposal could raise the "interesting" possibility of discusions on high technology trade at the next GATT round, it seems unlikely that the US would have much to gain from an international semiconductor trade pact, officials said.

The proposals are most likely intended to probe European and US attitudes on the issue of regulating international semiconductor trade, a close observer of the trade dispute suggested.

Initial reactions from the semiconductor industry were not enthusiastic. The US-Japanese trade pact was, they point, out, a response to two specific trade problems: Japanese dumping and the apparent refusal of Japanese companies to purchase foreign chips. Neither problem exists in any other chip-producing country.

The US industry would also be opposed to being included in any price monitoring system. While it is reasonable, they say, to impose price monitoring upon Japanese companies that have a history of dumping, it is not reasonable to impose such burdens upon US or other foreign companies that have not been found to have dumped chips below fair value.

US industry officials also expressed concern that it might take a long time to hammer out an international agreement. They fear that such negotiations could delay progress in implementing the current bilateral pact.

US industry excutives are becoming increasingly optimistic that the existing bilateral pact can be made to work. They acknowledge that dumping by Japanese producers in third country markets has virtually ceased and some report a significant increase in orders from Japan.

Both government and industry executives reject suggestions that Japan might cancel the bilateral trade agreement if proposals for an international agreement were rejected. Any such action would be sure to meet with strong Congressional retaliation against Japan, they suggest.

JAPAN IS to present the US with statistics suggesting that imports are winning a growing share of the Japanese computer chips market, AP-DJ reports from Tokyo.

It will introduce the data at bilateral talks in Washington next week to determine whether Japan is honouring a semiconductor agreement reached with the US last September. The accord requires Japan to increase the market share of US computer chips and to prevent the dumping of Japanese semiconductors overseas.

The US has imposed punitive 100 per cent tariffs on Japanese electronic goods like personal computers and televisions in retaliation for Japan's alleged failure to abide by the accord.

Japan is hoping the talks will lead to the tariffs being dropped.

The Japanese statistics compiled by the Ministry of International Trade and Industry, show the share of foreign-made chips in the Japanese market growing steadily. The national newspaper, Mainichi Shimbum, said the share was 12 per cent in April and 12.5 per cent in March. In the six months from last April, it was 10.1 per cent.

The newspaper said also the ministry had found Japanese 256-kilo bit computer memory chips were being sold for about $2.5, near the fair market value calculated by the US Commerce Department.

FINANCIAL TIMES (LONDON)

MAY MAI 21 1987

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NEW YORK TIMES MAY MAI 21 1987

BUSINESS Digest

THURSDAY, MAY 21, 1987

International

Citicorp's response to problem foreign loans is likely to make the third world debt crisis even more difficult and acrimonious. The company's decision to treat $3 billion of loans as all but uncollectible undermines the group approach in revising old loans while providing new money. [Page A1.] With the action, John S. Reed, Citicorp's chairman, has stepped out of the shadow of his predecessor and made his own mark. Mr. Reed is viewed as determined not only to take the lead on debt but also to establish his place in the banking industry. [D1.] In Latin America, Government officials and debt specialists expect future debt talks to be much rockier. [Page D7.] The stock of Citicorp and many other banks rose, but the market was less kind to BankAmerica and Manufacturers Hanover, which have huge exposure in developing countries. [D7.]

Companies

Robert Holmes à Court controls 6.4 percent of Texaco, he told the S.E.C. The disclosure ended weeks of rumors that the Australian industrialist was accumulating Texaco stock and touched off speculation that a real takeover battle was brewing for the company, which recently filed for bankruptcy protection because of a huge legal judgment it has been order to pay to Pennzoil. There were also unconfirmed rumors on Wall Street that Sir James Goldsmith, the British financier, was buying Texaco shares. [D1.]

The founder of Crazy Eddie joined the Belzberg family of Canada in an offer of $187 million to take the company private. Eddie Antar and his partners are offering $7 a share for the company's stock, which was priced at $8 when it was initially offered in 1984. In November Mr. Antar sold 30 percent of his stake in the company and resigned in January as chief executive. [D1.]

Beatrice will spin off some of its operations to the public, while keeping its branded foods company private. The new public company, to be named E-II Holdings Inc., will be headed by Donald P. Kelly, who took the company private last year. [D1.]

The stock of Rolls-Royce soared on its first day of trading on London's stock exchange. The British jet engine maker's were valued at nearly $3.02 billion by the end of trading, compared with the $2.29 billion price placed on them last month. [D1.]

A.M.C. accepted a sweetened takeover offer from Chrysler of $4.50 a share, an increase of 50 cents. Chrysler's offer is for the 54 percent of A.M.C. shares that were not held by Renault, the French auto maker, which has already reached an agreement to sell. [D4.]

The Government has reached an agreement with A.T.&T. that would permit regulated telephone carriers to bid on the contract to modernize the Government's telephone system. In return, A.T.& T. will drop a complaint it filed last week. [D4.]

Markets

The stock market continued its nervous slide even though money-center banks did fairly well. The Dow Jones industrial average closed at 2,215.87, off 5.41 points, its fourth straight decline. The Dow started out as if it would lose considerably more ground, but many of its component stocks rallied before slipping again late in the afternoon. Losses were widespread on the Big Board as volume rose rose sharply as 206.8 million shares. [D1.]

Treasury bond prices rose slightly, while corporate and tax-exempt issues continued to decline and several large financings were postponed. Dealers said the overriding consideration was the absence of strong institutional demand for long-term bonds. [D17.] Certificates of deposit led the general rise in yields for interest-bearing investments in the most recent week. [D19.]

The dollar moved marginally higher against other leading currencies, bolstered by apparent central bank intervention and technical factors. Gold fell $4.50 an ounce, to $472. [D18.]

Cattle futures prices declined sharply and analysts partly blamed a report prepared by a committee of the National Academy of Sciences about pesticides in food, including beef. [D18.]

Today's Columns

The recent deal between Allegis and Boeing has added a new dimension to the arrangements that have entwined aircraft manufacturers and airlines in recent years. Talking Deals. [D2.]

The largest stock mutual fund fell 11.41 percent Monday, but Fidelity Magellan's drop was a routine distribution. However, holders did not know when it would come. Market Place. [D10.]

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date May 21 *Publication* Journal of Commerce

Third World Debt A Pressing Issue

By JANET PORTER
Journal of Commerce Staff

THE VENICE SUMMIT

LONDON — The agenda for the economic summit in Venice next month may have to be rewritten as world leaders assess the full implications of Citicorp's decision to add $3 billion to its loan loss reserves.

Citicorp's huge write-down is a sharp reminder that Third World debt problems, while largely out of the headlines in recent months, have not gone away.

Brazil, the world's biggest sovereign borrower with total debt of $104 billion, forced the matter back to the negotiating table earlier this year when it suspended interest rate repayments on a large chunk of its foreign debt.

However, London banking analysts are concerned the entire Third World debt situation could deteriorate if the U.S. economy slows, interest rates rise further and U.S. imports start to fall. Between 1982 and 1984, the United States imported 95% of the increased output from Latin America.

Should the United States start to buy less from debtor countries as a weak dollar reduces import demand and as protectionist pressures in Washington intensify, then the sovereign debt crisis could move back to the top of the league of world economic trouble spots, London bankers warn.

Leaders of the seven biggest Western economies attending next month's summit will almost certainly have to move the issue of Third World debt higher up the agenda, says Julian Rob-

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Third World Debt Pressing Summit Issue

CONTINUED FROM PAGE 1A

ins, banking analyst at the securities firm Kleinwort Grieveson.

Ken Murray, banking analyst at Greenwell Montagu, agrees that the Citicorp move has brought the LDC debt crisis right back to the fore and says it is hard to see how the politicians could avoid discussing it.

In many respects, Citicorp's action is welcomed in London banking circles, as it seems bound to force a greater degree of transparency among other banks in their financial reporting procedures.

The action "really reflects the philosophy of John Reed (Citicorp chairman), who has been saying for a long time that he wants to make Citicorp's balance sheet bulletproof against further scares in the future," Mr. Robins surmises.

But while other U.S. banks may feel bound to take a similar plunge and make all their loan provisions in one go, British banks are likely to resist such a drastic step and try instead to spread adjustments over two or three years.

Should London's four big clearing banks write down an additional 21% of loans to the seven biggest debtor countries as Citicorp has done, then this would add up to £600 million, or 138% of expected 1987 pretax profits for Midland, according to estimates from Midland's own securities firm, Greenwell Montagu. Midland has outstanding loans to Brazil of $1.4 billion and a total exposure to the 14 most heavily indebted countries of £4.7 billion.

The British bank with the biggest overall exposure in Latin America is Lloyds, with cross-border assets in Brazil amounting to 2.6% of total assets. Greenwell Montagu calculates that provisions equivalent to those made by Citicorp would amount to 75% of Lloyds' pretax profits.

Britain's two biggest banks, National Westminster and Barclays, are in a far stronger position with a much smaller proportion of outstanding advances to LDC countries.

Dark Cloud of Acrimony Over World Debt Crisis

By ERIC N. BERG

The decision by Citicorp, the nation's largest banking company, to treat $3 billion of its foreign loans as all but uncollectible will probably make the third world debt crisis even more difficult and acrimonious.

News Analysis

New lending to debtor countries will probably fail, debt reschedulings will become more painful, calls for a governmental solution to the debt problem will grow louder and a divided banking community will become even more fragmented.

In short, experts on the debt crisis said yesterday, the approach that has long been used to deal with the problem — the banks acting in unison to revise the terms of old loans while providing new money — will be badly undermined. What Citicorp has done, they said, will probably force an entirely new approach to the debt crisis.

Future Loan Conditions

"If there is additional lending, it will be on much tougher terms," said Stuart Greenbaum, a banking professor at Northwestern University's Kellogg School. In Latin America, government officials and debt specialists expect future debt talks to be much rockier. [Page 46.]

The biggest casualty of Citicorp's move, according to analysts, will be new lending, which lies at the heart of the plan by Treasury Secretary James A. Baker 3d to deal with the third world's debt burden The reason: If Citicorp, in as good a position as anyone to assess the climate for lending, says it does not expect $3 billion of its foreign loans to be repaid, other banks will be loath to place their own capital at risk.

Making matters worse, Citicorp has also said it will seek to reduce its loan exposure in the developing world during the next two years by selling some of its loans and engaging in so-called debt-for-equity swaps.

"You can't be building reserves on your old loans while at the same time making new loans," said George M. Salem, the senior banking analyst at the Donaldson, Lufkin & Jenrette Securities Corporation. "The ability of the banks to extend new credit has been dealt a blow."

The tenor of future debt-rescheduling talks could turn decidedly nastier. A few analysts asserted yesterday that Citicorp's bargaining position had been weakened as a result of its action. According to their line of thinking, now that Citicorp has taken a "hit" against earnings to account for its problem foreign loans — and if, as expected, other big banks follow suit — the debtor countries will respond by seeking debt forgiveness, arguing that the loans could be forgotten without any further impact on the banks' profits.

The prevalent view among debt experts, however, is the opposite. Having taken its lumps, most of these people argued, Citicorp is in a better position than ever to be patient in future debt talks. Other banks that build loss reserves for their foreign loans will be similarly able to take a hard-line approach. And if, as many experts suggest, the debtor countries view Citi-

Continued on Page D6, Column 1

Acrimony Over World Debt

Continued From Page 1, Section 1

corp's move as a direct assault on their creditworthiness, the result could be heated negotiations.

"It is a new era for the debt," said Christine Bindert, a former economist at the International Monetary Fund who is now senior vice president at Shearson Lehman Brothers Inc. "This is the first time that a bank has recognized that the debt is not a liquidity problem but a basic structural problem. We are finally addressing the real issue after five years of muddling through."

2 Citicorp Messages Noted

Political ramifications are also expected. At Colgate University, Robert Rothstein, director of the Program in International Relations, said Citicorp was trying to send two messages.

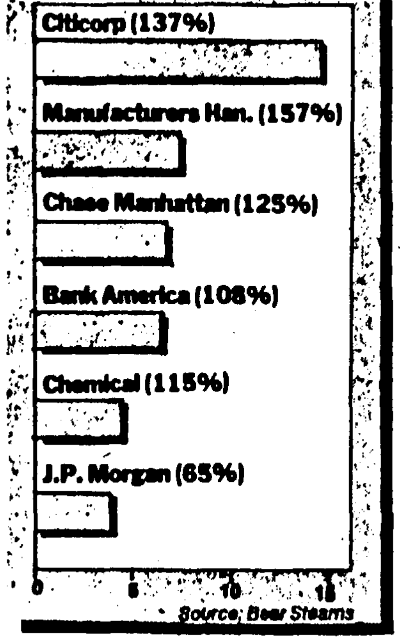
One, aimed at the developing countries, is that the bank is no longer willing to abide by the status quo of forever restructuring debts so as to allow other, weaker banks to continue reporting profits. The other message, aimed at the governments of the commercial banks' nations, the International Monetary Fund, the World Bank and other international lending agencies, is that Citicorp expects increased public participation in return for the sacrifice it is making.

As a result of its decision to add $3 billion to its loan-loss reserve, Citicorp will suffer a $2.5 billion loss in the second quarter, the second-largest deficit ever for a United States corporation. Mr. Reed, Citicorp's chairman, said the move would cost its shareholders "a year's worth of earnings."

"They have said they have gone as far as they can," Professor Rothstein said, "and that somebody else has got to do something or there will be a substantial crisis. It is a major step toward an outright demand for political intervention."

Biggest Lenders To Developing Nations

The banks and loans outstanding at the end of 1986 in billions of dollars. In parentheses, the loans as a percent of the bank's capital, that is equity plus reserves for losses on loans.



Source: Bear Stearns

The New York Times/May 21, 1987

But even if additional public money is applied to the debt crisis, participation by the commercial banks will still be necessary. That, in turn, will require more of the cooperation that has allowed American banks at least to work together in so-called loan advisory committees so as to continually restructure maturing third world loans.

But lately that atmosphere has been eroding as more and more banks, particularly regional banks in the United States, have concluded that the debt crisis is showing no signs of improvement. For some time, moreover, debt experts have spoken of a rift between United States banks and the major lenders of Europe and Japan, which long ago established large reserves for their foreign loans.

With Citicorp's action, the collegiality among the largest United States banks could very well fall apart. For one thing, Citicorp acted on its own, without consulting any of the other big banks on the advisory committees. But more important, by building its reserve, Citicorp has placed immediate pressure on other institutions to bolster their own reserves. Yet weaker institutions such as Manufacturers Hanover, the Bank of America and some banks in Texas are not in a position to take such a move.

The resulting resentment toward Citicorp, along with an unwillingness to work side-by-side with the giant bank in future debt negotiations, could run deep.

At a minimum, debt experts say, negotiations will be hobbied by the friction that will undoubtedly exist henceforth between Citicorp and its rivals.

"To an important extent, Citicorp has done what is good for it," said Stephen Berman, the banking analyst at the Wall Street firm of County Securities Inc. "It will erode the collegiality somewhat."

Rudiger Dornbusch, the Ford International Professor of Economics at the Massachusetts Institute of Technology, added, "The more you have episodes like this, the harder it is to keep the cartel of banks together."

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
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Bank Move Stirs Industry To Study Debt Problems

By ROSE A. HOROWITZ
Journal of Commerce Staff

NEW YORK — The move by Citicorp to add $3 billion to its loan loss reserves marks a new phase in how commercial banks are likely to handle the debt problem.

What is news in Citicorp's decision is the size of the addition to its loan loss reserves, say bankers, economists and analysts. Since 1982 when Mexico declared a debt moratorium, U.S. banks have built up their loan loss reserves and reduced their exposure in less developing countries. By increasing reserves, banks are likely to be less vulnerable if a borrower defaults.

"Citicorp is sitting on a war chest," Christine Bindert, a senior vice president at Shearson/Lehman Brothers Inc., said.

Citicorp's large loan loss reserves will fortify its hand in negotiating with large debtors, notably with Brazil, Ms. Bindert said. Brazil suspended interest payments on its debt to commercial creditors on Feb. 20. Official talks between the international banks and Brazil on its interest payment suspension and a new debt have still not begun.

Citicorp is the chairman of the advisory committee for Mexico, Brazil and Argentina, the three biggest debtors.

While each U.S. bank is likely to react to Citicorp's move on a case by case basis, most bankers and analysts expect that many are likely to add to their loan loss reserves sometime this year.

David H. Dorminey, senior vice president and manager of the international division of First Union National Bank in Charlotte, N.C., said Citicorp's move "will cause a lot of other banks to re-evaluate their positions." While some banks have already substantially increased their loan loss reserves in light of the debt problem, those that have not may add to their reserves, he said.

First Union will re-evaluate its position, he said. But the bank has been "fairly aggressive" in reducing the bank's Latin American exposure through selling loans in secondary markets and charging off some of its loans, he said. "As a result, I don't expect any large change for us," he added.

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Bank Move Stirs Industry to Study Debt Problems

CONTINUED FROM PAGE 1A

The bank's total exposure in Latin America is $60 million, he said.

By the end of 1986, San Francisco's Bank of America had set aside $752 million in reserves on a foreign loan portfolio of $20.894 billion. Those reserves would cover 3.6% of the outstanding debt. The San Francisco bank's total loan reserves were $2.172 billion at year-end.

At the end of the year, the bank had $3.967 billion in loans listed as non-accrual or "problem" loans.

Bank of America said in a prepared statement that it saw no reason to increase its loan loss reserves, calling its reserves "appropriate for the asset mix" that it holds.

"Bank of America has gone through the same kind of pain in the last two years as Citibank is going through now," a Bank of America spokesman said.

Manufacturers Hanover Trust Co. said it would not immediately follow Citicorp's example at this time although it said it was reviewing its position regarding loan loss reserves, Knight-Ridder Financial reported.

Lawrence Cohn, banking analyst at Merrill Lynch & Co. in New York, said in a statement that he predicts all multinational banks probably will follow Citicorp in adding to their reserves this year, although not necessarily in this quarter.

Linda Fluegge, a bank industry analyst at Merrill Lynch and assistant to Mr. Cohn, said the "banks are basically facing the reality that the countries will never pay off their debts." Citicorp is saying it'll take the loss now and go on with normal business, she said.

As reported, Citicorp's move to set aside more money to cover possible bad loans will mean a $2.5 billion loss for it in the second quarter and a $1 billion loss for all of 1987.

Citicorp's shares rose in trading Wednesday, and Standard & Poor's Corp. confirmed Citicorp's debt rating after the announcement late Tuesday.

Citicorp's Mr. Reed said in his announcement on Tuesday that the bank delivered letters explaining its decision to President Miguel de La Madrid of Mexico and the presidents of Brazil, Argentina, and the Philippines.

Mexican officials in Mexico City could not be reached Wednesday to confirm receipt of the letter or to comment on its contents.

Although Citicorp said it plans to continue lending to developing nations, international bankers in Mexico City said Citicorp's move increased its bargaining power in dealing with Brazil and, eventually, Mexico. Citicorp leads the world's banks in exposure in both Mexico and Brazil.

The next round of Mexican debt negotiations is expected to start as soon as Mexico's next president takes office in December 1988. "Whoever the new president is, we expect him to demand a new debt arrangement," said a diplomat at an embassy in Mexico City that has been closely involved in Mexico's debt talks.

Even before Mexican officials concluded the country's latest debt restructuring pact last month, they stressed that they saw the deal as a "provisional" agreement that would keep Mexico financially afloat until more definitive debt arrangements are made in a year or two.

"This will make it harder for the Brazils and the Mexicos to get more money out of the banks in the future," a Mexico-based foreign banker said.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
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Japan's Frontier at Venice

By John Stremlau

At next month's economic summit conference in Venice, Japan will propose an unusual effort in international scientific research and cooperation. The focus will be on the life sciences, particularly molecular biology and genetic engineering, that are expected to produce the most revolutionary technological breakthroughs of the 21st century. The proposal, called the Human Frontier Science Program, is envisioned to last at least 20 years and cost more than $6 billion.

Two goals lay behind the initiative. First, the Japanese want to strengthen their basic research capabilities in areas they deem critical to their future prosperity and in which they lag behind America and Europe. The second goal, more political, reflects a growing belief in Japan in the need to counter criticism that Japan has benefited from others' scientific and technological discoveries but has contributed little in return.

Initial Western reactions have been mixed. Some consider it another thinly veiled effort by Japan Inc. to gain technological dominance of the future world economy. Others see it as an indication of Tokyo's willingness to assume greater international responsibility. The Japanese are divided. At issue in the debate is Japan's changing international role and long-term national interests.

A current plan calls for Prime Minister Yasuhiro Nakasone informally to outline the proposal at Venice and to call for a one-year feasibility study by an international team of scientists and engineers, for which his Government has earmarked $2 million. Domestically, this approach neither satisfies those clamoring for major new research-and-development investments for industry or those who feel Japan must play a more decisive, creative role in solving world problems.

Several steps need to be taken if the program's potential benefits and conflicts are to be adequately assessed.

Tokyo needs to show stronger intellectual and political leadership in order to inspire its Venice partners. The summit partners should welcome the proposal with sufficient enthusiasm to insure that it does not fall victim to a leadership struggle before Mr. Nakasone leaves office in October.

The feasibility study should not be entrusted just to scientists and engineers, however distinguished. Achievements in the biological sciences over the next 20 years could transform global markets in agriculture, world health, air quality and the materials used to transform our environment — not to mention our conceptions of the origins and nature of life. Interpreting and managing the implications of these changes must, from the outset, engage statesmen, philosophers and theologians.

The participants at Venice should heed the advice of Dr. Joshua Lederberg, a Nobel laureate in physiology and medicine, who was invited to Japan to comment on the proposal. He said, "A more generous attention to the urgent problems of the less-developed countries is an absolute prerequisite to the maintenance of peace to the next century."

A commitment must be made at Venice to insure that the program does not become, or become perceived as, one by rich countries to deal with the problems and goals of rich countries. An early, explicit linkage of advanced biological research to the solution of problems of tropical diseases, deforestation, overpopulation and hunger is essential. The program should include a generous allowance for the training of young scientists from the developing world.

To do less would only fuel suspicions of Japanese intentions and limit the contributions that biological science and technology can make to peace, prosperity and equity. □

John Stremlau directs a project on science and technology in international affairs for the Kennedy School of Government, Harvard University.

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Tougher Obstacles Seen in New Latin Borrowing

By LARRY ROHTER

Special to The New York Times

MEXICO CITY, May 20 — Government officials, bankers and diplomats across Latin America said today that Citicorp's decision to add $3 billion to its reserves as protection against weak loans was certain to complicate the process of obtaining the new money that Latin American debtors will soon require.

"This definitely does send a message to high-debt countries in the third world that the next time around, the negotiations are going to be even tougher," said one diplomat here who specializes in economic affairs. "Given the difficulty of the last round, that's really saying something."

The potential consequences of the Citicorp action were seen as most serious for Brazil and Mexico, the two largest debtors in Latin America and the two countries in the region where the bank's exposure is greatest. Of Citicorp's third world loan portfolio of $14.7 billion, $4.6 billion is in Brazil and $2.8 billion in Mexico, making Citicorp the largest bank lender in both countries.

Message for Big Countries

"Most of us have already given up on places like Bolivia and Central America," said one non-Latin banker here. "This tells the big countries that banks may no longer be reluctant to make specific reservations against them."

The Citicorp announcement singled out no specific country. But the initial popular reaction in Brazil, whose $108 billion foreign debt is the largest in the developing world, recognized that the measure was aimed in large part at the Government of President José Sarney, which has already been crippled by hyperinflation, political squabbling and its February decision to suspend interest payments.

This suspension was seen as increasing Brazil's leverage in renegotiating its loans at favorable interest rates. But Citicorp's action in effect shows that it already regards at least some of these loans as a lost cause and increases the bank's bargaining power.

A headline this morning on the front page of the Rio de Janeiro newspaper Jornal do Brasil read, "Citibank Announces Losses With Brazil." The principal newspaper in São Paulo, the country's financial capital, warned that "Citicorp is going to recover the debt in court," although the bank's announcement contained no such threat.

In a statement issued in Brasilia Tuesday night after a meeting with a Citicorp representative, Finance Minister Luiz Carlos Bresser Pereira said the bank's action "in no way alters Brazil's policy in relation to the foreign debt" and would "not affect Brazil's relationship with Citibank."

It is "in the interest of Brazil that the international financial system be maintained solid so that it can better carry out its role," Mr. Bresser Pereira added. Citicorp's action "is in line with the tendency of other banks, which are already reinforcing their financial position by building up reserves," he concluded.

No Comment From Mexico

The Mexican Government, in contrast, had no immediate official comment on the action. Mexico, whose foreign debt is $100 billion, signed a new agreement in March for a $7.7 billion loan, which Mexican officials said this week would be held in reserve for several months so as not to overheat the nation's economy.

A Mexican official said in an interview this week that he did not expect Mexico to seek additional bank financing until late 1988 or early 1989.

There were some predictions here that Mexico might even benefit from the Citicorp action in the short run, especially if the value of Mexican loans in the secondary paper market, now in the range of 55 to 60 cents on the dollar, were to fall further.

"If activity in the secondary market increases substantially, this could actually be a big opportunity for Mexico," a foreign banker here said. "If the banks dump debt at a discount, Mexico could tap some of the $11 billion in its reserves and accelerate the purchase of its own paper."

Other third world debtors have fewer options, several analysts said.

Other Debtors May Suffer

"This is going to hurt the mid-size players, like Colombia, that have been acting responsibly," one foreign banker here said. Alluding to the nations that are sometimes characterized as "less developed countries," he added, "This action taints the whole L.D.C. portfolio of banks and works against those who still had a real chance of getting money on a voluntary basis."

In Manila a Citibank official seemed to confirm that analysis when he said that the leverage of the Philippines in new talks might not be as strong as that of other debtors because its "debt is not large enough."

Debt specialists also predicted that several other American and European banks with large Latin American exposure would eventually follow the example of Citicorp.

"In three years we are going to see a situation in which the banks will have reinforced their capital bases, but the debtor countries still will not have cleaned up their economics," said Rogelio Ramirez de la O, an economist here.

A South American banker said of the Citibank decision that "this is something that takes months and months to plan, not an action you take overnight."

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date MAY 22 Publication Globe and Mail

Handling the debts

The world is beginning to shed its pretenses about international debt, a process that carries its own dangers, but the dangers of illusion are surely greater.

More western banks are beginning to write off portions of their loans to developing countries, but the write-offs remain essentially "in-house." They take the form of loan-loss provisions against the possibility — or certainty — of loan defaults. This is simply prudent in the face of general knowledge that Third World loans are worth on average only 60 to 65 cents on the dollar (the range is much greater, depending on the country). Establishing realistic loan-loss provisions is good for the banks over the long run, but there's a ringer — loan loss provisions do not provide direct relief to debtor nations until the provisions are used.

The full value of most Third World debt remains on the books. Banks are preparing for the day when these debts will be formally discounted, but how will it be done, and who will make the first move? When it is done, what effect will it have on future lending to developing nations? Commercial banks are not philanthropic organizations. With the pretenses about Third World debt fading, can a relationship survive?

Citicorp of New York announced this week that it was setting aside $3-billion (U.S.) as insurance against bad Third World loans. This amounts to 20 per cent of Citicorp's exposure to troubled debtor countries. Other American banks are building their equity bases as a line of defence against loan default.

In June, 1984, Canada's Inspector-General of Banks required Canadian banks to establish reserves of 10 to 15 per cent against loans to 32 countries by Oct. 31, 1986. That requirement was raised last year to 18 to 20 per cent by 1989. Citicorp's move will probably stiffen the requirement in Canada even more.

Last month, Canada's Standing Senate Committee on Foreign Affairs published a thoughtful study on the debt problem of developing countries. It pointed out that Canadian banks are troubled, not only by Third World loans, but by domestic exposures in energy and agriculture. "Indeed, write-downs or specific provisioning by Canadian banks in these sectors in 1986 have exceeded general provisions taken on their (Third World) loans." We are confronting domestic financial problems much more forthrightly than we are those with developing countries. Loan loss provisions aside, we have barely begun to re-establish a sensible economic environment with Third World debtors.

The Senate committee says "the Canadian government should modify the regulations governing the tax treatment of reserves in Canadian banks to permit the full costs to be treated as business expenses until the Third World debt problem has assumed manageable proportions." No one favors a bail-out of bank shareholders, but business losses are generally deductible in Canada, and this recommendation accompanies the committee's support for even higher loan loss requirements and effective write-downs.

In any case, bank shareholders are bearing the consequences of weak loan portfolios. Alfred Bunting and Co. Ltd. estimates the price (of shares) to earnings ratio of Canadian banks will be 8.9 in 1987, compared with 16.2 for the Toronto Stock Exchange 300 index as a whole. Loan loss provisions eat directly into bank profits, and the profits that remain are partially discounted by the market.

As commercial banks withdraw fitfully from the international debt morass, it is apparent that government support for Third World economic development will have to take up much of the slack. Another issue for a day very soon upon us.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
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Date MARCH 22

Publication GLOBE AND MAIL

The Paris Accord is creating lots of discord

PETER COOK

For a time it looked as though a rare conjuring trick had been performed at the Paris Group of Six meeting. No need for rabbits to come out of hats. When finance ministers said currencies should be stable, bingo, they were.

Then, the principals started talking about how clever they had been and disagreeing among themselves.

U.S. Treasury Secretary James Baker said on British television on Monday that, contrary to what everyone thought, Washington had no specific target level for the U.S. dollar. The next day Federal Reserve Board chairman Paul Volcker said the dollar had fallen enough and should not be allowed to decline more.

One foreign exchange trader wryly described these contradictory statements as "Mutt and Jeffing." If nothing else, they served to break the spell that had been cast on the markets by last month's Paris parley.

In three subsequent days trading this week, assorted central banks in Washington, Tokyo, London and Bonn have been buying U.S. dollars and selling yen at a furious rate but have still been able to do little to bolster the dollar.

The weakness of the whole G-6 accord was that it depended on the rather dubious proposition that, as of Feb. 22, when the United States, Japan, West Germany, France, Britain and Canada met in Paris, the major currencies had attained some magical equilibrium that made economic sense. Freeze this moment in time, said the finance ministers, and we will provide both a carrot and a stick to ensure that the all-important trio of currencies — the U.S. dollar, Japanese yen and West German mark — justify their present values.

The carrot came in the form of commonly agreed policy changes; fresh stimulus for the slow-moving Japanese and West German economies, deflationary budget cuts in the United States, and freer trade policies all round. The stick was the secretive threat that central banks would intervene massively to head off a further run on the U.S. dollar.

The stick, however, has never looked like working without the carrot. Speculators simply have more money to throw around than central banks. And the promise of co-operative policies has been looking more unpromising by the week.

To judge from recent figures, the U.S. trade and payments deficit is in no better shape. Western Europe and Japan have economies that are slowing down, not speeding up. Special measures such as Japan's tax reform program seem designed to hit consumption and encourage savings, the opposite of what should happen. And Tokyo and Washington are intensifying their ding-dong battle over trade and managed to widen it to include investment when the Reagan Administration forced Fujitsu Ltd. of Japan to drop plans to buy Fairchild Semiconductor Corp.

This chain of events has left Washington, in the person of Treasury Secretary Baker, muttering about the dollar having no fixed rate and perhaps needing to depreciate further as a substitute for a lack of co-operative action by Japan and West Germany.

Which is just the kind of dark thought that the G-6 meeting in the City of Light was supposed to have laid to rest.

Mr. Baker is not alone in his mutterings. Economists at the Brookings Institution in Washington have pointed out that $40-billion (U.S.) worth of dollars were scooped up by central banks last year to enable the United States to balance its books. Private capital flows were not nearly enough. And this implies that the dollar has been kept artificially high.

Another expert in the field, Rimmer de Vries, senior vice-president at Morgan Guaranty Trust Co. in New York, told a Senate committee hearing that if the Paris accord held and current exchange rates prevailed, there was little chance of the U.S. trade deficit falling below $100-billion annually for the rest of this decade.

In Paris, the six countries pledged "to co-operate closely to foster stability of exchange rates around current levels."

Let us hope they do not succeed, says Mr. de Vries, because what is needed is something altogether different from the status quo.

"With world economic growth stumbling and developing country debt financing once again on the boil, complacency is not in order. To stabilize the dollar too long at present levels risks higher U.S. interest rates, a U.S. recession and renewed world deflation."

By his estimate, there has to be more sustained growth outside the United States and a further 15 per cent devaluation of the U.S. dollar against a broad range of currencies to get the current account back into line without major economic dislocation.

The markets seem to agree with him, even if the ministers don't.

EXT 936/BIL.

Date: May 22,
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Australia hurt by subsidy war

By Alan Boras
of The Leader-Post

OTTAWA — In the big, bad world of harmful agricultural subsidies by Europe, America and Japan, one of the Saskatchewan farmers' best friends is Australian Trade Minister John Dawkins.

Compared to the farm hurt in Prairie Canada, grain-growing Australia and that nation's balance of payments are in worse shape.

"It's got to the point now that farmers are saying it's not worth planting," Dawkins said Thursday in an interview in his suite in the Chateau Laurier.

Seasonal planting Down Under, set to begin during the Canadian fall, is estimated to drop 16 per cent this year, pushing grain acreage cuts to 25 per cent in the last two years.

"There's been a big shake up. It's pretty crazy that one of the most efficient producers in the world should be the one that is having to bear the burden of adjustment."

Dawkins wants freedom returned to world wheat markets so Australian farmers, like those in Saskatchewan, will not stop planting.

Unlike the Prairies, Australia has no booming Central Canada to supplement wheat incomes.

"We just don't have the option of subsidizing agriculture."

"What you've got to do is have the market determine what people produce. The imbalance is not really between supply and demand. The imbalance is between the cost of production and what governments are willing to pay people to produce."

Australia estimates European and U.S. subsidies cost Australia about $2.4 billion in export revenue in 1986-87.

It's an income loss that has devastated an economy that depends on agriculture for 40 per cent of its merchandise exports.

For years when Australia cried foul on the international stage, it felt like "a lone voice in the wilderness," Dawkins said.

If the farmers from Down Under squawked, the major trading nations would say "Oh that's just something Australia is going on about."

So Dawkins collected a group of nations who also suffer from the U.S.-EEC subsidy war — a battle that has cut the price paid to Australian and Canadian wheat growers by half.

For many of the Cairns Group of nations, low grain prices don't matter when you don't grow wheat. But low rice or sugar prices for developing countries are a problem.

The Philippines has watched sugar prices fall dramatically, then rebound to 86 per cent of their 1980-81 levels. Thailand sells rice for nine times less than what the Japanese pay at home. And the EEC has sold high-quality beef to Brazil for $640 per tonne after paying its farmers $1,580 per tonne to produce it.

In effect, the victims in misery love company.

Filling the same role at this week's Cairns Group meeting, Dawkins was chairman of the first meeting of the 14 agricultural exporters in Cairns, Australia, last August.

In world trade, Australia has watched the large industrial nations cut deals with little regard for others.

"Basically, the GATT (General Agreement on Tariffs and Trade) has worked very nicely for them" (Japan, the EEC and the U.S.), Dawkins said.

When GATT stopped working to their liking, they wanted to change the rules, he said.

By gathering the Cairns Group, the clout of 25 per cent of world farm exports joined Australia's foul call.

Recent policy victories have resulted from urging the U.S. not to follow Europe further down the subsidy path, Dawkins said.

And the complex nature of the Cairns Group, where 10 developing countries join Hungary, Canada, New Zealand and Australia, makes the major traders take notice.

"Its success has been based on a) its diversity, and b) its cohesion," Dawkins noted.

To date, that success has meant a vocal change of heart by the EEC, Japan and the U.S. as witnessed by last week's communique from the Organization for Economic Co-operation and Development to halt subsidy practices.

The move signals a verbal commitment to turn the corner on the subsidy war that has returned Australian and Saskatchewan grain farmers to days of Depression-like economics.

Turning the corner, if only in verbal agreement, has made Dawkins and the Australians good neighbors, even when they live far from each other.

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THE WINNIPEG SUN / FINAL J11
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Page 6

The investment roadblock

A clause that any free trade agreement between Canada and the United States is certain not to contain is one guaranteeing the free flow of investment across the U.S.-Canadian border. Such a clause would never be accepted in Canada and probably not in the United States, where politicians have begun expressing serious concern about foreign ownership — including Canadian ownership — of significant segments of the U.S. economy.

A clause that *is* certain to be included in any free trade agreement is one dealing with trade-related investment. That would restrict the power of either nation to use investment controls to gain an unfair trade advantage over the other.

Finding common ground between those two extremes will be one of the toughest jobs facing the free trade negotiators, Simon Reisman on the Canadian side and Peter Murphy for the U.S. The negotiators agree that investment is one of the great boulders standing in the way of a trade agreement. If the Americans push too hard, it could be the one immoveable roadblock.

Canadians have learned a good deal about foreign investment in the 24 years since Walter Gordon became finance minister in the Pearson government and decided that it was a problem. We have learned that there are worse things than foreign investment, one of them being no foreign investment. We have learned that erection of a capricious and slow-moving bureaucracy to ensure that every foreign investment provides significant benefit to Canada ends up providing no significant benefit. We have learned that massive, ham-handed attempts to direct investment, such as the National Energy Program, can lead to disaster. Armed with this past experience, Canadian governments should be better prepared today to define more accurately the areas in which foreign investment must still be controlled and to develop instruments of control which are sensitive and effective, rather than clumsy and self-defeating.

Once those essential areas of control are determined, and excluded from any future agreement, there should be nothing to stand in the way of negotiating freer movement of capital across the border.

If the United States demands more on the investment issue than Canada can safely accept, then the Canadian government retains the option which has been available to it since the free trade negotiations began. It can say no and invite the Americans to continue the talks on terms Canada can accept. If the U.S. side sticks to proposals Canada cannot except, then the free trade talks will fail.

The possibility of failure is inherent in any set of negotiations. Indeed, it is essential to the negotiating process. It serves to concentrate the minds of the negotiators and to encourage them to seek acceptable compromises. That is what Mr. Reisman and Mr. Murphy should be doing now.

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MAY 22 1987

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THE EDMONTON SUN / FIRST J 36

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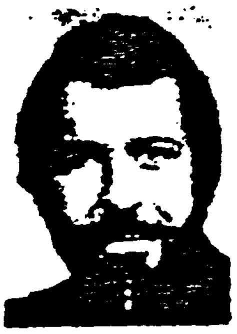
Page C2

World's farmers unite to fight subsidy chaos



John Ferguson

OTTAWA — When the world is taking a turn for the worse it's nice to know that Brian Mulroney and his cabinet are there to save it.

In the next few days you'll see plenty of that as Canada and 13 agricultural "fair traders" meet here to find a way out of the agricultural subsidy mess that has wreaked havoc in world markets.

The meeting is the so-called "Cairns Group," named after the city in northern Australia where they first met last August to develop a united front on the subsidy issue.

Membership in the group, besides Australia and Canada, includes Brazil, Argentina, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand and Uruguay — all of them grain exporters caught in the crossfire of the current subsidy war between the European Community and the U.S.

The members of the group rightly claim that compared to the U.S. and Europe, they don't try to grab markets by heavily subsidizing their farm exports.

And they're making as much noise as they can to pressure the main culprits to stop the insane practice which has stimulated overproduction and driven down prices. They want new rules on subsidies in the next round of world trade talks getting under way in Geneva.

That is not a new story.

What's interesting is the blatant attempt by the Mulroney government to get out in front of the pack and claim the role of leader in the war against subsidies.

The heat from Western grain farmers clearly is getting to them.

The way they tell it, Brian Mulroney was the first leader to realize that agricultural subsidies were a serious international problem.

The Tory revisionists would have us believe that the world first took notice of the subsidy problem in May 1986, when, as their press release put it: "Prime Minister Mulroney raised the problems of agricultural trade at the Tokyo Economic Summit and noted the impact of the situation on the economies of many countries."

Mulroney's people made much of that intervention at the summit last year, although Americans were later claiming credit for having raised it as well.

In another press release, historians in Trade Minister Pat Carney's office recorded that intervention as meaning that "agricultural reform was first placed on the world agenda by Prime Minister Brian Mulroney."

A close look at the record, however, shows the agricultural issue was a late addition to Mulroney's concerns as he headed to the Tokyo summit last year.

None of the written background material provided before the Tokyo summit nor any of the briefings for reporters even mentioned agricultural subsidies.

Yet the year before in 1985, the annual Big Seven summit, held that year in Bonn, had ended on a sour note because of a bitter confrontation between the U.S. and France over the subsidy issue.

The U.S. wanted the European Community's multi-billion-dollar agricultural subsidy program included on the agenda on the next round of world trade talks. But French President Francois Mitterrand had been strongly opposed.

The U.S. then passed the Farm Bill which provided billions in new subsidies for U.S. grain exports. That's what set off the latest grain price crash.

And even before that, in 1982, there had been a bitter confrontation over agriculture in Geneva at a meeting of the 24-nation Organization for Economic Co-operation and Development (OECD).

By chance, it was Allan MacEachen, who was then minister of finance, who chaired that meeting.

The Australians were early leaders on the issue as well.

They prepared a detailed study of subsidies for farm exports in 1984, issuing a report that was widely read and highly regarded.

And it was John Dawkins, Australia's agriculture minister, who led formation of the "fair traders" group, subsequently known as the Cairns Group.

That bit of history is worth keeping in mind in the next few days as the government propaganda mill churns out the message of how Brian Mulroney is working to save farmers from chaos.

Canada has a strong and credible voice on this question.

But as on so many issues, it's one among many.

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EDMONTON
MAY 23 1987
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THE EDMONTON SUN / FIRST J26
Code 7
Page A6 42

Satya Das

Mulroney fails to define free trade

When will the prime minister tell Canadians what he thinks free trade means?

Is it a sector-by-sector treaty like the Canada-U.S. auto pact? Does it mean the end of random irritants like tariffs on exports of fish and raspberries to the U.S.? Does it mean the U.S. Congress won't levy countervailing duties on Canadian products?

We don't know, because Brian Mulroney has never come up with a precise definition of either the dream or the reality of free trade. Mulroney has neither asked nor answered the basic question: given the protectionist mood of the American Congress, what are the clear advantages to the United States of a free trade arrangement? Under what circumstances would they enter into such an agreement?

The Americans came up with the answer last week: essentially, they want the right to buy up those sectors of the Canadian economy they don't already dominate: newspapers, communications, publishing, other cultural institutions, financial institutions and other such repositories of Canada's cultural and social identity.

International Trade Minister Pat Carney was quick to reassure that "certain sensitive areas" of the economy aren't open to negotiation. This is the same minister who earlier said that anything that creates jobs is open to negotiation with the U.S. The same Pat Carney who rejected America's complaint that lower Canadian stumpage fees were an unfair subsidy to the lumber industry, only to watch her government bow to U.S. pressure.

The Mulroney government made a major mistake in caving in on the lumber dispute: experts predicted a General Agreement on Tariffs and Trade panel would rule in Canada's favor, yet the Tories withdrew the complaint a month before a decision was due. Instead, they imposed an export tax with legislation that can be changed only by American consent. What other sovereign country enacts legislation that can be changed only at the grace of a foreign power? Who but the Tories would throw away a winning hand?

Mulroney tried to justify the change by saying it was a necessary compromise to ensure a free trade deal. He evoked a vision of a prosperous and competitive Canada where new jobs would be created in a new era of prosperity. Yet as every stage of negotiation unfolds, there's an overwhelming sense that the grand Tory dream is turning out to be a nightmare.

Americans' mood unpredictable
. . . how badly do we want a deal?

Canada's trade objectives were succinctly outlined by External Affairs Minister Joe Clark early in the Tory government's term: secure access to the U.S. market would be used as a base for enhanced international trade.

This Canadian policy, also known as multilateralism, makes eminent sense. It means strenghthening Canada's largest trade relationship while building new ones. Exports are a major source of Canadian jobs; the best

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date May 22 *Publication* New York Times

Tackling the Global Farm Ripoff

A new international report says it plainly: The industrial countries currently waste $100 billion a year on farm subsidies. Three-quarters of the benefits go to a prosperous top quarter of farmers. These numbers won't shock anyone familiar with farm issues. What's surprising is that the Governments of Japan and West Germany, previously unwilling to brook criticism of their farm lobbies, endorse that analysis.

These Governments might now begin to challenge the powerful agricultural interests. That would save consumers and taxpayers billions of dollars, and make a significant dent in trade imbalances.

Crops vary, but the forces driving farm policies are depressingly similar in most industrialized economies. Rapid technological change has sharply cut the demand for unskilled rural labor and given the edge to wealthier family farmers with access to capital. Meanwhile, cheap international transportation and the growth of commercial agriculture in poor countries has left all farmers vulnerable to new sources of competition.

Well-off farmers protect their interests by lobbying their governments for subsidies and import barriers. They often cast their appeal in high moral tones — the need to help small farmers or to defend rural values. But benefits are almost always proportional to crop sales or to the amount of land farmed, and the real winners are the largest producers.

Efficient agricultural producers, including America, play this subsidy game. But the worst offenders are Japan and Western Europe, where agriculture is inherently uncompetitive. Japan remains self-sufficient in rice only by paying its farmers five or six times the world price and by denying the use of crop land for desperately needed housing. The Common Market is dumping surplus sugar on the world market at just one-fourth of production costs, impoverishing producers in the Caribbean, Central America and the Philippines.

Happily, the power of the farm lobbies seems on the wane. In Europe, subsidies to maintain the "butter mountain" have become so expensive that taxpayers are becoming restless. In America, farmers are themselves divided. Sugar and dairy lobbies cling to protection; grain producers see the greater risk in losing exports. In Japan, city dwellers are coming to understand that farm protection is both a drain on living standards and a threat to ability to export cars and computers.

That explains why the major economic powers have agreed to reassert their commitment to farm reform at the Venice summit conference in June, and then give the reforms first priority in ongoing global trade negotiations. Washington wants to cap everyone's supports at current levels, and cut them by 10 percent annually after 1988.

Five years ago that would have been unthinkable. Today, the folly of farm supports is so obvious that the unthinkable has become plausible. That's not success — but it's a start.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date May 22 Publication Journal of Commerce

Japan Wants Accord on Priorities

VENICE SUMMIT

By A.E. CULLISON
Journal of Commerce Staff

TOKYO — For once, as they gather at next month's seven-nation Venice summit, the leaders of the United States, the major European countries and Japan may sort out and settle on priorities.

If they fail, however, the Japanese fear it could prove impossible to meet what they see as a building global economic crisis.

Certainly the threat of a major trade war and the serious problems stemming from destabilized currencies are combining rapidly to create stresses of extraordinary dimensions well beyond national and even continental limits.

Although such stresses are not entirely unprecedented, it has been some time since the worldwide economic situation has required as much uncommonly blunt talk among friends or, if you will, partners, in one interdependent economic system. Unfortunately, one country, namely Japan, appears to be acting less interdependently than it has a right to.

In recent weeks, for example, even though Japanese leaders have expressed their belief that mounting problems can be resolved somehow on the basis of cooperation during the Venice summit, their public remarks often suggest the looming dangers of confrontation.

All too often Japanese political and business leaders speak of the Venice meeting as likely to become unmanageable, especially if, as anticipated, Japan comes under renewed pressures to expand its domestic economy at the expense of the nation's plans for fiscal reconstruction.

These expectations stem from Western doubts that the Japanese can carry out a nearly $36 billion economic pump-priming package while at the same time holding onto their high-pitched fiscal reconstruction policies.

Actually, the Western delegations most likely will discover that their best leverage when arguing this point will come from appealing to Japan's own self-interest: a worldwide depression caused by a trade war and unstable exchange rates would hurt the Japanese much more than temporarily abandoning their present efforts to reduce and ultimately eliminate their relatively large fiscal deficits.

Even though the Western delegations doubtless will emphasize this point during the Venice talks, suggesting some of the political implications of Japan's continuing unprecedentedly massive yearly trade surpluses, the Japanese can be counted upon to offer their own arguments as well.

"Of course, some of us would like to make emotional statements in Venice, even to the extent of contending we are being picked on or possibly unjustly suffering the tyranny of the majority," complains one Tokyo economic analyst. "But you won't find us crying in this unseemly fashion during the summit."

Instead, current signs point to the Japanese delegation accompanying Prime Minister Yasuhiro Nakasone stressing that Japan can both artificially prime its economic pump and maintain austerity as well in order to reconstruct its fiscal finances. The Western democracies meeting in Italy will be informed that Japan intends to meet its obligations by slashing the country's current account surplus to around 2% of its gross national product, for instance.

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Banker says beware financial free trade

Continued from page C1

indicates that he fears the case against giving the Americans unfettered access to financial services may lead to the impasse that would scuttle the talks.

Mackness, meanwhile, still believes a "workable" North American free trade arrangement is necessary for the Canadian economy to cope in an increasingly hostile international trading environment.

But he insists that no deal is better than one that sees Canada give up control over financial services, an essential ingredient of our sovereign power.

"Remember, Canada only needs a reasonable deal," Mackness says matter-of-factly, "a deal including only those specific areas of the free trade arrangements that are working elsewhere, namely, free trade in industrial materials and manufactured goods."

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Page C1

'Fair' farm traders urge Canada to speak out

By John Spears Toronto Star

OTTAWA — Canada should become a leading voice for countries seeking to end the agricultural trade war, leaders of several countries urge.

The appeal came yesterday from members of the so-called Cairns Group of countries, who style themselves as fair traders and complain that their farm economies are being ruined by policies of the U.S. and European Community.

But Prime Minister Brian Mulroney told the group there are "no magic solutions, no quick fixes" and farmers cannot expect a lessening of the disastrous international grain war until late 1988 at the earliest.

The 14 Cairns Group countries, including Canada, Australia, New Zealand, Argentina, Thailand and Hungary, conclude two days of talks here today.

The U.S. and the community are not members of the group, which takes its name from the Australian city of Cairns, where members first met last year.

In opening the meeting yesterday, Prime Minister Brian Mulroney said the trade war has driven down the price of Canada's top grades of wheat more than 30 per cent in the past two years.

Prices have plummeted because of a worldwide grain surplus. Export subsidies offered by the U.S. and the European Community have driven depressed prices even lower.

"We, as a government, simply cannot compete with the subsidies of the U.S. and EC," Mulroney said.

"And if we fail to subsidize, our markets and our share of markets dwindle.

"We've got to reintroduce some logic into the international trading system," Mulroney told the meeting.

Delegates to the meeting told Canada that it is ideally placed to be one of the key players in ending the trade war.

Canada is the only member of the Cairns Group that will be at the economic summit of the seven big industrial nations in Venice this summer. And Canada is also a member of the Organization of Economic Co-operation and Development, whose members agreed earlier this month that they should call a truce in the trade war.

Canada's presence in all three groups makes it a logical country to speak out for the Cairns Group in Venice, Argentina's secretary of agriculture, Ernesto Figueras, told the meeting.

"In that sense we are ready to give Canada the greatest strength possible so that the representation shall be complete and very strong."

Colombia's agriculture minister, Guillermo Parra, described Canada as "the perfect spokesman to speak on behalf of the developing countries" in trying to end the trade war.

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THE GLOBE AND MAIL / NATIONAL 118

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Page B14

'Fair-trader' nations lobby against debilitating agriculture trade wars

By Vern Greenshields
Southam News

A group of agriculture-exporting nations meeting here is expected to hammer out a strongly-worded communiqué today that condemns the agriculture trade wars that are ravaging their economies.

If the 14-member Cairns group holds true to opening statements, today's final document will vigorously endorse the agreement reached earlier this month at a meeting of the Organization for Economic Co-operation and Development.

That agreement called a truce in the escalation of the trade wars and promoted ways to help struggling farmers other than by subsidizing production.

The Cairns group (named after the Australian city in which it first met last year) has become in effect the anti-trade-war lobby in the current round of GATT negotiations. Besides Canada, Australia and New Zealand, members include developing nations like Chile, Indonesia and Malaysia.

They call themselves "fair traders" who are the victims of the agriculture subsidy war between the European Community and the United States. They claim that while the richer nations have only been made uncomfortable by the trade war, the economies of those poorer nations are being crippled by the crossfire.

If there is any hitch to developing a concise communiqué when the meeting ends, it could come from developing countries who have hinted that because of their poor conditions, they might like to be excepted from some of the unfettered trade aspects.

Prime Minister Brian Mulroney, who gave the opening address Friday morning, admitted there are "no magic solutions, no quick fixes," to the agriculture subsidy wars.

Despite the importance being attached to agriculture at recent international gatherings, "we must acknowledge that the crisis has deepened," as prices have continued to fall in reaction to increased subsidy support elsewhere, he said.

The challenge is to get some early movement toward solution at a pace faster than normal for GATT negotiations — an "early harvest" to end the trade wars.

Mulroney, in mentioning one of his first specific timetables, suggested that member countries look for progress by the fall of next year.

While International Trade Minister Pat Carney called the meeting an extremely important step on the way to ending the agriculture subsidy wars, experts in international trade note it is only a step, with the real mileage to be made at the GATT negotiations.

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Page AB

The non-crisis of Third World debt

Gwynne Dyer

LONDON — "Countries that take that action (stopping payment on their foreign debts) will probably not return to international capital markets in this generation," said the banker, who declined to be identified by name. It's difficult to look menacing when you are dressed in a pinstripe suit, but he was trying quite hard. The waves of fear in the Third World, however, were notable by their absence.

Last month, with great regret, I took my own action on the debt crisis and killed the Spanish translation of this column. Ten years ago it was a handy source of extra income — and even last month it was still appearing in most of the big cities of Latin America — but it has been a long time since it covered its costs.

By the end, I had accumulated between $50,000 and $100,000 of uncollectable debts in Latin America (I just gave up keeping track after a while). With translation costs alone running at about $7,000 a year, my personal economy could not stand it any more.

Most of the papers just stopped paying as their sources of foreign currency dried up without saying anything about it, but some were very gentlemanly. I could paper at least one bathroom wall with telegrams from the better class of Latin American papers who took the trouble to let me know that they could no longer get the foreign exchange to pay me.

The first was *Ultima Hora* in the Dominican Republic in 1983, the most recent was *Ultimas Noticias* in Caracas a few months ago. That was the last straw. If the largest paper in (formerly) oil-rich Venezuela, with a publisher who is also a Senator, cannot pay, then it's time to call it quits. So this column is now only in about 160 papers, not 200, but I'll survive. So will they.

They will not only survive being deprived of these columns, but also the wrath of the banks. There are four major debtors in the Third World that have declared a moratorium on debt repayment — Brazil, Ecuador, Nigeria and Peru — and at least a dozen more that have used veiled threats of doing the same to extract better terms from their creditors.

"Can't pay, won't pay" is now the name of the game, and even those countries upon whom bankers allegedly still smile are playing it. Last year Mexico, which vies with Brazil for the position of biggest Third World debtor, rescheduled more than half its total foreign debt — $58.5 billion — over 20 years, with no repayments of principal required over the first seven years.

The Mexicans are still in the bankers' good books because they did it all through proper channels — but they only got that deal because everybody knew the alternative was for the country to stop paying entirely, which would really mess up the books. In the end, some comparable arrangement will probably be made with Brazil as well, if only because it makes the banks' balance sheets look better.

The banks are never going to see most of their money again, and that is not now a catastrophe. The entire Brazilian foreign debt of $108 billion, however crushing a burden it feels to Brazilians, is not a vast sum by contemporary international standards. Japan's trade surplus last year alone was almost as great ($93 billion), and the U.S. defence budget for this year is over twice as much ($288 billion).

If some major international debtor had suddenly gone belly up five years ago, when the "debt crisis" was just beginning, some over-exposed banks could have been destroyed, but that was long ago. Banks are run by realists, and they at once began to adjust their accounts to cushion the blow of default that they saw coming eventually.

By now all the necessary provisions have been made, and even a wholesale default by Third World debtors would no longer bring down the entire international financial system. In any case, there is not going to be a wholesale default.

Many of the major debtors may follow Brazil's example and suspend payment of interest (hardly anybody has been repaying capital for years now). Over the next few years there will be more major reschedulings, some of the poorest countries will be "forgiven" a part of their debt, and a good deal of debt will be converted into equity investments in local firms.

A few of the countries that have been boldest in defying the international banks, like Peru, may suffer exemplary punishment for a time, but even that is a better solution for them at the moment than accepting the endless hemorrhage of interest payments. And in the long run even they will be allowed back into the international capital market, because the banks need outlets for their funds.

That unrelenting need to move their huge inflow of capital back out the door as interest-bearing loans as quickly as possible was what forced the banks into making all those dodgy loans to Third World countries in the first place. Although they may have learned a little more caution now, the need has not diminished.

Come to think of it, neither has mine. If the Spanish-language papers started looking like they could pay again, I'd restart the translation at once, and not be too fussy about collecting old debts. You have to be realistic about these things.

(Gwynne Dyer is a Canadian commentator based in London.)

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MONTRÉAL
25 MAI 1987

LE DEVOIR : PREMIÈRE N 10
LE JOURNAL DE MONTRÉAL : FINALE N 11
LA PRESSE : FINALE N 12
THE GAZETTE : FINAL N 13

Code 7
Page A 11

14 commissions de valeurs mobilières ont paraphé un accord d'assistance

Dans la perspective d'adoption de normes communes

MICHEL GIRARD

■ Dans le but d'assurer une surveillance plus étroite des marchés boursiers à travers le monde, les commissions de valeurs mobilières d'un grand nombre de pays ont accepté de signer un accord d'assistance réciproque.

C'est l'Organisation internationale des commissions de valeurs mobilières (OICV) qui est l'auteur de cet accord d'assistance réciproque. L'OICV est un organisme qui regroupe les autorités de réglementation des valeurs mobilières de divers pays. Son rôle « est de faciliter les échanges entre les membres, en vue de développer les marchés de valeurs et d'améliorer leur fonctionnement, de coordonner l'activité des membres en matière d'application de la réglementation et d'adopter des normes communes ».

Paul Guy

Le siège du secrétariat de l'organisme est à Montréal. C'est d'ailleurs le président de la Commission de valeurs mobilières du Québec, Paul Guy, qui agit comme Secrétaire général de l'OICV.

En vertu de l'accord d'assistance réciproque, les différentes commissions de valeurs mobilières s'engagent à fournir aux autres signataires de l'entente l'information nécessaire à l'application des lois sur les valeurs mobilières.

Jusqu'à ce jour, il y a eu 14 commissions qui ont signé l'entente: Brésil, Chili, Colombie, États-Unis, France, Grande-Bretagne, Hong Kong, Italie, Mexique, Norvège, Ontario, Québec, Panama, Pérou. Plusieurs autres sont sur le point de signer l'entente.

Internationalisation des marchés

Lors de sa dernière réunion, l'OICV a créé un comité technique chargé de coordonner la réglementation des opérations internationales sur les marchés de valeurs mobilières. Ce comité s'occupera aussi bien des appels publics à l'épargne que du fonctionnement des bourses (marchés secondaires).

Ce comité technique devrait regrouper une brochette d'experts qui étudieront les problèmes de réglementation liés aux opérations internationales, tout en proposant par la suite la mise en place de diverses solutions pratiques.

Réunion annuelle à Rio

Par ailleurs, le comité exécutif de l'OICV a profité de sa dernière réunion pour terminer les préparatifs de sa prochaine conférence annuelle, laquelle se tiendra à Rio de Janeiro, au début de septembre.

Les thèmes de cette conférence internationale sont:

■ la coopération en matière de surveillance et de répression des infractions;

■ le développement des marchés financiers, en particulier l'accès à ces marchés par les émetteurs, les courtiers et les épargnants;

■ l'intégration des marchés, notamment les problèmes reliés à la compensation et au règlement des opérations;

■ la modernisation et la simplification du prospectus, dans un souci d'harmonisation et de reconnaissance réciproque;

■ la conversion de la dette étrangère en valeurs mobilières.

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LE CANADA N'EST PLUS LE GRENIER DU MONDE

— Mulroney

OTTAWA — Le Canada n'est plus le grenier du monde et cède le pas aux États-Unis, à l'Australie, à l'Argentine de même qu'aux pays membres de la Communauté économique européenne (CEE) au chapitre des exportations de blé.

OTTAWA

Jean Denis GIROUARD

Le Canada a une fois de plus déplorer « la situation alarmante du commerce agricole mondial », hier matin, dans une allocution du Premier ministre Mulroney devant les représentants des 14 pays membres du groupe de Cairns, à Ottawa.

Le groupe tire son nom du lieu de leur première rencontre, en août dernier, en Australie, et regroupe l'Argentine, l'Australie, le Brésil, le Canada, le Chili, la Colombie, les îles Fidji, la Hongrie, l'Indonésie, la Malaisie, la Nouvelle-Zélande, les Philippines, Thaïlande et l'Uruguay.

Ces 14 pays ont joué un rôle important lors du lancement de la présente ronde de négociations commerciales multilatérales du GATT, en septembre dernier à Punta del Este (Uruguay).

Hier, le premier ministre canadien leur a rappelé l'urgence d'abandonner les « politiques artificielles afin de rétablir une certaine logique dans le système commercial international ».

Déja, en mai 1986, au Sommet économique de Tokyo, Brian Mulroney avait soulevé les problèmes du commerce des produits agricoles et ses conséquences graves sur l'économie de plusieurs pays.

Le 12 mai dernier à Paris, la ministre canadienne du Commerce extérieur, Pat Carney, attirait l'attention des pays de l'OCDE sur « la crise mondiale du commerce des produits agricoles ».

En quelques mots

En quelques mots, les problèmes des techniques modernes se résument à ceci : on produit de plus en plus, ce qui crée un déséquilibre entre l'offre et la demande.

Le Canada produit toujours la meilleure qualité de blé qui soit, mais on peut facilement se contenter de moins à meilleurs prix!

Les producteurs de l'Ouest canadien perdent de l'argent à travailler d'un soleil à l'autre sur des terres qui sont presque des territoires. Les fils désertent la ferme à cause d'une situation ridicule et scandaleuse, et le milliard de dollars en subventions qu'Ottawa leur distribue se révèle presque un [illegible] sur une jambe de bois!

Mais Mulroney s'affaire surtout à mettre fin au système de subventions versées aux producteurs par les États-Unis (absents du groupe Cairns) et la CEE.

« Le déclin de l'agriculture sonne le glas des valeurs mêmes qui ont façonné nos sociétés », a prévenu Mulroney.

Les tracas financiers engendrent un stress social et l'éclatement de la famille, alors que les surplus mondiaux s'accumulent et que les prix chutent sous l'effet d'une concurrence internationale aveugle et soutenue par des programmes d'aide.

Village global

Le Canada se place donc dans la peau des pays du tiers monde pour affirmer qu'il n'y a pas de solutions unilatérales ou régionales.

C'est pourquoi Mulroney invite les pays à oublier leurs objectifs d'autosuffisance alimentaire pour préserver leurs structures sociales.

« L'interdépendance entre les politiques agricoles, commerciales, monétaires et fiscales des pays exportateurs et importateurs franchit les frontières économiques et politiques », fait-il remarquer.

Les subventions faussent les échanges, et les pays qui y recourent font perdre des marchés à d'autres pays.

« Ils ne font qu'aggraver la situation économique déja précaire des pays en développement. Ce sont là des tendances dangereuses », a-t-il conclu.

Brian Mulroney tentera une fois de plus de freiner la détérioration des conditions du commerce agricole international, au Sommet économique de Venise, du 8 au 10 juin.

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Mulroney urges cutback in agriculture subsidies

By Brian Cole
Winnipeg Free Press

OTTAWA — Prime Minister Mulroney says Canada will soon table specific proposals for world-wide agricultural trade reform and hopes to see real progress in the battle against trade distorting subsidies by the autumn of 1988.

He made the remarks while opening an international agricultural trade meeting here yesterday which featured countries from South America, Asia and the South Pacific.

The meeting of countries, known as the Cairns Group of fair trading nations, is being held to hammer out a joint strategy for resolving the agricultural trade crisis which has hurt farmers around the world as well as western Canada.

It also is expected to provide Mulroney with a mandate today to press for quick action on agricultural reform at the GATT talks when he attends next month's economic summit in Venice.

Formed

Canada is the only member of the 14-member Cairns Group, formed last year after a meeting in Australia, with membership in the seven-member summit group.

In outlining Canada's position, Mulroney zeroed in on the need for Europe and the United States to substantially cut back on subsidies in order to return sanity to agricultural trade — a view echoed by the countries attending the meeting.

"We must continue to bring such persuasive powers as we can to bear on the Americans and the Europeans to call a halt to their trade war," Mulroney said.

Mulroney did not elaborate on the nature of Canada's proposals for the forthcoming GATT negotiations on agriculture, set to begin in Geneva in July.

But a spokesman said later that Canada hopes to have the proposals on the GATT table by the fall.

He added that Canada hopes the ensuing year will result in agreement on a number of mid-term proposals for agricultural reform that could be endorsed in the fall of 1988 and phased in beginning in 1989-prior to the conclusion of the ongoing GATT talks.

GATT negotiations normally are quite time-consuming, and it has been suggested that concrete proposals to give farmers relief could take several years to implement.

During his speech, the Mulroney stressed the need for world-wide co-operation in rolling back subsidies and other agricultural trade barriers.

"It is apparent we face a serious imbalance between supply and demand that is manifesting itself in enormous stockpiles, extremely low prices and intense international competition," Mulroney told the delegates.

But he emphasized that much of the problem with supply is due to heavy subsidization of agriculutral commodities, such as grain and oilseeds, by Europe and the U.S.

Encouraged

"Although encouraged by steady advances in technology, the over production of many commodities is

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primarily due to government programs," he said.

"Reduced world demand results from domestic agricultural support programs, barriers to trade and slower economic growth.

"These are basic structural problems that will require immense determination to overcome."

Mulroney noted that the agricultural trade crisis has dropped commodity prices to record lows, adding that Canadian wheat prices have fallen 31 per cent in the last two crop years.

The irony, he said, was that Canadian farmer productivity has never been higher.

"Canadian farmers have been doing a better job than ever," he said.

"But we, as a government, cannot compete with the subsidies of the U.S. and E.C. major producers."

Because Europe and the U.S. are not members of the Cairns Group, it has been suggested they lack the clout to force change in world agricultural policy.

Government officials agree the Cairns Group lost some of its raison d'etre following the OECD meeting earlier this month which saw the major trading nations agree to a cap subsidies and begin negotiations to roll back existing support payments.

But they emphasize the Cairns Group was instrumental last year in getting agriculture at the top of the agenda of world trade problems.

And, they say this year's session, scheduled prior to the OECD meeting, is an important building block in maintaining the momentum towards achieving agricultural reform.

The working sessions of the meeting were held behind closed doors.

But spokesmen for the countries in attendance used the ceremonial opening of the meeting to talk about the effect the agricultural trade war has had on their people and their hope for eventual reform.

Australian Trade Minister John Dawkins, who is chairing the two-day meeting, echoed Mulroney's comments concerning the need for a rollback on subsidies, adding that it is important to keep up the pressure for reform.

Substantial

While noting there has been substantial progress made since the Cairns Group held its first meeting in Australia last August, he said there still are some problems ahead.

He said the meeting would be useful in examining the pronouncements on the international stage with the reality of domesitic agricultureal policy in the major industrialized countries.

"We will need to discuss the contrast between the positive singals that have come out of recent meetings . . . with such issues as the dangerous mood of the U.S. Congress," he said.

And while he acknowledged the European community appears to be ready to begin negotiations to reduce its subsidies, Dawkins said:

"Reform measures in Europe will need to go very much further and faster before we can safely assume a fully fledged E.C. commitment to the process."

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PM urges end to agriculture trade war

By Janice Vansickle
Star Agriculture Reporter

OTTAWA — Prime Minister Brian Mulroney warned trade ministers from around the world on Friday of the desperate need to continue striving for an end to the deepening agriculture trade war.

While steps have been taken in the past year toward an international solution to the price-lowering war, farmers around the world continue to be victimized, Mulroney told the opening session of a two-day meeting of the Cairns Group, which is made up of 14 countries seeking agriculture trade reforms.

"Farmers in all our countries find themselves, through no fault of their own, penalized by the senseless agriculture trade wars," the prime minister said.

During the past two years, he said, Canadian farmers have watched wheat prices fall by 31 per cent and returns for other grains have dropped by as much as 45 per cent.

The result, he noted, is anguish for farm families facing financial difficulties.

Mulroney blamed the trade war on subsidy programs being used by the European Economic Community and the United States in an effort to reduce their surplus grain stocks.

"We must continue to bring such persuasive powers as we can to bear on the Americans and Europeans to call a halt to their trade war."

The Cairns Group, which takes its name from the first gathering of trade ministers in Cairns, Australia last summer, hopes the Ottawa meeting will produce further pressure for multilateral trade reforms.

THE GROUP OF countries, which in total produces 25 per cent of the world's agriculture exports, is expected to produce proposals for bringing about reform.

Mulroney will then be asked to deliver the Cairns Group message at next month's economic summit of seven leading industrialized nations. Canada is the only one of the group's 14 countries that will be represented at the Venice summit.

Australian Trade Minister Bob Dawkins, who is chairing the Ottawa meeting, said the Cairns Group has helped make agriculture a central trade issue. But the battle is not over, he admitted.

The 24 members of the Organization for Economic Co-operation and Development agreed last week in Paris to call a truce to the subsidy war until trade rules can be worked out through talks under the General Agreement on Tariffs and Trade.

Dawkins said it is important to build on the OECD agreement and speed the reform process along.

That agreement, he said, has yet to prove that the U.S. and EEC are truly committed to reform.

The key players in the subsidy war must be encouraged to make their proposals for reform known as soon as possible, Dawkins said.

"In no way have we reached a ceasefire so to speak in the agriculture field," said Argentina's agriculture secretary, Ernesto Figueras.

And until that happens, he warned that countries such as his will have difficulty meeting their international debt commitments.

THE COUNTRIES making up the Cairns group include Canada, Argentina, Brazil, Australia, Chile, Colombia, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, Uruguay and Fiji.

The trade war, said Dawkins, has only added to the debt problems facing many developing countries.

In his speech, Mulroney described as "dangerous" the impact subsidies have on developing countries. "The use of trade distorting measures and subsidies for national goals at the expense of others ignores our interdependence," he said. "Loss of markets, in particular for the developing countries, further exacerbates their already difficult economic circumstance. These are dangerous trends."

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Fight free trade now, dairy expert urges 250 farmers at seminar

HARRY KILFOYLE

SYDENHAM

The average Ontario dairy farmer's milk quota could drop as much as 15 per cent if Canada and the United States sign a free trade agreement, says a past president of the Canadian Dairy Commission.

Ellard Power told 250 farmers attending a free trade informatior seminar last night that the Americans would flood the Canadian market with yogurt and ice cream once tariff barriers were removed.

He said that close to 15 per cent of Ontario's industrial milk is used to produce ice cream and yogurt.

Power said members of the federal advisory committee on trade negotiations told him that the Americans have demanded that all tariffs be dropped and that cheaper American ice cream and yogurt products would hurt Canadian competitors.

The seminar was the first in a series of eight information meetings co-sponsored by the National Farmers Union and the county milk committees. The Ontario Milk Marketing Board and processors also joined the growing disenchantment with free trade in the agricultural industry.

Farmers attended the Frontenac County seminar from points as far away as Cobourg to the west and Winchester to the east. Organizer Raye-Anne Briscoe of Renfrew said that last night's large turnout encouraged the farmers' union to sponsor other such meetings, with Leeds the next likely choice. She noted that those in attendance last night represented a wide age range, with many farmers turning out with their families.

Power talked about the free trade negotiations from the viewpoint of one who has spent three days talking to advisers close to the negotiations. He urged farmers to start fighting now because it will be too late when the draft agreement is prepared later this year.

Power said that the government is considering proposals to do away with the supply-management system. One suggestion under scutiny includes an agreement not to approve any more marketing boards.

The province set up a managment board system in the 1970s and marketing boards now man-

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

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Mitterrand vows not to meddle in Quebec

By Louis Wiznitzer
Special to The Star

PARIS — As French President Francois Mitterrand prepares for a state visit to Canada next week, he makes three points clear at the start:

- Canada is seen by France as a valuable partner in its own right.
- France does not seek to interject itself into Canadian domestic affairs (the Ottawa-Quebec relationship).
- France will not stand in the way of a U.S.-Soviet disarmament agreement.

In an interview with The Star, Mitterrand explained that he did not intend to follow in Charles de Gaulle's footsteps and shout, as his predecessor did two decades ago, "Vive le Quebec libre."

"Canada is a sovereign country," he said. "Franco-Canadian relations are active and cordial. They must be kept that way. Of course, Quebec for obvious reasons, has always been entitled to our special care. We intend to preserve this privileged relationship, without however getting involved in institutional inter-Canadian problems."

Mitterrand, who arrives in Ottawa Monday and visits Quebec, Saskatchewan, Ontario, New Brunswick and the French islands of St. Pierre and Miquelon before returning to France Friday, said he considers the Franco-Canadian relationship to be good.

"There is only one irritant — the issue of the protection of the fishing zone. It must be dealt with in a serious manner, but it must not be allowed to spoil overall excellent ties" between two allied and friendly nations.

Asked whether he believed St. Pierre and Miquelon might ever become Canadian, Mitterrand said: "It is up to the islands' inhabitants to decide on that and up to now they have expressed the wish to be French. Furthermore, the question has never come up, as far as I know."

Mitterrand believes trade between Canada and France could be greatly increased. "Canada is one of the world's greatest developing areas," he said. "Its possibilities are enormous and bilateral economic relations are a far cry from what they could be. Both our governments want them to expand considerably."

On the possible free-trade agreement between between Canada and the United States, he said "the two countries are free to sign any agreements they wish." He added, however, that any agreement "would have to be submitted to GATT (the General Agreement on Trade and Tariffs) so as to verify that it does not violate GATT rules to which we all subscribe."

Mitterrand said he is concerned by the triangular trade war now raging among the U.S., Japan and Western Europe: "Unfortunately, those who are the first to denounce protectionism are sometimes the greatest sinners on that score. Protectionism has become a way of life. No one today can claim to have a clear conscience in this regard. I say, 'Let's all put our cards on the table and let's agree to stop being naughty.' "

Concerning the Middle East peace process, Mitterrand is convinced that the only way to resolve the Israeli-Arab conflict is to convene an international peace conference. Bilateral negotiations did not and will not do the trick, he said.

Camp David helped settle the Israeli-Egyptian quarrel but did absolutely nothing to solve the Palestinian question.

"To say that a peace conference would open the gates of the Middle East to the Soviets is nonsense," Mitterrand said. "They already have a solid foothold there. The five permanent members of the U.N. Security Council should together remove the various diplomatic obstacles that obstruct the way to a peace conference and help prepare it."

In recent months, France has given the impression that it is upset by the prospect of a Soviet-American agreement to scrap medium- and perhaps short-range missiles based in Europe.

Prime Minister Jacques Chirac, Minister of Foreign Affairs Jean-Bernard Raimond and defence officials have publicly expressed serious reservations with regard to what they call the "denuclearization of Western Europe."

Moscow has been castigating France for its negative attitude. Indeed Chirac was given a cool reception when he visited Moscow a week ago, whereas British Prime Minister Margaret Thatcher was given the red-carpet treatment by the Kremlin.

Will France then be the odd man out, as it so often is? Mitterrand made it clear that this is not his position: "I am in favor of the 'zero option' (the removal of medium-range missiles from European soil by both superpowers) and I accept the 'zero-zero option' (scrapping the short-range missiles as well).

"However, I believe the European allies must develop a common position on the matter and that an agreement should be

See MITTERRAND/page B5

TORONTO STAR FILE PHOTO

Francois Mitterrand: French president will arrive in Ottawa Monday for a state visit.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

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Mitterrand wants deal on fishing zone

Continued from page B1

balanced and verifiable. Also, in my view, it should be global: Why allow 100 medium-range missiles to be kept on either side outside Europe?"

In a nutshell, Mitterrand believes the security of Western Europe is compatable with the projected U.S.-Soviet disarmament deal.

There have been disagreements recently between Mitterrand and Chirac on how to react to Soviet leader Mickhail Gorbachev's proposals. Chirac takes a hard line but Mitterrand privately argues "if you can't beat them, join them."

Is France, in fact, in any position to lecture its allies on matters in which it has always gone its own way? After all, France quit NATO, does not host American medium-range missiles on its territory and does not share its nuclear force capability with West Germany.

Mitterrand said that France has always remained within the Atlantic Alliance even if its forces are not placed under NATO's command. Moreover, France has the right to have opinions regarding regional security and to express them: "We don't make decisions in the name of our allies. Having said that, I would like to add that personally I believe that it is always better to disarm than to overarm.

"I look at any proposal to disarm with interest and satisfaction. Of course, it would be good if the two superpowers agreed also to reduce, say by 50 per cent, their strategic arsenals. Together they own 24,000 nuclear warheads. Britain and France own less than 10 per cent of that amount."

There has been mounting evidence recently that the U.S. and the Soviet Union may be preparing to scrap the 1945 Yalta agreements drawn up by Winston Churchill, Franklin D. Roosevelt and Joseph Stalin and redraw the map of postwar Europe.

The two Germanys might be allowed to drift closer to one another if not to unify formally. What would be France's reaction to that?

Although Mitterrand is reluctant to tackle hypothetical questions, he said he would welcome such a move: "But a lot will have to happen before we cross that bridge. Furthermore, a major historic revision will have to be implemented wisely so as not to stir new tensions while appeasing old ones. Of course, history moves on. Forty years after World War II, interests and circumstances have changed."

In the past Mitterrand has sometimes been skeptical about the summit meetings of the Big Seven industrial nations (U.S., Canada, Japan, France, Italy, West Germany and Britain).

The leaders of the seven nations will meet in Venice June 8. For some it will be a farewell party, since they are on their way out or have had their wings clipped. Reagan is a lame duck. Nakasone is about to retire. Mitterrand, a victim of "cohabitation", does not really run the show at home. Brian Mulroney is struggling to stay alive politically. Only Helmut Kohl and Margaret Thatcher are firmly in the saddle.

How then does Mitterrand view the coming summit?

Basically he feels that for the leaders of the major allied countries to meet once a year is useful. But these summits were intended to deal with economics, not with politics.

He regrets that what used to be a pretty intimate and informal affair (with only four countries participating) has turned into a cumbersome machine. He does not want these summits to become some sort of global convention of the joint chiefs-of-staff. He is opposed to setting up a permanent summit administration.

☐ **Louis Wiznitzer is a Star correspondent based in Paris.**

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way to create jobs is to find as many new markets as possible.

Yet the prime minister has never clearly said that multilateralism is Canada's top option, that free trade is only a first step to a more vigorous trade policy.

More than anything else, Mulroney has suggested that free trade will be phased in over several years, and consist of sector-by-sector treaties. Free trade backers offered the auto pact as one example. But the auto pact, if it were signed today, would be illegal under GATT.

Canada and the U.S. are both signatories to the GATT, which says that any special considerations extended to one favored trade partner must be extended to all. Tariff-free trade between Canada and the U.S. would mean that other GATT members could demand the same privileged treatment. Besides, the ultimate aim of GATT is to eliminate all barriers to the flow of goods and services.

Given the latest set of American demands — untrammelled access to every aspect of the Canadian economy — the prime minister should be asking himself how badly we need a free trade deal.

If one won't be phased in until 10 years have passed, what's the urgency of giving into the rapacious demands of a protectionist America? If Canada has to further compromise its sovereignty to remove the irritants of arbitrary tariffs, the price is too high.

Besides, Congress has said a treaty won't affect its right to levy countervailing duties. No matter what the terms of a free trade agreement, Canada could still face whimsical barriers to trade with the U.S. any time a Canadian action was deemed unfair.

In that case, why rush into a deal that might have disastrous consequences for Canadian sovereignty, and equally uncertain ones for the Canadian economy?

The irony is that Joe Clark had the right idea: he charted Canada's course as clearly as anyone can. When will Mulroney start following it?

Satya Das is a Journal editoral writer

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PM says agricultural

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By Alan Boras
of The Leader-Post

OTTAWA — Prime Minister Brian Mulroney has named the "autumn of 1988" as the deadline to find concrete solutions to the world agricultural subsidy war.

Mulroney. in a welcome address Friday to the 14 member nations of the Cairns Group of Agriculture Traders. said that despite recent international initiatives for reform."we must acknowledge the crisis has deepened."

Mulroney endorsed last week's proposals by the Organization for Economic Co-operation and Development (OECD) in Paris which pointed to the General Agreement on Tariffs and Trade (GATT) as a forum for multilateral agreements to cut farm subsidies.

"We are encouraging the tabling of specific negotiating proposals as soon as possible with a view to enhancing the prospects for progress by autumn of 1988."

After the fall of 1988, hope for landing a deal on agricultural trade reform from the European Economic Community (EEC) and the United States will be uncertain.

Presidential elections in France and the U.S. in the spring and fall. respectively. of 1988 will change the political climate for change.

If no deal is struck at GATT in 1988. Prairie farm woes could last a long time.

Despite the progress made in the next 18 months, Saskatchewan Wheat Pool director Harold Yelland. an observer at the conference, said some instability is bound to occur in the U.S. and the EEC during presidential campaigns.

"Regardless of what happens in either country, there will be a period of instability and inaction on some of these things with any change of government."

For farmers facing those dormant periods. Yelland said further government support will be necessary or Canada's entire grains industry could. "for all practical purposes. go broke."

However, Ted Turner of Prairie Pools Inc., said no country has to wait for deals under GATT to end the "ridiculous" subsidies.

The purpose of a GATT agreement is to support fair trading in the long term, he said

Offering an opening address for Canada, Canadian Wheat Board Minister Charlie Mayer said the Cairns Group must develop the "political will" to lobby and move the major subsidizing nations towards agriculture reform.

"The consequences of not succeeding are very dire indeed." he said.

Several Cairns Group delegates supported Mulroney's expression of urgency about securing a deal at GATT.

"We cannot afford to waste any more time. We have to act now," said Ricardo Lomobardo, Uruguay's vice-minister for agriculture.

And quoting Pope John Paul II. Ambassador Jorge Berguno of Chile said: "The poor cannot wait."

All nations approved of Mulroney carrying group's message to the Venice Economic Summit of the seven major industrialized nations in June.

Many of the Cairns Group. which includes Argentina, Australia. Brazil, Canada. Chile. Colombia. Fiji. Hungary, Indonesia, Malaysia, New Zealand, the Philippines. Thailand and Uruguay. said that if farming is bad in the developed world, it's worse in their countries. (Fiji was not in attendance.)

Several developing countries said agricultural trade reform will go a long way to finance their ever-increasing debt to the major developed nations.

Argentina's representative Ernes-

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crisis deepening

to Figueras said his country does not want "favors" of moratoriums on debt repayment to developed nations.

It wants an end to farm subsidies. namely in the EEC. the U.S. and Japan. so prices will rise and Argentina can again make money from farm exports.

The Cairns Group chairman. Australian Trade Minister John Dawkins. said the agenda included consideration of previous international meetings leading up to this one. strengthening and improving the OECD communique. formulating a message for Mulroney to carry to Venice and studying issues beyond Venice.

Those issues will include the scheduled tabling by the U.S. of a comprehensive plan for agriculture reform on July 8 at GATT.

Since it will be the first such proposal. it will be closely investigated by other nations who should bring forth proposals in the fall.

"That's when we'll see the whites of their eyes." said one senior government official.

Then in September 1988. a ministerial review is scheduled to consider implementing agreed-to reform proposals.

Normally. no GATT agreements are adopted before the four-year time limit is up and deals are phased in over many years.

So relief for the Prairie farmer is not around the corner.

To date. the Cairns Group has won "the intellectual battle." said Mike Moore. New Zealand's minister of overseas and marketing.

Europe is no longer talking about food security and the Japanese academics are now considering changing their massive subsidies and import restrictions.

Moore is now looking for substantial proposals from the major nations for reform.

"They have to put their consumer mouths where their political words have been." Moore said.

Saskatchewan's Economic Development and Trade Minister Bob Andrew said the closed-door negotiations focused on fortifying the Cairns Group's diplomacy.

"They are using the only vehicle they have. You can't muscle your way through this." he said.

Diplomacy with the large industrial nations is the Cairns Group's only weapon. The group has no significant economic or military might. he said.

The group worked in a spirit of "harmony and sweetness" Thursday afternoon. and a senior government official said discussions moved more quickly than expected with all agenda items being considered.

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Date: May 23
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Murphy should back off

S-P Opinion

As trade talks have proceeded between Canadian and American officials, Canadians have learned more about the issues through occasional outbursts from United States negotiator Peter Murphy than from official sources in their own country.

One could almost conclude that Murphy uses public opinion in Canada in a carefully calculated way. When he thinks Canada's politicians should be expanding the mandate of their chief negotiator, Simon Reisman, Murphy drops one of his bombshells to Canadian reporters and, presto! . . . instant feedback, quicker and, for all anyone knows, just as accurate as a complicated opinion poll!

In any event, Murphy's most recent jab at what he seems to see as a foot-dragging attitude on the part of Canadians on the question of foreign investment has people talking, and worrying, again. He appears to be impatiently demanding nothing less than totally unfettered access in Canada for American capital, a position government members in this country, whether they agree with it or not, would endorse at their peril if results of recent surveys are accurate.

And Murphy isn't mollified by the typically Canadian ploy of creating a special committee to talk about, and conveniently isolate for the moment, this hot potato which has fallen from the free-trade platter.

He should back off. It's understandable he and others involved in the talks are feeling the pressure of deadlines in the "fast-track" procedures agreed upon by both governments. But there are some "bottom-line" positions on both sides, no doubt, that are going to require extra skill and patience if the talks are to be productive. And compromise may be required as well, though it is by no means clear yet whether there is any flexibility at all in the American position on investment in Canada.

If not, difficult decisions await members of the Mulroney cabinet. If they are counting on a new trade deal with the U.S. for their political salvation, it would be folly to be seen to be capitulating in the face of Murphy's high-pressure tactics and, more importantly, the all-or-nothing approach on the part of the U.S. government that such tactics seem to signal on the touchy foreign investment question.

Many Canadians continue to be leery about the whole free-trade idea, in large measure because of the secrecy that surrounds the negotiations. Contrary to the familiar saying, they fear that what they don't know could hurt them, a lot. It doesn't help that all they ever do find out is by way of Murphy talking out of turn and throwing around the weight of the mighty U.S. marketplace.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date May 23 *Publication* Ottawa Citizen

'Fair-trader' nations lobby against debilitating agriculture trade wars

By Vern Greenshields
Southam News

A group of agriculture-exporting nations meeting here is expected to hammer out a strongly-worded communiqué today that condemns the agriculture trade wars that are ravaging their economies.

If the 14-member Cairns group holds true to opening statements, today's final document will vigorously endorse the agreement reached earlier this month at a meeting of the Organization for Economic Co-operation and Development.

That agreement called a truce in the escalation of the trade wars and promoted ways to help struggling farmers other than by subsidizing production.

The Cairns group (named after the Australian city in which it first met last year) has become in effect the anti-trade-war lobby in the current round of GATT negotiations. Besides Canada, Australia and New Zealand, members include developing nations like Chile, Indonesia and Malaysia.

They call themselves "fair traders" who are the victims of the agriculture subsidy war between the European Community and the United States. They claim that while the richer nations have only been made uncomfortable by the trade war, the economies of those poorer nations are being crippled by the crossfire.

If there is any hitch to developing a concise communiqué when the meeting ends, it could come from developing countries who have hinted that because of their poor conditions, they might like to be excepted from some of the unfettered trade aspects.

Prime Minister Brian Mulroney, who gave the opening address Friday morning, admitted there are "no magic solutions, no quick fixes," to the agriculture subsidy wars.

Despite the importance being attached to agriculture at recent international gatherings, "we must acknowledge that the crisis has deepened," as prices have continued to fall in reaction to increased subsidy support elsewhere, he said.

The challenge is to get some early movement toward solution at a pace faster than normal for GATT negotiations — an "early harvest" to end the trade wars.

Mulroney, in mentioning one of his first specific timetables, suggested that member countries look for progress by the fall of next year.

While International Trade Minister Pat Carney called the meeting an extremely important step on the way to ending the agriculture subsidy wars, experts in international trade note it is only a step, with the real mileage to be made at the GATT negotiations.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date May 23

Publication Toronto Star

'Fair' farm traders urge Canada to speak out

By [illegible] Toronto Star

OTTAWA — Canada should become a leading voice for countries seeking to end the agricultural trade war, leaders of [illegible] countries urge.

The appeal came yesterday from members of the so-called Cairns Group of countries, who style themselves as "fair traders" and complain that their farm economies are being ruined by policies of the U.S. and European Community.

But Prime Minister Brian Mulroney told the group that there are [illegible] "no magic solutions" [illegible] and [illegible] cannot expect a lessening of the disastrous international grain war until late 1988 at the earliest.

The 14 Cairns Group countries, including Canada, Australia, New Zealand, Argentina, Thailand and Hungary, conclude two days of talks here today.

The U.S. and the community are not members of the group, which takes its name from the Australian city of Cairns, where members first met last year.

In opening the meeting yesterday, Prime Minister Brian Mulroney [illegible] the trade war has driven down the price of Canada's top grades of wheat more than 30 per cent in the past two years.

Prices have plummeted because of a worldwide grain surplus. Export subsidies offered by the U.S. and the European Community have driven depressed prices lower.

"We, as a government, simply cannot compete with the subsidies of the U.S. and EC," Mulroney said.

"And if we fail to subsidize, our markets and our share of markets dwindle.

"We've got to reintroduce some logic into the international trading system," Mulroney told the meeting.

Delegates, in the meeting, told Canada that it is ideally placed to be one of the key players in ending the trade war.

Canada is the only member of the Cairns Group that will be at the economic summit of the seven big industrial nations in Venice this summer. And Canada is also a member of the Organization of Economic Co-operation and Development, whose members agreed earlier this month that they should call a truce in the trade war.

[illegible]

Colombia's agriculture minister, Guillermo Perry, described Canada as "the perfect spokesman to speak on behalf of the developing countries" in trying to end the trade war.

Agricultural group backs Canadian bid to seek freer trade at Venice summit

BY JOHN KOHUT
The Globe and Mail

OTTAWA

A 14-nation group of agricultural exporting countries supports Canada in efforts to seek liberalized trade at next month's summit in Venice of the seven leading industrialized countries.

Representatives of the so-called Cairns Group, set up last year to promote agricultural trade reform, fear a continuation of large-scale subsidies — mainly by industrialized countries — will undermine farming even more in both developed and Third World nations.

In his opening remarks at a two-day meeting, Australian Minister for Trade and Cairns chairman John Dawkins said the group must discuss the contrast between "positive signals" at international trade gatherings and "such issues as the dangerous mood of the U.S. Congress and the many totally unacceptable legislative proposals it has spawned."

Among the moves providing some grounds for optimism was this month's agreement in principle by the 24-nation Organization for Economic Co-operation and Development to strive for a progressive reduction in assistance to agriculture, he said.

One aim of these talks is to consider the scope for action by the Cairns Group "to support a positive outcome in Venice," he added. Canada is the only Cairns member that will attend the G-7 meeting.

Prime Minister Brian Mulroney has placed agriculture on the agenda, as he did at last year's summit in Tokyo.

The Cairns Group, whose name is derived from the Australian town where members first met, includes countries as diverse as Colombia, Thailand and Hungary, accounting for about 25 per cent of world agricultural exports.

Delegates in Ottawa have stressed the need for concrete steps to reduce export subsidies. Brazilian Ambassador Thompson Flores said that, despite expressions of concern at an OECD meeting in Paris, "we must recognize . . . there is still a long way to go before we can reach the sort of comprehensive agreement we all have in mind.

"We are still to be shown some concrete steps in the direction and political will to effectively improve access to markets and to eliminate export subsidies."

Malaysian Minister of Primary Industries Lim Keng Yaik criticized developed countries whose farm practices contradict verbal commitments to create a liberal trading climate.

Specifically, he said a recent European Community proposal to levy a tax on vegetable oils and fats — to stabilize EC olive oil and oil seeds production and to assist the EC in covering its farm budget deficit — will penalize lower-priced oils such as coconut and palm oils produced by developing countries.

Also attending the opening session of this meeting were observers from Japan, the EC and the United States.

Len Condon, deputy U.S. trade representative for agriculture, said later that the United States agrees with the principles backed by the Cairns Group.

He said the group's importance lies in being a third force in the international arena, where the United States and the EC have been at odds. "Cairns is a political force out there . . . laying groundwork for negotiations."

The Ottawa meeting comes two months before a conference in Geneva of the General Agreement on Tariffs and Trade. The current GATT round, which started last year at Punta del Este in Uruguay, includes the discussion of agricultural trade for the first time.

Observers said that, if any major moves are to be made in this area, they most likely will come from within GATT, rather than from any other organization.

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ERNIGHT CANADA/DU JOUR AU LENDEMAIN

Mulroney urges cutback in agriculture subsidies

By Brian Cole
Winnipeg Free Press

OTTAWA — Prime Minister Mulroney says Canada will soon table specific proposals for world-wide agricultural trade reform and hopes to see real progress in the battle against trade distorting subsidies by the autumn of 1988.

He made the remarks while opening an international agricultural trade meeting here yesterday which featured countries from South America, Asia and the South Pacific.

The meeting of countries, known as the Cairns Group of fair trading nations, is being held to hammer out a joint strategy for resolving the agricultural trade crisis which has hurt farmers around the world as well as western Canada.

It also is expected to provide Mulroney with a mandate today to press for quick action on agricultural reform at the GATT talks when he attends next month's economic summit in Venice.

Formed

Canada is the only member of the 14-member Cairns Group, formed last year after a meeting in Australia, with membership in the seven-member summit group.

In outlining Canada's position, Mulroney zeroed in on the need for Europe and the United States to substantially cut back on subsidies in order to return sanity to agricultural trade — a view echoed by the countries attending the meeting.

"We must continue to bring such persuasive powers as we can to bear on the Americans and the Europeans to call a halt to their trade war," Mulroney said.

Mulroney did not elaborate on the nature of Canada's proposals for the forthcoming GATT negotiations on agriculture, set to begin in Geneva in July.

But a spokesman said later that Canada hopes to have the proposals on the GATT table by the fall.

He added that Canada hopes the ensuing year will result in agreement on a number of mid-term proposals for agricultural reform that could be endorsed in the fall of 1988 and phased in beginning in 1989-prior to the conclusion of the ongoing GATT talks.

GATT negotiations normally are quite time-consuming, and it has been suggested that concrete proposals to give farmers relief could take several years to implement.

During his speech, the Mulroney stressed the need for world-wide co-operation in rolling back subsidies and other agricultural trade barriers.

"It is apparent we face a serious imbalance between supply and demand that is manifesting itself in enormous stockpiles, extremely low prices and intense international competition," Mulroney told the delegates.

But he emphasized that much of the problem with supply is due to heavy subsidization of agriculutral commodities, such as grain and oilseeds, by Europe and the U.S.

Encouraged

"Although encouraged by steady advances in technology, the over production of many commodities is

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Date: May 25/6
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Agriculture, economy on western premiers' agenda

By Nell Scott
of The Leader-Post

Agriculture, economic diversification and federal-provincial relations will be the key topics discussed at the annual Western Premiers' Conference, which gets under way tonight in Humboldt.

A variety of other topics including tax reform and international trade will likely be discussed at the conference, which is scheduled to continue Tuesday and end just before noon Wednesday.

While a case can be made that western premiers' conferences have sometimes been much ado about (almost) nothing, Premier Grant Devine would disagree.

He said there are plenty of important issues for the premiers to discuss, and cited the on-going free-trade talks with the United States, the recent moves to bring Quebec into Canada's Constitution, the upcoming federal initiative on tax reform and the continuing problems in agriculture.

The meeting gives the western premiers a chance "to identify and agree on the most important issues in Western Canada," Devine said in a pre-conference interview. The premiers can then speak out together "to the public and to the country and to other governments, particularly the federal government," he said.

Devine expects there will be a strong emphasis on agriculture. He said he wants to discuss the magnitude of the agriculture crisis, what can be done internationally to end the grain-subsidy war and to help Canadian farmers cope with the situation.

A "staggering amount of money" is spent on agricultural subsidies in Europe and the U.S., Devine said. He added that as much as $5 billion in government subsidies would be required to enable Canadian farmers to compete evenly with subsidized farmers in the U.S.

Following a discussion on agriculture, natural resources and trade Tuesday morning, the premiers will discuss economic diversification Tuesday afternoon.

Federal-provinical relations will be the topic at the final working session of the conference, to be held Wednesday morning.

Although there are no working sessions today, the premiers will attend a welcoming reception tonight that will get the conference off to an informal start.

The conference this year will be held in a somewhat different political climate than those of the past couple of years, when many of the premiers were mindful of the fact that provincial elections would have to held soon.

But a series of elections were held last year and all of the western premiers now have fresh mandates and (perhaps) less incentive to play politics at the meeting.

Three of the premiers who attended last year's conference in Swan River, Man., are back again this year. The new face in the crowd is British Columbia Premier William Vander Zalm.

Vander Zalm could be an interesting man to watch at the conference, but it is possible he will be distracted by developments in his own province, where relations between the government and public employees are once again tense.

While Vander Zalm is a member of the conservative Social Credit Party, and Devine as well as Premier Don Getty of Alberta are Progessive Conservatives. Manitoba Premier Howard Pawley is — as a New Democrat — on the opposite end of the political spectrum from the other premiers.

Pawley, who was incensed a few months ago when the federal government awarded a maintenance contract for CF-18 fighter aircraft to Quebec instead of Manitoba, could raise that issue at the conference as well as the broader issue about the awarding of federal contracts.

While the western premiers have issued communiques in the past endorsing free-trade talks with the U.S., it will be interesting to see what position Pawley takes this year.

As for Getty, he periodically has expressed exasperation with the economic policies of the federal government and has also pushed hard for constitutional reform.

While the western premiers' conferences are traditionally held in smaller to medium-sized communities — with the four province's taking turns being host — the fact that this year's conference is being held in Humboldt is not without its ironies.

When the provincial government decided last year to hold the conference in Humboldt, the Humboldt seat in the legislature was held by Progressive Conservative MLA Louis Domotor.

But in last October's election, the voters tossed Domotor out of office and elected the NDP candidate Eric Upshall to be their MLA.

Devine insists he is still happy to be going to Humboldt.

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Exporters decry food subsidies

By Brian Cole
Winnipeg Free Press

OTTAWA — The Cairns Group of food exporting countries has called on Europe and the United States to move as quickly as possible to dismantle the devastating regime of subsidies that has crippled the farm economies of countries around the world.

The group ended its meeting here yesterday by giving Canada the go-ahead to use next month's economic summit meeting in Venice to push long and hard for quick action in the upcoming GATT talks on agriculture set to begin in July at Geneva.

As well, the Cairns Group wants Prime Minister Mulroney to lobby the leaders of the world's most powerful nations to register their commitment to the principles their governments endorsed during a meeting of the Organization for Economic and Co-operative Development in Paris earlier this month.

Head off trade war

In doing so, the group wants to head off growing concerns about the possible re-escalation of a trade war due to imposition of additional protectionist measures in Europe or moves in the United States to expand its export subsidies.

"It is vital that the heads of governments of economic summit countries . . . give agriculture high priority on their agenda," the nations making up the Cairns group said in a communique yesterday.

"Negotiations should proceed in Geneva at such a pace that, by the end of 1988, agreement is reached on an international program to reform and liberalize international trade in agriculture."

The Cairns Group emphasized the importance of the explicit commit-

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Group fears Europe will upset food market

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ment to reform by Europe and the United States in the OECD agreement.

"They saw this as a major step in development of political will necessary if the rhetoric of agricultural reform is to be translated into concrete commitments to improve access and progressively phase-out all forms of subsidies which adversely affect trade," the communique said.

But the communique also warned of potential trouble, including a European proposal to institute a oil and fats consumer tax.

"While there have been positive signs of price support restaint in the EC . . . ministers expressed serious concern over proposals by the European commission," the communique said.

"They affirmed that it would adversely affect the trade of several fair-trading nations and would risk a serious de-stabilizing trade dispute," the communique said.

The situation in the United States is potentially even more serious, the communique said.

It noted that despite the Reagan administration's intentions to cut subsidies, the U.S. congress is considering legislation that would "damage innocent trading partners, break U.S. GATT obligations and severely impact upon the international climate for reform."

However, despite these potential problems it appeared the Cairns Group was largely unsure of how it would react if these measures came to pass.

Asked about possible action against such measures, Trade Minister Pat Carney said there was no advantage to "beating up countries" through retaliation, even though Canada retaliated against the United States for attacking the cedar shakes and shingles industry last year.

Wheat Board Minister Charlie Mayer told reporters the situation was hypothetical, adding reaction would have to be assessed at the time the actions were implemented.

However, he did say such actions would be "very disturbing."

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Trouble on farms dominates agenda

By Fred Cleverley
Winnipeg Free Press

HUMBOLDT, Sask. — For the first time in four years, free trade is not expected to dominate the talks being held here this week by the premiers of the four western provinces. There are three reasons for dropping free trade down on the agenda. The first, and most obvious, is that there is little the western premiers can do to influence the "fast track" negotiations currently under way between Canada and the United States. The second is the financial trouble bearing down on western agriculture.

The third reason is not even on the premiers' agenda. It is the Meech Lake accord, which was signed by the four western premiers and is in the process of being put into constitutional language. Discussions about that accord could upset Saskatchewan Premier Grant Devine's plans to keep agriculture and its problems front and centre during the two days of meetings.

Last year when the premiers met at Swan River, many observers thought Devine was simply waving a shopping list when he talked about billions of dollars in federal aid coming to Canadian agriculture. His prediction that a minimum of $1 billion would flow from Ottawa came true a few months later, in the middle of his own provincial election campaign.

The way in which it was announced, along with a bad attempt at humor by Deputy Prime Minister Don Mazankowski who thought he was being funny by suggesting "anything for an election" went a long way in persuading many Canadians last year's aid was a [illegible] only, political act.

Devine, who is chairman of this year's western premiers' conference, is determined that the aid was just the beginning of a policy of deficiency payments that will continue as long as Canadian farmers are caught in the trade war being fought between the United States and the European Economic Community.

"I am going to build on what I did last year," Devine said. "I put together the information that said we would have to have about $3 billion on an annual basis to compete with Americans. I'm going to have some new figures this year which will substantiate that and more. I'm going to see if I can get the provincial premiers in Western Canada to co-operate with me and be prepared to co-operate with the federal government in getting some more money here."

Devine is convinced that Ottawa will not listen to Ontario Conservatives who are beginning to say about aid to agriculture that enough is enough. "I know the minister of agriculture in Ontario certainly supports deficiency payments. I think he would put his farmers up against people in Toronto.

"I know they (Ottawa) don't have a lot of extra money, but they know that the U.S. is continuing to subsidize exports and the Europeans are continuing (to do the same). Although there are some agreements that suggest we can move to less subsidy in the interim you've got to protect your guys."

Devine is not expecting too much argument on the need for more aid to agriculture from his fellow western premiers. Neither is he expecting any of them to be getting second thoughts about what they agreed to at Meech Lake.

"I find (in Saskatchewan) that people would like to see Quebec part of the country. To do that if it means that a province like Saskatchewan or Manitoba has a veto I think that is fair ball. I don't see anything wrong with having a bit more influence over federal spending — that would sit well with Saskatchewan and I suspect with Manitoba people. I'm not sure what the hang up is other than Central Canada. Ontario may be a little concerned that they are losing a little bit of power out of the middle but that would not bother the rest of the country."

Devine does not think that the West has thrown away a chance at Senate reform by agreeing to Quebec's demands first. "I say that, number one, you cannot have Senate reform or any other kind of constitutional reform without Quebec. Secondly, Section 41 in the Constitution on institutions is changed only by unanimous consent. Section 42 which deals with the Senate and other things was originally going to be unanimous as well but, for some reason or other, they just modified it. So now we are putting it back into being unanimous.

"Third, I don't think you are going to get Senate reform if Ontario and Quebec don't want it anyway. So if they are going to have a veto, we might as well have a veto.

"Fourth, let me say that I am firmly of the view that any changes that involve Parliament, or the Senate, or bringing in new provinces should be unanimous. I would hate to say we are going to bring in a new province when three or four of the provinces don't like it. How would you feel? Not very welcome at the tea party. Some things should be difficult to change and I think unanimity is a fair compromise."

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date May 24 .... Publication N.Y. Times ....

ID DEBTOR NATIONS COULD GAIN

;iticorp Succumbs to the Inevitable

By MARTIN MAYER

ITICORP'S decision to take a $3 billion reserve against its third world loan portfolio is in every velcome, as a sign of rationality r largest bank and as a signal ne private lenders are prepared ke a real contribution to clear- it the channels of the world's g system, which have been d much too long with garbage But the recognition of losses ends itself essentially as an able act, good for the soul and ain; and honor cannot, as Fal- nce pointed out, take away the f a wound.

market has long recognized the of the losses the banks and riends at the Federal Reserve e Treasury Department have usly refused to acknowledge. me when many stocks are sell- 20 and more times earnings, in money-center banks have overing at six or seven times s. At the end of last year, re- banks like Rhode Island's Financial, with trivial foreign posure, sold for 180 percent of lue, while international banks anufacturers Hanover and Manhattan were valued in the market at between 60 percent percent of book.

market maintained this dis- cy despite the insistence of ock analysts that, because the ment would protect the banks against losses on their Latin he shares were grievously un- ed. It should have come as lit- prise, then, that the first reac- Citicorp's brave statement harp run-up in its stock. Inves- seems, feel more comfortable ople who tell the truth.

he wrong people are saluting, ng accounting principles are pplied and in some quarters ong conclusions are being Walter Wriston, former chair- Citicorp, has hailed the action successor, John S. Reed, as ." But only a year ago he was ning in his book "Risk & Four-Letter Words," that be er taken a loss on an interna-tional loan, that "evaluating risk . . is what bankers get paid for," and that "events of the past dozen years would seem to suggest that we have been doing our job reasonably well."

Treasury Secretary James A. Baker 3d, whose initiative to restore voluntary private-sector lending to Latin countries lies shattered in the detritus of the Citicorp explosion, has joined in the chorus of praise. And even the Federal Reserve, which leaked to The Wall Street Journal last fall the intensity of its chairman's displeasure with Citicorp's slow response to a demand for new loans to Mexico, has made soothing noises.

Until now, the game has been to pretend that the Latin debtor nations, apart from a handful of desperate losers, merely had a liquidity problem that the banks could manage, with a little help from the Government, by carrying the debtors. Any statement to the contrary was denounced — by Paul A. Volcker at the Fed, Secretary Baker, the bank stock analysts or Citicorp itself — as dangerously naïve.

Citicorp's action is an admission that the debtor nations really do have a solvency problem requiring a reorganization similar to a bankruptcy proceeding rather than mere adjustment. The need for a renewed infusion of resources into these economies remains, however, not least because the United States trade deficit cannot be significantly dented without a resurgence of demand from the Latin American countries.

The people who are committed to giving the Latins better opportunities to grow must now be up and about to develop a strategy, something that can be rammed through Congress and (especially) the Japanese Ministry of Finance quickly. For this purpose, the strategists must recognize that Citicorp will no longer contribute muscle or money, and statements that the banking company is still a part of the team distract from the work that has to be done.

Moreover, Citicorp has taken advantage of the bank regulators' misleading accounting standards to present its action as though the losses were really good for the bank and in no way bad for the stockholders. Here's how that works.

BUSINESSMEN drawing up their balance sheets deduct their aged unpaid accounts receivable from their assets. And under Securities and Exchange Commission rules, banks presenting their statements to stockholders and the public must deduct their loan loss reserves from their total loans before striking the balance. But Federal and state banking authorities (and no other regulators in the world) permit our banks to show loan loss reserve as part of their "primary capital," roughly equivalent to equity in a nonfinancial corporation. By the same rules, they may continue to include the bad loans among their assets, at full value. Mr. Reed's $3 billion pro sion against losses, in other wor will show up over time as an increa in capital and in apparent strength.

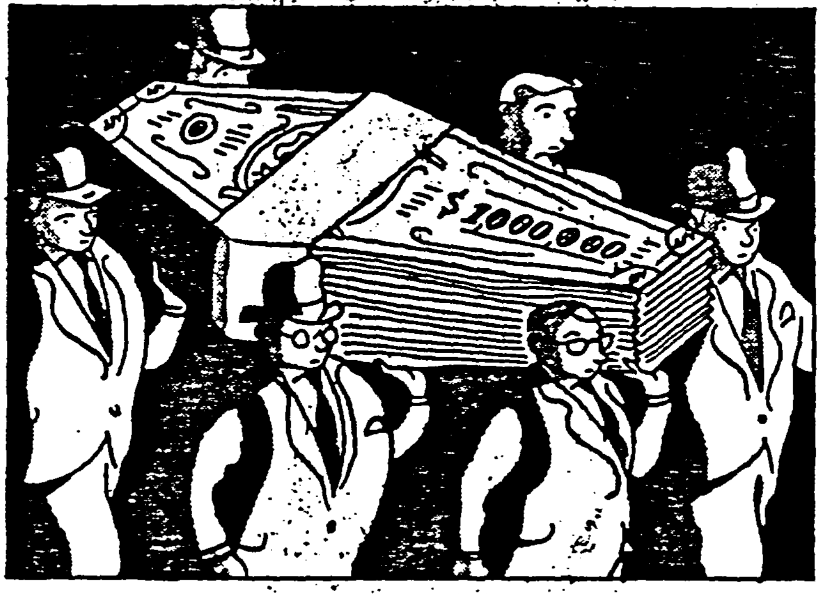
Recently, the Fed apparent agreed to end this charade, and w propose some new rules in the ne few weeks. The hunch here is that M Reed moved now to get in under t wire, to make sure his recognition the losses on his predessors' loa could be made to appear nothi more than a rearrangement of t Citicorp balance sheet.

Finally, the Treasury and the an lysts have persuaded most financi reporters that Citicorp's action si nals a hardening of the banks' at tude in future negotiations with Lat debtors. A more perceptive view a peared in "The Lex Column" in Lo don's Financial Times, which for saw a "downward spiral in whic loans are marked to a discount, bo rowers turn nasty about paying eve reduced interest, and so on."

Mr. Reed has established a fun from which concessions can be mad to the debtors without further impac on his bank's profitability. Eac debtor will want at least his share o that fund, and there will be little rea son at Citicorp to deny him. Manufac turers Hanover and the Bank o America clearly will have differen views, as Mr. Reed indicated whe (and this will not be forgiven him) h let the press know that before comin forth with his announcement he had called the chairmen of these banks and only these banks to deliver the news personally.

Still, on the fundamentals Mr. Reed is right. The banks must share in the losses from past overlending. Moreover, the debtor nations ultimately will be better off if their costs are cut by bank concessions on interest rates or on principal repayments (through packaging the debt as cut-priced bonds and selling what may be bargains to the public), than if their bills are paid by exponentially growing debt as new money is borrowed to pay interest on the old.

Efforts to clear the blockade of past mistakes have been impeded by the narrow perspective of a handful of big banks under the guidance of a single-minded Fed. Mr. Reed's actions open the field for new ideas. It was Citicorp that led the children into the mountain; now that the Pied Piper is gone, perhaps they will emerge. ■



n Mayer, author of "The , among other works, is book about markets.

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The non-crisis of Third World debt

Gwynne Dyer

LONDON — "Countries that take that action (stopping payment on their foreign debts) will probably not return to international capital markets in this generation," said the banker, who declined to be identified by name. It's difficult to look menacing when you are dressed in a pinstripe suit, but he was trying quite hard. The waves of fear in the Third World, however, were notable by their absence.

Last month, with great regret, I took my own action on the debt crisis and killed the Spanish translation of this column. Ten years ago it was a handy source of extra income — and even last month it was still appearing in most of the big cities of Latin America — but it has been a long time since it covered its costs.

By the end, I had accumulated between $50,000 and $100,000 of uncollectable debts in Latin America (I just gave up keeping track after a while). With translation costs alone running at about $7,000 a year, my personal economy could not stand it any more.

Most of the papers just stopped paying as their sources of foreign currency dried up without saying anything about it, but some were very gentlemanly. I could paper at least *one* bathroom wall with telegrams from the better class of Latin American papers who took the trouble to let me know that they could no longer get the foreign exchange to pay me.

The first was *Ultima Hora* in the Dominican Republic in 1983, the most recent was *Ultimas Noticias* in Caracas a few months ago. That was the last straw. If the largest paper in (formerly) oil-rich Venezuela, with a publisher who is also a Senator, cannot pay, then it's time to call it quits. So this column is now only in about 160 papers, not 200, but I'll survive. So will they.

They will not only survive being deprived of these columns, but also the wrath of the banks. There are four major debtors in the Third World that have declared a moratorium on debt repayment — Brazil, Ecuador, Nigeria and Peru — and at least a dozen more that have used veiled threats of doing the same to extract better terms from their creditors.

"Can't pay, won't pay" is now the name of the game, and even those countries upon whom bankers allegedly still smile are playing it. Last year Mexico, which vies with Brazil for the position of biggest Third World debtor, rescheduled more than half its total foreign debt — $58.5 billion — over 20 years, with no repayments of principal required over the first seven years.

The Mexicans are still in the bankers' good books because they did it all through proper channels — but they only got that deal because everybody knew the alternative was for the country to stop paying entirely, which would really mess up the books. In the end, some comparable arrangement will probably be made with Brazil as well, if only because it makes the banks' balance sheets look better.

The banks are never going to see most of their money again, and that is not now a catastrophe. The entire Brazilian foreign debt of $108 billion, however crushing a burden it feels to Brazilians, is not a vast sum by contemporary international standards. Japan's trade surplus last year alone was almost as great ($93 billion), and the U.S. defence budget for this year is over twice as much ($288 billion).

If some major international debtor had suddenly gone belly up five years ago, when the "debt crisis" was just beginning, some over-exposed banks could have been destroyed, but that was long ago. Banks are run by realists, and they at once began to adjust their accounts to cushion the blow of default that they saw coming eventually.

By now all the necessary provisions have been made, and even a wholesale default by Third World debtors would no longer bring down the entire international financial system. In any case, there is not going to be a wholesale default.

Many of the major debtors may follow Brazil's example and suspend payment of interest (hardly anybody has been repaying capital for years now). Over the next few years there will be more major reschedulings, some of the poorest countries will be "forgiven" a part of their debt, and a good deal of debt will be converted into equity investments in local firms.

A few of the countries that have been boldest in defying the international banks, like Peru, may suffer exemplary punishment for a time, but even that is a better solution for them at the moment than accepting the endless hemorrhage of interest payments. And in the long run even they will be allowed back into the international capital market, because the banks need outlets for their funds.

That unrelenting need to move their huge inflow of capital back out the door as interest-bearing loans as quickly as possible was what forced the banks into making all those dodgy loans to Third World countries in the first place. Although they may have learned a little more caution now, the need has not diminished.

Come to think of it, neither has mine. If the Spanish-language papers started looking like they could pay again, I'd restart the translation at once, and not be too fussy about collecting old debts. You have to be realistic about these things.

(Gwynne Dyer is a Canadian commentator based in London.)

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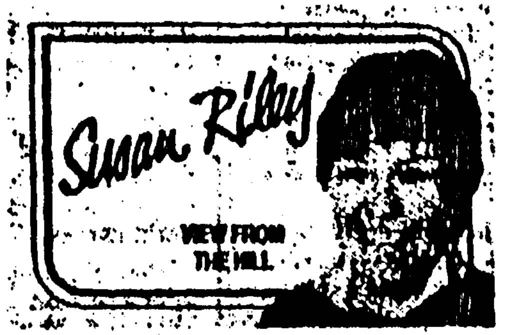
Page 33

One good reason for visiting Regina



OTTAWA — There is a custom in Ottawa which, like a lot of local customs, utterly defies common sense.

Whenever a foreign head of state visits, the External Affairs Department holds a briefing for reporters ahead of time to lay out the agenda, "red-pencil" the major irritants and "contextualize" the overall trade picture.

ambassadors, "personality" bureaucrats spill out their insights, quips and reservations in front of two dozen reporters for a couple of hours, then everyone pretends the conversation was "off the record."

Reporters are solemnly informed that all information must be attributed only to "senior government officials," even when they are reproducing banal quotes from people they know perfectly well.

Last week the department briefed reporters on the visit of French President Francois Mitterrand and one of the mystery briefers was Lucien Bouchard, our new ambassador to Paris, a close personal friend of Brian Mulroney's, a thoroughly likable and down-to earth fellow who appears to be more politician than diplomat.

What Bouchard had to say about Canada-France relations would have made an interesting story partly because of Bouchard's newness on the scene and because of his fairly straightforward manner. But his insights were buried in a fog of quasi-anonymity.

To be blunt, there is something fundamentally ridiculous about diplomacy and it seems even sillier when the French are involved, perhaps because they invented it and still take it so seriously.

At the Mitterrand briefing some misguided reporters insisted on asking questions of substance: Would anything happen on the Canada-France fishing dispute? Would this visit directly enhance Canada-France trade? Were any treaties to be signed or agreements to be reached?

But these official visits are never about substance, although briefing papers have to be churned out to satisfy the voracious appetite of the news machine and to keep bureaucrats busy.

The real point, for both sides, is to make the evening television news, preferably in formal evening wear en route to a glittering gala.

As for the Mitterrand visit, Mulroney sees it not as an opportunity to solve the difficult Newfie fishing dispute so much as to advertise his newly minted concern for the West.

This is a prime minister who has actually talked the president of France into visiting a farm outside Regina, "the first time in history" as the briefers solemnly informed us, "that a French president has crossed the Ottawa River."

We are invited to notice that Mulroney has forced France to recognize that this country isn't just Quebec and the rest, but a diverse and rich investment opportunity from coast to coast.

Why Regina? Why not Vancouver?

Well, as it happens, Regina is symbolizing the West this time. Officials explain that flying farther west would involve too much "deadtime" in the air on what is only a four-day visit.

Besides, as senior government officials told us, "Regina is pretty well the centre of the country."

And besides, Saskatchewan Premier Grant Devine visited France last year, and "he likes France and his daughter studied in France last year . . . and he is an interesting fellow. As are the others (premiers)."

Sounds like a good enough reason to visit Regina to me.

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Page 3

Summit to bring 'armed camp'

By SALIM JIWA
Staff Reporter

Vancouver will turn into an armed camp for the Commonwealth summit in October.

And busy downtown streets will face traffic chaos as 48 heads of state are moved around under machine-gun-toting escorts.

A task force composed of thousands of Mounties, army personnel, city police and security service members is now being assembled.

It's believed to be the largest security operation in Canadian history.

The biggest one so far in B.C. came in 1984 when Pope John Paul II visited the Lower Mainland.

Thousands of police took part in an operation costing millions.

But "the security operation launched for the Pope's visit is peanuts compared to this," said one diplomat responsible for overseeing security for his country's leader.

Details of security for the Commonwealth conference are being kept secret.

But it is known that armed sharpshooters will be stationed on rooftops.

Army helicopters will be used at times to ferry the 48 heads of state around the area.

Anyone entering from the U.S. will be thoroughly checked.

Thousands of police are even now putting known or suspected terrorists through rigorous security checks.

The Commonwealth leaders and their key ministers are to gather in Vancouver for the five-day meet on Oct. 13. The Queen, head of the Commonwealth, is also expected.

Extremely tight security will be given to several leaders where terrorism is a problem.

Among them are:

■ British Prime Minister Margaret Thatcher — targeted by the Irish Republican Army. The IRA is known to raise funds in Canada and the U.S., where it has representatives.

■ Indian Prime Minister Rajiv Gandhi — targeted by Sikh terrorists. Gandhi's mother was assassinated in 1984 by her two Sikh bodyguards and India regards Vancouver as a major base of Sikh militants.

■ Sri Lanka's Junius Jayewardene — targeted by Tamil terrrorists. In the past year thousands of Tamil refugees poured into Canada. Some are suspected of belonging to Tamil terrorist groups.

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Page A8

Summit to focus on western woes

By GARY MASON
Sun Victoria Bureau

VICTORIA — Amid profound concerns about the state of Canada's western economy, Premier Bill Vander Zalm leaves today for a two-day summit with his counterparts from Saskatchewan, Alberta and Manitoba.

The western premiers' annual conference, which begins Tuesday in Humboldt, Sask., is expected to deal with everything from the plight of farmers to the Meech Lake constitutional accord.

Faced with a chaotic international grain market and fragile oil and mining industries, the resource-dependent western provinces have been forced to turn to Ottawa for help.

The stark contrast between the rich economies of Ontario and Quebec and the beleaguered west has made "regional disparity" the buzz phrase at almost any conference attended by western premiers.

Vander Zalm says the question of regional disparity will likely be discussed at Humboldt.

"And I'm sure we'll be looking very carefully at Western Canada and its role in Confederation and what the treatment from the various programs to the west as opposed to the east has been," said the premier in an interview before leaving for the conference.

The premier said that includes finding ways to ensure the west is being fairly represented on federal boards and commissions, which, he said, are dominated by Ontario and Quebec.

"Equity, fairness, good representation. Western representation in decision making in Ottawa will be much the topic," he said.

Unlike Alberta Premier Don Getty, Vander Zalm has avoided raising the spectre of western separatism.

"There's western alienation, yes, but it's not separatism," said Vander Zalm. "But there's definitely a feeling of alienation. But we're going to address all of that."

The premier said B.C. has begun to address the "alienation" problem with the establishment of the joint federal-provincial council of ministers.

Vander Zalm is aware of the activities of the Reform Association of Canada, a respected group of western businessmen and intellectuals gathering in Vancouver next weekend to discuss the west's economic and political future.

Among the options the association will be exploring at their meeting will be the creation of a new federal party that would represent the interests of Western Canada.

The premiers will also be discussing the Meech Lake accord, which Prime Minister Mulroney hopes to constitutionally ratify at Ottawa in another week.

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EDITORIAL
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Of state protocol and timely questions

At least one prediction can be fearlessly made concerning this week's state visit to Canada by French President Francois Mitterrand: it will not produce the sort of calculated insult Canadians heard on the occasion of the last such visit 20 years ago.

No one of thinking age at that time could forget the pistol-shot words that ended Charles de Gaulle's speech from the balcony of Montreal City Hall: "Vive le Quebec libre." The rallying cry of the Quebec separatists was construed as a deliberate act of provocation to Canadian federalism, a crass breach of protocol.

But today's circumstances are vastly different. Mitterrand is no haughty egomaniac, separatism is no longer a burning issue, the Meech Lake Accord is ushering Quebec into the Constitution, and Canada's present prime minister is a native son of Quebec who modestly sees himself as a link between the world's francophone and anglophone communities.

Brian Mulroney headed the federal delegation to the first-ever Francophone Summit in Paris 15 months ago. He established a good relationship with Mitterrand, and obviously sees this visit as an opportunity to further strengthen diplomatic ties between the two countries. In addition, Quebec will host the second Francophone Summit this September.

Not surprisingly, therefore, strenuous efforts will be made to preserve harmony and downplay conflict during Mitterrand's visit. (It's no accident that the French president will visit English Canada, including Toronto and Regina, as well as Ottawa and Quebec).

Canadian officials say the major issue to be raised is the question of Canada-France fish negotiations over disputed waters south of Newfoundland. But, they add, there will be no negotiations as such and no breakthrough is expected.

Naturally. One wonders, though, just how vague the whole discussion will be. Will it include, for example, any mention of the telegram sent to Mitterrand last week by politicians from St-Pierre-Miquelon, urging him to bail out the economy of the French islands or turn them over to Canada? Then again, will Mitterrand tactfully suggest that Canada revoke its order of last March, closing all Canadian ports to French fishing vessels?

Officials may be correct in saying that the fishing agreement is the only serious issue of contention between the two countries. But there is another issue of far broader international significance that should be on the agenda — an official Canadian protest about French nuclear testing in the South Pacific.

Despite strenuous opposition from New Zealand, Australia and the island states of the South Pacific, the French program continues — with unknown environmental effects for the region. Surely it would not strain the limits of courtesy if Brian (as leader of a Pacific Rim nation) were to ask Francois a simple question: If the nuclear testing is as safe as France insists, why not conduct it on home turf?

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Page 11

BOGDAN KIPLING

Big Steel's rusty ploy

WASHINGTON — American steelmakers congregated in Washington the other day for their annual rites of spring.

That's probably the most accurate way to describe the meeting of the American Iron and Steel Institute, the lobby that once shook the economy, intimidated Congress and gave presidents conniptions.

But times have changed and the steel barons rule over the largest rust bowl known to history — or so they would have you believe. Their industry is on the dumps, they can't compete with foreigners, among whom Canadians have to rank as the most beastly.

Unlike the Japanese, Koreans or Europeans, Canadians have refused to sign a "voluntary restraint agreement" limiting steel exports to the U.S. They trade fair and square, do not dump or subsidize production and have nothing to apologize for.

To common-sense people the case would seem cut and dried. So long as the U.S. maintains an open economy and exports billions in goods to Canada it must, under existing international rules, permit Canadians to trade in its market.

Unfortunately, that's not the way it works. Because until a few years ago American steelmakers could dictate prices and treat customers like dirt, a hard to comprehend arrogance still dominates their thinking. For decades they ignored technological advances. Now they want the rest of the world to wait till they catch up.

To get their way the poor rust bowl barons are pulling out all stops.

Taxpayers, competitors get the bills

Unabashedly, the steel industry takes for granted that foreign competitors and American taxpayers, not its shareholders, must pay its bills.

The rust bowl barons feel Canada must knuckle under on steel or they will derail any free trade deal.

But that's half the story. The other half is that American steelmakers are scared that, in a free trade setting Canadians will take not the present three or four per cent of their market but perhaps 10 or 15 per cent. Big Steel is dead set against free trade no matter what concessions are offered.

The Americans are right to worry. If with all the political pressures and administrative obstacles Canadians keep selling so much steel south of the border they must be doing something right.

The rust bowl barons' game

To give credit where it is due, U.S. Trade Representative Clayton Yeutter seems to be fully aware of the rust bowl barons' game. He has been less than enthusiastic in trying to force Canada into voluntary steel curbs. Yeutter, it seems, has grasped that another brutal attack on Canadian commerce, like the one on lumber, would kill the free trade initiative. He also knows that Washington is more keenly interested in signing a free trade agreement than it has let on thus far.

Last Tuesday Yeutter met with the Congressional Steel Caucus. He was invited, specifically, to discuss the Canadian free trade negotiations. According to those present, what Yeutter told the closed door conclave can be summed up in a few words. If enough progress has been made by early fall, President Reagan will ask for an extension of the fast track authority under which the talks are being conducted.

This remark underscores several important points. First, the negotiations are progressing far more slowly than either side has been willing to admit. Second, the Americans are far more willing to keep them going than they have indicated up until now. Third, President Reagan must be taken at his word. He has said for years that a free trade deal with Canada is a top objective of his presidency.

Clearly, the situation is confusing. If Canada knuckles under and accepts curbs on steel exports, it will probably have made a useless concession. Besides, what would be the point negotiating free trade after that?

However, by standing up to the steel lobby, Canada guarantees its opposition to any trade agreement.

It would be silly to pretend the rust bowl barons are politically dead.

But their plans can be frustrated by a carefully orchestrated counter-lobby — because Americans don't have much sympathy for Big Steel parading as Orphan Annie.

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Group sets objectives for agricultural reform

By Alan Boras
of The Leader-Post

OTTAWA — After three days of closed door meetings the Cairns Group of nations agreed to five wide-ranging objectives for negotiating world agricultural reform at the General Agreement on Tariffs and Trade (GATT). In a communique released Saturday, the fourteen member countries called for "rapid and substantial" reduction in farm subsidies to insure freer trade.

The group invited Prime Minister Brian Mulroney to carry the Cairns message to the Venice Economic Summit of the seven Western industrialized nations in June.

To date, the Cairns objectives have been voiced only at ministerial meetings.

Mulroney's message will take agriculture to a new political level, said Wheat Board Minister Charlie Mayer. "The ultimate in 'forum' is at the heads of state," Mayer said.

International Trade Minister Pat Carney said the group's consensus adds 11 countries to the statement last week by the Organization for Economic Co-operation and Development (OECD), which committed all 24 members to a truce on the escalation of the agricultural subsidy war between the European Economic Community (EEC) and the United States.

Carney said the group's lobby effort is largely responsible for the OECD truce and farmers would be in a lot worse shape without the Cairns work.

"We have a third force that is forcing the world to address these issues by moving collectively," she said.

At the press conference following the meeting, Carney outlined a series of seven international meetings during the next year concluding with next year's economic summit in Canada as further forums for change.

"It is by using all these opportunities and building on the progress we make that we will eventually achieve our goal," she said.

However, farmers will have a long wait before reaping any economic benefits from the Cairns moves at the farm gate.

"To suggest that you can solve this problem overnight is ridiculous. It took us years to get into it. It's taking us years to get out of it, but the fact is we've agreed and we're pushing for collective efforts to move in that direction," Carney said.

Australian Minister for Trade and Cairns chairman John Dawkins said both the EEC and the US have advanced proposals for reform and they would not exist without the successful Cairns push to have agriculture placed on the GATT agenda.

The five negotiating objectives are aimed at all GATT officials, who, over the next few months, will investigate and establish specific measures to reform agriculture and reduce subsidies at home.

The first proposal will come from the U.S. in July. Other countries are set to follow in September before beginning specific dealings.

Mayer said he would not offer any specifics on what Canada will propose to give up from its subsidy menu.

"It can't be answered in terms of specifics until we get to Geneva and start to negotiate," he said.

The minister said Saturday's objectives should lead countries to reaping an 'early harvest' by attempting to find agreement that can be completed in time for a mid-term ministerial meeting at GATT in September 1988, two years after the current Uruguay Round of GATT began.

Normally, no GATT agreements are implemented before the end of the four-year negotiating period. But deals which are completed before the mid-term meeting could be implemented yielding an 'early harvest' to farm woes.

Cairns group ministers agreed that to be successful GATT negotiators should follow these objectives:

- Inclusion of all measures which adversely affect trade in agriculture.
- A rapid and substantial reduction in those levels of support for agriculture which distort the international agricultural marketplace.
- Establishment of new GATT rules or disciplines to ensure the liberalization of agricultural trade.
- Agreement on specific measures for the phase-down of market access barriers to trade in agriculture and subsidization of all other measures which have a negative affect on world agricultural trade.
- Agreement on principles to prevent the disruption of world markets in the course of containment or reduction of agricultural surplus stocks.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date May 25 *Publication* Toronto Star

Agricultural exporters press for reform of subsidy system

Group asks Canada for help at Venice summit

By Russell Blinch
Reuters News Agency

OTTAWA — The so-called Cairns group of agricultural exporting nations have pledged to press for reform of what it called the subsidy-plagued international farm system.

The 14-nation group of "Fair Traders in Agriculture" assailed the farm programs of the United States and the European Community (EC) for driving down commodity prices while encouraging over-production.

The group issued a final communique at the end of its two-day meeting calling on the world's seven leading industrial nations to give agriculture a high priority at next month's economic summit in Venice.

Summit participants

The Venice summit will be attended by the United States, Britain, France, West Germany, Canada, Japan and Italy.

Canada, the only Cairns member which will attend the summit, was nominated to try and secure "a commitment by summit participants to address urgently the need for early agriculture trade reform."

Brian Mulroney: Has support of farm group to advance case for agricultural reform.

Australian trade minister John Dawkins said at a news conference that Canadian Prime Minister Brian Mulroney had "the unambiguous and enthusiastic support of the other Cairns countries to advance our case for agriculture trade reform."

At the very least, Cairns members said, they want summit participants to endorse an OECD (Organization for Economic Co-operation and Development) accord this month, calling for a reduction of government farm programs, which are estimated to cost the West more than $100 billion a year.

The Cairns group, which first met in Cairns, Australia, last year to promote agricultural trade reform, also includes Argentina, Brazil, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand and Uruguay.

Marine oils

The group expressed serious concern at European Community proposals to introduce a consumer tax on vegetable and marine oils and fats, which, it said, could be particularly harmful to imports from developing nations.

It also criticized new trade legislation before the U.S. Congress, saying it could "severely impact upon the international climate for reform."

The group, accounting for some 25 per cent of the world's farm production, hopes the consensus at this meeting will help in reaching an agricultural trade reform agreement by 1988 in the current round of multilateral negotiations under the GATT (General Agreement on Tariffs and Trade).

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date May 25
Publication Globe And Mail

13 nations ask Canada to seek end of food war

BY JOHN KOHUT
The Globe and Mail

OTTAWA

Prime Minister Brian Mulroney will go to the annual economic summit in Venice next month with a strong and flexible mandate from 13 other agricultural exporting, countries to press for an early end to trade wars now undermining agriculture worldwide.

At the conclusion of a two-day meeting in Ottawa, the so-called Cairns Group, whose member nations together account for 25 per cent of the world's agricultural exports, set the end of 1988 as a target for achieving an international program to liberalize trade in agriculture.

Delegates, however, implicitly recognized this is a very tight schedule, given the pace at which even less complex multilateral trade negotiations have progressed.

"The Cairns Group has invited the Prime Minister to speak on behalf of the group on agricultural trade and pursue those issues which he judges can be successfully advanced" at the Venice meeting of the world's seven leading industrialized countries, Canada's Minister for International Trade, Patricia Carney, told a press conference.

The Cairns Group, which takes its name from the Australian town where it was formed last year, sees itself as a third force with the European Community and United States, whose hefty government supports are blamed for creating enormous food stockpiles and a collapse in world food prices.

In a final communiqué, the group said it saw a positive shift in political will toward ending agricultural subsidies. But actions on the part of the European Community, the United States and Japan contradicted verbal commitments and as a result, "over the past year, the problems of low prices and surplus production had worsened."

Among the group's specific concerns is a European Community proposal to introduce a consumer tax on vegetable and marine oils and fats. Though aimed primarily at the United States, it would also hit countries like Canada, Indonesia and Malaysia.

"In the United States . . . the situation potentially is even more serious" with a range of protectionist trade legislation currently before Congress, the communiqué said. Most important of all are proposals to increase funds for the United States' export

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Canada to seek end of food war

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enhancement program, which allows subsidized sales to designated countries.

The Cairns Group wants Canada — the only member that also belongs to the Group of Seven industrialized countries — to do whatever it can to achieve agreement on trade reform principles when Mr. Mulroney meets the leaders of the United States, Japan, Britain, West Germany, France and Italy in Venice.

Mr. Mulroney has already put agriculture on the agenda at that meeting. Agreement in Venice would clear the way for detailed negotiations under the General Agreement on Tariffs and Trade in Geneva, where the United States is expected to table proposals on July 8.

The Cairns Group insists it has been instrumental in getting GATT to consider bringing agriculture under international trade rules for the first time. The current GATT round was kicked off with a meeting in Punta del Este, Uruguay, last year where it was agreed to carry out negotiations with regard to "differential and more favorable treatment" for developing countries.

As part of the positive shift in political will, Australian Trade Minister John Dawkins, who is the Cairns Group's chairman, said the group welcomed an agreement in principle this month by the 24-nation Organization for Economic Co-operation and Development to halt the current trade war.

But he said the OECD had been silent on the matter of timing, which is a crucial factor given the U.S. presidential election next year.

While the U.S. Congress grows protectionist, "the current (U.S.) Administration remains our strongest ally in terms of achieving early progress on the matter," he said.

Mr. Dawkins said the OECD agreement was not binding and the Cairns Group wanted a contractual agreement, which could only come through GATT.

New Zealand Trade and Marketing Minister Mike Moore said that what he wanted to see out of Geneva were proposals in a "position to be harvested by the end of next year." Otherwise "we're looking at a protracted negotiation" process, he said.

He said the so-called Uruguay round of GATT negotiations is tougher than the previous Tokyo round ending in 1979 which, unlike the present talks, did not encompass agriculture and services.

Mr. Dawkins ruled out the possibility of the Cairns Group taking retaliatory action on trade and said it would concentrate on negotiations within GATT.

"We have never entertained the idea of using this group in a retaliatory way in the face of further deterioration in relation to some of the practices of other countries," said Mr. Dawkins, whose own country has been losing $1-billion a year because of the trade war.

Among the complex questions that need to be addressed at GATT are a definition of subsidies, the pace of rolling them back, how far they should be rolled back and exactly what exemptions should be given developing countries.

Officials acknowledge that implementation of any accord is likely to take at least a decade.

The problems created by the export subsidies war are considered particularly onerous for Cairns Group members such as Brazil and Argentina, whose largely agriculture-dependent economies are hard-pressed to come up with funds for repayment of tens of billions of dollars in foreign debts.

"Argentina does not have time," said its Secretary of Agriculture, Ernesto Figueras. He said 30 per cent of Argentina's gross national product comes from agriculture, which employs 23 per cent of a restive population.

Mr. Figueras said that the Cairns Group, which consists of countries as varied as Hungary, Malaysia, Indonesia and Colombia, have given Canada a mandate "with enough flexibility to adapt to the particular circumstances" at Venice.

Officials acknowledge that Cairns Group members also subsidize agriculture. "We say we are all sinners and we have to reform our own practices as well as suggest that others stop from sinning," Miss Carney said.

As for Canada itself, Wheat Board Minister Charles Mayer said "there's no question that we're in the subsidy game . . . We see ourselves as reacting and being drawn into it in order to help our farmers."

But Cairns Group members say their agriculture support policies are small.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date May 25

Publication Toronto Star

AIDS makes it onto world leaders' agenda

By Jim Hoagland

PARIS — A new topic will be on the agenda when Ronald Reagan, Margaret Thatcher, François Mitterrand and their fellow leaders of the seven industrial democracies assemble in Venice in two weeks' time for their annual summit. This year, nestled among the debates about SS-20 missiles, currency exchange rates and Third World debt, the leaders will also discuss what to do about AIDS.

The morning after being told this by a French official involved in the summit planning, I passed by the Iraqi Embassy, where I was greeted by a handwritten notice posted outside the visa section that advised foreigners going to Baghdad to report to a hospital within five days of their arrival for an AIDS test.

That afternoon, the German state of Bavaria adopted new health measures that require foreigners who want to live there to obtain medical certificates showing they are AIDS free. The Bavarians also authorized the placing of AIDS victims in special hospitals against their will if necessary to avoid contagion.

Like ink hurled onto a blotter, the fear of AIDS is spreading across the globe, forcing governments to begin to respond to a health problem that is rapidly becoming one of the world's most volatile political issues.

Because of its real human and financial costs, and the atavistic reactions that it triggers, AIDS is the leading edge of a cluster of medical and social issues that are likely to rival ideology in shaping political discourse and public policy in developed societies in the 1990s. Euthanasia is another such issue bubbling beneath the surface in countries where the graying of populations is accompanied by falling birthrates, as in West Germany. More will come, and establishment politicians will have to find totally new vocabularies and symbols to deal with them.

In countries where the debate on AIDS is under way in earnest, the far left and the far right agree implicitly that the disease represents a significant political issue that can be turned against a mainstream still uncertain about how to address the problem.

The left asserts that AIDS hysteria is being whipped up as a way for governments to exercise tighter social control and eventually to justify repression. For the right, it is a gift of enormous proportions for campaigns based on the politics of exclusion. Discussing AIDS becomes a code language for talking about us against them — that is, foreigners, atheists, Jews, communists, homosexuals or other targets that do not need to be specifically named.

Probably the most important practitioner of such politics reaching a national audience today is found here in France, where Jean Marie Le Pen, leader of the ultraconservative National Front, has a standing of 10 per cent in his campaign for the presidency. He has been hammering away at the dangers of SIDA, the French acronym for AIDS, as strongly as he has previously hammered at the need to repatriate Arab and African immigrants.

His demands for "SIDAtoriums" for the "SIDAiques" evoke for many Frenchmen the imagery of crematoriums for "judaiques," or Jews. Even though the official AIDS incidence rate is fairly low in France, amounting currently to 1,632 cases, Le Pen's campaign and the strong backlash it is provoking have made it a major concern.

And for Europeans who continue to associate Bavaria with the birth of Nazism and storm troopers, the fact that the strongest public health measures yet taken on the continent have been promulgated there will not be comforting.

The sherpas who have been preparing the Venice meeting of the leaders of Italy, France, Great Britain, West Germany, Canada, Japan and the United States are wise to have included AIDS on the agenda, both from a public policy and political viewpoint. It is a trenchant problem in both respects.

The next American president could be "facing a significant problem in dealing with all the consequences of AIDS," Gary Bauer, President Reagan's domestic policy adviser, told The Wall Street Journal last week. The newspaper reported estimates that federal, state and local public spending on AIDS will top $1 billion this year in the United States.

In his novel *The Plague*, Albert Camus describes how an entire city resisted admitting that it had become infected with the bubonic plague until the last possible moment, pretending that the deaths were something else. Only when the city's gates were closed did "the plague become a matter for us all." Unlike Camus' city, the world cannot close itself off. The awareness of what needs to be done has to come another way.

☐ Jim Hoagland is a columnist with The Washington Post.

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DEPARTMENT OF EXTERNAL AFFAIRS
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The dramatic, last ride of the Volcker(ies)

PETER COOK

Canadians tend to look at U.S. economic policy through the prism of a fluctuating U.S. dollar and wonder what has gone wrong. Interest rates are rising in this country, as they invariably do, because of what is happening to the south of us.

But, though the troubles of the U.S. dollar may hit the headlines, it is only a symptom of something larger — namely, the reliance that Washington is placing on the blunt weapon of monetary policy to achieve both national and international policy objectives.

If that sounds a bit abstract, consider the load that now rests on the shoulders of the chief of monetary policy, Federal Reserve Board chairman Paul Volcker.

The President and Congress can agree on very little. A modest reduction in the budget deficit perhaps, but nothing of any significance.

Treasury Secretary James Baker and the Japanese and West Germans seem to be able to agree on even less. The great co-ordination of economic policy making, a deflation here and a couple of reflations there, that was supposed to balance out global growth is not happening so far (though another attempt at togetherness is likely to be made at the Venice summit).

Instead, we have groups such as the OECD warning that, unless something is done, the economies of the industrial countries will be lucky to grow by more than 2 per cent this year.

With domestic fiscal policy and international economic placebos out the window, Mr. Volcker is left to steady the dollar, reassure markets that he is still an inflation fighter, raise interest rates enough to do this but not deter economic growth, cope with mini-crises in the ongoing Third World debt problem, and somehow guide us toward a better world.

If all that sounds like a tall order (for a tall person), it is. The last time the 6-foot, 6-inch frame of Mr. Volcker was as dominant was when he tackled inflation with tight credit and high interest rates in 1981.

The task now is a more delicate one that must focus on underpinning the dollar and combatting inflation without slowing the U.S. economy too much. And it has to be accomplished at a time when Mr. Volcker's reappointment, at Wall Street's urging, to a third four-year term is still up in the air.

Given the job that has to be done, it is hard to see how a credible economic policy could be mounted without Mr. Volcker. And, even with him, it is going to be tough.

Americans, as Mr. Volcker points out, have mortgaged their future. The need to finance budget and trade deficits forces them to borrow abroad.

Because a falling dollar will scare off lenders, Fed policy has to support the dollar and set interest rates high enough to stabilize the currency. Rates must also be set higher with an eye to an inflation rate that, as Friday's consumer price index numbers made clear, has entrenched itself at a 4.8 per cent annual level.

The more uncertainties abound — over inflation or congressional budget policies or the parochialism of policy making in Bonn and Tokyo — the greater the premium that will be demanded by foreigners for investing in U.S. Treasury securities. And the higher interest rates, in the United States and Canada, will have to be.

As Mr. Volcker put it in a speech two weeks ago, volatility in currency markets and interest rates in recent weeks has given Americans "a little taste of how vulnerable our financial markets and our economy have become to what other people think."

Such is the U.S. economy's vulnerability that the Fed is already having to tighten credit to shore up the dollar and fight inflation, even though this is harmful to a weak economy.

After the third round of prime lending rate increases by U.S. banks in seven weeks, some economists are talking openly about the United States slipping into recession next year.

That pessimistic view is not yet the majority one. But there are many close observers of the economy, including Mr. Volcker, who worry that higher interest rates will prove very negative at a time when business, public sector and consumer debt are at mountainous levels.

In the 1970s, and in 1981 when the Fed last put a bridle on the economy, inflation was roaring ahead and interest rates needed to climb sharply to have an impact.

Not so now. In deflationary times, the opposite is true. Higher debt costs are not dissipated by rising prices, so that any increase in rates causes an almost immediate retrenchment.

That, in turn, goes back to another point Mr. Volcker has made repeatedly, that too much reliance on the blunt instrument of monetary policy is a dangerous thing.

In the past, Fed policy has focused on different variables to keep inflation-free growth going, money supply growth at one point, interest rate levels at another. Now, a third element — the need to protect the U.S. dollar — has been added and has become more important even than fostering economic expansion.

The result is a world in which the vulnerability of the U.S. economy is a shared vulnerability for Canadians and others. Much rides on Mr. Volcker.

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Farming nations take first step to trade reform

By Janice Vansickle
Star Agriculture Reporter

OTTAWA — Thirteen countries seeking fairer trade in agriculture want an international program for reform spelled out by late 1988.

The Cairns Group, which concluded a two-day meeting here Saturday, joins a growing number of countries in looking to the General Agreement on Tariffs and Trade talks to establish agriculture trading rules by late next year.

And it's looking to Canadian Prime Minister Brian Mulroney to win support for its demands at next month's economic summit of seven leading industrialized nations.

"We all know that reform will not come quickly, it will come one step at a time," said International Trade Minister Pat Carney, one of the hosts for the meeting of smaller agriculture trading countries.

The summit in Venice is but another building block toward reform, Carney said, adding the prime minister has made a commitment to carry the group's message there.

Where possible, she said, he will also actively promote the objectives it hopes to achieve through the GATT negotiations.

THOSE OBJECTIVES, spelled out in a joint communique, include:

- Discussing all measures which adversely affect agriculture trade;
- A rapid and substantial reduction in levels of agriculture support which distort the international market place;
- Establishment of new GATT rules or disciplines to ensure the liberalization of agriculture trade;
- Agreement on specific measures for the phase-down of market-access barriers, subsidization and all other measures that have a negative effect on world agriculture trade:
- Agreement on prinicples to prevent disruption of world markets in the course of containment or reduction of surplus stocks.

The Cairns Group, which takes its name from a meeting held in Cairns, Australia, consists of 14 countries that produce 25 per cent of the world's agriculture exports. Fiji did not attend the Ottawa meeting because of political upheaval at home.

The group now joins the 24 members of the Organization for Economic Co-operation and Development in calling for an end to the trade subsidy war that has dramatically lowered prices for grains and oilseeds.

Australian Trade Minister John Dawkins, who chaired the Ottawa meeting, said the group's stand on trade reforms will hopefully add momentum to the growing demand for early GATT progress.

While GATT talks — the latest round was kicked off last fall — usually take up to four years, there is growing demand for agriculture to have been dealt with by the midway point of late 1988.

IF THE POLITICAL heads of state attending the Venice summit agree to this approach, they could then instruct their GATT negotiators to co-operate in reaching that goal.

The United States is expected to present its proposals for reform to GATT officals by July.

Dawkin said the Cairns Group hopes to do the same by fall. The countries will work together on the proposal, which will then be reviewed by officials in each nation.

Delegates to the meeting repeatedly spoke of the major steps taken toward agriculture trade reform in the past year. The fact that agriculture is included in the GATT talks at all is considered a coup, given that it has never been included in the trade forum's 40-year history.

But Canadian Wheat Board Minister Charles Mayer said the road to actual trade improvements is still a long one.

To begin with, he said, Japan and Europe have yet to express the political will to bring about reform.

And once there is a "contractual" agreement to reform, Mayer said a timetable for achieving it will still have to be set. Rules for establishing a subsidy truce and reducing existing support programs will also have to be spelled out, he added.

Canada, he vowed, will also have to do its share to let the market, rather than government supports, dictate prices.

In the past year, he said, Canada has increased its subsidies to farmers through stabilization programs and a $1-billion deficiency payment.

The result, he added, has been a narrowing in the gap between government subsidies paid to farmers in the U.S. and Canada.

While the European Economic Community and the U.S. are blamed for the subsidy war, he said, Canada will have to work with other countries in reversing the trend of increasing government support.

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Trust company's leader favors a free trade pact

By Bob Meyer
Star Business Reporter

The president and chief executive officer of one of Canada's oldest and most progressive trust companies feels that in the long run a free trade agreement between Canada and the U.S. would stimulate the Canadian economy, improve trade and discourage protectionist tariffs on Canadian goods.

Struan Robertson, a lawyer and now top gun with Central Trust Company, is optimistic that free trade "will actually increase our exports to the U.S., but also stimulate production and improve employment. Some industries will be hurt by free trade . . . but generally speaking, Canadian business and industry will benefit."

He used the building of a bridge between the two countries as an example of "how a few people can suffer, but the overall outcome would be that both countries would benefit."

WHILE VISITING Windsor recently to present the Windsor branch of Central Trust with the company's highest national award, Robertson said in an interview with *The Windsor Star*:

"If Canada and the U.S. were talking about building a bridge across the Detroit River, people who live at both ends of the bridge would complain because their homes and lives would be uprooted. But think of how a bridge would improve relations between the two countries and make it so much easier for them to communicate."

A protectionist tariff recently placed on Canadian lumber entering the U.S. already has taken its toll in the Canadian lumber industry, he said. U.S. trade laws contain many remedies which give the U.S. the right to impose tariffs or quotas or other protective arrangements when rising imports cause serious injury to U.S. industries.

"**PROTECTIONIST** tariffs are not what we want. So we give the total impact of a free trade agreement a Plus.

"But let's keep our fingers crossed," he said, "when it comes to the Auto-pact. It can't get out of joint and has to be left in place."

He emphasized that Canada must also protect its culture, as well as certain areas where U.S. investment in Canada is concerned. They shouldn't become a part of a free trade agreement either.

"A free trade agreement has worked with for Australia and New Zealand. And it has had time to prove itself satisfactorily to me."

TURNING TO the Canadian economy for a moment, Robertson sees a modest growth in Canada's overall economy although interest rates and inflation are rising. "We should not be unduly concerned," he said, "because our future prospects are reasonably sound." He does not expect to see extreme moves either up or down in the economy.

And he sees the recent downturn in the automobile, steel, oil, and shakes and shingles industries as "a temporary fluctuation."

Now chairman of the board of governors of Dalhousie University in Halifax, Robertson has been with Central Trust for only about two years. He was hired as president and chief executive officer on May 1, 1985, after 29 years first as secretary and general counsel, and then for 10 years president and chief executive officer of the Maritime Telegraph & Telephone Company Limited in Halifax.

HE IS PROUD that Central Trust has grown by leaps and bounds. Even the Windsor branch, at 110 University Ave., which recently won the trust company's highest national award for profitability and proficiency, is being moved to new quarters in the Canada Building, on Ouellette Ave., twice the size of its present offices, at 100 University Ave. W., to accommodate growth.

Branch manager Dave Thrasher said the new branch will have more than 371 square metres of floor space. The move should take place late in July and Thrasher expects to employ 15 persons there providing full-service banking.

Central Trust has 61 full-service branches in Canada, 20 of them in Ontario, and five satellite branches mostly in Atlantic Canada, which provide a deposit service and real estate financing.

Robertson, 57, a native of Nova Scotia and a graduate from Dalhousie, said Central Trust is celebrating its 100th anniversary this year. The company is the result of a series of amalgamations of several companies, each of which has had long histories of serving Maritime fishermen, Toronto businessmen, prairie farmers, and many others. In 1887, the oldest company — Eastern Canada Savings and Loan Company was incorporated in Halifax.

CURRENTLY, WITH assets of more than $3.4 billion and branches from Newfoundland to British Columbia, Central Trust is Canada's sixth largest trust company. Its head office is in Halifax.

In his interim report to shareholders recently, showing operating results for the three months ending March 31, Robertson said net income for the quarter was $4,278,000 (40 cents per common share) compared with $2,569,000 (22 cents per common share) for the first quarter of 1986, an increase of 67 per cent.

Gross revenue for the quarter was $95,007,000, an increase of six per cent over the same period last year. Return on common shareholders equity for the quarter was 16.5 per cent, compared to 11 per cent in the same period last year.

In April, the company opened a new branch in Woodbridge, and three additional branches will be opened in the current quarter — in Toronto, Mississauga and Riverview, N.B.

Robertson has three daughters, all university graduates, and one son who just recently earned a fine arts degree at Dalhousie. Robertson is also a past chairman of the Nova Scotia Art Gallery.

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Exporters lobby for fair food deal

By Barry Critchley

FOR THE 14 members of the Cairns group of fair traders in agriculture, their recent meeting in Ottawa represents just one more small step on the path to reform of the world's agricultural trade.

The Cairns countries — a diverse group of agricultural exporting nations including Australia, Brazil, Canada, Chile, Colombia, Indonesia and Thailand — now have their eyes on bigger arenas, including the June summit of the G-7 (major industrialized) countries in Venice, and the Geneva headquarters of the General Agreement on Tariff & Trade. GATT's 90 members are in the thick of multilateral negotiations, which, for the first time, include discussions on trade in agricultural products.

John Dawkins, Australia's trade minister, was the key person behind the decision to form the group last year. "We have always concentrated on the next issue. For us, that's the Venice summit, where we hope to get the political commitment to the reform process," says Dawkins, who chaired the weekend meeting in Ottawa.

Canada alone is both a member of the Cairns group and a G-7 nation, and as such could play an important role in future developments. For instance, it is Prime Minister Brian Mulroney who will carry the Cairns message to Venice.

Mulroney's message will add to a rising international demand for change. This includes the reform proposals agreed to by the 24 members of the Organization for Economic Cooperation and Development (OECD) in Paris earlier this month.

OECD agreed that agricultural prices should reflect market signals and that food stocks should be frozen at current levels. In addition, the OECD members agreed farm policies should be aimed at farmers rather than at encouraging more farming.

The Cairns group — named after the Australian city where the group's first meeting was held last August — can claim some credit for assisting the move toward agricultural trade reform.

Driving prices lower

The main problem has been subsidies in the European Economic Community, the U.S. and Japan. Those subsidies — estimated at US$26 billion for U.S. farmers, US$23 billion for their European counterparts and US$10.5 billion for Japanese farmers — are driving food prices lower and closing markets for producers such as Canada and Australia.

Aware that other countries shared Australia's concerns about the distortions of the European/U.S. agriculture subsidy war, Dawkins formed the Cairns group.

The group's immediate aim was to ensure agricultural trade received substantial consideration at the September, 1986, GATT meeting in Punta del Este, Uruguay. Since then, the Cairns group held one other meeting in Taupo, New Zealand, in March.

Dawkins, who is consistently mentioned as a possible Labor Party prime minister, says the GATT talks are running smoothly and that an interim conclusion, including decisions on agriculture, is possible by the end of next year.

"It's unrealistic to think that agriculture will be taken alone," he says.

There is a chance the GATT deliberations will not produce satisfactory results for agriculture. Dawkins says the worst case would be for GATT to give "lip service" to reform but in reality to stretch the timetable to the point where it was ineffective.

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Our shipbuilders must sail abroad for new business

By George N. M. Clarke
Special to The Star B10-7

In the light of major challenges currently facing Canadian shipbuilding, the industry might want to consider certain concepts outlined here. A departure from more traditional parameters may not sit well with all yards, mesmerized as some of them are by polar icebreakers and volatile defence contracts which could only sustain them in the near term. But to let matters stand as they are will lead to a continuing downturn in this branch of activity, the thrust being aimed at greater participation internationally to redress the dearth of business domestically.

☐ **Clearing house:** An over-all marketing organization could be a catalyst in processing inquiries from abroad via the trade commissioner service, supplemented by trade missions under its own rather than external affairs' control, to selected destinations overseas.

Several years ago, a shipyard in Vancouver was alerted to unofficial feelers I had received in Ecuador for two tankers of up to 50,000 tons each for the state oil monopoly. These were apparently too large for the yard to handle. Later inquiries from another source for five 60-ft. fishing trawlers were turned down as being too small.

Tentative orders

I never found out the outcome of these tentative orders, but it did emphasize the need for monitoring such situations from a central vantage point.

☐ **Trade missions:** To the best of my knowledge the industry has not been involved to date in trade missions specifically tailored to its requirements. The following suggested countries of concentration in Latin America have installations of their own, but could be receptive to an approach on specialized vessels, including those suitable for Antarctic deployment:

Argentina: In the mid-1950s Halifax shipyards delivered three transports to the Argentine navy. Although these are no longer in service, there may still be a reservoir of goodwill to draw on. Just 700 miles separate Tierra del Fuego from the Antarctic. With no ferry service to the mainland, truckers setting out on the seven-day journey to Buenos Aires have to go over to Chile to get across the Straits of Magellan. This anomaly could hold an opportunity for ocean ferry construction.

Brazil: With technical support from Japan and the Netherlands, this country has taken an aggressive stance on the world maritime scene. However, it was to West Germany that Petrobras, the state oil monopoly, turned last year to place an order for three LPG carriers. The Brazilian navy is considering building its first nuclear submarine and the government has also been flexing its muscles in the direction of the Antarctic.

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Dim Hopes for Summit Talks

By PETER T. KILBORN

Special to The New York Times

WASHINGTON, May 24 — The seven-nation industrial summit conference that President Reagan will attend next month in Venice is likely to prove unusually modest in its achievements despite the long agenda of issues, analysts and officials report.

Agreements of consequence will be difficult, they say, because most of the chiefs of state, far more so than at any of the 12 previous economic summit conferences, are lame ducks or preoccupied with re-election campaigns. They are therefore constrained in making commitments that could lose them votes or that their legislatures might reject.

A prominent economist who is an adviser to the White House said of the seven chiefs of state: "I can't see what they can conceiveably get done. These guys would prefer not to go through with it."

Issues for the Proceedings

Issues that provoke little controversy, such as terrorism and combatting drug traffic, and others, such as arms control, could therefore overwhelm the proceedings. Agreement to work toward a cure for AIDS is on the agenda, and President Reagan might appeal for European and Japanese assistance in defending the Persian Gulf.

On economic matters, officials promise reaffirmation of earlier commitments to remove impediments to economic growth in their taxation, regulatory and labor policies; agreement to speed talks elsewhere to reduce trade barriers, and a reaffirmation of earlier accords. And they could endorse some minor modifications in Treasury Secretary James A. Baker 3d's plan to manage the loan-payment problems of the major debtor countries.

> Most of the chiefs of state are lame ducks or focusing on re-elections.

Fresher issues include support of reductions in the budget-busting subsidies to agriculture, a process that will take a couple of years at least, and of debt relief for the poorest countries of black Africa. The seven are also likely to say officially that they have settled on a system to coordinate their economic policies, but that, officials allow, would also take years to become fully effective.

And on the fringes of the meeting, finance ministers of the countries — the United States, Japan, West Germany, Britain, France, Italy and Canada — might strike a bargain to try to sustain the recent stability of the dollar.

Move on Interest Rates Possible

Administration officials say they could do so by raising American interest rates, perhaps by half a percentage point, in return for agreement by Japan and possibly West Germany to lower theirs further. The Administration "would like to work toward that," an American official said. But a Japanese economic-policy official said, "It's possible but not probable."

Against a backdrop of the weakest global economy since the industrial world's recession in 1982, analysts say the seven chiefs of state are unlikely to attempt to redirect the economy or adopt policies leading to the quick and lasting changes that they have produced at earlier conferences.

The conference in Venice, June 8 to 10, occurs with world growth slowing for the third straight year, to a rate below 3 percent. That is too slow to protect some countries from recessions, to reduce the chronic 10-percent-plus unemployment across Europe or to help the debtor countries raise the money they need to keep up payments on their loans.

In part because of the slow world growth, the debtors' problems are worsening, despite the efforts of the "Baker Plan." Those debts now threaten commercial bank lenders with enormous losses such as the $2.5 billion that Citicorp said it would take in the second quarter. This, in turn, could spell further, severe reductions in lending.

Uncompromising Positions

Despite such conditions, two leaders, President Reagan and German Chancellor Helmut Kohl, still appear locked into uncompromising positions on growth and budget policies that preclude major changes in the performance of the world economy.

President Reagan opposes tax increases to facilitate sustained reductions in the Federal budget deficits, which Japan and Europe see as the cause of the world economy's continued frail growth and its huge imbalances in trade. Germany, and to a lesser extent Japan, still resist appeals to shift the orientation of their countries' now-sagging growth from exports to domestic consumption, which Americans see as the cause of trade problems and slow growth.

However Japan, although it still closes its markets to many foreign goods, has been battered more than others by the fall of the dollar, and it now appears more willing to encourage domestic economic growth.

On all issues, the commitment-making authority of the leaders is weaker than ever.

Prime Minister Yasuhiro Nakasone, who has suffered hard defeats recently in the Japanese Diet, is expected to leave office at the end of October. France's government of "cohabitation," President François Mitterrand, a socialist, and Prime Minister Jacques Chirac, a conservative, is gearing up for elections next year.

Italy is leaderless now, run by a caretaker Government with elections coming after the conference. And Prime Minister Margaret Thatcher of Britain is seeking election to a third term on June 11, one day after the conference ends, and is not expected to spend more than a day in Venice.

But the diminished authority of President Reagan, leader of by far the biggest economy, is the most significant. If often chided for the budget deficits, he was celebrated at earlier conferences for policies of deregulation and tax-system changes that other countries have begun to emulate. But his influence has atrophied with the election of Democratic majorities in both houses of Congress and the Iran-contra investigations.

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3. BUSINESS DIGEST

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BUSINESS Digest

MONDAY, MAY 25, 1987

The Economy

The rise in mortgage rates has hurt demand for home loans in recent weeks. Since the beginning of April, considered the start of the homebuying season, fixed-rate loans have gone up by 1½ to 2 percentage points, sharply decreasing the demand for refinancing. Industry officials are worried that if rates continue to rise potential buyers will be squeezed out of the market. [Page 33.]

A summer stock market rally is either inevitable or illusory, depending upon whom you talk to on Wall Street. Some analysts expect the Dow to start heading toward the 3,000 level. But one analyst says that market prospects may depend upon whether the racehorse Alysheba wins the Belmont Stakes. [33.]

New orders for machine tools fell 28.9 percent in April, from March, according to a report by the National Machine Tool Builders' Association. Orders fell 32.8 percent from April 1986. [35.]

Expectations are not great for the summit conference in Venice next month. Most of the seven chiefs of state attending, including President Reagan, are either lame ducks or preoccupied with election campaigns. [35.]

Companies

Robert Holmes à Court said he does not plan to bid for Texaco but might increase his holding because he considers the troubled oil company's stock to be undervalued. [33.]

Amoco's bid for Dome Petroleum hit rough weather when three of Canada's largest banks — and Dome's largest creditors — rejected Amoco's terms last week. In addition, reports surfaced that rival bids for Dome were in preparation. [33.]

International Report

Michelin's red guide tops French best-seller lists every spring. Despite huge sales, the tire manufacturer loses a little money on the tourist's bible most years. But company officials say they keep on publishing the guide to restaurants and hotels because it helps create an image of quality for Michelin. [33.]

A British billionaire is one of the biggest Thatcher critics. The view of David Sainsbury is that Thatcherism has taken too much of a hands-off approach, letting whole segments of Britain's manufacturing industry go under and doubling unemployment rolls to three million. [38.]

Today's Columns

The malpractice crisis in the legal profession will not end soon, lawyers and insurance experts say. Eight New York firms have each been sued for at least $25 million. Business and the Law. [34.]

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

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Where Should the Third World Turn?

Citicorp's startling decision to write off $3 billion in third world loans has angered competitors with shallower pockets. Comparable write-offs, they argue, would cut sharply into their capital reserves and dash hopes for settlements that might permit additional loans to debtor nations. Yet if they don't follow Citicorp's lead, depositors and stockholders are likely to interpret their inaction as a sign of financial weakness.

The more one looks at these complaints, however, the less substantial they seem. Financial markets have already discounted the banks' probable losses on bad debts. Formally acknowledging the losses doesn't make much difference. And while both creditors and debtors still cling to the idea of reopening the private loan window, a private solution to the global debt crisis is not practical, or even desirable.

Developing nations need massive infusions of capital, and developed countries need the exports the investments would finance. Only the governments of the capital-rich economies are in a position to manage the risks of this vital exchange.

●

Seemingly plausible private responses to third world needs go something like this: Lenders agree to ease terms on old debts, limiting repayments of interest and principle to some reasonable percentage of the debtors' export earnings. In return, debtor nations agree to reforms that speed their economic growth and favor the production of exports. Then, with the debt restructuring behind them, banks funnel additional capital into creditworthy projects.

Some debtors may settle along these lines, and some banks may extend new loans to relatively healthy economies like Brazil and Venezuela. But the sums the banks could prudently offer are far less than the tens of billions of dollars needed each year to support third world growth and restore U.S. exports to pre-crisis levels.

Even if the banks were willing to cycle the savings of the rich countries into poor ones, it would be poor public policy to let them take the plunge. Additional bank exposure in mismanaged economies like Mexico and Zaire could destabilize the entire banking system.

The only realistic resolution is for governments to bear most of the risks. Some of the money might come directly from governments; some through government-guaranteed private loans. But the most promising channels are the multilateral lending agencies, the World Bank and its regional bank counterparts in Asia, Africa and Latin America. They can best assess the capacity of borrowers to use capital productively. They are also better equipped than individual governments to nudge borrowers into unpopular economic reforms.

Lending nations have as much to gain as borrowers: A hefty portion of every dollar and franc and yen sent to developing countries comes back as demand for industrial exports. But among the rich countries, only Japan is making a significant effort to channel capital to the big debtors.

In part, that's because governments don't fully understand where their interests lie. In part, it's because they still dream of a largely private solution to the crisis. Citicorp's blunt announcement ought to jolt them out of that reverie.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date May 26 Publication Globe and Mail

Japan launches trend toward reverse imports

BY STEVEN BRULL
Reuter

TOKYO

A Japanese consumer soon will be able to ride a Honda motorcycle built in Italy while listening to music on an Aiwa stereo made in Singapore.

Japanese high-tech companies, battling effects of the sky-high yen and bristling trade barriers, are finding that it pays to import some of their own products made overseas rather than make them at home.

With the current strength of the yen, "Honda can build an Accord in the United States for the same price as in Japan," said Benjamin Moyer, an auto industry analyst with Merrill Lynch Japan.

Honda had already started importing U.S.-built cars to Taiwan and was considering bringing some to Japan, he said.

One local car dealer, Autorama, intends to import Ford Motor Co. cars built in Flat Rock, Mich., by the U.S. subsidiary of Mazda Motors Corp. this autumn.

Aiwa Co., Ltd. plans to bring in component stereos with compact disc players made in its Singapore factory. Such sets were a major export item just 12 months ago.

Reverse imports are not new in Japan. For years, fans, rice cookers, radio-cassette recorders and other low-priced goods have come in from Japanese-owned factories overseas. The factories were originally set up to circumvent import restrictions in developing Asian nations.

But with the yen now stronger than anticipated and overseas procurement of sophisticated parts easier, major companies are scrambling to set up overseas plants and import cheaply made products, major companies and analysts said.

Aiwa, an electronics subsidiary of Sony Corp., shut one of its three Japanese plants last July and built one in Singapore after heavy losses. The move was born of desperation and required asking workers to resign, Aiwa vice-president Hajime Unoki said in an interview.

By the end of the year, more than half of Aiwa's production would be abroad, compared with less than 10 per cent last year, he said.

Aiwa wants to produce goods overseas whenever 85 per cent or more of the components can be procured locally.

"There are no firm figures on reverse imports, but the amount is still extremely small," said an official at Japan's Ministry of International Trade and Industry.

"In the long term it's going to increase, but not so suddenly," he said.

But David Gerstenhaber, an economist with investment bank Morgan Stanley International in Tokyo, predicts the increase in reverse imports over the next few years will be staggering.

"There was already a 81 per cent year-on-year increase in manufactured imports in 1986, yet the yen had yet to reach its present heights (of about 140 to the dollar)," Mr. Gerstenhaber said.

In addition to the strong yen, intense political pressure for Japan to trim its massive trade surplus is encouraging reverse imports, analysts said.

Trade Minister Hajime Tamura, fearful of U.S. protectionist legislation because of the continuing wide Japanese monthly trade surpluses, appealed to 302 major companies last month to expand their imports.

More than half said they planned to increase imports this year, the MITI official said.

The shift overseas of Japanese manufacturing worries many in Tokyo who fear that Japan may follow Britain and the United States in losing its manufacturing supremacy.

"I have no comment on de-industrialization, but little by little is better," the MITI official said.

"De-industrialization will happen at a substantially more rapid pace here because of the sudden change in the yen and because technology is now more easily transferred internationally," Mr. Gerstenhaber said.

But Aiwa's Mr. Unoki, noting Japan's depressed textile, steel and shipbuilding industries, said the transformation of its industrial structure was a natural process.

"The electronics industry could be the same as the auto industry in the United States. Nobody can tell what can happen tomorrow. I'll probably be driving a (South Korean-made) Hyundai car," he said.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date May 26 Publication Globe and Mail

Join France in program to help Third World, Mitterrand tells Canada

BY RICHARD CLEROUX
and GRAHAM FRASER
The Globe and Mail

OTTAWA

French President François Mitterrand called on Canada yesterday to join France in proposing that the rich countries make an additional effort to help the Third World.

Speaking to a joint session of the Senate and the House of Commons, Mr. Mitterrand said there are two major threats facing the world in the next century. "One is the risk of nuclear war. The other is the widening gap between the rich and the poor nations."

He said the annual economic summit in Venice next month should deal with four issues.

"The first is that the countries with trade surpluses should use their

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Poor nations deserve help, Canada told

■ From Page One

nanoeuvring room for their own conomy and to stimulate the economy of others.

"The second is that we move owards the reconstruction of the nternational monetary system by oing towards the stabilization of xchange rates . . . towards lower nterest rates and a better co-ordination of efforts against the speculative nature of markets."

The third is that "we must push ack protectionism in every area, or protectionism is everywhere: in ervices, industry and agriculture." t is to be found in more than simply aws and regulations. "Hypocritical rotectionism is hidden behind cusoms and behavior."

He wished Canada success in egotiating a free-trade agreement with the United States, "but let us ut our cards on the table. Let us dmit that protectionism is the rule for each and every one, and that here is a lot of work to be done."

Fourth, and most important, the summit should deal with the question of Third World debt.

"We must think above all of a multilateral reinvestment of surplus capital by the countries who have surpluses," he said, adding that Japan, West Germany and every other country that has achieved a certain level of prosperity should move to a new level of responsibility.

He called for an increase in the capital of the World Bank to aid Third World countries caught in a debt crisis.

"Is it normal that the poor countries have to pay back each year more than they receive in new capital? Can they ask their people to produce endlessly more to receive less and less a share of what comes from their labor?"

He touched only briefly on Canada-France issues, alluding only indirectly to the conflict over fish and the boundary dispute around St. Pierre and Miquelon.

Later, officials said that at their meeting at 24 Sussex Dr., Prime Minister Brian Mulroney told Mr. Mitterrand how important the fisheries problem is to Canada.

In addition, officials said Transport Minister John Crosbie "spoke eloquently for 15 minutes" on the fisheries question, telling Mr. Mitterrand and Foreign Minister Jean-Bernard Raimond how crucial fish is to Newfoundland.

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PART 1 of 2

Subsidies for you and me, and the guy behind the tree

Agriculture, and the amount of money thrown at it by the rich treasuries of the world's wealthy countries, is something that it is worth making a stink over.

And that is what people in a variety of places are doing.

Last week, Spanish farmers threw cow dung at France's embassy in Madrid to protest against French import quotas on Spanish strawberries. And the Australians told the British that a study they had done showed Britain had lost 450,000 jobs in industry because the luckless Brits had to pay so much for European Community food.

Oh, yes, and during the weekend, 14 countries of the Cairns Group meeting in Ottawa decided to give Prime Minister Brian Mulroney a mandate to raise hell about farm subsidies when he meets the wicked witches of the subsidy game, the United States, the Europeans and Japan, at the summit in Venice.

In that crowd, our man — who is not a natural hellraiser — could feel outnumbered.

But going into the Venice meeting there is a sort-of agreement that subsidies are bad and should be phased out. The next question is who will respond to all the fuss and start the phasing. And here we are likely to run into the "After you, Alphonse. . . . No, after you, Gaston" syndrome.

So far, we have an agreement in principle from 24 countries drawn up at a meeting in Paris earlier this month of the Organization for Economic Co-operation and Development that there should be "a progressive reduction of assistance to, and protection of, agriculture."

While it is true that there will be some browbeating and an obligatory mention of agriculture in the summit communiqué at Venice, the next material step forward may be in Geneva on July 8 when farm trade gets to be discussed in the context of the multilateral trade talks to be held by the General Agreement on Tariffs and Trade.

The urgency of what needs to be done was pointed out by an OECD

PETER COOK

report, sent out ahead of the Paris meeting, that some countries tried to suppress.

It showed that government support in one form or another provided 70 per cent of farmers' incomes in Japan, 40 per cent in the EC and 20 per cent in the United States in 1985. The general level of subsidy in Canada is also high, particularly for prairie grain farmers, although Canadian politicians argue that this is in reaction to everyone else's subsidies.

By stupidly linking income

support to production levels, the OECD report said, the biggest farm exporters are encouraging over-production at a time when markets are shrinking and prices falling.

Unnecessary food stocks are being stored at great expense and sold, if they can be, at subsidized prices. The result is not only a financial burden for the rich, but a tremendous disincentive for poor countries whose farm products are kept out of world markets and whose farmers are put out of business by cheap imports.

If things are in such desperate shape, there should be powerful arguments for change and a real incentive to get an agreement.

Well, perhaps. But the steps taken so far are not as convincing as they need to be.

The OECD suggests a 10 per cent reduction in all subsidies that it says would hurt no one, followed by agreed further reductions after that.

The United States, Canada and Australia are the countries that are most enthusiastic about this.

But Canada and Australia, and the Cairns Group to which they belong, do not count for much. And the U.S. Administration can do little to guarantee that a farm-minded and subsidy-minded Congress controlled by the Democrats will agree to anything. Indeed, Congress is moving in the other direction and is putting forward plans for greater export subsidies.

Meanwhile, the Europeans have chimed in with new protectionist measures, including a tax on imported oils and fats. And West Germany, perhaps the EC's most influential member, is vigorously opposed to any reduction in cereal prices and says that, if subsidies are dismantled, it will not go along with even nominal price cuts for its farmers.

The same depressing story, although with some modification, holds true of Japan. As the yen has shot up and food prices have failed to come down, consumers have become restive about Japan's farm lobby and its extraordinary power over prices throughout the economy, including the price of land. Keidanren, the employers' federation, sees the prospect of cheaper food as a way of holding down labor costs and keeping the country competitive.

But, for all that, it will take a political earthquake to get Japan to liberalize markets for farm products effectively.

At the OECD meeting, Agriculture Minister Mutsuki Kato said that Japan was concerned about becoming too dependent on food imports and that change would have to take place in a medium- to long-term perspective (a Japanese euphemism for never).

He might have added that radical changes in farming and land tenure systems are not things that can be contemplated by a weak government, such as the one Prime Minister Yasuhiro Nakasone now leads and doubtless his successor, too, will lead.

And that is how it goes. While everyone agrees that farm policies make no sense and must be reformed, no one agrees on much else.

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Mulroney tackles farm free trade

Prime Minister Mulroney has found a diplomatic role that might prove to be his single strongest contribution to Canadian foreign policy. He is now the leading proponent for an international pressure group trying to stop the escalating agricultural trade war.

This lobby is the so-called Cairns group of agricultural exporters — named for the place of its founding meeting in Australia last year. Its 14 members are vastly diverse, ranging from tiny Fiji and the enormous poverty of Indonesia to Brazil, Hungary, Uruguay and New Zealand.

They have this one cause in common: all are victims of the agricultural trade war now raging between the United States, Japan and the European Economic Community.

At a ministerial meeting in Ottawa, the 14 made Mulroney their principal spokesman in the weeks to come. As the only Cairns group member with a seat at the seven-power Western summits, Mulroney has been delegated to argue the victims' case at the Venice summit next month.

It will be a hard argument to win, but a natural one for Canada to make. Canada has a higher stake than most in the health of agricultural trade. It is a rich country but — not for the first time — has more interests in common with the world's poorer exporters of farm products and raw materials.

Mulroney's assignment from the Cairns group therefore carries two possibilities. He can help bring a truce to a war of beggar-your-neighbor protectionism. He can also help anchor Canada's presence in the turbulent diplomacy of international economics.

None at the Venice summit can dispute the trade war's losses. Subsidies on exports and barriers against farm imports have combined perniciously with slow growth to impede the free flow of farmers' goods. The results: lower prices for farmers, higher-than-necessary prices for consumers, and smaller exports.

The Europeans, Americans and Japanese will not so readily agree on solutions. All have used price supports and import barriers to protect their farm constituencies — even when retaliation abroad negates any protectionist benefit. (Nor has the Cairns group refrained entirely; Canada has announced a $1-billion subsidy for grain farmers.)

Mulroney also understands that his Western summit counterparts have heard all this before. They paid lip-service to agricultural free trade last year at Tokyo; since then, the trade war has only intensified.

He will try, nonetheless, to get agreement on action this time. Among other remedies, Mulroney will seek faster negotiation of agricultural issues under the General Agreement on Tariffs and Trade.

Like the rest of the Cairns group, Mulroney knows there is no time to lose. Without a truce, a trade war can escalate as explosively as any shooting war.

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MacDonald tente de secouer l'industrie du transport face au traité de libre-échange

LIA LEVESQUE

(PC) — Le ministre du Commerce extérieur Pierre MacDonald a haussé le ton, hier, pour presser certaines gens d'affaires trop passifs de réagir avant que le traité de libre-échange soit signé avec les États-Unis.

Le ministre a cherché à secouer certains entrepreneurs oeuvrant dans le secteur des services, particulièrement ceux des transports. « Personne n'est venu nous voir encore. Après, ce sera trop tard pour nous dire qu'on n'a pas tenu compte de votre opinion », a-t-il prévenu.

« Il ne reste plus grand temps. Ne restez pas assis sur vos lauriers », a-t-il averti. « Peut-être que je suis trop susceptible, trop chatouilleux (« sensitive ») sur la question du libre-échange, mais je tiens à vous dire que je m'attendais à avoir beaucoup plus d'implication, d'intervention de la part de gens comme vous. »

Pour ceux qui ne prenaient pas son insistance au sérieux, M. MacDonald a subtilement ajouté que c'était là « ma façon diplomatique de dire quelque chose d'autre que je pense tout bas ».

En entretien avec les journalistes, après son intervention, le ministre a expliqué qu'il tenait à secouer l'industrie du transport, qui tarde à rencontrer les experts gouvernementaux ou à déposer des mémoires auprès du comité gouvernemental chargé de négocier avec les États-Unis.

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WORLD ECONOMY
3

FINANCIAL TIMES (LONDON)

MAY
MAI 26 1987

Peter Bruce in Tokyo reports on Nakasone's tactics for next month's summit

Japan's last card before Venice

MR YASUHIRO NAKASONE, the Japanese Prime Minister, this week begins what may be his last chance in office finally to conquer American and European hostility to Japan's trade practices and surpluses around the world.

In what amounts to a combined charm and action offensive, Tokyo is preparing to confront its major trading partners with a fistful of political, fiscal and trade initiatives designed to take the heat off Japan at the summit of the West's seven major economic powers in Venice in two weeks' time.

As a start, the Government plans to bring a formal end in the next few days to negotiations with the US over Japanese participation in the Strategic Defence Initiative (SDI) research programme. Bonn, London and Rome have long since joined the effort and Japan, as Washington's major military ally in Asia, has been noticeably absent.

Next week, senior Japanese Finance Ministry officials are due to travel to Washington and London carrying updated commitments to liberalising the country's highly regulated financial markets. They are expected to finalise arrangements allowing some foreign firms to begin offering limited discretionary investment services in Japan and to detail new plans to involve foreign companies more in underwriting Japanese Government bonds.

The Japanese team is also likely to use these regular consultations to promise faster action on opening up the Tokyo Stock Exchange to foreign brokers and to point out the Government's efforts in the past few weeks to talk down short-term interest rates and so help the dollar to strengthen.

But for Mr Nakasone, the acid test in Venice will be the reception given to an emergency economic package – a supplementary budget – worth about Y5,000bn ($35bn) that his Cabinet should formally adopt on Friday after a final negotiation on its make-up today.

Mr Nakasone promised to do something to reflate the dormant Japanese domestic economy when he met President Ronald Reagan in Washington at the end of March and Mr George Shultz, the US Secretary of State, was probably being more than just a little impish when he wrote to his Japanese opposite number last week to say how much he was looking forward to hearing details of the package when they meet in Venice.

The supplementary budget, due to be put to a special parliamentary session later in the summer, will follow the final approval last week of an austerity budget for fiscal 1987. Mr Nakasone damaged his political profile during the budget debate by fighting in vain for the introduction of a sales tax.

The sales tax was to have been part of a bigger three-year reform programme, which would have included balancing income and corporate tax cuts worth about Y4,900bn. Now, however, the planned supplementary budget will contain only tax cuts – possibly worth Y1,300bn and mostly in income tax reductions which would have been part of the failed reform.

The rest of the Y5,000bn is, according to widespread speculation, going to be made up by bringing forward and increasing public works spending and by steps to encourage greater private sector investment. The state may agree to contribute more than its traditional 5 per cent to joint private-public ventures and to finance Y150bn in home mortgage write-offs, but the economic or revenue effects of these steps are impossible to measure.

Mr Yasuhiro Nakasone

Even if Mr Nakasone's fellow heads of government and state are impressed by all this in Venice, however, the package appears to be heading for a poor reception in Tokyo.

"At least it's better than last year," was the best one senior US economist could muster yesterday. Last November, the Nakasone Government put a Y3,600bn supplementary budget to the Diet and "only 4 per cent was real," he said.

Supplementary budgets and the "front loading" of public works contracts are common in Japan and new money involved is often difficult to separate from funds already budgeted and which are merely being re-manipulated. This time, however, there does appear to be about Y1,700bn in extra public works spending available which, combined with the tax cut, means that at least Y3,000bn of the Y5,000bn will be "real."

Even that has to be qualified however. The tax cut may be neutralised next April when the Government intends, if not to try again to introduce a sales tax, then at least to try to raise some indirect taxes. The tax cut may have to be implemented very quickly for it to have any effect at all.

It is also not clear yet how the supplementary budget is going to be financed. Higher-than-expected tax revenues from last year may be carried forward and the proceeds from selling off stock in Nippon Telegraph and Telephone (NTT) might also be tapped.

Mr Nakasone has a few other sweeteners to offer in Venice but he may be careful not to sell them too hard. Tokyo is, for example, touting a $30bn scheme – also promised in Washington – to recycle some of its trade surplus to indebted Third World countries. But on closer examination it transpires that $10bn is part of an older Finance Ministry plan to fund a World Bank scheme and that almost half the remaining $20bn involves the as-yet unsecured participation of the private sector.

Barring a political miracle, Venice will be Mr Nakasone's last summit among the so-called Group of Seven. His term of office as leader of Japan's ruling Liberal Democratic Party, which has already been extended, expires at the end of October and he cannot openly campaign for re-election.

Weekend polls show some 80 per cent of Japanese voters do not want him to continue in office anyway, which is a long way for a man so apparently well regarded in the West to have fallen.

Even if he were to score points in Venice – perhaps by persuading Mr Reagan to lift his 100 per cent penalty tariffs on imported Japanese electronics goods early – Mr Nakasone's electorate appears to have finally had enough austerity.

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INTERNATIONAL
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INTERNATIONAL
BANKING.

NEW YORK TIMES MAY MAI 26 1987

Helping Banks and the Third World, Too

By John H. Makin

WASHINGTON

Citicorp's write-down of its Latin American loans by about 25 percent was a sound decision that will pay handsome dividends for its shareholders. The strength of Citicorp stock and the weakness of some other banks' shares in the aftermath of chairman John Reed's announcement made clear the market's reading that Citicorp is among those banks best able to acknowledge losses that had already been reflected in low bank stock prices.

Citicorp's decision, however, raises important questions about the next phase of the rapidly unfolding debt crisis. Weaker banks likely will try to follow Citicorp's strategy to reduce uncertainty about their own third world debt holdings by selling assets and setting aside more reserves. But the options for the borrowing countries are less clear.

Debtor countries and creditor banks might benefit from the formation of a public institution that could act as an intermediary between the borrowing countries and the banks. Such an institution would create a market for discounted loans, yet it would also enable banks to continue to lend money to developing countries at rates set by the market.

Before the Citibank initiative, there were two major proposals for dealing with the third world debt crisis: the Baker plan, put forward by Treasury Secretary James A. Baker 3d, and the Bradley plan, generated by Senator Bill Bradley, Democrat of New Jersey.

John H. Makin directs fiscal policy studies at the American Enterprise Institute for Public Policy Research.

The Baker plan recommends continuation of the strategy, followed since 1982, of linking additional loans to the successful restructuring of debtor countries' economies so that they can achieve greater growth and eventual self-sufficiency. Put bluntly, the idea is to put more money into Mexico, part of it provided by commercial banks, on the condition or hope that Mexico will transform its economy into one like South Korea's. That would be constructive, but to count on it may not be prudent.

The Bradley plan is designed to provide relief to debtor countries. It acknowledges that the loans to them need to be written down and that, commensurate with the write-downs, the debtor countries need to receive relief in the form of lower debt-service payments on those loans.

Citibank's write-down approach is, on the surface, more akin to the Bradley plan, which seeks to acknowledge troubled loans and gradually to reduce the troubled debts held by developing countries.

But the Bradley plan also has flaws. Under existing conditions, when a bank sells, say, $100 million worth of its loan to Mexico on the open market, the buyer must pay $60 million. Part of the reason the buyer is willing to pay $60 million is that he attaches a 60 percent probability on the loan being serviced in a timely manner. According to the Bradley plan, if a loan to Mexico is sold at a discount of 40 percent, the interest paid on the loan should also be reduced by 40 percent.

There are two problems with this approach. First, the buyer of the Mexican loan would not have paid 60 cents on the dollar for the loan, given the certainty that interest payments would also be reduced to 60 percent of their original value. Were the buyer of the loan to attach a 60 percent probability to timely servicing of the loan, under such new conditions he would offer only 36 cents on the dollar.

The second problem is the classic dilemma of a program that is bad for the system as a whole but good for an individual player. If the finance minister of a Latin American country learns that debt-service payments will be written down proportionately to market discounts on its loans, the incentive will be to drive down the market value of its loans as far as possible in order to obtain the maximum discount on debt-service payments.

Create an institution to buffer debt.

There really is no easy way out of this conundrum. One plan, though, that could help would be to form a special institution to buy some portion of loans to Latin America at a discount from the commercial banks. The banks would then be rid of part of their exposure to Latin America and would replace it with claims on the official institution.

In other words, the bank that sold a claim on Mexico for 60 cents on the dollar would in turn receive a claim on the official institution, which guaranteed to pay six-tenths of the interest claim on Mexico. The official institution would then be charged with renegotiating terms of the debts of Mexico or of other Latin American economies that it had acquired.

Knowing that the institution paid below-par prices for the loan in the first place, developing countries would also realize that it could afford to negotiate below-par interest rates. Of course, a public institution would then have to absorb the risk that the debtor countries might not service their debts, even at the new below-par interest rate. Latin American and other debtor nations would appreciate that subsequent borrowing and the terms of such arrangements could depend critically on the negotiating attitude of the official institution that had acquired their loans. This would make debtor countries more willing to negotiate with creditors.

The advantage of interposing an official institution between the debtor countries and United States banks is the buffer it would provide between the highly uncertain outcome of debt negotiations and the performance of American money center banks that are at the heart of the world financial system.

The disadvantage lies in the difficulty of designing the new institution so that it would provide incentives to investors for the eventual resumption of investment in attractive projects in the third world. The fact that unwise loans have been made in Latin America and elsewhere does not mean that attractive investment opportunities in developing countries no longer exist.

A resumption of lending to third world countries would require allowance for resumption of free contracting between lenders and borrowers. Any official institution that absorbed existing third world debt could expedite this process by making a market for such debt. The institution would publish daily bid-ask spreads on loans of each country and country agencies so that good performance would register in higher loan prices and provide investors with information about the market assessment of performance by debtor countries.

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The desperate needs of the poorest third world nations will not be served by Citicorp's action. But neither could those needs continue to be served by trying to blur the distinction between sound investment and foreign aid. Coercing commercial banks to provide more lending, which was added to the interest that most developing countries could not pay, served neither borrowers nor lenders.

By acknowledging that about 25 percent of the value of Latin American loans has been lost, Citicorp has established a basis for the resumption of new voluntary lending by commercial banks. Such new lending could assist attractive projects in the developing world while demonstrating the need for more concessional loans to countries not yet ready to resume commercial borrowing.

It may well turn out that Citicorp's action will have helped to distinguish those countries and projects for which the Baker plan can work from those for which it cannot. ☐

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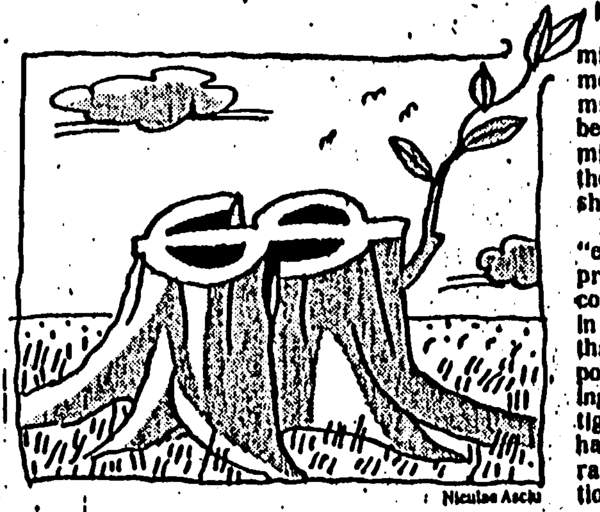
WORLD ECONOMY 3

NEW YORK TIMES MAY 27 1987

Economic Scene

Leonard Silk

Floating Up To Venice


Niculae Asciu

THE dollar rose sharply yesterday, and so did the stock market. Has there really been a turnaround in sentiment toward the dollar and the economy or is this just a temporary spurt sparked by speculation that the Federal Reserve is going to tighten money and raise interest rates, to float the dollar up before the Venice summit conference begins?

The market's action yesterday looks like a vote of confidence for the position that the Fed's chairman, Paul A. Volcker, has been taking: that the highest priority the United States now faces is to defend the dollar. The argument is that a further decline would worsen inflation and ultimately raise interest rates still higher, plunging the United States and the world economy into recession.

But some economists contend that the dollar and the world economy are still in deep trouble. Stephen Marris, senior fellow of the Institute for International Economics in Washington, holds that both the dollar and the "fragile" world economy are still very much on track for the "hard landing" that he first predicted over three years ago.

A sign that the hard landing is arriving, he recently told the Joint Economic Committee of Congress, is the drying up of the inflow of private foreign capital to the United States. In 1985 and 1986, this private inflow amounted to over $100 billion a year. But in the first quarter of 1987, the private inflow stopped; to keep the dollar from plummeting, central banks, including the Federal Reserve, intervened to the tune of $40 billion. Despite the heavy intervention, interest rates rose sharply in the United States. "Before long," Mr. Marris warned Congress, "the central banks could well find that they are not only financing the United States trade and current account deficit, but also rising *outflows* of private capital."

He doubted that the central banks' nerves would hold, as total intervention rises toward — and probably beyond — the $100 billion mark. "Increasing doubts on this score in the markets," he predicted last month, "will put further upward pressure on United States interest rates."

"The point most Americans seem to miss," Mr. Marris wrote three years ago, "is that when capital begins to flow out, U.S. interest rates will rise." That has been happening.

"It is precisely the interaction of self-feeding doubt between domestic money markets and the foreign exchange traders that has been the most striking feature of stabilization crises in other countries," he warned three years ago, adding that, as the dollar decline accelerates, and Wall Street gets increasingly worried about inflation, budget deficits and rising rates, the Fed would have no option but to keep a tight rein on money.

That, too, has been happening. Less than two months ago, at the March 31 meeting of the Fed's chief policy-making body, the Open Market Committee, there were still holdouts against tightening money to support the dollar. The just-released minutes of that meeting disclose that "a few members were of the view that the dollar sooner or later might need to decline somewhat further to correct the nation's trade imbalance — and such a decline should be accepted if it occurred."

However, the minutes show that most members "expressed concern about continuing dollar depreciation under prevailing circumstances." The committee voted unanimously to make no change in its credit stance at that time, while recognizing that "excessive weakening in the dollar" was the potential development most likely to make tightening necessary. Soon afterward, the Fed did begin to tighten. Mr. Volcker said on April 30 that the Fed had been "snugging." Japan raised its interest rates, and then warned private financial institutions against speculating against the dollar, while continuing its own support of the dollar.

Has the support operation of the central banks now succeeded in turning the dollar around? Or will the fundamental imbalances in United States, Japanese and German fiscal, monetary and trade policies again bring the dollar down?

Mr. Marris is sticking to his three-year-old prediction that "as the crisis develops, the painful and long-drawn-out process of cutting the budget deficit will have to get under way in earnest" and that, "to restore confidence, restrictive monetary and fiscal action has to be taken on a scale that is bound to generate or aggravate a recession."

This, he said in his Congressional testimony of April 28, is "now the unpleasant situation that will be facing the Federal Reserve Board, Congress and the Administration before the end of the year."

Putting together a package of monetary and fiscal measures to head off the key threat to the global economic and financial system is the main task facing the seven leaders of the major industrial countries at the Venice summit conference. But they appear unprepared to tackle that fundamental job, hoping that the central bankers — and luck — will enable them to muddle through.

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INTERNATIONAL
BANKING
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NEW YORK TIMES MAY MAI 26 1987

Death of 'Baker Plan' on Debt Seen

By PETER T. KILBORN

Special to The New York Times

WASHINGTON, May 25 — The decision by Citicorp last week to admit to a staggering $3 billion in potential losses on foreign loans spells the end of the Reagan Administration's 20-month-old "Baker Plan" to deal with the turmoil over the debts of the developing countries, according to political and economic analysts.

"It was three-quarters dead anyway," said Norman A. Bailey, a debt-issues consultant here and a senior officer of the National Security Council staff earlier in the Administration. "And this is the coup de grace."

Contrary to the assumptions of the plan's author, Treasury Secretary James A. Baker 3d, and his principal collaborator, Paul A. Volcker, the Federal Reserve Board's chairman, the nation's biggest banking company has conceded that a part of the estimated $1 billion in loans from the industrial countries to developing countries — 21 percent in the case of Citicorp's loans — may be worthless.

In recent interviews, Mr. Baker has dared his critics to offer a plan that would be any more acceptable than his own to the broad spectrum of affected interests and none have. But analysts say the decision of Citicorp, the parent of Citibank, could mean less lending by commercial banks to the countries, not more, as the plan envisaged, and that it increases pressure on taxpayers of the industrial nations and on multigovernment lenders, primarily the World Bank, to fill the void.

The decision is also speeding a search for new approaches to the debt problem that broaden or displace those of the Baker Plan. Mr.

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Baker already supports two of the changes that Citicorp and other banks are already pursuing: "debt-equity swaps" that convert the loans to stock in industries in client countries that are then sold to investors, and selling the loans themselves to investors at a discount.

"Reality never met the goals of the plan," said a Democratic Congressman, Charles E. Schumer of Brooklyn, who, like Senator Bill Bradley, Democrat of New Jersey, and other members of Congress, has been developing a debt plan. Mr. Schumer speculated that, within a few months, Mr. Baker would devise an alternative, but the Administration has not indicated any disenchantment with the character of the existing plan.

Attitudes toward the plan began cooling in the months after Oct. 8, 1985, when in a speech in Seoul, South Korea, Mr. Baker announced the "Program for Sustained Growth." Rich countries, poor countries, political scientists, even chief executives of some of the leading Western banks acclaimed it.

Using Mr. Volcker's calculations, Mr. Baker proposed that the commercial banks of the industrial countries raise their lending to the 15 biggest debtors by $20 billion over three years, or by 3 percent a year. This was to be new money, funds the countries would use to develop their economies, rather than merely to keep up their interest payments on existing debt.

Mr. Baker proposed, too, that the multinational lending institutions contribute an additional $9 billion, and he assigned one of them, the World Bank, an expanded role in overseeing the lending.

In return, Mr. Baker asked that the countries adopt economic policies — deregulation and privatization of government industries, removing barriers to private and foreign investment, adopting policies to increase savings — that he said would assure their long-term growth.

Many analysts found the plan a constructive departure from the Administration's earlier view of the debt issue — and still do. The Administration had been insisting that, in exchange for help, the debtors adopt harsh, quick-fix, belt-tightening policies that included cuts in people's wages and layoffs at government-owned industries.

The World Bank would help guide the countries in reorganizing their economies rather than its sibling, the International Monetary Fund, which, in collaboration with the banks, had been managing the debt problem.

"That is the key element, the shift in focus from short-term austerity to long-term growth," said one of the participants in the planning. These adjustments would take years, he allowed, but like many economists, he said they were required to help the countries become creditworthy borrowers. "History will applaud Mr. Baker for that," Mr. Schumer said.

But problems arose in the months after the speech. Foreign banks were slow to endorse it, and the World Bank and I.M.F. bureaucracies were slow in gearing up to fulfill the roles the plan set for them. And in comparison with the size of the problem, the three-year allotment of $29 billion struck analysts as far to little to help the countries Keep up payments on old debts and invest in rebuilding their economies.

Citicorp's move on foreign loans 'is the coup de grace.'

In addition, the democratic governments in Latin America, some of them new and frail, saw political hazards in letting the Reagan Administration tell them how to build their economies. Last February, Brazil, the biggest debtor, simply stopped its interest payments on $68 billion of bank debt in the face of its deteriorating economy.

The World Bank has fulfilled its mission with substantial increases in lending, but the banks balked. From the start, the banks were skeptical that the plan would facilitate repayment of their loans. And Wall Street was skeptical of an arrangement, supported by the Treasury and the Federal Reserve, that allowed commercial banks to try to muddle along with their loans.

The banks were allowed to account for the loans as though they were as sound as those they make to Western consumers and businesses. Analysts say that the arrangement was of particular interest to Mr. Volcker, who as a regulator of banks was concerned about the destabilizing effects on the American economy of possible bank failures resulting from declarations of losses on the loans.

Although some banks, with Citicorp among them, have been slowly increasing their reserves to take account of the most troublesome loans, they have not raised them enough to allow for the losses the markets assume they face eventually. So bank stocks, reflecting this judgment, have been depressed.

Thus, when Citicorp last week set aside $3 billion of its $14 billion in loans to developing countries as potentiallly uncollectible, adding that amount to its loan-loss reserve, the markets cheered. Even though the decision has been estimated to mean a huge $2.5 billion loss in the second quarter this year and $1 billion for the full year, Citicorp's stock rose by $4 a share last week, to $55.375, largely because of the loan decision.

"I see it as kind of a good thing in clearing the air of doubt about the banking system," said Stephen H. Axilrod, a former top official of the Federal Reserve and now vice chairman of Nikko Securities International in New York.

No one knows how many other banks will follow Citicorp's lead. Many that are in weaker shape wince at the losses a similar decision might mean and it could heighten the Federal Reserve's fears of destabilization. But the markets could force them to act anyway by depressing their stocks some more or assuage the Federal Reserve's fears by pushing up their stocks.

Harder Bargains Forecast

Some analysts suspect that, in admitting such losses, banks will resist the role that the Baker Plan set out for them even more. They still need the interest payments on their loans, so those with large loans are unlikely to walk away from their clients. But they are likely to drive much harder bargains, these analysts say.

"To the extent that the Baker Plan was interested in the countries regaining access to voluntary lending by the banks within a few years, Citibank is signaling that that is not in the cards," said Richard E. Feinberg, economist at the Overseas Development Council here.

"What does this do to lending by the banks?" said William R. Cline, economist at the Institute for International Economics here. "The smaller regional banks could say, 'Citibank is voting with its feet. Why should we put up more money?' "

But these analysts also said that, by taking a tougher position, the banks could press harder for the kinds of economic reconstruction that the Baker Plan requires, which would help facilitate loan payments over the longer term and strengthen that feature of the plan.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ……………………………………………

Date May 26 …………………… *Publication* Financial Times of London

Peter Bruce in Tokyo reports on Nakasone's tactics for next month's summit

Japan's last card before Venice

MR YASUHIRO NAKASONE, the Japanese Prime Minister, this week begins what may be his last chance in office finally to conquer American and European hostility to Japan's trade practices and surpluses around the world.

In what amounts to a combined charm and action offensive, Tokyo is preparing to confront its major trading partners with a fistful of political, fiscal and trade initiatives designed to take the heat off Japan at the summit of the West's seven major economic powers in Venice in two weeks' time.

As a start, the Government plans to bring a formal end in the next few days to negotiations with the US over Japanese participation in the Strategic Defence Initiative (SDI) research programme. Bonn, London and Rome have long since joined the effort and Japan, as Washington's major military ally in Asia, has been noticeably absent.

Next week, senior Japanese Finance Ministry officials are due to travel to Washington and London carrying updated commitments to liberalising the country's highly regulated financial markets. They are expected to finalise arrangements allowing some foreign firms to begin offering limited discretionary investment services in Japan and to detail new plans to involve foreign companies more in underwriting Japanese Government bonds.

The Japanese team is also likely to use these regular consultations to promise faster action on opening up the Tokyo Stock Exchange to foreign brokers and to point out the Government's efforts in the past few weeks to talk down short-term interest rates and so help the dollar to strengthen.

But for Mr Nakasone, the acid test in Venice will be the reception given to an emergency economic package – a supplementary budget – worth about Y5,000bn ($35bn) that his Cabinet should formally adopt on Friday after a final negotiation on its make-up today.

Mr Nakasone promised to do something to reflate the dormant Japanese domestic economy when he met President Ronald Reagan in Washington at the end of March and Mr George Shultz, the US Secretary of State, was probably being more than just a little impish when he wrote to his Japanese opposite number last week to say how much he was looking forward to hearing details of the package when they meet in Venice.

The supplementary budget, due to be put to a special parliamentary session later in the summer, will follow the final approval last week of an austerity budget for fiscal 1987. Mr Nakasone damaged his political profile during the budget debate by fighting in vain for the introduction of a sales tax.

The sales tax was to have been part of a bigger three-year reform programme, which would have included balancing income and corporate tax cuts worth about Y4,900bn. Now, however, the planned supplementary budget will contain only tax cuts – possibly worth Y1,300bn and mostly in income tax reductions which would have been part of the failed reform.

The rest of the Y5,000bn is, according to widespread speculation, going to be made up by bringing forward and increasing public works spending and by steps to encourage greater private sector investment. The state may agree to contribute more than its traditional 5 per cent to joint private-public ventures and to finance Y150bn in home mortgage write-offs, but the economic or revenue effects of these steps are impossible to measure.

Mr Yasuhiro Nakasone

Even if Mr Nakasone's fellow heads of government and state are impressed by all this in Venice, however, the package appears to be heading for a poor reception in Tokyo.

"At least it's better than last year," was the best one senior US economist could muster yesterday. Last November, the Nakasone Government put a Y3,600bn supplementary budget to the Diet and "only 4 per cent was real," he said.

Supplementary budgets and the "front loading" of public works contracts are common in Japan and new money involved is often difficult to separate from funds already budgeted and which are merely being re-manipulated. This time, however, there does appear to be about Y1,700bn in extra public works spending available which, combined with the tax cut, means that at least Y3,000bn of the Y5,000bn will be "real."

Even that has to be qualified however. The tax cut may be neutralised next April when the Government intends, if not to try again to introduce a sales tax, then at least to try to raise some indirect taxes. The tax cut may have to be implemented very quickly for it to have any effect at all.

It is also not clear yet how the supplementary budget is going to be financed. Higher-than-expected tax revenues from last year may be carried forward and the proceeds from selling off stock in Nippon Telegraph and Telephone (NTT) might also be tapped.

Mr Nakasone has a few other sweeteners to offer in Venice but he may be careful not to sell them too hard. Tokyo is, for example, touting a $30bn scheme – also promised in Washington – to recycle some of its trade surplus to indebted Third World countries. But on closer examination it transpires that $10bn is part of an older Finance Ministry plan to fund a World Bank scheme and that almost half the remaining $20bn involves the as-yet unsecured participation of the private sector.

Barring a political miracle, Venice will be Mr Nakasone's last summit among the so-called Group of Seven. His term of office as leader of Japan's ruling Liberal Democratic Party, which has already been extended, expires at the end of October and he cannot openly campaign for re-election.

Weekend polls show some 80 per cent of Japanese voters do not want him to continue in office anyway, which is a long way for a man so apparently well regarded in the West to have fallen.

Even if he were to score points in Venice – perhaps by persuading Mr Reagan to lift his 100 per cent penalty tariffs on imported Japanese electronics goods early – Mr Nakasone's electorate appears to have finally had enough austerity.

SUBJECT/SUJET

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Meeting Yields Optimism On Agricultural Exports

'Cairns Group' Sees Chance to Cut Trade Subsidies

By Stuart Auerbach
Washington Post Staff Writer

OTTAWA—A group of 13 agricultural exporting nations ended a two-day conference here last week on an unusual note of optimism, citing a growing recognition among leading industrialized nations that government support payments have destabilized global farm markets.

The countries, calling themselves the Cairns Group after the Australian city where they first met nine months ago, pointed to a brief window of opportunity late next year as the best chance to begin rolling back export subsidies, and they urged that agricultural reform be an "early harvest" of the international trade talks under way in Geneva.

This "early harvest" also would take place in late 1988, when trade ministers from around the world can review the first two years of negotiations to strengthen the compact that governs world trade, the General Agreement on Tariffs and Trade (GATT).

"The ministers agreed that early action was needed to de-escalate global tensions in agriculture," the Cairns Group said in a communique issued Saturday. "They welcomed the explicit recognition by OECD [Organization for Economic Cooperation and Development, composed of industrialized nations that met in Paris this month] that excessive support prices are at the root of the distortions which plague agricultural trade.

"They saw this recognition as a major step in the development of political will, especially among key OECD countries, which is necessary if the rhetoric of agriculture reform is to be translated into concrete commitments to improve access and progressively phase out all forms of subsidies which adversely affect trade," the group said.

The aim of the 13 nations—largely middle-power countries that call themselves "free traders in agriculture" even though some of them subsidize their farmers—is to keep pressure on the European Community, the United States and Japan to unravel their subsidized farm export programs through the GATT talks.

Canadian Prime Minister Brian Mulroney was given the explicit authority to carry the report of the Cairns Group to the economic summit in Venice next month.

The optimism comes from subtle shifts in the position of the European Community, which a Canadian official branded as "the principle villain" in farm trade subsidies.

But Australian Trade Minister John Dawkins, chairman of the group, said recent budget-dictated EC cutbacks, especially in dairy production, are "the first tangible signs of a shift in the community's attitude to agricultural reform."

"It would have been inconceivable a year ago that the European Community would have moved as quickly and as far as it has," said a Canadian official who asked that his name not be used.

John R. Tarrant, an economic specialist with the U.S. Embassy here, said the United States has noted a changed attitude among EC members, especially France, which appeared a year ago to have the most deeply rooted opposition to ending European farm export subsidies.

Under the more market-oriented government of Prime Minister Jacques Chirac, administration officials in Washington said, France is talking about striking a deal in agriculture in late 1988 after elections in France, West Germany and the United States.

Dawkins said this time period will provide an eight- to nine-month "window of opportunity" to reverse global farm subsidies, which are politically charged issues around the world.

With France quietly shifting closer to the United States position on farm trade, West Germany has emerged as the principle European stumbling block to change, administration officials said. They pointed to West Germany's protection of small, inefficient, yet politically powerful farmers in Bavaria as the reason for Bonn's tough stance.

Japan also came under attack here for its protectionist farm policies that are aimed at "isolating their markets under the guise of self-sufficiency and the maintenance of social structure." But the Cairns Group noted some shifts in Japan's attitude.

An OECD study, released this month in Paris, singled out Japan as the nation paying the most to subsidize its farmers at the cost of increased food prices for consumers. Japan's subsidies amount to 70 percent of the value of the crops, compared to 40 percent for the EC and 20 percent for the United States.

That study, along with one released this month by the U.S. Department of Agriculture, also found that Canada, the host of the meeting, subsidizes its farmers at the same level as the United States.

See TALKS, D4, Col. 1

Agricultural Trade Conference Produces Optimism

TALKS, From D1

In its final communique, the Cairns Group attacked "disturbing signs" in U.S. trade legislation and among the EC nations that it said could harm the climate for successful GATT negotiations.

Specifically, those signs are an EC proposal to introduce a consumer tax on fats and oils—which the Cairns Group said could start "a serious and destabilizing trade dispute" and is "inconsistent" with pledges not to impose new trade-distorting measures—and congressional moves to increase funding for the Export Enhancement Program of subsidized overseas farm sales, which the group said "already has adversely affected world grain sales."

Members of the group are Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand and Uruguay. Fiji, in the midst of a coup, did not send its minister but was represented by an honorary consul.

DEPARTMENT OF EXTERNAL AFFAIRS

Journal of Commerce
May 26

Laffer Expects Economy to Boom in 1988

By BILL MONGELLUZZO
Journal of Commerce Staff

By delaying the full effect of the tax benefits until 1988, Congress mortgaged the economic performance of 1987. Mr. Laffer likened the delay to a department store announcing a major sale too far in advance. Consumers will postpone their purchases until the sale is held.

LOS ANGELES — The U.S. economy will face some "very real [illegible]" during the next six months, but come Jan. 1, 1988, a [illegible] burst in prosperity can be expected.

"The catalyst for both the poor performance in 1987 and the sudden growth in 1988, economist Arthur B. Laffer said, is last year's Tax Reform Act.

Mr. Laffer is a member of the President's Economic Policy Advisory Board and a professor at Pepperdine University. He gained national recognition with his "Laffer Curve," which showed that, in theory, two different tax rates might produce the identical amount of revenue for the government.

He addressed the annual World Trade Week luncheon of the Foreign Trade Association of Southern California.

When the tax act takes full effect next Jan. 1, U.S. businesses and wage-earners will enjoy the lowest tax rate structure since the 1920s. Mr. Laffer called the act the "most significant tax change in the past 60 years."

The marginal tax rates for high-income earners and businesses, come Jan. 1, will be among the lowest in the industrialized world, he said.

By delaying the full effect of the tax benefits until 1988, however, Congress in effect mortgaged the economic performance of 1987. Mr. Laffer likened the delay to a department store announcing a major sale too far in advance. Consumers will postpone their purchases for weeks until the sale is held.

In the case of the 1986 Tax Reform Act, wage-earners and businesses have been assured large tax cuts beginning next Jan. 1. Those who are able to defer income from 1987 until 1988 will realize more than a 10% tax savings.

As a result, to a large extent, income, industrial production and investment have been put on hold in 1987, Mr. Laffer said. Add to this economic slowdown the weak dollar, the fear of protectionist legislation and an administration whose hands have been tied by the Iran-Contra controversy, and 1987 has all the makings of a bad year economically, he said.

However, 1988 should be a banner year. Income deferred from 1987 will begin to appear soon after Jan. 1. In fact, income growth may be accelerated even further than expected because some businesses will try to boost profits as much as possible for fear that Congress will decide to raise taxes in the future, Mr. Laffer said.

As the economy improves, the dollar should strengthen, and the federal budget deficit should diminish, he added.

Touching briefly on international trade, Mr. Laffer said that, if handled properly, the nation's large foreign trade deficit can actually be a plus for the economy. He noted that in the post-World War II era, Japan and West Germany were two of the world's largest borrowers, yet they also had two of the fastest-growing economies.

"There is absolutely nothing wrong with the trade deficit. Borrowing per se is neither good nor bad," he said. If the foreign money pouring into the United States is invested in new plants and equipment to improve productivity, the end result should be a stronger economy, he concluded.

LAFFER: The Tax Reform Act is the "most significant tax change in the past 60 years."

Subject
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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date May 26 .... Publication Journal of Commerce

THE VENICE SUMMIT

Canada Targets Farm Trade War As Top Priority

By LEO RYAN
Journal of Commerce Staff

OTTAWA — Canada's chief priority at the Venice summit of industrialized nations will be to push for significant progress to be made in stopping the world farm trade war, Canadian government officials said.

The officials recalled that Canada's commitment to resolving agricultural issues was underlined last year at the Tokyo summit when Prime Minister Brian Mulroney brought the matter to world attention.

The Venice summit is another opportunity to carry things forward for the multilateral negotiations under the General Agreement on Tariffs and Trade, officials say.

The world's second-largest wheat exporter, Canada is fighting hard to hold onto its share of world markets in midst of the U.S.-European Community subsidy war.

Last December the federal government announced a C$1 billion subsidy to help the 175,000 farmers throughout Canada absorb an income drop of about 30% in previous months.

"Now we are hoping to build on recent commitments made at the Organization for Economic Cooperation and Development and get a still stronger summit commitment at Venice," the officials said.

The OECD meeting this month produced a cautiously worded agreement in principle to call a truce. The OECD-member countries have agreed to work out trade rules that will govern the agricultural sector.

A senior Canadian official said the tough part begins July 8, when the GATT talks on agricultural trade get under way.

"That's when we would want to see the whites of everybody's eyes," he said.

Canada hopes all participants will agree at that meeting to present firm bargaining proposals by early fall.

This past weekend, the so-called Cairns group of 14 agricultural exporting countries, including Canada, Australia and Brazil, pursued discussions in Ottawa on farm trade issues. (The group was formed last summer at a meeting in Cairns, Australia.)

The U.S. budget deficit does not appear to be as high an issue for Canada as it does for some European countries at the Venice summit.

Officials in Ottawa, however, said the Canadian government was concerned over 'the increasing worldwide recourse to protectionist measures." In this regard, Canada has felt the brunt of several U.S. restrictive trade measures in the past year and is seeking contingency protection under a proposed free trade agreement with the United States.

Generally speaking, Canada wants a commitment from the seven leading economies of the Western world to "render GATT more effective to resolve trade disputes and to monitor trade policy," the Canadian officials said.

On monetary matters, the Ottawa authorities have not shown the same concern as European countries over the decline of the U.S. dollar. And it's believed there has been an improvement in international monetary cooperation.

Third World debt, however, remains a big problem that Canada would like to see addressed in some detail at the Venice summit.

Relations with the developing countries are a major priority in Canadian foreign policy.

"Some of the poorer countries in Africa are attempting to service their debt by sacrificing their economic development," Canadian officials said, adding that "it may be necessary to reverse the situation and have financial flows toward the debtor countries."

For Mr. Mulroney, progress soon on alleviating Third World debt has become especially desirable since Canada will be playing host next October to one of the regular summit gatherings of the British Commonwealth. In early September Canada also will be staging the first-ever summit meeting of French-speaking countries.

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LOWE-MARTIN

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MEDIASCAN
OVERNIGHT CANADA/DU JOUR AU LENDEMAIN
MONTRÉAL
27 MAI 1987
LE DEVOIR / PREMIÈRE
LE JOURNAL DE MONTRÉAL / FINALE
LA PRESSE / FINALE
THE GAZETTE / FINAL
Code 7-10
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Tally-hoe, Mr. Mulroney

Prime Minister Mulroney has a tough row to hoe at the seven-nation economic summit in Venice next month.

Mr. Mulroney will be the standard-bearer of a diverse group of 14 smaller- and middle-power countries that depend on agricultural exports. His task is to try to convince the European Community (EC), the United States and Japan to end their heavily protectionist farm policies.

A gravely damaging trade war is being fought on several fronts. For example, it has seen the EC and the United States in particular each try to outdo the other in subsidizing grain farmers, leading to enormous surpluses and cut-throat competitive efforts to sell the subsidized grain in third markets.

Canadian farmers — and those from the other 13 members of the Cairns group of agricultural exporters that met last weekend in Ottawa — are caught in the crossfire. They have chosen Mr. Mulroney to take their case to the economic summit in Venice, as Canada is the only country that belongs both to the economic summit and the Cairns group.

The task is daunting. But the stakes for beleaguered Canadian farmers and their counterparts elsewhere are high enough that any real progress would be welcome.

There is modest reason for optimism. The protectionist countries recently have been showing welcome signs of realizing that their policies are unhealthy, and that the only practical way of reforming them is through a common effort.

The new round of international trade talks under General Agreement on Tariffs and Trade (GATT) auspices is tackling the question of how to make agricultural trade fairer. That represents progress. But no deal is expected any time soon.

And at a meeting of the Organization for Economic Cooperation and Development (OECD) two weeks ago in Paris, Canada and 23 other Western countries called for a truce in the agricultural trade war.

As Ottawa maintains, subsidies for farm production, particularly in ways that tie the amount of the subsidy to the amount produced, are the wrong way to support farmers. Such policies have led to massive overproduction and massive drops in agricultural prices. Developing countries have been among the victims.

Agricultural protectionism is a nasty business. Mr. Mulroney would do well to try to prod his counterparts in Venice into doing something to end it.

MEDIASCAN
OVERNIGHT CANADA/DU JOUR AU LENDEMAIN

OTTAWA
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LE DROIT / PREMIÈRE 110
THE CITIZEN / VALLEY 111
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Meech Lake has merit

Canada's first ministers will meet next week to "approve a formal text intended to allow Quebec to resume its place as a full participant in Canada's constitutional development." This is the major achievement of the Meech Lake accord, which Canadians will ratify now or leave to another generation.

Let us be clear about our choices. If these negotiations had failed, Canada's constitutional development would have atrophied. Without Quebec's participation, few other significant changes were likely. True, the general amending formula would have allowed some amendments without Quebec's approval. But Parliament (and probably Ontario) would have been loath to proceed with major steps that highlighted Quebec's political isolation.

Have federalists who reject Meech Lake for sharing too much power with the provinces fully considered the implications? Rejection would mean that the inevitable resurgence of Quebec nationalism would occur outside a fully Canadian context, and invite even more decentralization in the future. It would frustrate other regions' aspirations for change, further challenging national unity. Moreover, it presumes that power-sharing is a bad thing. Not necessarily so.

Meech Lake would give the regions a role in populating the one federal institution intended to reflect regional interests in Ottawa — the Senate. It's not Senate reform (though it could be significant if the provinces decide to *elect* their nominees for Senate appointment, because constitutionally the Senate already enjoys virtually equal powers with the House of Commons). Nevertheless, Meech Lake is the first advance on this front in living memory, and it pulls the regions closer to the centre, not farther away.

Meech Lake would also give the provinces a say in appointing Supreme Court judges. The Supreme Court is the final constitutional arbiter, often choosing between provinces and the federal authority. Shouldn't the referees have the confidence of both parties through the appointment process?

Meech Lake would recognize Ottawa's spending power in provincial jurisdictions, but at the same time it would soften that power — an elegant concept. Provinces that want money offered by Ottawa as an incentive to adopt certain policies within provincial jurisdiction could implement a federal plan, or substitute a provincial "initiative or program compatible with national objectives" — objectives defined by Ottawa.

This would mean more variety in the character of social programs across Canada, but Canada is a federal state — federal because variety was a *condition* of Confederation in 1867. (Meech Lake's recognition of Quebec as a "distinct society within Canada" restates a germane historical truth.) By allowing for experimentation, variety can also be a virtue in practice, assuming common objectives. Provincial jurisdictions exist for profound and practical reasons — not as inconveniences for those who would impose uniformity in all fields across a complex nation.

Meech Lake raises some doubts and ambiguities, of course, but it strikes a delicate balance among constitutional principles, regional interests, the past and the future. It would surely collapse if, for example, Quebec sought more limits on federal spending power, or if the West demanded immediate Senate reform. But there is no excuse for the unraveling of this agreement next week — public reaction has been mute or generally positive.

Assuming the legal language conforms to the principles stated at Meech Lake, these amendments offer Canada more security than risks. Given the options, they have our support.

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LE DROIT / PREMIÈRE 110
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THE GLOBE AND MAIL / NATIONAL (115)

Code 7

Page A1

Higher payments urged for farmers

Give away surplus grain to starving, premiers say

BY GEOFFREY YORK
The Globe and Mail

HUMBOLDT, Sask.

Canada should reduce its mountainous stocks of grain by delivering some of the surplus to starving people in the Third World, the western premiers have recommended.

In a communiqué issued yesterday at their annual conference, the four western premiers said it is unacceptable for the grain-producing countries to be building up "excessive" surpluses at a time when there are "growing numbers of hungry people."

Canada and the other grain producers should reform their aid programs "to move these surpluses to those most severely in need," the premiers said.

At the same time, the western premiers have upped the ante in the annual debate on federal grain subsidies.

The four premiers agreed yesterday that Ottawa's 1986 special payment of $1-billion is simply insufficient for Canadian grain farmers this year.

Subsidies on Venice agenda
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Saskatchewan Premier Grant Devine said a minimum of $1.6-billion is required.

"It's a reasonable request," Mr. Devine told reporters.

The other premiers did not specify a minimum, but Mr. Devine's demand is emerging as the lowest acceptable number.

Last year, the premiers eventual-

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Grain should go to poor

● From Page One

ly agreed that $1-billion was needed, and Mr. Mulroney accepted the request.

This year, the premiers agree that a significant increase is essential. But there is one difference in 1987: there are no provincial elections in the Prairies this year.

Last year's special payment was announced by Mr. Mulroney during a provincial election campaign in Saskatchewan. The announcement helped ensure the re-election of Mr. Devine and the Saskatchewan Conservatives.

"We're asking for more than last year because the price is down substantially and international subsidies are up," Mr. Devine said.

Ottawa announced an 18-per-cent drop in grain prices this year.

As he entered yestereday's meeting, British Columbia Premier William Vander Zalm emphasized that he was philosophically opposed to "grants and subsidies." However, he quickly agreed to support a special subsidy for grain farmers.

"We're looking at something to assure that we keep the grain growers alive and reasonably well, so they're still here another time," Mr. Vander Zalm said. The western premiers also agreed that the payments for individual farmers should be capped at "equitable levels."

A ceiling on payments to individual farmers could allow Ottawa to target its subsidies to some of the smaller farmers who are suffering the most.

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PM may be unable to get farm subsidies on agenda at Venice

BY JEFF SALLOT
The Globe and Mail

OTTAWA

Prime Minister Brian Mulroney may not be able to get the question of farm subsidies on the agenda for the Venice economic summit meeting next month.

Italian Prime Minister Amintore Fanfani, the host for the summit, told Mr. Mulroney yesterday that the three-day meeting might not be the most appropriate place to raise the issue of subsidies for farmers, diplomatic sources said.

Mr. Fanfani, who was in Ottawa for a pre-summit meeting with the Prime Minister, reportedly told Mr. Mulroney that the issue should be left to the negotiators in the current talks on the General Agreement on Tariffs and Trade. They will meet in Geneva to discuss agricultural trade issues in July.

Mr. Mulroney had promised western grain farmers that he would raise the subsidy issue at the Venice meeting of the leaders of the seven leading industrial nations June 8-10. And he told the House of Commons last month that the issue is at the top of the Canadian agenda for Venice.

The Canadian Government has consistently argued that massive subsidies paid to farmers by the United States and the European Community have been the major reason for the dramatic fall in world grain prices in the past two years.

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Unhappy St-Pierre may give French president an earful

By Julian Beltrame
Southam News

ST-PIERRE — French officials behind François Mitterrand's four-day visit to Canada have reason to be wary over a tiny three-hour pause that may destroy months of meticulous planning.

The pause, an afterthought in the French president's itinerary, is a short Friday stopover to these remote French islands, located 20 kilometres south of Newfoundland.

On the surface, the president's visit to the far-flung outpost that still swears allegiance to the French flag is a grand symbolic gesture to the loyal residents of St-Pierre and Miquelon.

But underneath the celebrations, an ambivalence to Mitterrand and the visit permeate the tiny community. Given encouragement, that could spill into open hostility.

"Oh no, there won't be any trouble. He's our president," said Remi Mahe. "But not everyone is happy to see him."

The point that really gnaws at islanders is one which Canadians have often voiced against their own government in the aftermath of this winter's so-called Cod Wars. Locals believe Paris sold them down the river in return for a warm relationship with Canada.

Albert Penn, St-Pierre's mayor and socialist member of the Senate, agrees that Mitterrand must bring concessions from Prime Minister Mulroney to avoid embarrassment Friday.

"It's not the style of St-Pierre to make a public front, but we in responsibility will do what is necessary," he said.

"I won't tell you what, but we're not going to stand there, with our hands in our pockets while Mitterrand makes pretty speeches."

Asked their reaction if nothing is forthcoming from Mitterrand Friday, the local politicians smiled wryly.

"We'll do something," they said.

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Things we have heard before

PETER COOK

The business of bleating — whether it is business bleating to government or, a particularly Canadian variant this, one level of government bleating about another — is an incessantly full-time business.

Here, from news reports garnered in a single day (yesterday), are three examples of what a pain in the neck it can be.

Example one, autos. We have been hearing about the Asian threat that has been menacing our automobile industry for a decade and all of us have been paying a hefty premium, through import quotas and higher car prices, to insure the survival of General Motors, Ford, Chrysler and our domestic auto parts industry.

Now comes the revelation that a confidential report, obtained by a sleuth of a newspaper reporter under the Access to Information Act, shows that the Department of Regional Industrial Expansion is convinced we have a crisis on our hands.

There are too many car makers around, says DRIE. And that is going to create, down the way, a surplus of, well, cars. What's more, the newcomers from Japan that are setting up plants here are likely to bring in parts companies to supply them with sub-assemblies to fit their preferred production methods and cut our boys out.

DRIE also reveals, in its confidential way, that "this is the only market where any manufacturer is currently making real money, be it a volume or specialist producer." For goshsakes, they are doing it for profit too!

If we have a crisis on our hands, it may be because we pay bureaucrats real money to produce studies obtainable only through Access to Information suits that (a) make a banquet out of a soufflé and (b) suggest that competition in the marketplace is bad.

Our feather-bedded car industry, and parts makers, did not like it when the Japanese did not manufacture here. Now, they do not seem to like it when they do. And, despite the tremendous cost advantages handed them by the rising yen, they still appear to have misgivings about their ability to compete.

There are, however, companies that do not bleat (at least not as loud) and do not have misgivings.

One such is Ford Motor Co. It has discovered a secret that seems to have eluded others in the industry and will always elude bureaucrats.

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Build a better mobile mousetrap and, even when markets are flat, the world will beat a path to the showroom door. Ford has done this. The result, as president Kenneth Harrigan explained at last week's annual meeting, is the most dramatic improvement in market share that the company has enjoyed in years.

Example two, steel. From the land of free enterprise, a tale of woe that unfolds and unfolds. The U.S. steel industry is telling Washington that it wants more aid and "voluntary" restraint agreements that stop foreign countries supplying Americans with competitively priced steel extended into the 1990s.

Canada is already affected to the point of having, absurdly, to pass legislation in its Parliament to monitor steel shipments and limit its own sales to the United States.

As with all such bleats, if the U.S. steel men get their way, the process of allowing them to operate inefficiently will go on and on. (Textile industries in rich countries have been protected for 40 years). While the Reagan Administration is in a mood to fight more bailouts for Big Steel, the Congress can be relied on to capitulate.

One senses the makings of a successful bleat in the statement by Thomas Graham, president of the steel division of USX Corp., that "there's a legitimate role, perhaps even an obligatory role, for Government not in the form of handouts on the doorstep but in sound policies which serve the best interests of the nation." Translation: taxpayers are under obligation to prop up my industry and safeguard my job.

Example three, securities. Other countries have made the transition into the world of international capital-raising and securities dealing successfully. But fragmented Canada is having problems being international minded.

The players, domestic and foreign, in the new-look financial markets that will take shape after Ontario's Big Bang of June 30 have no problems. The regulators, spread across the breadth of this land, do.

Their bleat is that Ontario has done a deal with Ottawa without proper consultation with other provinces and this is most upsetting. So huffy has this made Quebec that it refuses to hold Ontario's hand in a promotion they were planning to boost interest in Canadian investments in New York.

Separate provincial fiefdoms for securities trading, under differing styles of regulation, have been helpful in the past. Or so it can be argued. They have provided additional risk capital and small markets for small companies to go public in.

But that should not interfere with changes that argue for a world-competitive Canadian market in which securities firms operate under sensible rules. Time to end the balkanization and the bleating, and get on with the business at hand.

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World's debt crisis recalls the 1920s

RICHARD GWYN

International Affairs

LONDON — By writing off as unrecoverable $3 billion (U.S.) worth of the debt owed to it by Third World countries, Citicorp, the New York bank, has reduced the amount still owed by the world's poor to the world's rich from around $1 trillion to $997 billion.

Citicorp's books look a little better; those of the world are as deeply stained in red as before.

Because alarmist articles about world debt have been appearing for about five years now, and because everyone knows that most of the debt never can be repaid, it has become ho-hum.

Less well-understood is the way that unsolved crisis is causing a whole lot of other crises mirrored in today's headlines: the trade wars, the wild yo-yoing of international currencies, and the seemingly incurable budget and trade deficits of the U.S.

A new crop of alarmist articles now are appearing. These aren't so much alarmist articles as Armageddon articles.

Leonard Silk, the financial columnist for The New York Times, has written: "There could be a financial disaster comparable to that of 1929, or an even greater one." David Hale, chief economist for Kemper Financial Services of Chicago, has compared the "structural imbalances in the world economy today (with) those that contributed to the breakdown of the international system at the end of the 1920s."

I quote Hale both because he's one of the brightest analysts around and because I had a long talk with him recently.

Hale stands out among economists because he has a sense of history. He sees what's happening today as a repeat of what happened in the 1920s. To him, the similarity is not that the Depression then followed, and so must do so again, but rather that Britain then had lost the will and the ability to manage the international system, just as the U.S. today can

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no longer perform alone as the world's economic referee.

Hale isn't as fussed about the U.S. budget and trade deficits as many are. He believes that President Ronald Reagan has been following "global Keynsianism," if unintentionally.

Economist John Maynard Keynes proclaimed that governments could cure unemployment by going into debt. Reagan has applied Keynes' formula globally. The U.S. deficits have created a demand there for imports — to the benefit of all Western exporting nations, including Canada.

This American profligacy has been in part natural and healthy, says Hale. Europe and Japan are "aging societies." They have more money than they can spend on themselves. So they have sent their spare capital to the U.S. In turn, Americans have used these loans to pay for their imports from these same countries.

So far, so good. But the flood of imports has been throughly bad for American industries, and for their employees.

Hale believes that the Reagan administration may be "the last truly internationalist U.S. government."

Protectionist pressures may become irresistible. A future president will be sorely tempted to cut his budget deficit by pulling troops out of Europe. The U.S. may retreat into regional isolationism, doing bilateral trade deals with Canada, Mexico, perhaps Australia and some other Pacific Rim nations.

Either we all pull together or things will come apart, as in the 1920s, Hale believes.

He has two proposals. One is for a Third World "Marshall Plan." Much of the economic momentum of the 1970s was provided by the Third World, which used the petro-dollars recycled to it by the banks to buy Western imports.

Because of their burden of debt, Third World countries today import almost nothing. The banks, like Citicorp, can't afford to lend them any more. Nations with large savings, like Japan, must recycle their surplus cash to underdeveloped nations, much as the U.S. did to Western Europe in the late 1940s.

Hale's second proposal is for Japan and West Germany to take over a share of the U.S. burden of international economic management. This would be comparable to the U.S. takeover from Britain a half-century ago, although that came too late. Britain's strength expired in the 1920s, but the U.S. didn't assume its international responsibilities until World War II. In between came the Depression.

The problem, Hale admits, is that while the U.S. in the 1940s was energetic and cocky, West Germany and Japan (as old people and nations commonly do) have turned "insular and parochial." Both are economic superpowers, but neither has any sense of itself as a superpower and, so, as responsible for more than itself.

Hale by no means believes that our international economic problems are unmanageable. But he is convinced we have to start soon to manage them collectively.

The first opportunity for this will occur in a fortnight's time in Venice, at the summit of the seven Western economic leaders, including Canada. Either the international system will begin to get patched together there or it may continue to unravel — as in the 1920s.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

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The Venetian Blind Summit

By H. ERICH HEINEMANN

Leaders of the seven major industrial democracies are preparing once again to go their annual economic summit meeting — the 13th such encounter since the session at Rambouillet outside Paris in November 1975. Once again, newspapers are full of gratuitous advice from leading economists outlining thoughtful plans for currency stabilization and rapid world economic growth.

However, the gathering in Venice early next month is no more likely than its predecessors to produce concrete results. If past experience is any guide, the political deadlock over economic policy among the United States, Japan and West Germany is practically certain to continue. As a result, market forces will take over. The artificial calm in international currency markets should dissipate by early summer. Further declines in the dollar, higher U.S. interest rates and an economic downturn lie ahead.

You won't know this watching the Venice summit on the tube. Count on the politicians to proclaim success. According to M.J. Rossant, director of the Twentieth Century Fund, summit meetings provide "an opportunity for presidents and prime ministers to strut on the world stage with their peers." As always, the summit will be a media extravaganza.

Even if the 13th summit is no less lucky than its predecessors, it is also no more likely to produce substantive results. True, British Prime Minister Margaret Thatcher will surely use the meeting as a key element in her reelection campaign. During her last campaign in 1983, Mrs. Thatcher took advantage of the Williamsburg, Va., summit to boost her prestige at home significantly.

Don't expect much more. Despite diligent diplomatic efforts to paper over profound policy differences among the principal players, the gridlock between Washington, Tokyo and Bonn will not be broken. President Reagan will tell Prime Minister Nakasone and Chancellor Kohl to pump up their economies; they will tell him to balance the Federal budget.

Each side will listen politely to what the other is saying, but attitudes will not change. In the end, the politicians will issue a statement of bland platitudes — which reportedly has already been drafted by their "sherpas" in presummit negotiations — and go home.

Financial market participants will be left to deal with the detritus still floating in the Venetian canals. Major central banks are currently engaged in a concerted, but temporary effort to smooth foreign exchange trading in advance of the summit. However, this cannot last.

Economic growth in the United States has accelerated. The ugly genie of U.S. inflation has burst its bottle. The Federal Reserve is still printing far more dollars than market participants wish to hold at present prices in the exchange markets. American interest rates will have to rise substantially and/or the dollar decline if the United States is to finance the deficit in its international current account — which at the moment is running at a rate of approximately $3 billion a week. Renewed market turbulence is likely to develop by early summer.

It would be tempting to dismiss all this as business as usual. After all, the summit process is an old story. If it has not produced much in the way of specific actions, so also it has not done noticeable harm. Such complacency is not in order this year. The financial and trade distortions among the largest industrial countries (surpluses in Japan and Germany and deficits in the United States) are now so massive that they threaten to unhinge the global economy.

Fundamental issues lie at the core of the policy deadlock. For his part, President Reagan has stubbornly refused to give up the notion that by running massive budget deficits he can eventually force Congress to curtail government spending. While Mr. Reagan has plainly been wounded by his misadventures in the Middle East and Central America, he is still a popular and powerful President. So long as he remains opposed, Congress cannot ask the American people to pay the taxes required to cover the current cost of government services.

It is true that the Federal deficit is declining at the moment, but this represents a false dawn. The Treasury has benefited from a huge, one-shot, nonrecurring bulge in tax revenues due to the Tax Reform Act of 1986. This effect will wear off shortly. That's happening already. The White House and Capitol Hill are (and will be) in basic disagreement over fiscal policy. The underlying political forces that drive the Federal budget have not changed. As a result, when U.S. economic growth falters, which is inevitable, the deficit will again skyrocket.

On the other side of the table, Japanese and German leaders recognize full well that once the United States starts to take serious action to slice its twin deficits (budget and trade), they will have to stimulate their economies. By definition, under such circumstances the American demand for imported products would decline substantially. Someone else would have to take up the slack.

Tokyo and Bonn, however, have good reason to distrust the sincerity of the Reagan Administration's vacuous promises to do something about the Federal deficit. They have heard such arguments for years, but very little has happened. Japanese and German strategists argue persuasively that it would make little sense for them to risk renewed inflation only to help Washington postpone its eventual decision to raise taxes.

This is hardly a cheery thought, but keep it in mind as you watch the pomp and circumstance in Venice.

H. Erich Heinemann is Chief Economist of Moseley Securities Corporation, a member firm of the New York Stock Exchange Inc.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

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Canadian Press

Amintore Fanfani, left, stands beside Brian Mulroney.

PM may be unable to get farm subsidies on agenda at Venice

BY JEFF SALLOT
The Globe and Mail

OTTAWA

Prime Minister Brian Mulroney may not be able to get the question of farm subsidies on the agenda for the Venice economic summit meeting next month.

Italian Prime Minister Amintore Fanfani, the host for the summit, told Mr. Mulroney yesterday that the three-day meeting might not be the most appropriate place to raise the issue of subsidies for farmers, diplomatic sources said.

Mr. Fanfani, who was in Ottawa for a pre-summit meeting with the Prime Minister, reportedly told Mr. Mulroney that the issue should be left to the negotiators in the current talks on the General Agreement on Tariffs and Trade. They will meet in Geneva to discuss agricultural trade issues in July.

Mr. Mulroney had promised western grain farmers that he would raise the subsidy issue at the Venice meeting of the leaders of the seven leading industrial nations June 8-10. And he told the House of Commons last month that the issue is at the top of the Canadian agenda for Venice.

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Rising local currency and protectionism seen as threats to Taiwan shoe industry

BY ANDREW BROWNE
Reuter

TAIPEI

Taiwan's shoe industry, the world's largest in export volume, is facing a crisis as it grapples with a rising local currency and the threat of U.S. protectionism.

"Our country's shoe industry faces a life-and-death struggle this year," said a report by the Taiwan Footwear Manufacturers Association, which represents nearly all the industry.

Analysts and economists say that may be overstating the case, however. There are signs the industry, along with other enterprises, will not only survive but could emerge leaner and more competitive. Businesses are capturing new markets outside the United States, investing in new machinery and shifting labor-intensive production to other Asian countries with lower wage costs.

The success of the shoe industry mirrors the economic achievements of Taiwan as a whole. Shoe exports last year totalled $3.2-billion (U.S.). More than a third of all the shoes sold in the United States last year, or about 350 million pairs, carried the label "Made in Taiwan."

The industry is now the island's third-largest export earner after electronics and textiles. Many manufacturers say that Taiwan could eventually dominate middle-range shoe fashion markets.

But, like other industries, it has been hit by a 20 per cent rise in the value of the Taiwan dollar against the U.S. currency since September, 1985, which has made exports more expensive.

It has also been frightened by the prospect of protectionist legislation in the United States, which takes half of Taiwan's total exports and about 40 per cent of its footwear exports, Shoe manufacturers say that some orders are being lost to China, South Korea and Thailand. And profits of factories and the trading companies they sell through are being squeezed.

"Profits are getting smaller and smaller," said Chen Chin-shen, chairman of the manufacturers' association. He said that three factories closed in a single month.

Taiwan's economy is vulnerable to currency appreciation because it is composed overwhelmingly of small and medium-sized companies with paid-in capital of less than $1-million (U.S.). The companies are mostly labor-intensive and operate on low profit margins.

"Taiwan's small firms will have to struggle for survival," said Wang Chieh-ming, director of the Small and Medium Business Administration, a government assistance agency.

But the companies' problems could prompt them to adapt in ways that will ensure their long-term survival.

Over-all exports to Europe soared 73 per cent to $2.24-billion in the first four months of this year, compared with a year earlier, and to Japan by about 43 per cent to $1.87-billion. And many manufacturers and traders at Taiwan's international footwear exhibition reported a decisive move toward European markets.

They said that factories have begun to concentrate on raising quality and have begun shifting production of cheap shoes to Thailand, Indonesia and China. A spokesman for the manufacturers' association said he knows of 30 factories that have recently shifted production of low-quality shoes to Thailand and that he expects more will follow.

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How much will it cost to break out of debtors' prison?

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PETER COOK

The most essential thing to remember about the Third World debt crisis is that poor countries need to pay interest to rich banks.

They need to do this not out of fear of the consequences if they do not. The proud boast (by Citicorp's Walter Wriston) that launched a thousand foolish megaloans in the late 1970s and early 1980s was that, while people and businesses might go bankrupt or go out of business, countries could not.

That has got to look pretty hollow. True, no country has yet held a going-out-of-business sale and put the shutters up. But several, with debt moratoriums and discounts on their loans, have come close.

No, the reason why nations want to keep in good standing with their bankers is because they must keep on borrowing.

The events of the past 10 days, in which Citicorp has taken a $2.5-billion (U.S.) hit on its Third World loans and Chase Manhattan $1.6-billion, and Canadian banks have acknowledged that non-performing loans can no more be used to inflate profits, should be seen in this light.

Much has been said about how realistic the bankers are being. By taking writedowns and lower profits and building heftier loan-loss provisions, they are at last accepting what debt markets have been telling them for a long time — that the Third World loans on their books are not worth their face value.

But if the bankers are biting the bullet, what of the countries that have been biting a hail of bullets — attempting both to keep their economies growing and repay interest and capital — since the debt crisis broke in 1982?

In Latin America, where most of them are located, the need for a steady flow of new loans for development capital and trade finance has not suddenly dried up. If anything, as world growth has slowed and interest rates risen, it has become more vital and urgent.

While the Citicorp decision seems to offer relief for debtors whose loans are being marked down, it really offers much more relief for the banks that have been involved in tough, protracted negotiations with them on debt rescheduling.

Citicorp, the leading U.S. and global lender, has been particularly hardnosed on debt restructuring. And, although its chairman John Reed says the bank is not retreating from its commitments, obviously it is putting itself — and other banks that follow its lead — in a position where it has less reason to fear a default and less reason to lend more.

If the debtors are not going to be able to arm-twist the banks, their negotiating position is diminished. And so is their claim to attention when it comes to the new lending that they desperately need.

To the danger of a capital shortage in the Third World, bankers and politicians have at the moment no answer.

The one game plan that everyone has been doggedly pursuing for the past 18 months is the so-called Baker Plan, named after U.S. Treasury Secretary James Baker. When it was announced in Seoul, South Korea, in October, 1985, it represented a softening of attitudes compared with what had preceded it.

Instead of the harsh, belt-tightening prescriptions handed out to debtors by the International Monetary Fund, the Baker Plan called for sizeable new loans by the banks in return for countries restructuring their economies to achieve greater expansion and self-sufficiency. It was called, and aimed to be, a "Program for Sustained Growth."

The idea was better in theory than in practice. Its weaknesses have been twofold: first, it has sought to get commercial banks that feel they have already lent too much to the Third World to lend more and there have been obvious limits to their willingness to go along; second, it counted on countries being able to grow swiftly and on the unlikely prospect of Mexico, for example, turning itself into a new South Korea and enjoying a sudden spurt of export-led growth that would enable it to service its huge debts.

The Baker Plan never sat very high in the water and was effectively torpedoed with Citicorp's announcement last week.

No, said the leading bank lender, we do not believe that debtor nations like Brazil and Mexico and Argentina will grow out of their problems or that our $14-billion in loans to them and others is fully collectable.

Besides the Baker Plan, there have been other proposals put forward. One by Senator Bill Bradley (D, N.J.) would be more open-handed to the debtors — and in this has a kinship with a recent report by Canada's Standing Senate Committee on Foreign Affairs.

It calls for partial writedowns and forgiveness of debt, together with lower debt-service payments.

The problem is that not only would it deflate Third World loans by a greater amount but it would give governments an incentive to drive down their value and their own debt-service commitments. And that would in no way encourage further lending.

Obviously, new and different solutions must be found. Otherwise, the era of bankerly realism on debt could prove much tougher on the Third World than the five years of grand delusions that preceded it.

US and EC warned they are still not trading fair

By BARRY WILSON

OTTAWA (Staff) — The Cairns group of so-called fair agricultural traders has warned the United States and the European Community that new trade plans they are considering would jeopardize chances of ending the food trade war and throw into doubt their recent pledges of support for an end to the war.

In the United States, the threat comes from congessional proposals to expand and enrich the export enhancement program (EEP) in a new trade bill going to president Ronald Reagan this summer.

Within the European Community, the threat comes from a proposal to impose a $350 (U.S.) per tonne tariff on imports of vegetable and marine oils and fats.

Both were singled out by the 12-nation trading coalition which met for two days in Ottawa last week to reaffirm their support for an end to the trade war and creation of new trading rules.

In a statement issued May 23, the group worried that while there are growing commitments to negotiate agricultural trade reform at the GATT trade talks beginning this summer, "there (are) nevertheless disturbing signs that further trade distorting measures (are) being contemplated in certain major trading countries."

Ministers at the meeting referred to a trade bill working its way through the U.S. Congress which would extend the export enhancement program (EEP) until 1990 and add $2 billion to its subsidy fund.

"Ministers called upon all countries to resist protectionist pressures and urged an early commitment to instituting a truce," said the conference communique.

But Australian trade minister John Dawkins, chairman of the Cairns group, said it would not act as a policeman to make sure other traders live up to their commitments.

Instead, it will lobby other countries to move quickly during the GATT talks to set new enforceable rules governing food trade.

"I do not intend as chairman of the group to make weekly condemnatory speeches," Dawkin told a press conference.

The fact that senior ministers from the 12 Cairns countries agreed during the Ottawa meeting to press for food trade reform was not surprising.

Trade reform was the basis for their decision last August in Cairns, Australia to form a coalition in the first place.

They pledged then to form a common front to press for inclusion of agriculture in the trade talks. That goal was reaffirmed at the Ottawa meeting.

Canadian trade minister Pat Carney said the second Cairns group meeting was significant because it includes in the clamor the voices of developing nations which do not belong to the other major trade blocs.

The Cairns group represents countries as diverse as Australia and Canada, Uruguay, Brazil, Argentina, Hungary and Thailand.

All are dependent on food production and trade for a large part of their national economic health and have been badly hurt by the European-American trade war which has reduced prices, created surpluses and distorted markets.

While they all agree that agricultural trade liberalization is needed, many of the developing countries used the Ottawa meeting to stress that some exceptions may have to be made for them because their economies will not be able to afford the stiff disciplines which they hope will apply to the more developed economies of major food exporters.

Prime minister Brian Mulroney, who opened the conference, has promised to carry the Cairns group plea for trade reform to the Venice meeting of leaders from the seven major industrialized nations.

Dawkins said Mulroney will be successful at the June summit if he can win from the other six leaders a commitment to support agricultural trade reform.

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If other grain producing countries do the same

Canada may cut production

By BARRY WILSON

OTTAWA (Staff) — The Canadian government might be willing to impose quotas to reduce grain production if other producing nations agreed to the same tactic, says wheat board minister Charlie Mayer.

"If collectively it's something that governments decide to do, we have always said we would be willing to participate," Mayer said May 20.

An international pact to reduce world grain stocks could lead to a reexamination of the $700 million annual Crow benefit subsidy, which some competitor nations see as an export subsidy.

"That's a situation we'd very much like to address," said Mayer.

He also said international agreement to reduce farm subsidies would mean reviewing many of Canada's farm income support programs.

These were predictions by Canadian officials in outlining what sort of changes Canada would have to consider if an international agreement is struck to reform farm policy. It could mean some radical changes in programs and policies.

The traditional view of Canadian governments has been to oppose suggestions of restrictions on Canadian grain production because Canada already controls marketing through the wheat board and production controls would be unnecessary.

For 15 years, the Conservatives have ridiculed and condemned the last federal attempt at reducing grain production — Otto Lang's Lower Inventories for Tomorrow program during the last period of surplus-induced low prices.

But now government officials say that the flaw in the LIFT program was that it was done without co-operation from other countries.

A recent agreement by 23 countries to call a truce in the subsidy war was being seen recently by Canadian cabinet ministers and senior officials as just the kind of breakthrough that could lead to real agricultural reform at the world trade talks beginning this fall in Geneva.

That, in turn, would lead to dismantling of some of the more disruptive aspects of the European Community common agriculture policy and the American farm bill.

While they had optimistic words about the benefits this would have for Canadian farmers, there were fewer details about what the costs would be for Canada.

Agriculture minister John Wise implied there would be none.

"We are not the culprits," he said. "Rather we are the victims."

Mayer suggested Canada would also have to reform some of its policies.

"We've never said we were totally innocent," he said.

Pressed on what programs could be affected, government spokesmen had few details.

It would remove the need for governments to spend billions of dollars on special and continuing subsidy programs, they said.

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OECD subsidy accord encouraging to farmers

Keith Dryden

ANNOUNCEMENT BY the Organization for Economic Co-operation and Development (OECD) that member countries have agreed to seek an end to the destructive battle of subsidies is good news for western farmers. This does not mean that Utopia is at hand but it does mean world leaders have heard the views of the farm sector and have found it politically and economically expedient to act in this fashion.

It will take some considerable time to effect a change of this magnitude. However, it is a positive sign that major exporters have agreed to seek an end to policies which have driven down grain prices around the world to the detriment of producers in both developed and developing countries.

The agreement reached is that OECD member countries will stop dumping surplus food production on world markets at highly subsidized price levels in order to gain or retain market share. It also commits them to stop making payments to farmers that act as incentives to produce more of the commodities that are already glutting the market.

The governments did recognize the need for income support for farmers but pledged these supports would not be tied to the production of food.

Timetable for the revised approach to farm supports will be worked out through the General Agreement on Tariffs and Trade and, as mentioned earlier, will take some time to carve out.

Canada's major farm organization, the Canadian Federation of Agriculture, this year adopted a policy calling for "market neutral" income support for farmers facing low returns as a result of the international grain subsidy war. The CFA recognized the folly of support programs that forced farmers to build food surpluses in order to earn a living wage. Most Canadian farmers will be encouraged by the OECD proposal.

Finance minister Michael Wilson said on his return from the OECD that the extravagant subsidy programs of the United States, European Economic Community and Japan are responsible for the current destructive trade wars. It will take some statesmanship in those democratic countries to devise an alternate set of programs.

The campaign to end the debilitating grain subsidy war is not won, despite euphoric comments from Wilson and trade minister Pat Carney. But the OECD initiative is an important step in the right direction.

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Signs of progress seen in farm price dilemma

Barry Wilson

SUDDENLY, AFTER years of stalemate, international events seem to be moving quickly toward some settlement of the agricultural trade and pricing crisis.

Given the complexity and delicacy of international relations, it would not be wise to bet the farm on the prospect of an early end to the war.

But considering the lack of progress or even serious negotiation during the past several years, the recent spate of meetings, agreements-in-principle and proposals for a rollback in subsidies is remarkable.

Why is it happening? Three main influences appear to be at work — financial necessity, political expediency and leadership.

Financial necessity is by far the most important.

The agricultural wars have started to cost governments more than they can bear.

Export and production subsidies cost money. Surplus products that must be bought and stored cost money. Income support subsidies cost money.

In Canada, the government brags that its commitment to farmers has meant more than $4 billion in annual support.

But from finance department people trying to follow the other government commitment to control the deficit, the costly support elicits lament rather than a brag.

Around the world, the price tag is in the hundreds of billions of dollars during the past several years.

A study on subsidies completed for the Organization for Economic Co-operation and Development (OECD) says it is a financial burden governments can no longer face indefinitely. They have come to realize that subsidy-induced surplus production is the problem.

"To date, governments have had to assume some of the adjustment by increased holding of stocks, domestic disposal schemes and supply control actions," said the report approved by OECD countries and published in mid-May as member countries agreed to call a truce in the subsidy wars. "Budgetary pressures mean that these options are no longer available."

Meanwhile, political pressure is also growing for an end to the war.

Consumers, who often end up paying more for their food because of import controls or higher taxes because of farm supports, are applying pressure in many countries.

And farmers themselves, although supposed to be benefitting from the subsidy system, have been suffering from low prices and falling incomes.

In fact, the OECD researchers discovered that despite the hundreds of billions of subsidy and support dollars spent by governments in the past quarter century, most farmers have been losing ground compared to other segments of society.

"Over a long period of time since 1960 and with very few exceptions, relative incomes in agriculture have declined or remained stable," said the report.

And within agriculture, the subsidies have tended to widen the disparity between rich and poor since production-based subsidies favor the large producer over the small.

These realities have created a growing political demand for change, a demand that complements the financial pressures.

And this has produced no shortage of leaders willing to jump into the fray, now that it is politically safe and financially necessary.

In fact, there is an almost comic opera rush by national leaders and their supporters to claim credit for the progress.

The Canadian government is claiming credit by arguing that prime minister Brian Mulroney led the charge when he put the issue onto the agenda for last year's seven-nation summit in Tokyo, while other ministers have pressed the agricultural point at meetings of the GATT, agriculture ministers and elsewhere.

Australia is claiming credit because it took the lead in organizing the fair traders lobby and because prime minister Bob Hawke has been promoting a plan to reduce and eventually eliminate subsidies and to create stricter rules for food trade.

(Australian press releases note Canada is supporting Australia's position. Canadian spokesmen say Australia is on side with a Canadian proposal. The Canadian proposal is quite similar but came several months later).

The European Community, by beginning a tentative effort to reform its Common Agriculture Policy, is also laying claim to some leadership role.

And the Americans have been promoting subsidy reductions even as they have increased the subsidy ante to multi-billion dollar heights in their fight with the EC.

If a breakthrough does develop, the Americans can be counted on as usual to claim credit for it, likely by arguing their billions of dollars in subsidies brought the Europeans to the bargaining table and forced other nations to recognize a solution was necessary.

In the end, if the agricultural subsidy and support system is reformed, it would be the kind of political event that politicians love — an accomplishment big enough to allow everyone involved to claim some credit.

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Western nations meet to step up terrorism fight

BY PAUL BETTS IN PARIS

INTERIOR MINISTERS from the leading industrialised countries will meet in Paris today to intensify their efforts to combat terrorism.

The meeting will take place against a backdrop of renewed anxieties in France about a possible fresh wave of terrorist bombings. This follows a warning by the so-called Committee of Solidarity with Middle East Political Prinsoners, the organisation which claimed responsibility for a series of bomb attacks in Paris last autumn, of a 'hot summer" in France if the Government did not release three Ara bterrorists.

French security forces also found 12 kg of explosives hidden in a dustbin at Fontainebleau, near Paris, this week. This discovery, coupled with the warning has prompted the authorities to reinforce security in Paris.

The interior ministers, from the US, Canada, Japan, Britain, Italy, West Germany, France, Belgium and Denmark, are expected to discuss ways of improving collaboration and the coordination of anti-terrorism measures between Western countries.

After the meeting, Mr Robert Pandraud, the French Security Minister, is due to fly to Spain to hold discussions on strengthening on a more permanent basis anti-terrorist co-operation between Paris and Madrid. This would entail setting up a similar structure to that which exists between Paris and Bonn and Paris and Rome.

French and other Western officials gave few details of today's meeting except to confirm that it would be centred on the fight against terrorism, The meeting appears to have been organised at relatively short notice. However, this could also be part of the careful security precautions.

Nearly 2,000 additional riot police have been drafted in reinforce security in central Paris and at key public places like railway , and underground stations, airports, department stores, government buildings and major avenues like the Champs Elysees. Security is expected to be especially intense around the Interior Ministry where today's meeting will be held. The Interior Ministry is also close to the Elysee Palace.

French officials said the meeting underlined the new readiness in Paris to co-operate on fighting terrorism after years of standing apart on the grounds that France was a sanctuary for political refugees.

The conservative government of Prime Minister Jacques Chirac has expelled more than 60 suspected Basque separatist guerrillas to Spain over the past year and has also begun extraditing suspected Italian urban guerrillas to Rome.

Diplomats said the meeting stemmed from a May 3 meeting between Mr Chirac and Chancellor Helmut Kohl of West Germany. Both countries have stressed the benefits of sharing intelligence after a tip from West German police led French investigators to arrest several Moslem extremists suspected of involvement in last year's wave of bomb blasts in Paris.

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'Brutal' U.S. subsidies cause grain war, Mitterrand says

BY GRAHAM FRASER
The Globe and Mail

French President François Mitterrand yesterday blamed the United States for the subsidy war over wheat prices that has crippled the revenues of Canadian farmers and forced many into bankruptcy.

"The United States are infinitely favorable towards their agricultural producers, and distort the true laws of the marketplace in the most brutal fashion," he told a news conference.

He spoke to reporters in Toronto shortly after arriving from Regina, where he discussed subsidies with Saskatchewan Premier Grant Devine, and met a group of wheat farmers.

European Community subsidies, including those of France, have also been blamed for the price war. Mr.

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Nuclear

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Mitterrand pointed out there are subsidies to Canadian wheat farmers as well.

"Canadian officials feel they must defend production and producers," he said. "Each farm receives at least $30,000 a year, and tens of millions of dollars are spent annually."

However, he said he recognized Saskatchewan wheat farmers are suffering.

"I could feel their authenticity, their seriousness and their ability," he said. "I have a lot of admiration for them."

Mr. Mitterrand called for concerted negotiations at GATT (General Agreement on Tariffs and Trade) on protectionism.

"The Saskatchewan wheat farmer would be the first beneficiary of a truce in protectionism," he said. "That is why it is so important to negotiate at GATT an agreement to do away with (protectionist) abuses."

He advocated an over-all approach.

"No-one should escape the investigation," he said. "Not only into agriculture, but industry and services. An industrial country cannot ask a major agricultural producer to give up the protection it feels it needs while the industrial country is trying to dominate the industrial or services market."

Confusion marked Mr. Mitterrand's arrival in Toronto.

Because the plane was behind schedule, officials cancelled his visit to the Toronto Stock Exchange.

The cavalcade of cars became divided when limousines followed Mrs. Mitterrand's car to the CN Tower. As a result, while Mr. Mitterrand went to his hotel, dozens of cars carrying French ministers, diplomats, and Ontario officials milled about like whales in shallow water, caught in the dead-end at the base of the CN Tower.

As his entourage was extricating itself, Mr. Mitterrand declared he wanted to go to the Exchange. To the surprise and dismay of protocol officials, the group set off for the Exchange.

He made it clear to reporters that he has no interest in conceding to Ontario's desire to use the word "champagne" for bubbly white wine, saying that the farmers in Champagne have been producing this wine for a long time.

"I think the name belongs to them," he said.

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Trade talks deadline could be extended, Ontario Premier told

BY ROBERT SHEPPARD
The Globe and Mail

Ontario Premier David Peterson says he has been told by senior officials in the Reagan Administration it is legally possible to extend the Canada-U.S. free-trade talks beyond the October deadline by which a deal must be presented to the U.S. Congress.

Emerging from a one-hour meeting last night with U.S. Secretary of Commerce Malcolm Baldrige and U.S. Ambassador to Canada Thomas Niles, Mr. Peterson said the question arose whether the 'fast-track' deadline might be extended into next year and he was told it could.

At the same time, he told reporters not to read too much into such a possibility.

Mr. Peterson said the notion of extending the talks has not been discussed among Canada's first ministers and that "this is not a suggestion that it is anybody's idea at the moment."

But he said the question arose at his meeting with Mr. Baldrige and Mr. Niles: If the trade negotiators cannot meet their deadlines, "is it possible to sort of give it another year or whatever?"

"I gather that it is possible. Whether it is do-able is another story," Mr. Peterson said. "I am saying it is legally possible. I am not saying it is politically possible."

Under the fast-track arrangement, the free trade deal has to be put before Congress in early October, at least three months before its Jan. 3 authority expires.

Canadian free-trade negotiator Simon Reisman suggested recently

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that the two sides have some distance to go in reaching a compromise. His U.S. counterpart, Peter Murphy, was quoted by sources yesterday as saying that he feels a tentative agreement may be reached as early as June 15.

However, both Mr. Peterson and Mr. Baldrige said they do not think that date is realistic.

Mr. Baldrige said he thinks it is possible to sell Congress on the idea of giving up its countervail powers, providing there is some other mechanism in the proposed agreement to handle disputes. "It would not be possible to sell that in a vacuum."

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Date May 29 *Publication* Financial Times of London

Western nations close ranks against terrorism

BY PAUL BETTS IN PARIS

THE LEADING industrialised countires agreed yesterday to forge closer and more regular high level government links to reinforce their efforts to fight against terrorism. This was the main outcome of a meeting of interior ministers and senior security officials from nine countries including the US, Japan, Canada, Britain, France, Italy, West Germany, Belgium and Denmark held in Paris yesterday.

Mr Douglas Hurd, the British Home Secretary, said the ministers had agreed to establish close links between the 12 West European countries in the so-called Trevi Group set up to co-ordinate anti-terrorist collaboration in Europe with the US, Canada and Japan.

However, he added "that noone wants to set up a new bureaucracy, a new system or a new institution," but to improve contacts at ministerial level between European countries and the other leading industrialised nations. The ministers agreed that there should be meetings at ministerial level at least once a year.

Although little discussion appears to have been devoted to new practical steps to combat terrorism, Mr Hurd claimed the agreement to forge closer links between European and other industrialised countries had "filled a gap into which practical proposals will be made."

The meeting was called largely at the initiative of France. After years of standing apart, Paris has shown increasing willingness to co-operate with other countries in the fight against terrorism. This collaboration, especially with neighbouring countries like West Germany and Italy, has started to bear fruit with a series of breakthroughs against such left-wing terrorist groups as Action Directe in France, the Red Army Fraction in West Germany and the Red Brigades and sister groups in Italy.

There also appears to be a shift in the French Government's attitude towards the issue of whether terrorism should be included in the discussions at the forthcoming summit of the seven leading industrialised countries in Venice next month.

Before yesterday's special anti-terrorist meeting, France had indicated that it was keen to see the Venice summit restricted to economic issues. However, it is now likely to agree to discussion on terrorism.

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Date May 29 **Publication** Financial Times of London

US Treasury plays down talk of Venice initiative on dollar

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

MR DAVID MULFORD, assistant US Treasury Secretary for International Affairs, yesterday sought to damp down speculation that the Venice summit would produce an initiative to support the dollar and improve economic policy co-ordination among industrial countries.

He said the commitments undertaken by industrial countries in Paris in February were in the process of being implemented. "I do not think you would look to the summit for major new action because I do not think it is called for."

But he said he would expect to learn a great deal more about Japan's plans to stimulate its economy and for tax reform. He indicated that more details may be known before the summit.

Mr Mulford dismissed suggestions that fundamental changes were needed in industrial countries' strategy for tackling Third World debt.

"The key issue in the debt strategy is the reforms of the debtors' economies . . . If these are forthcoming I think there will be adequate finance . . . The debt problem cannot be solved by throwing money at it," Mr Mulford said.

He agreed that a major question was how the flows of finance would be affected by the decisions of Citibank and Chase Manhattan to put reserves aside against Third World debts. However, it was now easier, he said, for commercial banks to be more flexible in putting together packages for debtor nations and this fitted in with the modifications of the debt strategy to include a wider range of financing options which the US had been encouraging.

Mr Mulford expressed reservations about aspects of the reorganisation the World Bank announced earlier this month. In particular some of the personnel selection and the fact that the net staff reduction only amounted to 265 people. But he said the US felt the basic structure developed in the reorganisation was sound.

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lication JOURNAL OF COMMERCE

Belgium Weighs Proposed EC Tax On Fats and Oils

By KEITH M. ROCKWELL
Journal of Commerce Staff

WASHINGTON — The Belgian government hasn't decided if it will support the European Parliament's proposed tax on vegetable fats and oils, according to Belgian Prime Minister Wilfried Martens.

The tax would affect some $2.6 billion in U.S. exports to the European Community. Although the tax would not be limited to imported fats and oils, U.S. producers fear that a hike in the price of their goods may lead European consumers to other products.

U.S. Trade Representative Clayton Yeutter has warned the EC that if the tax comes to pass, the United States would retaliate, probably against EC agricultural products.

"We are very aware of the reaction in the United States but there has not yet been a decision in the European Community," Mr. Martens told a breakfast news conference in Washington.

On other matters relating to the EC, Mr. Martens said there were other more pressing matters before the community than working toward a barrier-free internal market before 1992. The EC Commission set the internal market as one of its top priorities in June 1985, but a recent report indicated that progress in this area has bogged down.

The principal reason for this is the EC's budget, which, unless reforms are enacted, will suffer a shortfall of some $3.5 billion to $4 billion this year.

"We have a lot of other problems besides the internal market," said Mr. Martens. "We have to deal with budget, agriculture and more cohesion in the community."

Belgium currently holds the presidency of the EC and Mr. Martens said he would push hard at the community summit meeting in Brussels June 29-30 for passage of the package of budgetary reforms named for EC Commission President Jacques Delors.

Mr. Delors is asking for an increase in funding from member governments and a change in the value-added tax system that is the source of two-thirds of the EC's resources.

Mr. Martens said he expects concrete results from the Venice economic summit in June. He called on the industrial country leaders to seek a solution to developing nation debt, to strengthen their commitment to the multilateral trading system and to abide by the principles of agriculture reform agreed to at the Organization of Economic Cooperation and De-

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But he sounded an ominous warning: "If there is no success in Venice, we will enter a period of recession and economic depression."

Mr. Martens, who was accompanied by Foreign Minister Leo Tindemans, is in Washington for two days of meetings with President Reagan, Secretary of State George Shultz, Treasury Secretary James Baker III and Defense Secretary Caspar Weinberger.

Both Belgian officials said they were concerned with U.S. protectionist legislation — Mr. Tindemans refered to the House trade bill (H.R. 3) as "a blow to free trade" — and both urged the Japanese to open their market or risk European retaliation.

Mr. Tindemans warned the Japanese not to dump semiconductors in the EC.

"If they try to sell cheap chips in the European market then Europe would take measures to retaliate," he said.

European officials are concerned that Japan might try to reroute electronics and semiconductors bound for the United States to the European market, following the $300 million in sanctions levied on the Japanese by the Reagan administration.

Mr. Martens and Mr. Tindemans gave cautious support to the U.S. naval presence in the Persian Gulf and hinted that, within the North Atlantic Treaty Organization framework, Belgium might be willing to play a role in defending maritime interests in the Gulf.

"You can't limit your security to just your territory. You can't say 'here we live the good life while they are killing each other somewhere else.' Remember the Middle East is in Europe's backyard. If there is a fire there, we can see it from our houses," said Mr. Tindemans.

Mr. Martens said 60% of Belgium's oil comes from the Persian Gulf and while "oil is not so important as it was 10 or 20 years ago" he said it is always "a vital interest."

The ministers also said they would go along with the Reagan administration on the zero option for removing intermediate range nuclear forces from Europe. The Belgian government deployed 16 missiles in 1985 over widespread protest.

"It's a logical step," said Mr. Martens. "Our option was always the zero option. The Soviets have seen that we are capable of defend-

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Emergency spending plan to spur Japanese economy

BY JIM IMPOCO
Associated Press

TOKYO

Prime Minister Yasuhiro Nakasone has announced an expanded $42-billion (U.S.) emergency spending package designed to spark flagging economic growth and satisfy foreign demands to increase imports.

The package met with favor in the United States, which has pushed Japan to help ease world economic imbalances on the eve of a seven-nation summit conference in Venice on June 8-10.

"Prime Minister Nakasone can take that package to Venice with pride," U.S. Trade Representative Clayton Yeutter told a group of foreign journalists in Washington.

The measures, approved by Cabinet ministers at a morning meeting, entail public spending worth nearly $35-billion and income tax cuts of almost $7-billion.

"This package is much more substantive and should be more effective than any previous package Japan has ever attempted," said Kunio Miyamoto, director-general of the Economic Planning Agency's Policy Co-ordination Bureau. "We have really gone as far as we can."

He said the Government estimates the measures will boost imports by "somewhere around $5-billion to $6-billion next year." Stronger demand from Japan would ease the huge U.S. trade deficit.

"I think we met the expectations imposed on Japan from other nations. I can tell (foreign nations) that we did it in a bold manner," Mr. Nakasone said. "We have fully honored our promises to foreign nations. With this package, I think we will be able to overcome the recession (in Japan) caused by the yen's appreciation."

The Japanese Government is hoping the measures will help Japan attain the goal of 3.5 per cent real economic growth it set for the fiscal year that began in April, according to a Government statement on the package.

The package is in keeping with the Government's efforts to restructure Japan's export-dependent economy, using stronger domestic demand as a substitute for growth in exports.

The yen's sharp upturn has slowed exports by making Japanese products more expensive in overseas markets, forcing foreign manufacturers to slash production and investment and lay off thousands of workers.

Parts of the program require approval of the Diet, Japan's parliament, this summer. "We hope to see the package quickly adopted by the Diet and implemented in Japan ... so it will have a positive impact on the Japanese economy," Mr. Yeutter aid.

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If passed, the supplementary budget would represent a "major turnaround in Japanese fiscal policy," overturning Mr. Nakasone's Government austerity program, said William Sterling, an economist at Merrill Lynch & Co. in Japan.

"Chances are that by the time the balanced budget enthusiasts get through with the supplementary budget it will be watered down," Mr. Sterling said. "But still, there's definitely a change on the way."

The package includes about $1-billion in budget provisions for purchases of foreign goods. A shopping list includes such items as foreign-made rescue aircraft and supercomputers.

It also includes public works projects worth $17.1-billion, and disaster relief and other projects, including those to be funded by local public organizations, amounting to more than $13.9-billion, the statement said.

Eric Rasmussen, an economist with the securities firm Jardine Flemming, said: "If in fact they do put out the kind of money they're talking about, it would not be a bad package at all. But it's still a little bit early to judge."

Mr. Rasmussen said the package "is probably just enough to forestall strong criticism at the Venice summit this summer. Japan might be able to avoid disruptive, contentious discussion at the summit — but whether the measures really get the economy going at a rapid rate is less certain."

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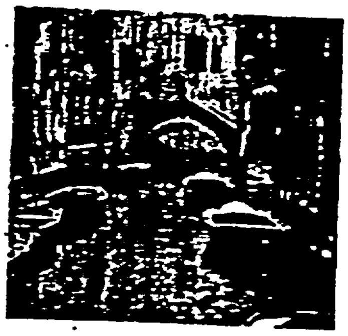

Summit splash

On June 8th the leaders of the world's seven main industrial countries will meet in Venice for an annual economic summit that is widely expected to achieve nothing. A larger group of economic ministers has only just stopped talking in Paris. Their response to the danger of a collapse in world growth and trade was a standard-issue communiqué—pages of soothing pronouncements, no changes in policy. Months of such paralysis have engendered a muddle-through mentality. All of which gives the Venice summiteers a splendid chance to stir things up, and thereby really make a difference.

To be impressed by policy-makers, financial markets have to be given a jolt. Routine waffle of the kind that the ministers dished out after the OECD meeting in Paris took nobody by surprise, and so changed nothing. Even genuine changes in policy carry a lot less clout when they have been confidently predicted. Given a chance to anticipate the changes, markets quickly push interest rates and exchange rates to levels that are consistent with the expected set of policies.

Think back, though, to the meeting at the Plaza Hotel in September 1985. That did take the markets by surprise, because Mr James Baker, America's treasury secretary, reversed the administration's earlier, unthinking stance on the dollar: far from being a vote of confidence in America's economic future, he conceded, its overvaluation reflected the imbalance in America's budgetary policy, which was piling up mountains of economic trouble to come. That rewriting of history was quite unexpected. It carried more weight with the markets than the (skimpy) details of what Mr Baker and his counterparts in Japan and West Germany would do to put matters right. The dollar's downward drift of the previous six months immediately turned into a tumble.

The time is ripe for another surprise—though the problem has changed and so has its solution. In the second half of 1985, the next world recession seemed comfortably remote. Worries over "structural imbalances" such as America's trade deficit seemed less urgent when output was growing steadily, with inflation in check, and interest rates set to fall. This year and next, the risk of recession is real. Forecasters think the big OECD economies will grow by barely 2% a year, and might be duller than that. Wall Street has started to talk about the once-forgotten threat of inflation, and American interest rates are creeping up. Dearer money, in turn, will aggravate the economic plight of the debtors of Latin America. Meanwhile, most ominous of all, America's intractable current-account deficit has made "trade policy" (read protectionism) respectable again in the White House.

A believable surprise

None of these threats was unpredictable. For all, the remedy is uncontroversial—indeed, boringly obvious. The dollar's fall since 1985 was only part of the adjustment needed to bring the world economy back to the path of steady growth. Even after such a big devaluation, America's current-account deficit cannot fall much from its present annual level of around $140 billion unless America either (a) cuts its federal budget deficit or (b) reduces the gap between private-sector saving and investment. Without (a), two things could happen to achieve (b): faster inflation (brought on by a further collapse in the dollar) or recession (brought on by the higher interest rates that might soon be needed to keep capital flowing into the United States). It is in America's interests, as well as in everybody else's, to choose (a).

The trouble with (a), though, is that it will reduce world demand at a time when it is already growing a bit too slowly. Budget cuts in America therefore need to be balanced by bigger budget deficits in Japan and West Germany. Together these changes could reduce America's current-account deficit without further swings in exchange rates or interest rates. If recent public statements are any guide, none of the heads of government who will meet in Venice disagrees—least of all the three who matter. What is lacking is a credible, repeat credible, commitment to make it happen.

A first, quick step for Mr Reagan to convince doubters that he rejects further dollar depreciation as an easy way out for American economic policy is to announce that this summer he will appoint Mr Paul Volcker to a third term as chairman of the Federal Reserve (see pages 19-26). But if he is willing to take the initiative, Mr Reagan can do more. Since nobody is expecting it, even an unspectacular plan of co-ordinated policy could make a big impression on the markets, and persuade them that the present pattern of exchange rates is a sustainable one. At the same time he can make Venice a political triumph—which is what economic summits were always meant to be.

This is Mr Reagan's guide to glory. Call the leaders of the House and Senate into the Oval Office. Amaze them by agreeing to a $25-billion-a-year petroleum tax if Congress cuts $25 billion a year from present plans for federal spending, and if—in return for that cut in America's budget deficit—two other things happen abroad. First, West Germany brings forward $15 billion of the tax reforms planned for 1990 to this year. Second, Japan cuts $10 billion a year from its income tax and spends another $10 billion on infrastructure. Announce all three agreements in the Venice communiqué. Remember, Mr President, you made that vital first concession on taxes—albeit a trivial one—so you get the credit. Stand back and enjoy the astonished applause.

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SUBJECT/SUJET

With Eye on Venice Summit, Japan Offers Stimulus Plan

By John Burgess
Washington Post Foreign Service

TOKYO, May 29—With an anxious eye on the seven-nation economic summit that opens in Venice in 10 days, the Japanese Cabinet today gave final approval to special domestic spending and foreign aid programs designed to show the country is serious about combating its enormous trade surplus.

The Cabinet adopted an economic program that it said would increase domestic spending by about $43 billion, stoking growth and, it is hoped, reducing the trade surplus. It also put its stamp on plans for $1 billion of "emergency imports" and increased foreign aid.

"It is a drastic step," Prime Minister Yasuhiro Nakasone told a press conference at his official residence in the afternoon. ". . . There is substance here that will make foreign countries say, 'Japan, you did well.' "

At this time of the year, Japan begins worrying it will face a chorus of complaints at the annual summit, which is also attended by leaders of the United States, France, Italy, Britain, West Germany and Canada.

This year, concerns are unusually high. Japan's trade surpluses have continued to grow since the May 1986 Tokyo summit despite the dollar's fall. The United States has imposed sanctions against certain Japanese electronics products, and Japan's trade relations with Western Europe have generally soured.

Japan frequently has enacted special domestic spending programs, most recently one last fall that foreign governments generally felt had little real effect. Today's announced proposal is Japan's biggest ever.

The plan, which had been known in outline for months, came into final form after all-night negotiations within the government and ruling Liberal Democratic Party. Officials said that during the sessions, leaders moved the domestic spending plan up to $43 billion from a $36 billion level that had been set earlier.

The plan must be approved by Japan's parliament. Normally, that is no problem once the LDP reaches agreement. In recent months, however, it has lost some of its hammerlock on parliament because of a wrenching dispute over tax revision.


YASUHIRO NAKASONE
. . . calls program "a drastic step"

The new spending is meant to prop up the economy, which is faltering because of the weak dollar-strong yen situation and which grew by only 2.5 percent last year. More spending, the United States hopes, will lessen the surplus by making the country prone to import goods for consumers and export less.

About $36 billion of the $43 billion will be government public works and housing construction spending, officials here say. Most of the money will be raised from proceeds from the sale of the state-owned Nippon Telegraph and Telephone Corp. and through issuance of new government bonds.

But almost one-third of the $36 billion is less certain: Local governments are supposed to increase

See STIMULATE, D10, Col. 1

With Eye on Venice Summit, Japan Offers Stimulus Plan

STIMULATE, From D9

their spending (though the central government has no authority to assure they do). Easier credit terms are supposed to translate into more housing construction.

The remaining $7 billion of the $43 billion is money that consumers would save through a tax cut, and would presumably spend. However, the ruling party so far has been unable to win approval for its tax cut in parliament.

The government said the spending program will push growth up by about 1.8 percent. Some private economists, however, are less optimistic. Though the push factor in this program seems to be stronger than last fall's, some economists say, underlying economic conditions are worse, meaning the net advance would be small.

Masahiko Koido, chief economist of Sumitomo Bank, for instance, predicts only 1.1 percent additional growth from the plan.

Other economists question whether there will be significant impact on the trade picture, as few foreign products are used in construction. "Public works is basically useful for recovery from the strong yen recession," said Johsen Takahashi, senior economist at the Mitsubishi Research Institute. "That will make legislators happy for their constituencies but would not do much for reducing the trade imbalance."

But despite these weak points, the plan is generally considered a positive step here. "It's certainly better than the last one," one U.S. official said here.

The foreign aid initiative calls for moving up by two years an earlier plan to double (in dollar terms)-aid disbursements in seven years. That means, officials here say, that aid will reach the annual level of more than $7.6 billion in 1990.

The Cabinet also approved a surplus-recycling plan presented in Washington earlier this spring by former foreign minister Shintaro Abe. It calls for $20 billion of loans to go to the Third World in an attempt to spur growth and ease debt payments burden there.

A breakdown, provided today: $8 billion more as government contributions to multilateral agencies such as the World Bank; $9 billion in joint loans with the World Bank and other such lenders; and $3 billion for direct untied loans by the Export-Import Bank of Japan. About $500 million in grants would go to sub-Saharan African countries and other especially poor countries.

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Mitterrand urged to be tough in fish dispute with Canada

By Joel Ruimy Toronto Star

ST. PIERRE AND MIQUELON — France should defend these two French islands off Newfoundland with the same fervor that Britain used in holding the Falkland Islands five years ago, French President Francois Mitterrand has been told.

Senator Albert Pen, who represents St. Pierre and Miquelon in the French National Assembly, made the suggestion during a half-day visit here yesterday by Mitterrand.

Change directions

Mitterrand, who returned to Paris yesterday afternoon, sat stone-faced while Pen made the proposal in a brief introduction speech to an audience of about 300 islanders. Mitterrand flatly rejected the suggestion later.

But he repeated what he has been saying since he arrived in Canada on Monday — that Canada was wrong to close its east-coast ports to French fishing vessels to protest French overfishing off Newfoundland.

"Mr. President, it is time we changed directions," Pen said in a reference to the fishing war off the Newfoundland coast.

"We have to affirm ourselves and win respect for our rights by showing, within reason of course, the firmness of a Mrs. (British Prime Minister Margaret) Thatcher in defending her Falklands."

Otherwise, "we must admit clearly that we are again prepared to have the islands sacrificed on the altar of France-Canada relations," the long-time island politician added.

"We would have to admit that the interests of the 6,000 (residents) today are not worth as much as the Airbus, helicopters and nuclear submarines," he added, referring to the high-tech products France has been trying to sell to Canada.

In his reply, Mitterrand said, "I don't think that taking a turn towards the Falklands would be the most fruitful thing to propose to those who ill-behaved towards France — in this case the Canadians."

Britain won a bitter 74-day war in 1982 after Argentina tried to seize the British colony in the South Atlantic.

Mitterrand also mocked a suggestion made earlier this week that France should just turn the islands and their 6,000 inhabitants over to Canada.

"In what I am sure was just a joke," Mitterrand said, "they asked me why St. Pierre and Miquelon shouldn't just become Canadian.

"This is also a joke: Why shouldn't Newfoundland become French?"

It was ironic that, in his travels to four Canadian provinces this week, Mitterrand avoided any of the embarrassments that arose out of the 1967 visit to Canada by former French president Charles de Gaulle, who shouted, "Vive le Quebec libre," in Montreal.

Only when he landed on French soil yesterday did Mitterrand appear to run into some awkwardness.

Close ports

Pen, a notoriously outspoken defender of the economically depressed islands, clearly wanted to shame Mitterrand into furnishing more help for the islands.

He cited a 1976 promise by Paris — still unfulfilled — to expand the tiny airport on St. Pierre, which was too small to accommodate Mitterrand's Concorde jet.

Pen also cited "the obstinacy of (Prime Minister Brian) Mulroney," who ordered Newfoundland ports closed to French fishing vessels while Paris and Ottawa negotiate a deal over fishing rights in the area.

Mitterrand reassured islanders that Paris plans to use "tenacity, patience and firmness" to settle the dispute.

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Missiles and pasta will be on the table at Venice summit

'By Louis Wiznitzer
Special to The Star.

PARIS — When the leaders of the seven major Western industrial countries gather in Venice next Sunday they will be talking about missiles.

They should be talking about money.

To be precise, the leaders of Canada, the United States, Japan, France, Italy, Britain and West Germany are expected to use their time in the Italian city of canals to finalize a common position in reponse to Soviet leader Mikhail Gorbachev's latest disarmament proposals.

In plain language, the European allies of the United States will tell Ronald Reagan over a delicious pasta dinner that they have stopped bickering among each other and are no longer resisting the 'Double Zero' option (scrapping medium- and short-range U.S. and Soviet missiles based in Europe)," says one official involved in preparations for the summit.

"Reagan may thus feel free to sign a U.S.-Soviet disarmament agreement along those lines," the official said.

The annual summit was originally conceived as an informal gathering of the leaders of the United States, Britain, France and West Germany to discuss current economic problems.

Instead, it has become a huge political feast — a sort of yearly meeting of board members of the Western world at which the major shareholder, the United States, tries to have its way on what it considers to be the most burning issues.

Last year's summit dealt with terrorism — the year before that it debated the merits of an anti-Soviet technology embargo.

On the other hand, the coming summit would quite likely be a flop were it not for the expectation that the Atlantic Alliance will manage to get its act together on disarmament.

Japanese Prime Minister Yasuhiro Nakasone is on his way to retirement and Reagan is a lame duck. French President Francois Mitterrand has had his wings clipped by the "cohabitation" arrangement with the country's conservatives: He speaks for France but does not govern it.

Italy's Amintore Fanfani is a caretaker and has no authority to make decisions, while Prime Minister Margaret Thatcher will dash off to London before the summit is over to make a final pitch for her re-election before Britain goes to the polls June 11.

Even Canadian Prime Minister Brian Mulroney and West German Chancellor Helmut Kohl are more concerned right now with domestic policies than with diplomatic grandstanding.

One French diplomat dismisses the summit as "a gathering of pitiful giants."

By using the occasion to climb aboard the Soviet-American disarmament train, Washington's European allies are in fact likely to help the summit preserve its dignity and importance and save it from turning into a mere gathering of the politically glamorous.

Even though West Germany, Italy, Britain and France will sing in unison under the American conductors' direction, they still have serious misgivings with regard to option "Super Zero" — the elimination of all nuclear arms from the continent.

The West Europeans are privately bitter about the status of the arms negotiations. They believe they have been outmanoeuvred by Gorbachev and let down by Reagan.

They worry that Western Europe could be gradually decoupled from the United States and that it could be denuclearized and left to face the Soviet's vastly superior conventional forces.

They were unhappy when the two superpowers engaged in a shouting match from 1981 to 1985 and they are suspicious now of deals that the Americans and the Soviets may be working out behind their backs.

□ Louis Wiznitzer is a Star correspondent based in Paris.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date .... May 31 .... Publication .... New York Times

PECTATIONS LOW FOR VENICE PARLEY

.S. Sees the Economic Talks as Hampered by Political and Financial Doubts

By GERALD M. BOYD

Special to The New York Times

WASHINGTON, May 30 — President Reagan will be heading to the economic summit meeting in Venice next week amid expectations that have been lowered by his own domestic difficulties and by economic and political uncertainties in the six other industrialized democracies that will take part, Administration officials say.

Those realities have already reshaped the Administration's plans for the trip. It is the President's most ambitious journey abroad since the economic summit meeting in Tokyo last year, and it comes as aides have been trying to portray Mr. Reagan as unencumbered by the Iran-contra affair.

"We wanted to go into Venice with public statements that reflect the lessons of the last 40 years," a top adviser to the President said. "Summits are unpredictable, and we like to view them like a book standing alone; what we tried to do is to conceive the trip in a way that puts nice bookends on it."

Speech in Rome Canceled

Officials had hoped to sandwich the three days of talks in Venice between highly symbolic events, including a speech in Rome before the meeting that would highlight allied cooperation and another one in Berlin at the conclusion, commemorating the 750th anniversary of the founding of that city.

Both addresses were to be major ones, the officials said, but Italy's internal political situation forced them to cancel the one in Rome.

Standing in that city's 16th-century Campidoglio, the hall where the European Community took shape, Mr. Reagan was to have urged continued cooperation within the Western alliance 40 years after the Marshall Plan was put forward.

That was to have been followed by major address on freedom, which the President still plans to deliver later in the week in West Berlin, the city where President Kennedy delivered a famous address on the same theme.

Officials say that because of the disarray in the Italian Government, Mr. Reagan had to abandon plans for a state visit to Italy, and therefore had to scrap the first part of the travel package. "The trip has changed, but not because of something we did," a senior official said. "It's very frustrating."

Administration officials said the scrapping of the Rome section of the trip, to some extent, paralleled what they see as a reality of the Venice meeting itself — an inability to make major initiatives or statements in the economic or political areas.

In the political area, officials say, Mr. Reagan will discuss the tensions in the Persian Gulf, but they also say that the issue has not been reviewed in summit planning sessions and that this suggests a unified statement is unlikely.

[illegible]

On economic [illegible] any new [illegible] principal [illegible] for the conference, Under Secretary of State W. Allen Wallis, said. Rather, the [illegible] want to build on earlier initiatives to encourage growth and a stable economy.

Mr. Wallis said that the international economy appeared fairly sound but that the leaders would discuss "booby traps" that could lie ahead. He cited signs of problems that have already appeared: signs of a slowdown in world growth and of rising inflation, budget deficits, the persistence of problems involving the debts of developing countries and trade imbalances.

The Venice meeting will take place amid domestic political difficulties for several leaders, including Mr. Reagan. Prime Minister Margaret Thatcher of Britain is seeking a third term; Prime Minister Yasuhiro Nakasone is expected to leave office in October, and the West German Chancellor, Helmut Kohl, is also experiencing problems.

White House officials acknowledge that the Iran-contra affair has taken a toll both at home and abroad on the high popularity that the President himself enjoyed last year, when he was traveling to Tokyo.

Administration officials have been trying to grapple with the changing economic and political realities.

Instead of the Rome speech, for example, Mr. Reagan will deliver the plea for cooperation in remarks Monday from the White House and in a speech to be broadcast from Europe Friday.

President's Schedule

Mr. Reagan is scheduled to arrive in Venice on Wednesday, the day he was originally to have begun the state visit to Rome. Instead, he will spend nearly three days virtually in isolation at a hotel about 20 miles outside of Venice. On Saturday, he is to attend a lunch hosted by high-ranking Italian officials and visit the Vatican for a private audience with Pope John Paul II.

On Monday, June 8, the first of three days of summit sessions, there are to be three meetings for Mr. Reagan in addition to summit business. The following Thursday, the day after the official communiqué is issued, he is to conduct an outdoor press conference.

On his last day in Europe, June 12, he is to leave Venice, visit West Germany and return to Washington. The day will include the Berlin speech and a meeting in Bonn with Chancellor Kohl.

Although officials say no agreements or major new initiatives are expected, some caution that it is difficult to predict the outcome of a summit meeting at which the leaders are expected to spend about half their time in private meetings. In such sessions, the outcome is often tempered by personal chemistry.

"They each come with unique needs," a senior Administration official said. "If things break right, it could be an opportunity for all."

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Subject
Sujet

Date May 31 Publication New York Times

AIDS' GLOBAL PERIL IS HIGH ON AGENDA AT SUMMIT MEETING

Planned Discussion Reflects Rising Concern on Social and Economic Effects

By LAWRENCE K. ALTMAN

The spreading epidemic of AIDS, which threatens to have a destabilizing effect on world economics and politics, is expected to be high among the issues addressed by the leaders of the seven-nation industrial summit conference in Venice next week.

The leaders are expected to declare the disease a major world health problem and to call for more international cooperation against it, through the World Health Organization. The leaders are also expected to support a meeting of the world's health ministers about public education, according to the theme paper agreed upon for the conference by its planners.

Chance to 'Move Forward'

The recommendations that come out of the meeting will be the highest expressions of concern about AIDS yet from world leaders. "The mere fact that the heads will have talked about AIDS, even if it is for 10 or 15 minutes — that allows national efforts to get galvanized and move forward," said Eric D. K. Melby, a special assistant to W. Allen Wallis, Under Secretary of State for Economic Affairs. Mr. Wallis is President Reagan's chief planner for the meeting.

Mr. Reagan is heading for the conference June 8-10 amid expectations that have been lowered by his own domestic troubles and by economic and political uncertainties in the six other nations, Administration officials say. [Page 11.]

Acquired immune deficiency syndrome is only one of many topics to be discussed by Mr. Reagan and the leaders of Japan, West Germany, Britain, France, Italy and Canada. But including the disease on the economic agenda reflects growing concern about AIDS' potential for social and economic devastation. This is especially possible

Continued on Page 12, Column 3

AIDS Is High on Agenda for Economic Meeting

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in many African countries where fear of AIDS is already reducing income from tourism and where the death toll is rising among men and women in the prime of life.

W.H.O. as 'Best Forum'

The leaders may debate policies for mandatory tests for AIDS infection among such groups as immigrants and foreign students, government officials and AIDS experts said in interviews. The theme paper says any steps must be "in accordance with the principles of human rights."

The conference planners' theme paper characterizes the World Health Organization, based in Geneva, as "the best forum" for international efforts to stop the epidemic. Such an endorsement could strengthen W.H.O.'s AIDS program, which has started in 30 countries.

Mr. Melby said, "No one really has a good understanding of what the economic implications of AIDS are," but he said, "Everyone thinks that they will be very serious." Other AIDS and economic experts interviewed in recent days expressed similar views.

Until drugs are found to cure AIDS or vaccines are developed to prevent it, education is the only way to stop its spread. Britain was the first country to set up a large-scale public education program about AIDS.

Concern About Africa

Norman P. Fowler, the British Health Minister, announced at a recent meeting in Geneva that his country, in collaboration with the World Health Organization, would be the host for a conference on public education and AIDS for the world's health ministers. The summit conference leaders are expected to endorse the idea, and a meeting could be held within a year.

The aim will be to show health ministers from the many countries that have not undertaken aggressive education programs what might be done, to provide a forum for sharing experiences with such programs and to assess how well education programs work and why they fail.

Agence France-Presse

Dr. Jonathan Mann, the director of the World Health Organization's AIDS program.

The industrial nations leaders will be discussing AIDS at a time when experts are expressing deep concern about the diseases severe economic, political, social and military effects on Africa, the area believed hardest hit by the disease. It has been most common there in cities, among skilled workers and the educated middle class.

A principal focus of the W.H.O. program is Africa, and Mr. Melby said the United States Agency for International Development "is beginning to look very seriously at what are the economic implications of AIDS in Africa."

Much of that continent has in recent years been reeling from economic problems, and some AIDS experts fear that if the epidemic is not checked, the burdens added by the disease could cause severe social dislocation. If AIDS has not directly depopulated areas of Africa, it may be doing so indirectly. Doctors who have visited Uganda have said that in some small villages where many people have died of AIDS, survivors have left apparently in the belief that simply living there was danger-

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sion.

There is also concern because some African nations where AIDS is rampant are a source of minerals that are important to Western economies.

Competition for Funds Cited

"It is not just a political issue," Mr. Melby said, noting worry also about "the costs of caring for" victims of the disease. He said the national leaders were concerned that money spent on treating AIDS patients was "a significant drain or competing source for scarce funds in developing countries."

Dr. Alastair J. Clayton, who directs the Canadian Federal Laboratory Center for Disease Control in Ottawa and who has been part of a team advising Prime Minister Brian Mulroney about AIDS for the summit, said that "whatever money we can spend now on controlling AIDS in Africa is an investment for us" and for other areas of the world.

Including AIDS on the summit meeting agenda has pleasantly surprised many AIDS workers, including Jon Tinker, president of the Panos Institute, a private research and public education organization based in London that studies development issues. He said the decision probably reflected a rapidly gaining view of AIDS "as an economic and development problem in the third world rather than purely as a public health problem."

Dr. Jonathan Mann, who heads the World Health Organization's AIDS program, said that "if the progression of the disease isn't stopped soon" in some African countries, AIDS could have dire economic and political consequences in the next few years. Dr. Mann stressed, "That is not the stage where we are at now."

Need for More Data 'Critical'

Dr. Mann said an urgent goal of his program was to encourage more African countries to test larger population groups to determine more accurately how many people are carriers of the AIDS virus, whether they are sick or not, and thus presumed capable of passing the virus to others.

"It's such a critical issue," Dr. Mann said. "If you don't know how many people are being infected you cannot know whether your program is having any impact and whether the investment is good or not."

Significant differences exist in the prevalence of AIDS infection in rural and urban areas of Africa, and among different regions. Although most Africans live in rural areas, most tests for infection with the AIDS virus have been done in cities. Dr. Mann said this led to "an oversampling of the higher-risk population."

An endorsement by the summit conference participants of the World Health Organization's AIDS program would encourage centralized donations for AIDS control in developing countries and thus lessen the prospect of competing programs and possible waste of resources.

Dr. Mann said, "We need to avoid five economic assistance agencies going into a country, each trying to play the major role to fund the same type of program, stepping over each other's toes, and burdening the recipient government with four or five ongoing evaluations."

Donor countries commonly send several staff members to a country for an extended period to obtain information in meetings with the country's officials. Dr. Mann said those officials could wind up "spending all their time making sure the donors are getting what they need" instead of doing their own work to combat AIDS.

The European Economic Community, he noted, has stipulated that countries applying to it for AIDS funds must have a plan approved by the World Health Organization. Other countries are adopting similar approaches.

Mr. Tinker of the Panos Institute said much more information was needed from developing countries before economic effects of AIDS could be accurately measured. Some answers may come in about a year from studies the institute has started with experts at Imperial College in London. Perhaps the most important economic measure, Mr. Tinker said, is how much AIDS is reducing the number of workers while increasing the number of nonworkers in a society.

Work Force Would Stop Growing

This kind of information is being sought in a study of one Central African country where AIDS is epidemic and that Mr. Tinker declined to identify.

According to preliminary calculations, the net annual increases in the work force of that country, which has risen by 3 percent each year for the last 20 years, will stop within five to seven years and a net decline would soon begin — even if AIDS does not spread from the cities into the rural areas and even if the level of infection among sexually active groups, now 10 to 20 percent, does not rise.

But Mr. Tinker said calculations to determine how large the decline would be and precisely when it would occur must take into account data that were now not available.

Until such information comes, he said, "it is awfully difficult to put any figures on your economic projections."

Concern About Military

Another concern is the potentially severe effect of AIDS on the military in some countries. Although figures on the incidence of AIDS infection in the military in Africa are not available, anecdotal reports indicate that such rates are substantially higher than in the general population.

Because many third world governments depend on the military to remain in power, a rapid turnover among military officers because of AIDS might affect political stability in such countries, some experts contend.

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Substantive actions viewed as unlikely

By Stephen E. Nordlinger and Julie Johnson
Washington Bureau of The Sun

WASHINGTON — Next week's seven-nation economic summit will bring to Venice, Italy, a collection of chiefs of state, including President Reagan, who are either lame ducks, preoccupied with re-election or politically wounded.

Never before in the 13-year history of these gatherings has one presented the world with such an array of weakened leadership.

Administration officials and other experts believe the Venice meeting will fall short of accomplishing even the modest results of past summits, especially on economic issues, because of the leaders' diminished authority. They are seen as reluctant to take a stand on tough issues that may be turned down by the voters or legislators back home.

"This is not an easy time to make commitments in the economic policy area," said one top administration economic adviser. "It is very difficult for them to take up contentious issues."

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Venice won't see Western leaders in their top form

LEADERS, from 1A

Private economists, as a group rarely optimistic about summit accomplishments, are even less sanguine this time.

One of them, Walter K. Joelson, chief economist at General Electric, made a zero with two fingers when asked about what would happen next week. Then he recited the political difficulties of the chiefs of state at Venice.

But there is a somewhat contrary view circulating among summit watchers who believe political weakness may breed a determination to move ahead with some kind of headline-snatching breakthrough, although perhaps not on the more intractable economic issues.

A top administration economic official who asked not to be identified said he expected little progress on what he called the "well-plowed" issues of cutting the U.S. budget deficit or stimulating the West German or Japanese economies.

As a result, the summit leaders will be concentrating on such narrower but still highly controversial issues as curbing agricultural subsidies and speeding up the pending international negotiations to reduce rade barriers, the official said.

Swirling around the Venice summit will be an intense political campaign in the host country itself. Four days after the summit ends, Italian voters go to the polls to elect a new government.

In the meantime, the leaders of he world's most powerful democracies will be greeted and protected by he caretaker government of Amintore Fanfani, 79, who since mid-April has been leading Italy's 48th postwar cabinet.

Prime Minister Margaret Thatcher of Britain is planning a quick one-day stop-in for some "photo opportunities" with her counterparts rom around the world before she flies home.

One day after the summit ends, Mrs. Thatcher faces a general election, a year ahead of schedule. Although she enjoys a big lead in the polls, the combined power of the opposition could block her attempt to be the first prime minister in this century to win three consecutive terms.

France's government of "cohabitation" will again be sending to the summit two leaders from opposite camps: President Francois Mitterrand, a socialist, and Prime Minister Jacques Chirac, a conservative. Next year, France faces a presidential election and the two may be running against each other.

Prime Minister Yasuhiro Nakasone, deeply undercut by the legislative rejection of his proposed sales tax and President Reagan's recent trade sanctions, is scheduled to leave office at the end of October when his term ends. The trip to Venice is being widely viewed as his political swan song on the international scene, and his negotiating clout will be limited.

West Germany's Chancellor Helmut Kohl, who represents the chief economic power in Europe, will be attending the Venice summit as a diminished leader. His Christian Democrats won national elections last January with the smallest share of the vote ever recorded by the party. Two weeks ago, Mr. Kohl suffered a further setback in two bellwether state parliamentary elections.

These votes put new pressure on Bonn's fragile right-center coalition at a time when the German economy is in the doldrums and pressure is being exerted from the political left and right to refrain from the kind of stimulus package favored by the Reagan administration.

Canadian Prime Minister Brian Mulroney, leader of the United States' chief trading partner, is mired in deep troubles at home. A series of Cabinet resignations and dismissals stemming from contract awards have raised doubts about the probity of some of those swept into office in the Conservative Party's 1984 landslide victory over the Liberal Party.

Mr. Mulroney has been taking an accommodating attitude toward the United States in hopes of achieving a free trade zone between the countries, but aside from pressing to cut farm subsidies, his role in Venice is expected to be modest.

By virtue of his role as leader of the world's largest economy, President Reagan inevitably will be given top billing next week. But he goes to Venice with appreciably diminished authority.

Summing up the expected political atmosphere at Venice at least on the difficult economic issues, a top administration official said: "The situation is not conducive to a lot of economic risk-taking at this time."

External Affairs Canada | Affaires extérieures Canada

SUBJECT/SUJET

PUBLICATION Washington Post

DATE May 31

HOBART ROWEN

A Provocative Agenda for the Summit

There is a ready-made agenda available for the Venice summit, carefully spelled out and documented—but you can be sure that it won't be followed. And that's a shame, because it contains a more meaningful review of the problems of the global economy than anything likely to come out of Venice.

I am referring to the "State of the World 1987" by Lester Brown and his associates, which calls on the world's leaders to come up with something more sophisticated than blind reliance on economic growth. Brown is president of Worldwatch Institute, a nonprofit research group funded by the Rockefeller brothers and other foundations.

"Economic activity could be approaching a level where further growth in gross world product costs more than it is worth," Brown's report says.

The State of the World documents, now in their fourth year, have attracted increasing attention among people trying to assess the threat to this planet's continued existence from such challenges as nuclear power, toxic chemicals, soil erosion, extinction of species or climate changes caused by human mistakes.

This is not the stuff that makes newspaper headlines—until there are accidents like Chernobyl. Nor will it provide a decent backdrop for the network television cameras aimed at San Giorgio Island, on the lagoon in Venice where the

See ROWEN, H18, Col. 1

HOBART ROWEN

Preparing for Venice

ROWEN, From H1

summit leaders will gather. Even the more traditional and mundane stuff of summitry—the economic outlook, trade, economic cooperation and so on—is difficult for TV to cover.

At the London Summit of 1977, with recession threatening, a senior White House correspondent for one of the networks grumbled that there was no story in the warnings contained in a "dull" communique. He meant that there was nothing that made good pictures.

For a cogent response to global challenges relating to environmental or population problems, "enough people must first perceive the threat," Brown and Edward C. Wolf, codirector of the State of the World project, say.

A good example of what concentrates the political mind was the Chernobyl nuclear accident in April 1986 (just a week before the Tokyo summit) that exposed the world to radiation. It didn't take long for some European countries to reexamine their own nuclear programs: Two out of three European voters now oppose the construction of new nuclear plants.

The population problem is a different kind of time bomb waiting to explode. Everyone is concerned about Third World debt and Third World poverty. But if the current urbanization trend continues, more than half the world's people will be jammed into huge cities by the year 2000. And three out of five cities with populations over 15 million will be in the Third World.

With that kind of economic concentration in urban slums comes crime, disease, corruption and despair. No one who has been there can forget the depths of degradation that exist in the Tondo section of Manila or in Calcutta. But things will get worse instead of better "with so many people chasing too few jobs." The critical need: birth control.

Yet, as Werner Fornos of the Population Institute notes, after a symbolic bow in the direction of population control in the Reagan summits up to and through Williamsburg in 1983, it has since been ignored because the Reagan administration lives in fear of Sen. Jesse Helms (R-N.C.). Helms has made a career of sabotaging foreign-aid legislation, as he blindly fights family assistance planning.

The Venice summit is scheduled to talk of debt relief for sub-Saharan Africa. But that will be meaningless unless the world deals with the population explosion on the African continent.

Brown's list of other key problems can't even be summarized in a single column, but two must be mentioned.

First, reassessing nuclear power. The dangers exposed by the accidents at Three Mile Island and Chernobyl could be just the tip of the iceberg, especially in the United States, where "the industry's operating record is quite poor." It may be just a matter of time, the authors suggest, "before one of the dozens of serious incidents that occur each year ends in another disaster."

Second, sustaining the world's agriculture. At the recent OECD meeting in Paris, finance and trade ministers talked hopefully of a long-term plan to reduce global food surpluses (that exist despite so much hunger). But it is later than politicians think: According to Brown, much of the world's crop land, worked too hard, will eventually lose its topsoil "and become wasteland unless it is converted to grassland or woodland first."

What will be done? Sadly, very little. But there is still enough time to bundle up a slew of copies of "State of the World 1987" and airlift them to Venice. If it's made required reading, the seven leaders might agree with the report's conclusion that, "The scale of human activities threatens the habitability of the earth itself."

XT 936 (82/8)

SUBJECT/SUJET

PUBLICATION Los Angeles Times

DATE May 31

Economic Summit Is Test for Reagan

Europe Meeting Gives Him Chance to Show Strength After Iran Scandal

By JACK NELSON, *Times Washington Bureau Chief*

WASHINGTON—For President Reagan, who leaves Wednesday for next week's annual economic summit in Venice, his 10-day European trip offers a welcome opportunity to demonstrate that for all his political troubles at home he can still dominate the international political scene.

"Any time you have an international event of that sort, it tends to dominate the news for a while," White House Chief of Staff Howard H. Baker Jr. said in an interview. "The President handles himself well in that setting, and I'm sure he will this time."

Along with his personal skill and his inherent strength as head of the most powerful nation in the Western alliance, Reagan's hand will be strengthened by the fact that several of his counterparts are struggling with serious problems of their own or—in the case of Italy—have fallen into political limbo.

Support for Gulf Policy

Nonetheless, Reagan will need all the clout that he can muster for this year's summit. On his agenda, overshadowing even the thorny issue of the U.S. international trade deficit, will be efforts to develop support for his Persian Gulf policy and build a consensus behind his negotiations with the Soviet Union on eliminating medium-range and short-range nuclear missiles from Europe.

And it is far from clear that Reagan, his image badly tarnished at home and abroad by the Iran-contra affair, can play the same dominant role at this summit that he generally did at the previous six that he attended.

The Iran-contra affair, according to a recent report by the London-based International Institute for Strategic Studies, "has virtually assured that the most powerful nation in the Western alliance will face [future challenges] with its ability to conduct a forceful foreign policy badly compromised."

At last year's summit in Tokyo, where terrorism and the Soviet nuclear disaster at Chernobyl overshadowed economic issues, Reagan so thoroughly controlled the agenda that he could claim credit for initiating every major declaration issued by the summit leaders, including a tough stand on international terrorism.

Warship Plan Draws Fire

Within two weeks of that declaration, however, the United States made another in a series of secret arms sales to Iran in an effort to secure the release of hostages in Lebanon. The subsequent disclosure of those sales has ballooned into Reagan's gravest political crisis at home and may damage his credibility among his fellow heads of government in Venice.

Reagan, under fire at home from Republicans as well as Democrats for his plan to use U.S. warships and planes as a shield for Kuwaiti tankers in the Persian Gulf, says he will put the issue on the agenda for discussion at the summit of seven industrialized nations. Senate leaders have warned that the policy risks involving the United States in the Iran-Iraq war. Republican congressional leaders are urging the President to insist that the Allies share the burden of keeping the Persian Gulf open and protecting the tankers.

Britain already has three ships in the gulf and France has one. They and other European allies have not closed the door to increasing the European presence there. And Japan, which is constitutionally prohibited from maintaining an ocean-going navy, remains open to making cash contributions.

On the crucial issue of nuclear arms reduction, the President, hoping to finally reach an agreement with the Soviets, will press for a consensus among NATO allies in support of a U.S. response to the Soviet proposal to eliminate mid-range and short-range missiles in Europe, White House aides say.

"The Administration is determined to make this a real consultation and not simply a formal conversation," Baker said. And if a consensus develops, he said, the issue will take up much of the leaders' discussion time during formal dinners and other meals—when political issues, rather than economic matters, generally are discussed.

The summit will include five other NATO countries—Britain, France, Italy, West Germany and Canada—along with Japan, though Italy is currently operated by a caretaker government and will not have a leader until elections, which will be held after the summit.

Will Travel to Rome

After flying to Venice on Wednesday, Reagan will remain there the next two days and travel to Rome on Saturday for a meeting with Pope John Paul II. The summit is scheduled for the following Monday through Wednesday, and Reagan plans to remain in Venice the day after before returning to Washington on Friday, June 12.

In contrast to last year's summit in Tokyo, the Reagan Administration has tried hard to play down any expections of a further breakthrough in its efforts to enhance economic cooperation among the leading industrial democracies. As a result, few economists expect any developments from the summit that would dramatically affect the value of the U.S. dollar in foreign currency markets.

Although Baker said the Administration hopes for some progress in deciding how to coordinate the summit countries' approach to such economic issues as trade barriers and the Third World debt, he acknowledged that because of Italy's uncertain political situation and the fact that most of the chiefs of state are either lame ducks or preoccupied with reelection campaigns, it is unlikely there will be "major movement in many fields."

Reagan's European visit, which also includes a trip to Berlin after the summit for the 750th anniversary of the city's founding, promises to offer him a welcome respite from Washington's preoccupation with the Iran-contra scandal.

One problem Reagan will still face is that his major ally among the summit leaders, British Prime Minister Margaret Thatcher, is expected to spend only one day at the Venice meeting because she is seeking election to a third term on June 11, one day after the conference ends. Last year in Tokyo, Reagan teamed with Thatcher to persuade several reluctant Allied leaders to go along with a declaration branding Libya as a sponsor of international terrorism.

Moreover, the authority of the Japanese and French leaders to make binding commitments is considerably diminished by their political circumstances.

Prime Minister Yasuhiro Nakasone is expected to leave office at the end of October after having suffered a series of recent defeats in the Japanese Diet. The dual French leadership of President Francois Mitterrand, a Socialist, and Premier Jacques Chirac, a conservative, is preparing for next year's election, and Baker said that when they go to Venice they "aren't going to stay for the whole time."

In planning for the Venice summit, the Reagan Administration is focusing its economic agenda on only a few narrow topics, counting on little more than token support from the other leaders for tough negotiations aimed at reducing farm subsidies, another pledge to work toward currency stability, and support for allowing banks to

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet 1.

Date May 31 Publication New York Times

Can the Big Seven Learn to Waltz?

Economic coordination usually stops where national interest begins.

By PETER T. KILBORN

WASHINGTON

SIX somberly suited men and one, the Italian, who invariably arrives in open sports coats, convene every three months or so in the opulent gilded chambers of the Louvre Palace, in the clubby rooms of No. 11 Downing Street or beneath the swooping brass chandeliers of the American Treasury's third-floor conference room. All ministers of finance, they call each other by first names — Jim, Kiichi, Gerhard, Edouard, Nigel, Michael, Giovanni. All come armed with briefing books, kept at their fingertips, and with the weight of their economies on their backs. Each also brings his deputy and his central banker, and three bring interpreters. The managing director of the International Monetary Fund, Michel Camdessus, is also there, to try to keep the others honest.

Collectively, they are known as the Group of Seven, for the industrial democracies — the United States, Japan, West Germany, France, Britain, Canada and Italy — that join in the annual economic summit conferences. Formed only a year ago, the group has an impressive mandate: to devise a way the countries can work together to manage the world economy. That is easier said than done.

In a simpler era, after World War II — when the world's economies were less interdependent, when its capital markets were more regulated — a similar group of men wrote the treaty of Bretton Woods, which tied the finances of the Western world to gold and kept them in some kind of balance. That era is now past; most financial experts agree that the same volatile forces that pushed that system to its limits by the early 1970's, leading President Richard M. Nixon to abandon the gold standard, make it impossible to return to such simple mechanisms as rigidly fixed relationships among currencies.

But finding a workable replacement — if there is one — is a task that pushes economic theory to its limits. Economists would be the first to say that their tools for controlling inflation, recessions and other economic crises are limited at best. It is also a task that assumes a hefty dose of political clout among its participants, if they are to put into effect at home the promises they make to each other. "One of the most difficult jobs in the world," said Treasury Secretary James A. Baker 3d, "is coordinating economic policy. Of necessity, a country's domestic agenda has to come first unless you're going to cede sovereignty, and we're not going to do that."

Now, once again, the group is preparing to meet, this time at the summit conference in Venice, June 8 to 10. President Reagan will attend, along with the heads of state of the six other nations. They are likely to announce that the finance ministers have moved some distance toward a new arrangement, something they call "international economic policy coordination."

Although some economists find the notion absurd — saying that governments will collaborate when it serves their domestic political interests and go their own ways when it does not — most of the participants are not so cynical. Gerhard Stoltenberg, the West German minister, for example, talks of having "more common ground than we have had in the past." And Paul A. Volcker, chairman of the Federal Reserve Board, who has attended these meetings and their mostly less ambi-

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Continued from Page 1

tious precursors longer than anyone else, said: "However frustrating the meetings can be, there is great utility in these people having close contact with each other. That has an influence in vague and undefined ways."

But what is this policy coordination they are talking about? How does it really work when the men go behind closed doors? How do they know when their economies fall out of line and then what do they do?

What the Western finance ministers have established so far is a "framework," they call it, for holding their economies on course. It is centered on six measurements, or "objective indicators" of economic performance: growth, trade, budget balances, inflation, interest rates and currency exchange rates.

Choosing the indicators was only a beginning. The next step was to settle on common methods of measuring them, ways to bridge cross-cultural differences and cleanse the figures of the optimistic calculations that countries often present for public consumption. Countries also collect and define statistics differently.

The difficulties are apparent if one looks at budgets. "All the governments are on different budget cycles, and their budget processes are different," explained one deputy minister. "The budget year varies, and the method by which they surface their budgets and pass them varies." The group agreed to let the I.M.F. act as referee, and with its participation, major differences appear to have been resolved.

The ministers are farther from agreement on a critical feature of the framework: how to respond when someone's indicators depart sharply from projections and thus threaten the collective goal of stable growth.

For a while, the French Finance Minister, Edouard Balladur, proposed that the system include a high degree of what economists call "automaticity." Under this proposal, countries would automatically take corrective, predetermined action when the indicators — in particular exchange rates — go awry. "But this did not seem possible," Mr. Balladur said during a visit here. "So I suggested that consultations, not decisions, become automatic." The seven would call a quick meeting, as they did in February following a renewed run on the dollar, and discuss what action, if any, to take.

The Group of Seven accepted this approach, but differences remain. The Germans, for example, balk at taking remedial action when indicators such as growth and trade overstep their targets, unless the discrepancies persist for several months. Other countries want to act sooner..

ALREADY, the countries have put into effect one feature of the broader concept of policy coordination. They have been setting ranges for currency exchange rates, a partial step back to the system of fixed exchange rates that prevailed from 1944 until the early 1970's. They do not put the rates on paper anywhere, for fear they might leak to the markets and provoke speculation. "But you have a clear understanding," said a participant in the meetings. "They're not inflexible things. They're wide bands."

A range of around 150 to 160 Japanese yen for the dollar was established at a meeting of Japanese and American ministers last September, and it held for several months. New ranges for the yen and for the German mark were set at a seven-country meeting last February. The ranges were reconfirmed in April, and despite periodic turbulence, those ranges are holding.

The idea is that when a currency departs from the range, the countries will act in some way. Their central banks will try to force it back by intervening — ganging up on the markets, buying and selling currencies. Alternatively, the countries would make changes in the domestic economic policies that might be causing the trouble. Or they would accept the change in the currency and reset

most important component of an attempt to coordinate economic policies — a willingness to alter countries' fiscal policies of taxation and spending — has yet to be demonstrated. So far, they have been willing only to alter monetary policies — mainly interest rates — in response to unwanted changes in exchange rates. In the year that the ministers have been working together, the three key countries, the United States, Japan and West Germany, keep rebuffing appeals to act on their fiscal policies.

Washington wants Bonn and Tokyo to stimulate the growth of their domestic economies by cutting taxes and raising domestic spending and investment. This would reduce Japan's and West Germany's reliance on the exports that have contributed to the gaping American trade deficit and might mute the protectionist chorus in Congress. Germany and Japan, like the other countries at the table, want the United States to do the opposite — to raise taxes and so reduce the budget deficits that they believe cause the trade problem and others.

These conflicts come up at the ministerial meetings. One witness — he, like others, spoke on the condition that he not be named — said the I.M.F. might say that growth in Germany and Japan is slow and inflation under control, so conditions permit cutting taxes or increasing public spending or taking other actions to foster domestic growth.

"So," the witness recounts, "Stoltenberg says, 'I think the I.M.F. is being much too cautious. My forecast is much better and we put very high priority on price stability and besides we're politically committed to what we have.' And the Japanese say, 'We cannot pass our present budget, and I have some sympathy for what you are saying but that's not the mood in Japan and I cannot do anything.' "

'The meetings have influence in vague and undefined ways.'

Paul A. Volcker,
Fed chairman

"And," continued the witness, "the I.M.F. says, 'The United States ought to reduce its budget deficit. That's absolutely fundamental.' And Baker says, '*I certainly* agree with that! I'm all in favor of reducing the U.S. budget deficit. We'll write that into the communiqué, once again.' " The others needle Mr. Baker to raise taxes as one way to cut the deficits, but President Reagan refuses to consider that, and Mr. Baker tells them the Administration's policy is cutting spending. "He doesn't come to grips with the issue," the witness said.

For all the limitations of such a process, most proponents say that even over such divisive issues, talking is more productive than not talking. Furthermore, the nations believe that nothing would work any better than the system they are trying to develop. Three times, from 1879 until 1914, again in the 1920's and still again after World War II, countries attempted to link the management of the world economy to gold prices. If inflation in a country rose, lowering the value of a currency, the country was usually forced to make hard adjustments in economic policies — raising taxes or interest rates — to bring the currency back into line.

The gold-based systems, however, collapsed in World War I, during the Depression, and during the inflationary burst of the late 1960's — times when countries found such policy changes were too onerous to make.

In the periods between the gold-based systems, countries usually let their currencies "float" in the marketplace with varying degrees of abandon. Sometimes they tried markets by buying and selling currencies when investors and speculators pushed exchange rates to undesired levels. At the other extreme was the practice of "benign neglect," when countries rarely intervened.

Currencies began floating again in the early 1970's when the nations rejected the belt-tightening policies required to stop inflation. The first four years of the Reagan Presidency was a period of "benign neglect."

Finance ministers from the United States, Japan, West Germany, France and Britain convened periodically then, but they never made noteworthy agreements or issued communiqués. They mostly "talked, ate and drank sherry," said one. Karl Otto Pöhl, the West German central banker, has said that when other countries were concerned about the roaring dollar, the Reagan Administration's position was, "It's our currency and your problem."

TWO years ago, attitudes changed as the dollar's rise began penalizing America's economy, and momentum began building for protectionist legislation. These factors persuaded Secretary Baker that the dollar had become a liability.

Mr. Baker and his aides found themselves leaning on an open door when they approached the older, less formal Group of Five — the Seven minus Canada and Italy — for help. The five began laying the plans that led, on Sept. 22, 1985, to the Plaza Hotel agreement that the dollar — which by then had already begun to slide — was far too high and that they would work to push it down.

"That was an ad hoc step toward this process of policy coordination," said an economist who prepares materials for the group's economic projections. The dollar fell and fell, for more than two years, and he said "created an air of euphoria" among the countries, persuading them that they could collaborate in dealing with more complex problems as well.

The institution that these men created, though frail, is beginning to acquire a look of permanence. At their meetings, participants say, the Germans, Mr. Stoltenberg and Mr. Pöhl, are active participants. So are Mr. Baker and the Japanese finance minister, Kiichi Miyazawa. Mr. Volcker is said to pipe up during discussions about the dollar and the policies of Japan and Germany, but often appears bored and withdrawn.

Nigel Lawson, Britain's Chancellor of the Exchequer, "does all the talking for the British," a participant said, and takes great interest in editing the communiqués. The Frenchmen for long have had the reputation of being gadflies. But Mr. Balladur has proved less of one, in part, it appears, because the ministers have partly come around to France's steadfast insistence on including exchange-rate objectives in setting policy. Of the smaller-country representatives, participants say, Canadian Finance Minister Michael Wilson is an affable but infrequent participant, while Italy's Giovanni Goria is among the more loquacious.

The ministers and their associates meet and eat, for at least a full day, never leaving the buildings they are in, and in the case of the Treasury, not even the room. There's structure to the meetings, "but the discussion is totally spontaneous," the participant said. "Nobody talks from notes."

Spontaneity, however, is also a hazard. The Group of Five gathered at the Louvre last Feb. 21, a day before a meeting there of the seven. The Italians, suspecting that the five would dictate decisions taken the next day in the name of the seven, boycotted the larger meeting. Mr. Volcker, others said, complained that the ministers devoted an hour to deciding how to deal with the Italian affair in the communiqué. In the end, they said nothing about it.

Despite such tiffs — and the time spent on them — they succeed in reaching agreements of consequence. "But even if they do nothing," said an economist at a central bank, "the world economy is better off because

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Subject
Sujet ....

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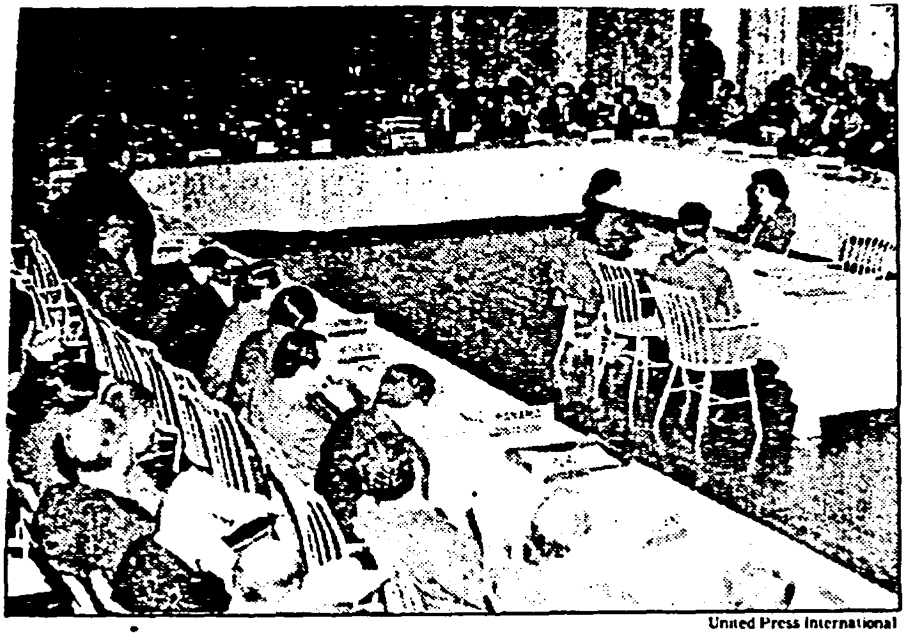

United Press International

Steering the World Economy

The international financial plan hammered out at Bretton Woods, left, in 1944 worked until the early 1970's. Next month, western leaders will meet in Venice to work on a modern version, a task they started at last year's Tokyo summit, bottom.

Waltz of the Big Seven

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date May 31 Publication Sunday Times of London

World summit leaders to back Conservative policies on eve of election

Thatcher goes for Venice knock-out

By John Witherow and Christopher Smallwood

MRS THATCHER plans to return from the Venice summit of Western leaders next week with a ringing endorsement of her economic policies and a claim that the world is on the brink of the first arms-control agreement since the invention of nuclear weapons.

Her summit appearance will allow the Conservative party to project her as an international statesman, above the domestic cut-and-thrust of the election. Senior Tories claimed yesterday this would enable the party to climax its campaign with four days on the theme of "making Britain great again".

ELECTION 87

The summit communiqué, which has already been drafted, leaves her with ample opportunity to claim that her economic policies represent the only realistic way forward for Britain. She will also give her personal endorsement to the proposed deal to eliminate medium- and shorter-range missiles in Europe which she regards as the trump card in the defence debate with Labour.

Previous summits of the leaders of the seven richest nations in the West have consistently endorsed Thatcher's economic policies. Last year's Tokyo meeting concluded that it was "essential to maintain firm control of public spending within an appropriate medium-term framework of fiscal and monetary policies".

Thatcher seized on this to tell parliament that the keynote of the summit had been "confidence that our economic policies are right". She will use next week's communiqué to give her a final boost in the last days of the election campaign.

A senior Treasury official pointed out yesterday that in recent years "economic summit communiqués have come to look much more like statements of UK government policies", as the economic policies of the Western countries have converged.

Venice will also give the prime minister a perfect platform to underline that Britain's economic growth is out-stripping that of the other leading economic nations. This has been a theme of her campaign.

The main economic debate at the summit is likely to centre on the need for joint policies to head off the danger of world recession. Most experts agree that West Germany and Japan should do more to reflate their economies and that the Americans should try to curb their budget deficit. Such measures would reduce the huge imbalances in world trade and help to stop the slide of the dollar against the yen and D-mark.

Although the meeting is meant to be confined to economic affairs, the leaders will discuss East-West relations, and in particular progress towards the elimination of Euromissiles.

A unified Nato position has been stalled for several weeks because of the inability of West Germany's coalition

Continued on page 2

Thatcher

Continued from page 1

government to reach agreement on shorter-range missiles. But the Bonn cabinet meets tomorrow and arms-control experts expect it to endorse broadly the position held by President Reagan and Thatcher.

Thus the summit will be the first opportunity world leaders have had to give backing to the proposed treaty. Progress towards destroying all medium and shorter-range missiles in Europe could then be rapid.

Conservative Central Office is acutely aware that the prime minister's popularity leapt after her visit to Moscow in early April, and is hoping that her prominent appearance on the international stage will have the same effect.

The prime minister, who will spend only 18 hours at the two-day summit, hopes to receive electoral credit from other initiatives there. These include:

- ● An assault on Japanese trade restrictions;
- ● Progress towards reform of worldwide agricultural subsidies.
- ● A tough statement on combating terrorism.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date June 1 *Publication* Globe and Mail

Some of our billions have gone missing . . .

It could be that next week's enice Economic Summit will be bout issues that election-bound or lectorally weak leaders (stand up eryone except Helmut Kohl) n safely agree to condemn.

How about a nice, safe agenda overing acts of war in the Persian Gulf, terrorism, AIDS and the enace of drug addiction?

To the extent that the seven aders pluck up their courage d venture further afield and lk about things economic, they e going to find themselves being ntroversial and disagreeable. nd that may not be to their liking.

Should we strongarm Japan and est Germany into doing something to lift global economic rowth? What to do about the dollar and interest rates and the rapid rate at which everyone is ripping up the rules governing international trade?

There are a lot of mines in the inefield. And one of the reasons ey are all primed to explode is at, extraordinarily, no one ows quite how bad their own, or yone else's, international trade d payments position is.

The International Monetary nd calls it a "discrepancy." e OECD cites it as "an error d omission." But the fact is that the past few years, the world s lost billions.

Between 1980 and 1984, it lost 8-billion (U.S.). Just like that. of! And, if you added up everyone's surplus and everyone's deficit for last year, you'd find they not add up by $80-billion.

ow that would seem to be a large sum to have simply disappear. It is, of course, accepted that the more billions you have the more careless you get. (Canadian governments have demonstrated it for years.)

But we now have before us the spectacle of the world's big banks, residuaries of many billions, bent on tightening up in savage ways in the United States and prudent ways in Canada.

They are on the phone almost every day, chewing cigars and making tough decisions. "You know the three billion bucks the Brazilians owe us . . . well, now, they don't."

Faced with such exemplary housecleaning by the banks, could not the leaders of trillion-dollar economies decide that Venice was the place for a little old treasure hunt? "You try the dungeons in the Doge's Palace, Ron. I'll take Palladio's cloisters on San Giorgio — what a pile that is? — and we'll meet back here at 1600 hours Monday and compare notes."

In truth, no great hunt is needed. All that is required is something at which governments and their leaders should be adept: creative bookkeeping.

The serious point is that so much rides on so many missing billions.

The value of each country's transactions with other countries in goods and services, investment income, gifts, is its current account balance, either a deficit or surplus. Because one country's deficit is another's surplus, the accounts of all countries should total zero.

They do not, however. And they have not for some time. One of the worst years was 1982 when the figures were out by $114-billion. That means countries either understated their receipts or overstated their payments.

Where has the money gone? Well, the IMF sent a working (search) party after it a few years ago. It came back with a report that attributed much of it to unreported investment flows — a polite name for hot money funds escaping from unstable countries to stable ones.

Another problem, said the study, was tax havens that do not want the authorities to trace funds, places such as the Cayman Islands and Liechtenstein.

A third complication was international shipping companies that carve themselves into many subsidiaries operating under different national flags and tend to "lose" a lot of their income by shipping it around.

In whatever way the discrepancies and balancing items are created, the turmoil they create is indisputable.

Washington is at the moment being nasty to the world because of its $170-billion trade deficit. The release of each month's U.S. trade figures is preceded by panic in the financial markets. Trade wars break out; currencies are devalued; competitiveness becomes a national slogan; and the trade issue rises to the top of the agenda in the United States and other countries.

Is all this fuss necessary? Well, some of it perhaps. But not all of it.

If, for example, all the disappearing billions in errors and omissions were to be credited to the United States — which is not out of the question in view of the dollar's dominant position in world finance — a U.S. payments deficit of $140-billion this year would come down to a manageable $80-billion. And if, through creative bookkeeping, the United States did no more than count the missing money on the basis of its share of global imports, its payments deficit would be down close to $100-billion.

That would go some way toward cooling tempers in Congress and stopping mines going off in minefields at economic summits.

Certainly, the world's statisticians are doing no one a favor by creating a black hole into which billions disappear at a time when the key issue is how to achieve greater equilibrium in international trade and payments balances and stabilize skittish currencies.

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1 of 2

Canada puts world on road to reform

By Janice Vansickle
Star Agriculture Reporter

OTTAWA — The Canadian government is being given — and is readily taking — credit for putting the world on the road to agriculture trade reform.

Months of international lobbying by a various cabinet ministers have started to pay off in recent weeks with a growing number of countries calling for a truce to deepening subsidy wars.

First there was a meeting of the Organization for Economic Co-operation and Development, where 24 countries agreed on the need to control agriculture subsidies. It was followed by a gathering of the 14-nation Cairns Group, which endorsed the call for a truce and urged quick reform through the current talks on the General Agreement on Tariffs and Trade.

And the Canadian government is hoping the momentum will carry over into the upcoming economic summit of seven industrialized nations. Prime Minister Brian Mulroney will be carrying the torch for not only Canada but also the Cairns Group in trying to get other leaders to face the subsidy problem and the havoc it is causing farmers and debt-ridden governments.

CYNICS WILL SAY the accomplishments to date amount to little more than lip service. Verbal commitments, they'll say, won't put money into the pockets of farmers affected by low prices.

But they are a major first step down a very long road, says Terry Daynard, general manager of the Ontario Corn Producers' Association.

"Often a big step in solving a problem is to get people to agree there is a problem."

This first step, however, raises a host of issues.

A big question mark hangs over the head of European and American politicians and their willingess to end the war, which cost Canadian grain and oilseed producers an estimated $4 billion last year and is expected to do greater damage this year.

SECONDLY, there is the matter of defining subsidies. Almost every nation has tailor made agriculture-support programs and it won't always be easy determining which of them influence market and production patterns.

While the OECD nations agreed the steps to reform have to be taken collectively, co-ordinating such an effort won't be easy. The old, "on your mark, get set, go," won't work in an environment where the first one across the line could be the loser of both market share and political support at home.

Canada's strong support for reform also has farmers wondering how the government will change existing programs. Some fear these latest international initiatives will give it an excuse to forfeit on pledges of further aid to cushion low prices.

THE GOVERNMENT came through in 1986 with a $1-billion special Canadian grains program and is under pressure from farmers and several provincial premiers to do the same, plus more, in 1987.

Agriculture Minister John Wise has said Canada has to see its farmers through these tough times. But he has also warned Canada has to be able to go to the international bargaining table and look other nations in the eye, confident it has done its bit to curb the subsidy game.

Canada's subsidy initiatives have been in response to heftier European and American programs, which have subsidized export prices and farmers. Still, on some commodities, Wise claims Canada is coming dangerously close to being criticized for its generosity.

Principles set out at the OECD meeting call for subsidies, when necessary, to be supportive of farmers' incomes rather than provide incentives to produce more.

MANY CANADIAN farm leaders recognize this as a necessary step to reform and are trying to design an aid program to meet that goal.

Daynard's organization is working on a proposal similar to one being developed by western farm organizations. The program wouldn't be commodity-specific, but would gear aid to acreage and its past productivity levels.

Any such program, Daynard warns likely won't satisfy everyone. "We want to come up with something that is broadly viewed as being fair across the whole country, That means making compromise."

Farm leaders are expected to work together on an aid program formula in the coming months, even though government has given them no indication of how much, if any, money they will be dealing with.

GOING INTO A meeting with Prime Minister Brian Mulroney last Friday, Daynard planned to deliver a double-edged message: "We want to end the war, but we want the army to be alive at the end of it."

For the thousands of Canadian farmers burdened with heavy debts, the war cannot end too soon.

At a media briefing to wrap up an Ottawa meeting of the Cairns Group, Trade Minister Pat Carney said Canadian farmers "will sleep better tonight", thanks to the goal it set for having trade reform dealt with by GATT by late 1988.

But neither she, Wise or Wheat Board Minister Charles Mayer, could say when farmers would see prices improve.

Despite indications from some U.S. and European leaders that they too want reform, they are still developing policies likely to prolong the war.

The U.S. Congress is moving ahead with a protectionist trade bill and Europe is proposing to introduce a consumer tax on vegetable oils. While the tax is aimed directly at the U.S., it would also hurt Canada's soybean growers.

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JAPAN, TOO, is increasingly being viewed as a bad guy in the trade war because its support programs make up more than 50 per cent of its farmers' incomes.

Still, the U.S. plans to come forward with its trade reform proposals at a July session of the GATT round in Geneva, Switzerland. Members of the Cairns Group plan to do likewise in the fall.

But going into the GATT round, the Cairns Group wants a contractual agreement among countries to deal with agriculture issues. They're hoping Mulroney can achieve that goal at the economic summit, where Japan, the U.S. and Europe will be represented.

While GATT talks usually take about four years, the group is hoping for "an early harvest" that would see reforms spelled out by late 1988. Implementation could then begin in 1989.

Cairns representatives admit, however, reform will be gradual and could take up to a decade.

THE ISSUES TO be addressed at GATT include defining subsidies, setting a timetable for rolling them back, the levels to which they must be reduced and the possibility of giving exemptions to developing countries.

The issues are complex, but the will to bring about reform could override any threat of the talks becoming bogged down.

In spite of the political value of subsidies in Europe, the U.S. and Japan, they are an expense few governments can afford to continue supporting.

They are also playing havoc in international banking circles, with Cairns' members like Argentina and Brazil saying the trade war is preventing them from paying off their multi-billion dollar foreign debts.

In Carney's words, the war's continuation can only lead to "fiscal chaos."

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sales. Although he was confident that the planned action would be successful, the study was still under way and he could not — or would not — provide specific information about any of the Crown corporations which were allegedly part of his responsibility.

As the Tories learned, Doer was true to his word. Questions about Manitoba Hydro, the telephone system, public insurance, Manfor, McKenzie Seeds and other government corporations were all greeted with a referral to other ministers.

Would a real super-minister respond in such a fashion? chided Derkach. The premier promised a new ministry, but something went awry, suggested Harry Enns. What power would Doer have? asked Clayton Manness. What would the new structure be?

We are still studying the alternatives, said Doer, but the government was working very vigorously. The improvements would be apparent, either in a white paper or legislation, "very shortly."

J. Frank Johnston, however, insisted it was a "sham of the worst kind." Not so, responded Doer. The public had great confidence in Crown corporations and the system would be reformed. "That is the truth." An appropriate announcement would be made when the final decision was made.

Derkach would not hold his breath until that occurred and wondered if the premier had jumped before knowing where he was going when he announced the massive change. Was there a business plan? Who would take ultimate responsibility?

They just want to create an image, said Enns, who warned the new minister that responsibility and blame would be placed directly on him. You will have to carry the can if anything goes wrong with any corporation, warned Don Orchard, who wondered if Doer had received this potentially vulnerable position because of manoeuvering by others who aspire to the NDP leadership.

The minister, however, would not bite, continuing to refer specific questions about Crown corporations to other ministers and promising to inform the critics about the reform package when it is ready. "I guess we'll have to wait," said Derkach.

Since legislation was expected this week, the critics were not required to wait too long for details, but regardless of the changes, they will probably hope that the super-plan with the super-minister will be another super-embarrassment for the government.

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Debt crisis worsening

Addictive borrowing is the most serious ailment afflicting many less-developed countries: They crave more loans even as their means of repayment diminish.

Take the case of Brazil, the largest debtor in the Third World. Currently it owes $93 billion to foreign commercial creditors, including $7.1 billion to Canadian banks.

When it comes to outside debt, sovereign nations are much like individual households. To stave off bankruptcy, the more they owe, the more they have to cut back on consumption in order to free up earnings for debt payments.

In the case of Brazil, strong economic growth had resumed two years ago, national savings were high, and the country was meeting its full debt obligations. However, in the build-up to an election, the government let consumer demand get out of control.

Wages increased much more rapidly than productivity and consumer imports soared. The country, quite literally, began living far beyond its means, causing domestic inflation to escalate beyond an annual rate of more than 1,000 per cent.

As Canadians learned during the last recession, there is a simple and effective, although painful, remedy for such problems. Government can cool out inflation and shore up the national currency by reducing consumer and corporate demand through some combination of higher interest rates, lower spending, and higher taxes.

Under trade union and socialist pressure, though, the Brazilian government cannot bring itself to adopt any austerity measures. In February, it did quite the opposite, refusing to make any more interest payments on the national debt, so that Brazilians might have the wherewithal to continue their spending binge for a few more months.

Following the example of Cuba's Fidel Castro, some socialists in Brazil want their governments to go even further: Renounce the foreign debts altogether, they insist. Don't pay one more cent to northern bankers in either principal or interest.

The problem with this approach is that most bankers are not too keen on lending more money to clients who refuse to pay back their previous debts. It may be that a relatively small agricultural economy like Cuba's can get along with only a few billion dollars in aid from the Soviet Union, but a major international trader like Brazil cannot expect to achieve rapid and sustained economic growth without continuing access to many billions of dollars in international credit to help finance imports and productive investment.

In Canada, Brazil's suspension of interest payments on existing debts has had a painful impact upon first-quarter profits reported by the Bank of Montreal and the Bank of Nova Scotia. In the United States, the gigantic New York Citicorp bank decided last week to write off totally up to $3 billion in loans to Brazil and several other less-developed countries, leaving the bank with an estimated over-all loss during 1987 of close to $1 billion.

Other banks have started to follow suit. There is no point in listing Brazilian loans as assets if there is no prospect that the money will ever be paid back.

The biggest losers in this process, however, are not the banks, but defaulting Third World borrowers. International credit will still be available for productive investment in less-developed countries, but reckless governments will find it increasingly difficult to borrow funds for non-economic purposes, such as political payoffs or the prosecution of a Falklands war.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date June 1 *Publication* Journal of Commerce

CREDIT OUTLOOK

redit Mart Focuses On Venice Summit

By RIPLEY WATSON Jr.
Journal of Commerce Staff

NEW YORK — The credit rkets are looking ahead to t meek's economic summit Venice with some degree of epticism as to whether they n continue their recent price vance, analysts say.

After the sharp drop in prices d consequent run-up in g-term yields from around % in mid-March to more n 9% in mid-May, "the worst over," in the view of Scott rdee, vice chairman of Yaichi International (America) . He described the price ns since the peak in yields t month as "an indication that ces have bottomed out rather n a rally in a bear market."

The U.S. dollar may go to 150 inst the yen (in contrast to els below 140 yen for awhile), continued, "and this would nulate demand for both U.S. ds and stocks."

William V. Sullivan Jr., sen vice president and director money market research at n Witter Reynolds, saw the eting of the Group of Seven ustrial nations next week as "next obstacle" facing the dit markets.

"If the result is a policy supting the dollar, the bond rket can continue to improve," he said. "In the meantime, the market will probably hold in a narrow trading range this week, although participants also will be looking ahead to Friday's report on employment conditions in May."

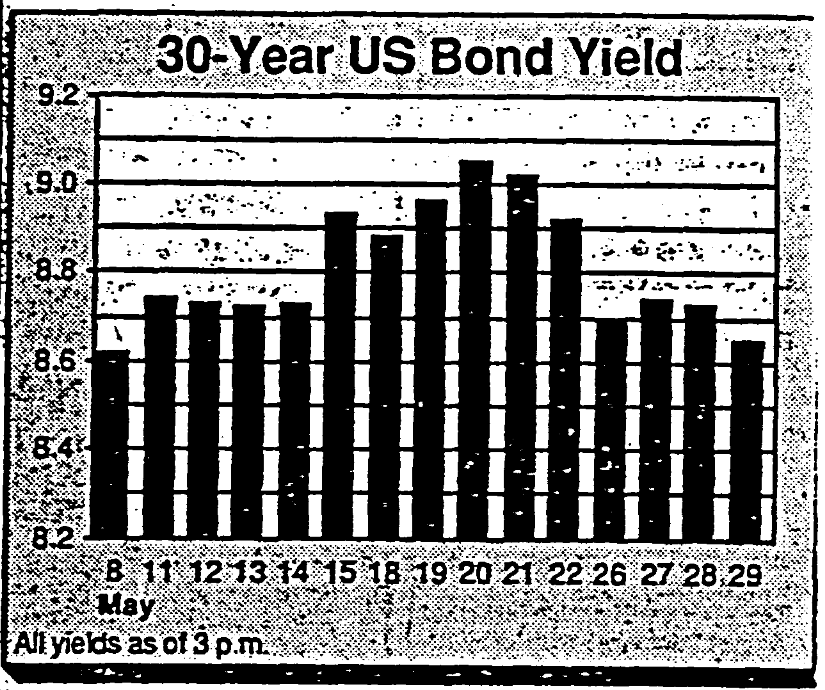
The employment figures, usually released on the first Friday of a month, are the first indication of the state of the U.S. economy in the previous month.

Assuming the G-7 meeting's results are positive, he said, "we could see long-term interest rates in the 8% to 8¼% range by late summer, especially if the economic figures show a continued decline in growth in April and May." The interest rate increases since March indicate a slower economy in the second half of the year, he added.

Mr. Pardee foresees rates going no lower than 8%, if they do indeed get that low. He suggested that, with the dollar around 143 or 144 to the yen late last week, there's enough margin from its weakest point to strengthen the U.S. economy. He felt the economy has been damaged severely by uncertainties because "we need a better sense that we can control our own destiny."

A strong dollar would be ben-

SEE CREDIT, PAGE 7B



DOUG PINKERTON/Journal of Commerce

Credit Mart Focused On Venice Summit

CONTINUED FROM PAGE 1A

eficial, he argued, adding that "when the dollar is under pressure, you don't get growth." He also criticized the view of some economists that a declining dollar stimulates growth, contending that it doesn't do so, "but only harms the financial markets." What's needed is further relaxation of the markets, he commented.

Some degree of relaxation was evident Friday, when the bellwether 8¾% Treasury bond due in 2017 moved up a full point to 101 to yield 8.65%. This brought the gain on the week to nearly three points from the 98⅛ level to yield 8.92% a week earlier. Friday's return was the lowest for the key issue since it stood at 8.61% May 8.

Mr. Pardee didn't expect much solid news to emerge from the G-7 meeting, suggesting instead that the closing communique could already be written, with the following points covered: the United States must do something about its fiscal deficit and protectionism, Japan must open its markets and lower interest rates and West Germany must cut rates and stimulate fiscal policies.

He felt it more important that

the prior meeting in Paris in Feb ruary and review how those initia tives have been followed up.

"The last thing we need or want is a discussion of discount rates," he said. "Central bankers are better equipped to decide on monetary matters."

Departing from the financial aspects of the meeting, he said the most important item would be to assess joint relationships in the wake of the new Soviet Union approach to world affairs.

Secretary General Mikhail Gorbachev has made some interesting initiatives, some rather bold, he said, "and it's time to compare notes and see if the participants can form a united front on the new Soviet approach."

Dean Witter's Mr. Sullivan suggested that the U.S. economy is losing momentum, a feeling borne out by Friday's report that the index of leading economic indicators fell 0.6% in April for its biggest decline since a drop of 0.8% in April 1985. The decline contrasted to a 0.8% rise in March.

He also noted that the interest rate differentials between this country and Japan have brought an inflow of funds into the United

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

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Only three can play the summit game

ECONOMIC OUTLOOK

When the annual economic summit was invented in the mid-1970s, the heads of government involved shared a taste for international economics. Today's leaders are rather different. Admittedly, their finance ministers have led them into a new age of managed exchange rates. But the national leaders who take the starring roles at the annual summit clearly view it as a grandiloquent photo opportunity (not hard, in Venice in early June) and a political convenience: an occasion which can be hijacked away from economics to discuss arms control, or merely to win easy headlines with an international agreement on Aids.

So it is not easy to judge how far economic issues will force themselves to the fore at next week's summit. At least, the question is the extent to which the participating governments are prepared to acquiesce in a slowdown in world growth.

Britain — along with France and Italy — is now only in the second rank of summiteers, followed by Canada, and the half-members of the club representing the European Community. These governments can always make trouble (as France did in 1985, and Italy has threatened to do this year). They can put forward initiatives — as Britain has done, this year, on debt relief for sub-Saharan Africa, hoping to stimulate the US into a rehearsal of its "Baker plan" for heavily-indebted countries.

They can also give substance to the remarkable new consensus that the agricultural policies of the industrial world are an expensive nonsense. But only the three most important summit countries — the US, Japan and Germany — can determine the outcome.

New start

The big three start, this year, from somewhere near: public agreement that exchange-rate stability is now necessary to economic well-being. Since February, when this agreement was formalised, they have backed this with substantial intervention. After a good start, followed by a shaky April and some hasty readjustment of target rates for the dollar, the Louvre agreement on currencies is showing powers of survival. It is firmly endorsed by Britain and France.

But stability requires more than intervention; it obliges governments to subordinate interest-rate policies to exchange-rate objectives. Currency stability also disarms governments of the exchange-rate weapon for adjusting today's huge trade imbalances. That leaves a choice between the blunt protectionist instrument and the levers of budget management.

Since there are two sides to every exchange rate, however, this game of consequences turns right upon the question of which side should adjust its interest rates or its budget deficit. Summit "sherpas" from the participating governments have been busy designing competing sets of "objective indicators", which are supposed to provide the answer.

This exercise will at least allow scope for a little gamesmanship among officials condemned to accompany their masters to the summit. The Europeans ridicule the indicators proposed by the Americans, which are so numerous that their model of the world economy appears hopelessly over-determined; the British and the Germans are, more or less courteously, agreeing to differ on how to measure demand.

In the long term, this technical work will be important; in the short term, it is not going to settle any disputes between the major economic powers. At this stage, it is not even clear whether "objective indicators" are ones that governments actually intend to meet (ie, targets) or merely ones that can be independently estimated by someone else (ie, the International Monetary Fund). Right now, the big three are subjectively articulating their own competing demands for action.

The Americans, the Japanese and the Germans each, at the time of the Louvre agreement, made commitments to helpful action: in Venice, each will claim to have fulfilled them. The Americans will point to some pretty slim evidence of a declining budget deficit, and to President Reagan's veto of protectionist legislation. The Japanese will point to Prime Minister Nakasone's latest package of extra spending and tax cuts, purported to total 6,000bn yen; before the summit begins, we will no doubt have a further financial liberalisation package as a gesture of international goodwill. The Germans, however, have little new to offer, beyond a recent tiny downward shift in money-market interest rates.

Since Mr Nakasone's package was unveiled last Friday, a series of American spokesmen — most recently the Treasury Secretary — have gone out of their way to welcome it. Their praise was all the more remarkable in that it takes very little analysis to expose the double-counting in the Japanese arithmetic, or its dependence on the approval of a suspicious parliament. Bogus figures or no, the Nakasone package is taken as evidence of an intent to please — not a notable feature of the German pre-summit position.

German promise

American anger with West Germany erupted at the meeting of finance ministers in Paris last month, until the German economics minister committed himself to review budgetary policy if German growth still seemed to be flagging by June. His senior colleague, finance minister Gerhard Stoltenberg, quickly crushed this notion. In this final pre-summit week, the Americans are clearly stepping up pressure on the Germans to put forward a revised version of this half-promise, for everyone to claim satisfaction and success at the summit.

At issue is something more than a bit of international buck-passing. On the question of responsibility for adjustment hangs the consequences of the new commitment to currency stability. If the burden falls entirely on deficit America, the consequences will be deflationary; if on surplus Japan and West Germany, they will lead to growth.

It is true, of course, that they could then also lead to inflation; which in turn means that adjustment is best shared. But in today's surplus economies, inflation is virtually non-existent; the most pessimistic forecasters can see only a faint trickle in the pipeline. The risk of world recession is, however, very real. If the summiteers opt for the quiet life, rather than press for painful adjustment, they may find that peace has been dearly bought.

Sarah Hogg

External Affairs Canada   Affaires extérieures Canada

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The Outlook

Is Urging Growth Abroad Bad Advice?

NEW YORK

When leaders of the major industrial nations convene at the economic summit in Venice a week hence, it seems a safe bet that the U.S. contingent will press for more stimulative policies abroad. It's impossible, of course, to know precisely what the foreign response will be, but the reasoning behind the U.S. approach seems at first glance sensible enough. Swifter growth abroad, the argument runs, will serve to pare the huge U.S. trade deficit, bolster the dollar and, generally, strengthen business at a time of much concern over global economic prospects.

Perhaps that's indeed how things will work out. But it also seems possible that more stimulative policies abroad could ultimately produce some not-so-pleasant consequences.

Initially, to be sure, more stimulative measures in such nations as West Germany and Japan—which only last week unveiled some new steps—could well act to quicken the pace of business there and thus spur demand for U.S. exports. In turn, this could help strengthen the dollar, and the near-term result could indeed be, as U.S. officials maintain, brisker business all around.

But the story, unfortunately, may not end there. The U.S. approach assumes, very possibly erroneously, the presence of much ample economic capacity for prolonged, vigorous growth, abroad as well as at home. If this turns out to be an incorrect assumption, however, and there's actually less growing room than is supposed, stimulative policies could eventually cause a host of new difficulties—a return to severe inflation, painful interest-rate levels and ultimately slumping business activity world-wide.

In the U.S., to be sure, some economic barometers do suggest ample room for further growth. Though the last recession ended four-and-a-half years ago, over a fifth of the nation's plant capacity still stands idle. And joblessness, though dropping, remains above the 6% mark, often viewed as a sort of borderline between slack and strain in the labor market.

But some other lesser known indicators of economic elbowroom point to a more constrained situation. On the labor front, for instance, the share of working-age Americans not at work is at a record low, slightly under 40%. Many analysts regard this statistic as a more meaningful gauge of labor reserves than the widely publicized unemployment rate. At the same time, an index of help-wanted advertising, compiled monthly by the nonprofit Conference Board, stands at a seven-year high.

Abroad, there also may be less growing room than meets the eye, or than U.S. officials apparently imagine. It's true, for example, that jobless levels in many West European countries—though certainly not in Japan—exceed even the U.S. rate by considerable margins. As in the U.S., however, jobless levels abroad may not provide the most accurate measure of labor availability.

Britain's unemployment rate, for instance, is nearly twice the U.S. level. But the share of working-age Britons not at work is only some five points higher than in the U.S. Moreover, the number of unfilled jobs in Britain—an important gauge of labor availability for which, lamentably, there's no U.S. counterpart—has been sharply on the increase, rising above 210,000 from about 150,000 early last year. Similar patterns are evident, among other places, in West Germany, where the number of vacant jobs, topping 170,000, has roughly doubled since early 1984.

In terms of plant usage, it should be added, many nations abroad already are running their factories closer to capacity than is the case in the U.S. The list includes West Germany, Japan, France and the Netherlands.

Other data suggest, moreover, that many countries overseas already are conducting policies that should spur economic activity. Money-supply growth, for instance, has picked up recently in Japan, West Germany, Britain and the Netherlands. Accelerating monetary growth, many economists are convinced, can hasten economic growth.

Along the same line, a recent report by the Columbia University Center for International Business Cycle Research shows that its indicators of future economic activity in major countries abroad generally point to "moderate to strong future growth."

In no instance is a country's indicator pointing down toward a recession. Only West Germany's is flat, and the indicators for the seven other foreign nations monitored all are on the rise, mostly at accelerating rates. The indicator for Japan "is soaring at an annual rate of 13%," the Columbia group reports, up from gains of 8% three months ago and 5% six months ago.

It's always possible that these barometers may prove wide of the mark. There's no question that economic activity has been lackluster in most countries for a long while and, despite the advancing indicators, more of the same may be in store—though it's noteworthy that Japan's industrial output rose sharply in March, the latest month available, and its consumer-price rise outpaced even the U.S. gain.

Whatever develops, slow growth seems preferable to no growth or economic decline. But it also may be preferable to swift growth, which could bring on the sorts of pressures that in the past have hastened recessions. And, ironically, those pressures seem much likelier to build dangerously if the U.S. gets its way at Venice.

—Alfred L. Malabre Jr.

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Subject
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Mulroney nay speak or farmers n Venice

Alex Binkley
e Canadian Press

Venice and Geneva are a long y from the grain fields of West-n Canada or the rice fields of ailand. But the two European ies represent the best hope for uggling farmers around the rld.

Leaders of the seven major ustrialized countries meet in nice on June 7 for their annual nmit. Prime Minister Brian lroney will be trying to get the pport of the other leaders for king agriculture trade reform a item in the current round of gotiations under the General reement on Tariffs and Trade ATT).

The GATT negotiations are ng conducted in Geneva.

Subsidy battle

Agriculture trade isn't covered GATT, the rule-book for most ms of trade and commerce be-en nations. There have been e unsuccessful efforts in the t to bring in international rules agriculture trade.

he absence of those rules has ched off a $50-billion subsidies tle between the United States the European Economic Com-nity (EEC). And Japan uses a g list of duties, tariffs and im-t rules to force the price of im-ted food to high levels to pro-t its own farmers.

Meanwhile, farmers in the rest he world are suffering from low ces for most things they pro-e. Grain prices are at a 15-year . Rice producers face a similar eeze. And for many developing ntries, returns from tropical os have fallen sharply.

When Mulroney raised the agriculture subsidies issue at last year's summit in Tokyo, he was unable to persuade the other leaders to take any action or even agree to further discussions.


Mulroney

That wasn't a total surprise, considering the other summit countries are the United States, Japan and the European farm powers of France, Germany, England and Italy.

This time Mulroney should at least get a more attentive reception.

Several weeks ago, ministers from the 24 countries belonging to the Organization for Economic Co-operation and Development (OECD) agreed on the need to end the export subsidies battle and find better ways to support farmers.

They also undertook not to bring in any new subsidies or trade barriers.

And at a recent meeting in Ottawa of the 14 countries in the so-called Cairns Group of Agriculture Traders — which includes Canada but consists mainly of Asian and South American countries — representatives said they were surprised at how much progress had been made on the issue in the last year, referring to the OECD agreement.

Only three of the countries in the Cairns group — named after the Australian city where the countries first met — are in the OECD.

Canada and its allies in the group have agreed to work closely to keep the agricultural trade reform issue from being sidetracked at the GATT talks in Geneva.

But they said they realized that unless the summit gives a green light to the agriculture negotiations, it could be many more years before conditions improve for farmers.

That would leave many developing countries in economic chaos, unable to meet their bank loans from industrialized nations.

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U.S. TRADE REPRESENTATIVE CLAYTON YEUTTER DISCUSSES VENICE SUMMIT WITH FOREIGN JOURNALISTS

Washington -- U.S. Trade Representative Clayton Yeutter says that the major industrial nations attending the Venice Economic Summit June 8-10 are in general agreement on the key economic issues.

"I see very little divergence of opinion among the seven summiteers on what the priorities of the day are and what the basic parameters are for dealing with those priorities," Yeutter told reporters from Canada,Japan and Europe in a televised interview May 29 via USIA's "Worldnet" global satellite network. "It seem to me there is a significant convergence of viewpoint among the summiteers on the major economic issues."

Those key issues, Yeutter said, include global growth, trade, agricultural reform and developing country debt.

Commenting on Japan's recently announced package to stimulate domestic demand in that country, Yeutter said that the "preliminary analysis certainly is positive. Nakasone can bring that package to Venice with pride."

Yeutter made these additional points:

-- Though there will not be any major new macroeconomic measures generated from the summit, "macroeconomic policy is something that has to be worked at constantly."

-- It is very important that the chiefs of state make a strong statement on the need for agricultural reform. Without such a statement, only minimal progress is likely to be achieved in this area.

Following is the transcript of the Yeutter Worldnet interview:

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MODERATOR: Welcome to Worldnet's "Dialogue." Today, for viewers in Europe and participants in Rome, Tokyo, Bonn, London, Paris, Toronto and Brussels, we present a special news conference with Ambassador Clayton Yeutter, the U.S. Trade Representative.

Welcome, Mr. Ambassador.

YEUTTER: Thank you. A pleasure to be here.

MODERATOR: Mr. Ambassador, the Venice Economic Summit Conference is only a few days away. What do you see is the principal trade and economic issues to be considered?

YEUTTER: There will not be a lot of new issues, obviously. There will be continued interest in the -- what we call -- the macroeconomic policy situation, which really means the fiscal and monetary policies of the key trading nations that will be represented there, some discussion of probably tax policy in some of the countries as well.

Then there will clearly be considerable discussion of trade and some specialized attention given to agriculture. That will probably be the main elements of the agenda.

QUESTION: Roughly one year ago, the United States said that any talks about the exchange market should follow the trade negotiations. Now that the GATT Round has started, do you think that we can expect more stability in exchange rates? Do you think this will be one of the issues at the coming Venice Summit?

ANSWER: All of us would like to see stability in the international marketplace -- not only in exchange rates, but in security markets and all other aspects of fiscal and monetary policy internationally.

Fortunately, we seem to be making some progress in that area in recent months although those markets are still relatively volatile. My judgment is that they are demonstrating less volatility now than they were earlier. So we have at least some success on the part of the summit participants in achieving volatility.

They would like to do more of course. I think more can be accomplished. There will be considerable discussions of that in Venice, I am sure.

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Q: The Japanese government decided today its (inaudible) package of emergency economic measures to stimulate the government's demands.

How do you compare this with last year's package of 3,600 million? Do you think it is a good enough souvenir for Mr. Nakasone to carry with him to Venice?

A: I had a general briefing on the package yesterday and although we certainly need to see the detailed summary of what is included, the preliminary analysis certainly is positive. It would seem to me that Prime Minister Nakasone can take that package to Venice with considerable pride.

Obviously, the additional element that must be involved, of course, is implementation of the package -- a point that we have been making to the prime minister and to other representatives of the Japanese government over a considerable period of time.

We hope that the package will be quickly adopted by the Diet and implemented in Japan so that it will have a positive impact on the Japanese economy. I suppose one could argue about whether it is or is not sufficiently adequate to serve the economic growth needs of the world -- that is, to make the kind of contribution that Japan, as one of the major trading nations of the world, should make to the economic well-being of the world as a whole. That is a judgment call, and clearly the government of Japan has worked very hard on that package and it is to be complemented for attempting to make a major step forward.

Q: German industry and government puts a lot of importance to the new Uruguay Round. Which are the sectors, that have priority, for the United States to be successful in the Uruguay Round?

A: We are very pleased, first of all, that the government of Germany does give the round a priority and we know that to be the case from a lot of discussions that I have had with your officials, including many with Minister Bangemann. So we are looking forward to continued support from the government of Germany in that exercise.

I happen to think it is the most important multilateral trade negotiation we have had in the history of the world and one that could have an immense impact on the way international trade is conducted over the next 20 or 30 years.

To be specific, our priorities would probably be -- particularly in the new areas where we think it is important that the GATT begin to establish some rules and some disciplines in services and intellectual property and investment -- where there simply are few -- if any -- rules at all today.

We also believe that agriculture needs to be confronted in a very major way for the first time and we hope that will occur. We hope the economic summit in Venice will give that exercise some thrust. Beyond that, we think the GATT, as a whole, needs to be strengthened in a variety of ways: in its dispute settlement mechanisms where Germany, by the way, has been very supportive and -- in surveillance kinds of programs -- other ways to just make the GATT a stronger and more effective and more productive institution.

This does not mean that we should ignore the traditional challenges of a trade round. Those should all be included too. We want to give some particular thrust to some of these new areas.

Q: The Wall Street Journal suggested on the 18th of May that U.S. export financing grows harder to find for all but large firms and that many U.S. banks are giving up business as unprofitable and risky. What legislation and regulatory action is being taken or planned by the U.S. administration to make export trade financing more attractive for U.S. banks?

A: It seems to me that that problem has been very much overrated. I have had few, if any, complaints about the inadequacies of export financing in the United States.

In addition to what commercial banks do in this area, there are a number of government programs that are available to exporters who can qualify for them, and there are a good many in that category.

I just do not see financing as being a major impediment to American exports. I am somewhat disappointed that our export numbers

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have not improved more quickly than they have because we assuredly are price-competitive today in a lot of products.

The adjustment in exchange rates has certainly made American products price-competitive in Europe and also in Japan -- not all of them, of course, but a very great number of them. So if there are problems for us on the export side today, it seems to me that those are not very much price-related. I do not see them as being very much financing-related. They are more likely to be related to marketing skills -- a marketing commitment on the part of our export firms and a broader commitment to get back in the export business after having a tough time in that arena over the last several years.

In some cases, it may be related to quality, although I think the quality of American goods is improving very rapidly at the moment. So I see the non-price and non-finance factors as being much more relevant.

Q: Mr. Ambassador, I have a two-part question: Sitting on this side of the Atlantic, we have the impression that -- perhaps a little bit like Venice -- the hopes for getting any economic initiatives at the summit are sinking, that basically the talk is going to be about economics and trade; but what will really dominate the talks in Venice will be terrorism, East-West relations, drugs perhaps, and even AIDS and other subjects that have nothing to do with economics.

My first question, then, is: Do you really expect that economic issues will be up front and, if not, what might be the other issues?

Secondly, more specifically, on trade: In light of what happened at the OECD ministerial here and the communique that the administration got and was happy with, what do you think specifically the thrust of the Venice communique might be or might do that would advance trade liberalization and specifically agriculture beyond what you accomplished at the OECD ministerial?

A: Excellent. Well, taking the first part of the question initially, I would say that this is a summit that will give considerable emphasis to noneconomic issues. It seems to me that that is almost assured simply by the nature of events that prevailed today -- in other words, there is a great deal of interest in arms control. So I am sure that is going to be on the agenda.

East-West relations, generally, are just at a higher priority of discussion than they have been in times past. There is just more going on in that arena at the moment. So some of these noneconomic issues clearly are going to be at the fore in Venice. But I would not ignore the economic side, either.

Clearly, there has been a lot said and a lot done on the macroeconomic front in recent weeks and months in the G-7 and the OECD and bilateral discussions and on and on. But nevertheless, macroeconomic policy is something that has to be worked at constantly. So I think the chiefs of state can have a very worthwhile discussion of economic growth and what is happening on the fiscal side and what is happening in interest rates, even though that was recently discussed at the OECD.

Clearly, economic growth is going to be a very key factor to the entire world over the next year or so. That is an element of the picture that is troublesome today, and it is important that the chiefs of state focus on that and make sure that they are committed to providing the kind of economic growth that is necessary not only in their own economies to put people to work and to achieve rising standards of living, but also to help the lesser-developed countries.

So it will be on the agenda. There will clearly be discussion of trade issues -- specific issues like agriculture. But also the whole basic question of protectionism and doing everything that those chiefs of state can do to avoid protectionism.

Now beyond that, in terms of looking at trade in agriculture and what could be done over and above what was already achieved at the OECD. I would first say that, as you well know, we were quite pleased by the language on agriculture that emerged from the OECD because that was the strongest commitment of those 24 nations to doing something meaningful in this area that we have ever seen in an international meeting.

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At the same time, one must recognize that the OECD is a ministerial meeting. We are not talking about a meeting of chiefs of state in Venice; that is the difference. Having ministers say that they are committed to doing something about agriculture and other individual trade problems is one thing. Having the chiefs of state say it and mean it is another thing.

So it seems to me that the primary achievement in this area in Venice could be to have a very strong statement of commitment on the part of those chiefs of state to do something about the major trade problems of the world in the Uruguay Round and specifically to concentrate on agriculture -- which is a multi-billion dollar challenge to all of us -- and do something truly meaningful and truly dramatic in that area.

That is not going to happen overnight. But unless one has the commitment, at the very highest levels of government, to really confront that kind of an issue head on, not very much is going to happen. We will just nibble at the edges as we have in prior years.

In my opinion and in the opinion of President Reagan, we need to do something on agriculture over the next couple of years. It goes far beyond nibbling at the edges. In other words, we really need to deal with this problem in a significant way. I happen to think that would be in the interest of all seven summit countries and in the interest of the world as a whole.

Canadian Q: Mr. Yeutter, you have made it clear and your trade negotiator in the free trade talks between Canada and the United States has made it clear that you want unfettered access to our financial markets. But our banks particularly would face restrictions under the Glass-Spiegel Act, for example, going the other way.

I was just wondering if the administration is prepared to make a commitment to give us unfettered access to your financial markets if we do it for you.

A: This is probably not an issue that is going to come up in the summit at Venice. But let me respond to it, anyway, simply by saying that we have indicated, from the very beginning of these negotiations, that we are prepared to lay everything on the table, and we hope that our colleagues and counterparts in Canada will do likewise.

So there are no constraints at all with respect to what your negotiators can raise with us. Now obviously, we are talking about a negotiation. What we are prepared to do and will be prepared to do at the end of the day depends a whole lot on what Canada is prepared to do and will be prepared to do in this area. But we have taken nothing off the table, and we are open to moving as far toward unfettered access, as you put it, in this and other areas as we possibly can.

As you know, I am firmly committed to the course of taking the United States and Canada a long way in this regard. I would really like to see free and open borders in all of the major economic issues and challenges that we have between us. Again, it seems to me that that would be clearly in the best interests of both nations. We are pretty flexible and pretty open to suggestions and to negotiating opportunities in this area.

Q: Mr. Ambassador, in Washington you have repeatedly called on your major trading partners, Japan and West Germany, to help you reduce your trade deficit, by stimulating their economies. Indeed, they have taken steps to do that.

Meanwhile, your trading partners in their turn would like to see you do something about your budget deficit, which they would say hangs like a cloud over the entire world economy. It threatens further instability for the dollar, for interest rates, for Third World debtors, and for the trading system worldwide. Yet only yesterday, Mr. Reagan pledged not to raise U.S. federal taxes, which are, by no means, high at present.

Q: (Audio difficulties) -- no right to make demands on your trading partners unless you put forward a convincing strategy for taxing your budget deficits. What do you say to these people?

A: Well, my first comment would be that I really believe that the major developed nations of the world -- not just Germany and Japan but all other developed nations, including the United States -- ought

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to have a commitment to expanded growth because that is really what the world, as a whole, needs today.

So if Germany and Japan respond positively in this area, I hope they do it not just to please the United States or not just because the United States is asking for it, but because it is the right thing to do. I happen to think it is the right thing to do in our own respective cases -- that is from a standpoint of self-interest.

It is also the right thing to do for the world as a whole because the developing nations of the world have to sell somewhere. They have been selling an awful lot of their products in the United States in recent years because we have been leading the developed world in most recent years in terms of economic growth rates. We would like to see them have the opportunity to expand their sales in other developed countries. We would like, obviously, to expand our own export sales because of our gigantic trade deficit.

I think self-interest should dictate these kinds of policies in Germany, Japan, and elsewhere, and not just request on the part of the United States.

Now your other point that we ought to make our contribution as well is a valid one. That is exactly right. I fully agree that one of the principal macroeconomic challenges that the world faces is the one that we, in the United States, face. That is the outsized -- oversized -- budget deficit that we have. I have been saying that in speeches for a lot of years, including some years before I came back into the government. I still feel that way.

Fortunately, we are finally beginning to make a little progress in that area. We had a 220,000 million dollars federal budget deficit last fiscal year. It looks like it will come down to the 170,000 or 180,000 million area this year. That is still much too large; but at least we are moving in the right direction.

If the President's budget were adopted in the U.S. Congress, it would come down substantially more the next fiscal year. We hope that will happen.

As to whether we should raise taxes or not, as you well know, President Reagan has very strong feelings on that subject -- those feelings being, that an increase in taxes does not in any way guarantee a reduction in the federal budget deficit.

What often happens with legislative bodies -- and I suspect that holds true in Europe and elsewhere in the world too, not just in the United States -- is that if more revenue flows in, they spend more money. So the deficit could be just as wide or wider.

It really takes fiscal discipline, and we have been saying that to the Congress and will continue to say so. The better answer to our federal budget deficit problem is not one of raising revenues. The better answer is one of reducing spending. We are going to keep working away on that and hope that we will achieve additional progress over the next two years.

Q: There seems to be some diffidence in accepting Italy and Canada among the so-called "Group of Five." Could you give us some reason for this?

A: We are over in the finance ministers' arena now, rather than the trade ministers' arena, so I would not wish to comment on that except in a general way. My only general comment would be that no one in any way downgrades the importance of Italy or Canada to the international economy of the world.

It simply becomes a question in some of these fora of deciding how many countries are to participate. Everyone likes to be a participant in discussions of macroeconomic policy, but one must always draw a line as to whether there are going to be 5 nations represented in the room or 7 or 17 or 70.

That is a very difficult judgment call, because clearly those who are in the room are pleased and those who are outside the room are displeased. The fact of the matter is one has to have manageable discussions. Judgment calls of that nature simply have to be made.

It seems to me that Canada and Italy are both participating in a very effective way at the moment. At least that is what Secretary

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Baker tells me, and I hope that same report is coming from the finance ministers in your countries.

Q: A group of Italian experts has written a long governmental report which will be useful as a basis for discussion with the Venice Summit in June.

The experts say they are convinced that cuts in the U.S. deficit and the stability of exchange rates are the sort of boost for the international economy. Do you agree?

A: Yes, I agree totally. I happen to think there is a very close link today between our federal budget deficit and our trade deficit. That may not always have been the case in the past, may not always be the case in the future. I happen to think it is a very relevant issue at the moment.

Therefore, as I said to an earlier questioner, we do have an obligation to bring down our federal budget deficit. We are certainly going to try to do that. The proper answer is to do it through a decline in federal spending.

We believe that there is value in unleashing the private sector in the United States, and doing so in other countries as well. If we increase federal taxes, that is not unleashing the private sector. The better answer, clearly, is to try to put some constraint on governmental expenditures.

I would rather have expenditures on economic investments be made by the private sector in the United States rather than by the public sector. I happen to think we are going about this in the right way.

We may not get there as fast as some of our trading partners would like. We are not getting there as fast I, as a trade minister, would like. I am the one who has to deal most directly, I suppose, with that 170,000-million-dollar trade deficit.

I think we have that train turned around, if you will, going in the right direction and we hope that we will see significant declines in both the federal budget deficit and in the trade deficit over the next few years.

I have to add, however, that one should not place all the responsibility on the shoulders of the United States. In terms of demand for our exports, that responsibility lies with our trading partners. The same thing, of course, applies, as I indicated earlier, to demand for the exports of the lesser developed nations of the world.

We need some other buyers out there, over and above the United States. Clearly we cannot expand the export side of that trade equation if we do not have some help from our trading partners and from importers in those trading nations in expanding purchases from the United States.

We certainly hope that will happen. We are buying an awful lot of goods from other people around the world. We hope that other countries will begin to buy more from us.

Q: Mr. Ambassador, in which field can you see the biggest danger of fail for the Venice Summit?

A: I think it will be a good meeting. I do not see any significant problems on the horizon -- that is, that would lead to the sort of result that you are talking about. Summiteers never agree on everything, of course; that is inevitable.

It seems to me that there is a significant convergence of viewpoint among the summiteers on the major economic issues. I cannot speak for the noneconomic issues because I am not involved in those. When I look at macroeconomic policy issues -- fiscal policy issues, monetary policy, tax policy and even trade policy -- I do not see major divergences at the moment in terms of the overall sense of direction.

We are going to fight about how best to solve individual trade problems like agriculture, of course, because we are going to have different views as to how to get from where we are today to where we ought to be at the end of the road. We may want to take a different -- each want to take a different path. Certainly we do not all have to take the same path on agriculture or other issues to get to the right location at the end of the day.

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Expect some divergences of opinion on the approach to some of these economic problems. I see very little divergence of opinion or viewpoint among the seven summiteers on what the priorities of the day are and what the basic parameters are for dealing with those priorities.

Q: Regarding the huge federal budget deficit, you emphasized that it is more important to reduce spending rather than increasing taxes. Given the magnitude of the deficit -- 170,000, 180,000 million dollars -- I fail to see what are the items which you are going to reduce your spending. Are you going to reduce the defense spending?

A: As you well know, there is a vigorous debate underway between the administration and the Congress on all of those issues at this very moment. There is no point in trying to go into that issue in detail here this morning.

Suffice it to say that the administration has articulated to the Congress and to the general public in the United States precisely how we would like to approach that problem. The administration has provided a budget for the coming fiscal year that will dramatically reduce the deficit that exists today. We have indicated program by program, department by department how that is to be done.

Clearly, there are people in the U.S. Congress who do not agree with our assessment of priorities for federal spending. That is why the debate rages at the moment.

I would say that for those of you outside of Washington, D.C., at the moment you will just have to become observers of that debate as it rages on. At some point in time, we will have a convergence here; we hope that convergence will be at a number that will achieve the kind of progress that you would like us to achieve on the federal budget deficit.

I cannot draw any particular conclusions at the moment as to where that debate will finally conclude because it is an intense one with a whole lot of participants being involved.

Q: You said earlier that you were pretty much pleased with the language coming out of the OECD meeting in the area of agriculture policy. The OECD statement also said, in effect, that good security is an important factor to be taken into account in the forming of agriculture policy.

Now does this mean that rice could be an exception?

A: Well, in my judgment, that language would not exclude rice or any other product, whether it be produced in Japan or any other nation. In fact, as you well know, Prime Minister Nakasone has indicated the willingness of the government of Japan to have rice placed on the negotiating table in the Uruguay Round, so long as all the other major agricultural trading nations of the world place their programs on the negotiating table.

That is fair enough. We have made precisely that same point, that our agricultural programs are on the negotiating table, too.

But to be more precise, all of us are sensitive to the food security needs of Japan or any other nation. Those concerns are obviously exceptionally sensitive in Japan because of the limited farm land that is available to produce rice or anything else for your population.

So no one is insensitive to that point. Everyone recognizes that nations will be determined to ensure the food security of their people, just as nations will be determined to secure their national security -- that is their protection from attack by other nations. Those are fundamental to the preservation of a society and, in our respective cases, to the preservation of democratic societies.

But the more relevant question is -- with respect to food security or any other kind of security -- How much and how is that security achieved? Whether the subject be rice or any other topic, it seems to me that is a legitimate subject for discussion in the Uruguay Round or anywhere else; it is a legitimate subject for any nation. All we are really asking is that that be looked at with care and circumspection.

Our personal judgment, as you well know, is that the food security dimensions of the Japanese Rice Program have been overdone --

that is, Japan really does not need that level of food security and that the Japanese society is paying an enormous price for achieving security at the level that presently prevails -- an enormous price in consumer costs and an enormous price in costs to Japanese taxpayers.

We believe that adequate food security, in any reasonable sense of the term, can be achieved in other ways at a lot less cost. Japan can make a contribution in that respect to a freer and open trading system in agriculture. No one is suggesting that all of Japan's rice programs must be eliminated.

We will say with greater precision what we believe ought to be done in all nations on this subject when we place a negotiating position paper on the table in Geneva in July. But we are prepared to be reasonable and rational on this subject -- whether we are talking about Japanese rice or any other topic.

We believe there is, likewise, ample room for improvements in the Japanese Rice Program. That would be a positive contribution to agricultural trade throughout the world and a positive contribution toward the efficiencies of the Japanese economy, generally.

Q: Mr. Ambassador, you claim the German economic growth rate to be too low. Do you think or do you feel that the German government could do more than it does to stimulate these economic growth rates?

A: Yes. We have indicated to the government of Germany on numerous occasions in recent months that we believe a higher level of economic growth in your country would be helpful to everyone, that it would be good for Germany in the sense that it ought to make a positive impact on your employment situation. That is, it ought to provide an opportunity to put some people back to work in Germany at a time when your unemployment rate is relatively high. It would make a contribution globally to the LDCs, as I indicated earlier in this program, and also on the trade front, generally, to correct some of the disequilibria that presently occur.

Germany is running at tremendously high export surplus, and that is probably just not sustainable in the long pull. If it is not sustainable, then it would seem to me that if Germany is to achieve a balanced record in economic growth, an increase in domestic demand will be needed in order to offset a decline in the demand for products that Germany is exporting today. At least, that seems to be our analysis.

We hope that economists within West Germany will share that analysis. It is certainly something that has to be reappraised from time to time on an ongoing basis. We hope that your government will continue to reappraise the situation and will make a contribution in this arena.

I must add that that contribution need not be made simply through an expansive fiscal policy. I always get a little disconcerted about suggestions that the only way to expand economic growth is for governments to spend money. I would rather figure out ways to expand economic growth that did not involve government spending. By that, I mean, of course, things like tax reforms.

Germany has been making some progress in the area of tax reform. But it can also be done through monetary policy. That, obviously, is another opportunity available to the government in Germany, and it could be made in other ways in trade policy as well. We would like to see some trade policy adjustments within Germany that would open up the economy more in areas like telecommunications and add some efficiency to the German economy that we believe would be helpful to the world situation and also stimulate some economic growth in your country.

Q: You said if the European Community chooses to proceed with a tax on oils and fats, the United States would have no choice but to protect our interest. Would that have consequences, also, for the future GATT negotiation?

A: Well, that is a decision that would have to be made by the European Community if we got into that kind of a conflict. Let's hope that that will not occur.

It will, in no way, dissuade us from proceeding in the GATT negotiations and I would hope it would, in no way, dissuade the member

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nations of the European Community. The GATT negotiations are too important to have them sidetracked because of bilateral disputes between the Community and the United States or between any two countries in the world.

We have to be concerned about how the international trading system is going to look ten or 20 or 30 years from now, irrespective of what is happening in ongoing trade disputes.

I must go beyond that to say that this is a potential trade dispute of major proportions, far greater than the one involved a few months ago when we dealt with the taxation of Spain and Portugal.

I would hope that wisdom and good sense will prevail in Brussels and throughout the Community and that a tax of that nature that we would consider to be a palpable and flagrant violation of our GATT rights would not take place.

There has to be other ways to deal with agricultural problems of the Community than by enactment of a tax that would stir up an immense controversy with the United States. We ought to solve those kinds of problems in the Uruguay Round and not solve them on a temporary basis through mechanisms that not only would violate the GATT, in my judgment, but totally violate the spirit of Punta del Este and the spirit under which the GATT negotiations are now being conducted by 93 nations.

Q: You said a few minutes ago that developing countries have to sell their goods somewhere. One place they did until the early ages was the Third World but that market is now dried out. Being as you know a number of proposals for the Marshall Plan -- Mr. Nakasone had some ideas when he was in Washington. I assume that is part of his new package -- of course, I have not seen it. Do you see the possibilities that that kind of a coordinated approach will be discussed and some actions and decisions might be taken?

A: A very good question. My earlier comment by the way related to developing countries having a place to sell their goods within the developed world. The reciprocal of that applies as well. Developed countries must have a place to sell their goods too.

As you point out, the LDC market was a very important market and a source of expansion for all of us in our exports a decade or so ago. That market has dried up substantially.

Specifically, to answer your question, yes, I believe it is encouraging to see the Japanese and hopefully other nations as well beginning to focus on the question of something approximating a Marshall Plan in some of these different areas of the world.

I rather expect that topic will arise in Venice. I am sure that Prime Minister Nakasone will bring it up because his government has devoted considerable attention to that issue in recent weeks. I hope all the other governments will be prepared to comment on it. I am sure President Reagan will do so.

Whether something in the way of concerted action will emerge or not, it seems to me it would be premature and conjectural at this point. It seems to me that that is one of the more hopeful topics of discussion at the Venice summit.

Q: Is it very difficult to cap expenditure at a sufficient rate to reduce the federal budget deficit? Is there any possibility of raising the notoriously low rated saving in the United States in order to help finance that deficit?

A: That is another superb question because clearly that is one of our challenges. If we were to generate considerably more savings here, we would not be nearly so dependent upon external capital for financing federal budget deficits. It would not have the trade implications that persist today.

So in addition to reducing the federal budget deficit, a subject we have talked about a lot on radio and this program, would be comparably helpful if we could increase our savings rate.

The question becomes: How can we best do that? There is considerable debate underway in the United States at all times on that subject. It is a topic of conversation everywhere in this country because we clearly have not earned any gold stars on that subject for a long period of time. It will continue to be discussed this year.

I would not expect any changes in the tax system that might influence savings in 1987, however. As you well know, we went through a major tax reform debate last year. There is just no one in the Congress that really wants to get back into that exercise again in 1987.

So I would say as a practical matter, anything of consequence in that area will likely have to wait for deliberations in 1988 and possibly in 1989. As you know, we have a presidential election in 1988. That makes getting into tax issues a very difficult thing politically too.

You have raised a very legitimate question and one to which this country must vote additional attention in the near future.

Q: Does the Japanese recovery plan undermine certain measures that the United States has just taken especially regarding semiconductors?

A: Oh, not at all. We are happy that the Japanese recovery plan -- this is something that has been suggested in the Maekawa Report a year or so ago. Something that has been discussed at all of the major international fora recently.

Irrespective of what happens on semiconductors, we would be most pleased with the generation of additional economic growth in Japan. For that matter, to the degree that that provides additional export opportunities for U.S. semiconductor firms in Japan, that is very, very positive.

If the thrust of your question is that that additional economic growth may lead to greater exports on the part of Japanese firms, that obviously depends on how the growth program works through the system.

The intent, of course, has been to have it focus primarily on the generation of domestic demand rather than the generation of greater export potential. Hopefully the design of the program will be to do that.

If there is greater export competition out there, that does not bother me a whole lot. We have got to be prepared to export competitively with the Japanese and with your firms in France and elsewhere.

We would be happy to have additional semiconductor opportunities in the Japanese market. In terms of the U.S. market or third country markets around the world, all we have said on semiconductors is that we don't want Japanese firms to dump those products in the third country markets.

I doubt there is anything in this growth plan that would in any way stimulate additional semiconductor production because I don't really believe that anybody in Japan wants to stimulate more semiconductor production.

Even if that should happen in an indirect way, as long as those products are not dumped around the world, we have no complaints. I assume that French firms in the French governments would have no complaints. I do believe we have a legitimate complaint if those are dumped.

Q: Are you confident that this Japanese recovery plan will actually boost imports?

A: That is really a superb question because clearly the two do not necessarily go hand in hand. If the Japanese market and a number of the products that might be stimulated -- where imports might be stimulated or additional demand by Japanese consumers might be stimulated.

If those particular product categories remain closed for one reason or another, tariff barriers or non-tariff barriers, obviously the import growth will not take place. The same thing applies clearly if some of the cultural impediments that people often discuss persist and preclude in expansion of imports.

Let's hope that will not occur. If it does occur, if we get a generation of additional domestic demand in Japan, and import numbers do not change very much, Japan will obviously be subject to a lot of criticism throughout the world not just by the United States but by European countries and lesser developed countries -- everyone.

So it is in Japan's self interest to have an increase in domestic demand translated into an increase in import demand. We certainly hope that will take place.

Canadian Q: We are part of the solution to your trade deficit, Ambassador. My question is in three parts. To what extent will the current protectionist mood of Congressinfluence the outcome of the Canada/U.S. trade negotiations? Specifically, what are the remaining issues yet to be negotiated that may cause a problem? Finally, is the Canada/U.S. trade negotiation on the agenda in Venice? If so, in what context?

A: Well, it is certainly not on the agenda in Venice as a traditional topic of discussion because it is a bilateral issue between our two countries as you well know. The other summit participants would have only peripheral interest in it.

They would clearly have an interest because what the United States and Canada do with each other will have an impact on the other summit participants. They are not a part of the negotiation as you well know. The interest is more distant. I doubt that there will be much discussion about this topic in Venice except perhaps in a very indirect and somewhat abstract way.

Going back to your earlier questions, as to the issues that still remain unresolved, I suppose the simple answer to that would be most all of them.

We have made significant progress in narrowing differences, in a good many of these issues. There are draft texts for some of the categories that have been prepared on one side or the other, if not both. We will be dealing with some of these -- what we call "bracketed texts" -- in the very near future.

We are getting to narrow the differences; but there is no way that we can say at this point in time that we have resolved all of our differences on any of the major issues. So we have a long way to go.

But nevertheless, I am optimistic about it. I do not think the protectionist views, to the degree they exist in the United States today, will adversely affect the chances for a satisfactory conclusion of these negotiations. I do not happen to think protectionist views are the prevalent categorization of our situation today.

In other words, I am still convinced that the vast majority of the members of our U.S. Congress would prefer not to be protectionist. They are simply frustrated over some of the trade barriers that exist around the world and frustrated over a 170,000 million dollar trade deficit.

I think we can work with them well on the U.S./Canada free trade arrangement scene. I would hope that we could pull this agreement together in a productive and fruitful way between now and October 1.

We are certainly dedicated to that end on this side of the border and we hope that your negotiators in your government have that same sense of dedication on your side of the border. I believe that that dedication and commitment does exist and that we can get it done.

We are going to have to bite some very tough political bullets in both nations if this is to be achieved by October 1. October 1 is not very far off.

Canadian Q: You sound quite optimistic, Mr. Ambassador, of the outcome of the Venice summit with respect to economics affairs.

In any event, I would argue that the international financial markets are probably less sanguine. I suspect they are looking for some new measures to be announced that will stabilize the concurrences and presumably deal with the necessary current account adjustments.

If they don't get them, we could very well see, I think, another period of downward pressure on the U.S. dollar. In that event, would the United States and possibly allies amongst the G-7 be prepared to intervene to take different or additional measures to stabilize these currencies?

A: I agree with you that many of the participants in the financial markets seem not to be as optimistic about the summit as I might be.

If the reason for their lesser degree of optimism relates to the view that no spectacular new programs will emerge from the summit, then I would join them in that appraisal.

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It seems to me that the fallacy of that viewpoint is its basic premise. It is necessary every time we hold an international meeting to have some new program emerge that would provide some additional stability for the markets. I happen to think that is unrealistic.

I would hope that people who participate in the markets would think about it a bit and conclude in their own right that that is unrealistic. If that is going to be the prevailing expectation, maybe we ought to have fewer international meetings. We cannot have a new program in the area of fiscal and monetary policy every six weeks.

That is just not the way the world ought to work. I don't see that that adds to stability at all. We ought to be realistic about what is achievable in international meetings. We ought to be realistic about what the major nations of the world can do to achieve international stability. It is a volatile world in many respects.

There is no way that governments can keep it from becoming volatile. I would hope that some of these people who are participating in the market -- as you know, I came out of that environment prior to my coming into government here a couple of years ago, so I know that environment well.

I would hope that the people who participate in that marketplace will recognize that volatility will be a fact of life in this world for evermore. What market participants need to look for is ways to offset the volatility on their own within the private sector and not look for government to solve all of their problems or even a series of governments to solve all of their problems.

That is just not in the cards. That is not a rational justification for moving the markets around. I see no rational at all for a market reaction in the aftermath of the summit in the event that there is no big new program emerging from the summit. To me that does not make any sense whatsoever. I would hope the marketplace would rethink that position if that is what prevails today.

What we can reasonably look for in the summit or any other international meeting is a commitment on the part of governments to try to operate their policies in such as way to try to bring about increased stability. I happen to think they have had some success in that regard over the last several months.

I wish the marketplace would recognize the successes instead of always looking for still greater success and still greater stability. We are not going to have straight lines on inflation rates and interest rates and a lot of other things in this world in my judgment. The world is too complex for that.

Q: Mr. Ambassador, we saw in the past some as the (inaudible) summit very positive followed a few days after by new trade war between United States and European Community. Do you think (inaudible) as danger even for the new summit? You mentioned before (inaudible) programs that are other areas of concern immediately after Venice.

A: There will always be areas of concern because with trade being a multi-billion dollar business for most countries including the summit countries, disputes are inevitable. We just simply have to try to handle them in a sensible way.

I don't see any major risk of a trade war involving anyone. The media provided a lot of hype to a potential trade war between the United States and Japan in the aftermath of the semiconductor sanctions. That was all hype.

There was never any realistic chance of a trade war occurring. The governments of these countries have better sense than that. The private sector firms of those countries have better sense than that. I happen to think the same applies to the United States and the European Community.

We may have some very major conflicts. We could have a serious one indeed over the oil seeds tax. I don't take any of that to the category of a trade war. It seems to me that we just simply have to keep working at all these problems in a multilateral forum such as the Uruguay Round where we can deal with a lot of them and work with them bilaterally.

All we can really ask the governments of these nations to do is

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think very carefully about decisions they make in any of these major economic policy areas because they have broad ramifications.

What any of us does as an individual nation clearly has the possibility, the impact either positively or negatively, on our trading partners. If it is going to have a very negative impact on trading partners, as in our judgment the proposed oil seeds tax and the Community would have, then those kinds of programs ought not be undertaken.

Q: Mr. Ambassador, just returning to the theme of (inaudible) between the EC and the U.S. Leaving aside the oil seed tax which is obviously your biggest concern, you have had a number of specific concerns like Airbus in the past which perhaps has died down a bit, perhaps it has not. We are not quite sure.

There has been questions of textiles, Portuguese textiles, exports to the United States that has been played down but has been talked about in the past. There has been talk about telecommunications.

Can you be quite specific -- can you say to us within the EC, what are the areas which you are still concerned about? What are the areas you are planning to try to have further negotiations on? What will you do if you don't get any satisfaction?

A: All of those and a good many others, as you know, one of them happens to be our little (inaudible) dispute which has a July 1 deadline. That is coming up relatively soon too.

We have enumerable issues continually between the United States and the European Community. To give you a couple of immediate examples, we are still concerned about the so-called third country meat directives which has some implications as to whether we can ship meat products into Western Europe.

We have got concerns over the hormone case because we don't believe there is scientific justification for precluding the use of hormones and rations for livestock. There are a good many others not only in agriculture but in the industrial area as well.

Telecommunications clearly is one in which we have some major concerns. We will take them one by one and we will take them all together whenever we have an opportunity to discuss them.

Commissioner DeClercq and Commissioner Andriessen are going to be here in early July. We will cover some of them at that time. Whether we will solve them or not only time will tell. We will keep working at them. We will work at them in a diligent way, amicably, and with a commitment to try to solve them.

I think we have good solid political relationships between the United States and our fellow commissioners in Brussels and with all the other countries of the East as well.

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United States Embassy
Ottawa, Canada, K1P 5T1

BACKGROUNDER

(87-46)
(6-1-87)

U.S. OFFICIALS CITE KEY TALKING POINTS FOR VENICE SUMMIT

Washington -- U.S. officials have said that the upcoming Venice economic summit will most likely be concerned with East-West relations, the ongoing issue of arms control negotiations and international terrorism.

The primary purpose of the gathering taking place June 8-11 is, "to share common interests and concerns with the idea of working out agreements on how to solve mutual problems," according to an official. "We expect significant political discussions to take place," he added.

"Of course, anything can happen when world leaders get in a room by themselves," the government authority cautioned, "there is never a fixed agenda ahead of time for these meetings, but certainly the major international and regional issues of the day will be discussed."

Leading the talks at the seven nation gathering -- the thirteenth since leaders from the United States, Great Britain, France, West Germany, Canada, Italy and Japan first met to discuss economic issues in 1975 -- will be U.S.-Soviet relations which officials characterized as good for the moment.

Mentioning Soviet movement in the human rights field and the stopping of jamming of the Voice of America, an official said, "We've seen movement and welcome it. Now we (the summit participants) are waiting to see how far it goes and how it will affect arms control talks."

The authority said that arms control issues would be "a major issue at the summit," as well as a key point in the speech that President Reagan will be giving in West Berlin after the meeting ends June 11.

When asked if the NATO allies would be "aligned" on intermediate-range nuclear forces (INF) issues in advance of the conference, the official said a more appropriate venue for developing an allied consensus on INF issues would be the North Atlantic Council (NAC) meeting -- an annual NATO political/military policy formulating session -- that will take place in Reykjavik, Iceland, after the summit.

Touching on terrorism and the taking of hostages as a conference topic, the official said, "We see state sponsored terrorism as a constant threat and see that there is more room for international cooperation to combat it."

He mentioned a greater sharing of intelligence as a prime area in which more cooperation could take place between countries. "International terrorism is a highly mobile phenomenon," he noted.

He was asked if he thought West Germany would release the Palestinian terrorist charged with the 1985 TWA hijacking, in which a U.S. sailor was murdered, in exchange for Germans kidnapped in Beirut, as certain press reports have said. He responded, "We are confident West Germany will carry out its responsibility under international law in this case. We have no reason to believe there will be a hostage exchange."

Other issues that are likely to be touched on during the conference according to the official are: the international debt problem, Central America, the war in the Persian Gulf, Southern Africa, international narcotics and the disease AIDS.

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Venise au printemps ou le Sommet des chefs en difficulté

PARIS (AFP) — Les Sept ne se présentent pas à Venise sous leur meilleur profil : deux d'entre eux sont en veillée électorale, deux autres en fin de règne, le cinquième est surveillé de près par un premier ministre soupçonneux, le sixième au plus bas dans les sondages, et le septième, réélu chancelier il y a trois mois, voit son gouvernement profondément divisé sur la question vitale du désarmement.

L'hôte, Amintore Fanfani, participe presque par hasard à son deuxième sommet des industralisés après avoir succédé en avril au socialiste Bettino Craxi, en attendant les élections législatives du 14 juin. A 79 ans, la carrière politique de cet « immortel » de la démocratie-chrétienne est faite. Mais c'est lui qui présidera le sommet, après avoir sillonné les capitales pour le préparer et tenter d'harmoniser les points de vue.

Amintore Fanfani

Margaret Thatcher, le premier ministre britannique, n'y passera que 24 heures, car le scrutin du 11 juin l'appelle à Londres. C'est dire que la politique intérieure ne sera pas absente de ses préoccupations, même si elle est presque certaine d'obtenir un troisième mandat.

Elle n'en devrait pas moins être « l'homme fort » de la réunion, avec plusieurs atouts en main: redressement de l'économie britannique, position ferme sur le désarmement, et expérience, puisqu'elle bat tous les records de participation aux sommets des sept. À 61 ans, c'est la neuvième fois qu'elle sera au centre de la photo de famille, seule femme parmi les « grands ».

Ronald Reagan, le président républicain des Etats-Unis, arrive par contre affaibli à son septième sommet. Après six ans de leadership incontesté, l'Irangate après d'autres éclaboussures donnent à son administration des allures de fin de règne. À 76 ans et après plusieurs opérations chirurgicales, le plus vieux président des États-Unis doit de plus en plus céder devant les exigences de son Congrès à majoritédémocrate.

Yasuhiro Nakasone, le premier ministre libéral-démocrate japonais, est lui aussi en fin de mandat. À 69 ans, il semble exclu qu'il prolonge au-delà d'octobre un passage au pouvoir de cinq ans, déjà exceptionnellement long pour le Japon. Pour son cinquième sommet, il aura droit à une attaque en règle des autres Occidentaux contre le protectionnisme japonais. Il y répondra en exposant en détail le plan qu'il a mis au point pour relancer la consommation intérieure et réduire l'immense excédent commercial du Japon ($101 milliards US).

François Mitterrand, le président socialiste français, viendra au Sommet flanqué de son premier ministre de droite Jacques Chirac, rééditant la première de Tokyo l'an dernier. Mais alors qu'au Japon le « tandem cohabitationniste » français avait fait couler beaucoup d'encre, les dirigeants occidentaux ont eu le temps de s'habituer.

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Les manufacturiers canadiens n'entrevoient pas d'accord complet sur le libre-échange en octobre

LIA LEVESQUE

(PC) — L'Association des manufacturiers canadiens ne croit pas possible d'en venir à un accord complet sur le libre-échange pour le mois d'octobre, tel que prévu.

En conférence de presse hier à Montréal le président de l'association, M. Laurent Thibault, a expliqué les exigences des manufacturiers canadiens face à un éventuel traité bilatéral avec les Etats-Unis.

Il croit bien à l'imminence d'un accord pour le mois d'octobre, mais un traité limité aux grandes lignes, aux orientations générales. « Nous avons pris une bouchée énorme, difficile à avaler. La question est trop complexe pour être totalement résolue là. »

En octobre, les négociateurs aboutiront selon lui à un énoncé de principes, incluant « un engagement à poursuivre les discussions » dans des

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Wacky world of subsidies

How much impact will the "Cairns group" have in convincing the U.S. and European Economic Community that their agricultural subsidy struggle must end?

Not as much as it might hope for, it appears.

Canada, Australia and New Zealand have taken the lead in crusading for a new set of international rules for agriculture.

Trade Minister Pat Carney is taking much heart, and credit, for getting the Paris-based Organization for Economic Co-operation and Development ((OECD)), on side as well as getting agriculture placed on the agenda at the planned new GATT round.

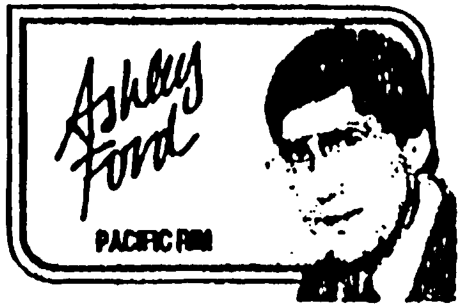
Carney may well also be right in claiming that the Cairns Group, whose other members include Brazil, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand and Uruguay, has found a powerful ally in the OECD.

But a powerful ally for what?

Fresh on the heels of Carney's "mini successes" comes the news that it's business as usual in the wonderful wacky world of agricultural subsidies.

The U.S. has just wrapped up a "little Soviet trade spectacular" and sold Ivan one million tonnes of winter wheat at far below world prices.

You will remember, of course, that the Soviets and Chinese were offered a cheap wheat deal some time ago by the U.S. that sent a shiver through the beleaguered Canadian wheat industry.



Despite declared Soviet intentions to stay with Canada as its main supplier and to honor its contracts, the Kremlin, showing good business savvy for once, has also opted to take up some of the U.S. offer.

So, for that matter, have the Chinese. While both continue to take massive amounts from Canada, mainly because our wheat is of superior quality, the alarm bells will once again be set off by both the news of this sale and the very strong indication from both the U.S. and the Soviet Union that more such sales are in the pipeline.

In all, the U.S. has offered the Soviets four million tonnes of the high-quality bread-making wheat and the Kremlin can hardly be faulted for taking up the offer.

The Chinese, so far, have only taken up relatively modest amounts of U.S. grain, but they are under no long-term obligation to take Canadian grain and with every cent of foreign exchange vital to their economic modernization they can almost certainly be guaranteed to take up more U.S. wheat, at the expense of Canadian and Australian wheat farmers.

Through it all, Carney has played the role of the faithful international trader arguing that subsidies are dangerous.

There's no disagreement there, but Carney and Canada are not "Simon pure" either.

When asked at a national press conference last month about our own export subsidy programs, particularly the $700-million guaranteed payments to grain farmers, the response was less than forthright.

Canada is a victim rather than a culprit is the official line and there was some fine mumbling over whether Canada would move to sweep away some of its support programs.

In other words, no ... at least not until everyone else has moved.

There's precious little sign of that at present.

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Farm woes hit EC industries

Although Canada's farmers have been suffering mightily under the weight of the international agriculture subsidy war, farmers in the other regions of the world which enjoy massive government support have been prospering, particularly in Europe, where wheat fetches about $12 a bushel after the subsidies are paid. Possibly, if the people of the European Community (EC) could experience some of the hardship themselves, the political will to end unfair subsidies would soon be mustered.

S-P Opinion

Government support might make farmers in the EC temporarily immune to the grain price war, but other sectors of the European economy are not so totally shielded and it seems some of the seeds of worldwide economic turmoil which the EC helped to sow have finally taken root.

Varity Corp., better known by its old name of Massey-Ferguson Ltd., recently announced layoffs of more than 1,500 workers at its tractor and diesel engine plants in Britain and France, after a $13.8 million (U.S.) loss on its first three month in 1987. The layoffs are only part of the measures aimed at reducing Varity's operating costs and, ultimately, its economic impact in local communities.

Varity, which finally struggled back to small profits in 1985 after years of multi-million-dollar losses on its agricultural equipment and machinery operations, was sent back into the red in 1986 as farmers in North America suffered from declining grain prices and rising input costs. The loss in its first quarter of 1987 indicates little relief in sight, short of taking the layoff and cost-cutting measures announced and hoping for improvement in the North American agricultural economy.

Varity is one of the largest international farm equipment makers and its profits or losses receive prominent attention. But it's safe to assume other companies with European operations are beginning to feel the same pinch and will respond with cost-cutting of their own. Ultimately, all sorts of industries which rely on worldwide agriculture to some degree will also be affected.

Anyone in Saskatchewan knows it is only a matter of time before what's bad for farmers becomes bad for everyone else, too. The impact of agricultural equipment makers in Europe is far less than on the Canadian Prairie, and farmers in the EC are still shielded from economic ruin by subsidies. But a pin-prick here and a pin-prick there may finally add up to a degree of pain necessary to stimulate action.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date June 2 Publication Financial Times of London

West Germany and UK block US summit plan

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

WEST GERMANY and Britain are blocking demands by the US that next week's world economic summit in Venice should endorse a more formal framework for co-ordination of international economic policy-making.

The US wants other leading industrial nations to agree to new "ground rules" for high-level consultations if it seems that individual governments are not living up to their policy commitments.

The rules would be based on the economic indicators developed by the International Monetary Fund, which are already used to assess policies and performance in the major economies. The indicators cover such variables as exchange rates, growth and inflation rates and trade balances.

According to senior monetary officials involved in preparations for the summit, Mr James Baker, the US Treasury Secretary, wants a strengthened system of co-ordination to ensure that other countries do more to promote growth.

In particular, Mr Baker wants to give the indicators the force of targets, with an implicit understanding that, if any country's economic performance falls out of line, its government would face pressure to take remedial action.

US concern to secure such a commitment has been heightened by West Germany's refusal to stimulate its economy in the face of the recent sharp slowdown in its output growth.

Washington's view is that more rapid growth in both Europe and Japan is needed to contribute to reductions in the massive US trade gap. In that context it has welcomed Japan's pledge to introduce a Y6,000bn (£25.4bn) package of stimulatory measures.

The monetary officials said there was a growing consensus, even among West German officials, that the Bonn Government should do more. Mr Gerhard Stoltenberg, the West German finance minister, has refused, however, to agree to any relaxation of fiscal policy ahead of the tax-cutting package planned for next January.

US officials are hinting that, if the West German authorities are not prepared to be more flexible, a further fall in the dollar's value against the D-Mark may be inevitable. It was the yen's rapid appreciation against the dollar earlier this year that forced Japan to act.

Bonn, however, seems determined not to commit itself to any international accord which would undermine its control of domestic economic policy.

British objections to the US proposals are based on the view that they are too complicated and inflexible. There is also concern in Whitehall that Mr Baker may be seeking to "bounce" other industrialised nations into a system of currency target zones.

Governments are seeking to find a form of words to gloss over the differences in the summit's communique, but officials fear that the issue could create serious friction at the meeting.

Editorial comment, Page 28

PRESIDENT Ronald Reagan, commemorating the 40th anniversary of the Marshall Plan, yesterday again urged Japan and West Germany to adopt growth-oriented economic policies and warned that countries unfairly subsidising their exports or closing their markets to US goods "risk a backlash from the American people." Back Page

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date June 2 Publication Financial Times of London

The agenda for Venice

NEXT WEEK'S economic summit in Venice differs from recent international meetings of finance ministers in at least one important respect. It will be much more difficult than hitherto to blame Japan for the world's many economic tensions and imbalances. The Y6,000bn package of stiumulatory measures announced in Tokyo last week is as generous as could sensibly have been expected given the domestic political constraints facing Mr Nakasone; and while Japan has on previous occasions failed to implement such pacakages, this time the assurances of officials have a more convincing ring. Taken in tandem with the promise of additional untied finance for developing countries, it suggests that Japan at last is taking its international responsibilities seriously.

The spotlight in Venice ought therefore to shift to another part of the world where growth is low, inflation negligible, the current account in large surplus and government finances rock solid: West Germany. The financial community has greeted the Japanese proposals enthusiastically. Nobody has yet suggested that the tax cuts and additional public spending (mainly on infrastructure) will do anything but good. There has been no hint that carefully planned reflation by the public sector will necessarily be ineffectual or that Japan must rely on a spontaneous revival led by private sector entrepreneurs. Support around the world for Japan's initiative illustrates the extent to which fiscal policy has been rehabilitated as an instrument of economic management.

Unpopular move

The question that Mr Gerhard Stoltenburg, the West German finance minister, will have to answer in Venice is: why are the policies that are desirable in one stagnating, surplus country not also desirable in West Germany? Even before Tokyo's conversion to more stimulatory measures, West Germany's growth prospects were much poorer than Japan's and its unemployment much higher. The IMF has calculated that if policies in Bonn do not change, real domestic demand in West Germany next year will grow more slowly even than in the US, a debtor trying to curb its deficits.

A package of stimulatory measures, on the scale of those announced in Tokyo, would not just revitalise the West German economy. It would reinvigorate the whole EC economy, a trading bloc larger than either Japan or the US. However, given Mr Stoltenburg's past policy pronouncements and the difficulty of convincing West German state governments of the need for reform, such a package is most unlikely to materialise unless strong pressure is brought to bear in Venice. Mr James Baker, the US Treasury Secretary, must therefore prepare to make himself highly unpopular in Bonn.

A US-West German battle in Venice can also be expected at a deeper philosophical level. At the OECD ministerial meeting in Paris last month, Mr Baker made it clear that he expected the Group of Seven countries to make significant progress in devising a mechanism for implementing the economic co-operation and co-ordination that everybody claims to support. The US would like the industrial countries to set informal targets for a range of "objective economic indicators" (things such as real GNP growth, current account balances and budget deficits) and agree to hold consultations when the variables diverge from the mutually agreed targets, to see what remedial action might be required.

West Germany, supported by the UK, is resisting attempts to create a more formal structure of rules and obligations for the management of the world economy. Yet opposition to arrangements that would make effective co-operation more practicable seems largely misplaced. The objectives indicators system is not intended in any sense as a substitute for greater reliance on free markets, which attract Mr Baker's whole-hearted support. It is merely a recognition that free enterprise can flourish on a global scale only if individuel countries agree to pursue consistent macroeconomic policies. This seems a pretty uncontroversial proposition given the bitter legacy today, in terms of imbalances, currency instability and renewed protectionism, of policy inconsistencies in the early 1980s. The hope must be that, once in Venice, the G7 countries will put narrow considerations of national sovereignty behind them and work together in what Mr Baker has dubbed a "partnership for growth."

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U.S. backs Mulroney's call to end European subsidies for agriculture

BY JEFF SALLOT
The Globe and Mail

OTTAWA

The United States gave Prime Minister Brian Mulroney strong encouragement yesterday in his battle against subsidies to European farmers, which Canada says are hurting western grain growers.

"I hope Prime Minister Mulroney comes on strong in Venice" and is able to get the leaders of the seven major industrial nations to issue a strong statement on the international agricultural situation, U.S. Secretary of State George Shultz said.

Mr. Mulroney wants to raise the issue of agricultural subisidies by the U.S. and European governments at the economic summit in Venice next week. He says the subsidy wars between the United States and Europe are largely responsible for the poor prices Western Canadian farmers are getting for grain exports.

But some European diplomats believe that the Venice summit is likely to produce little of substance on the issue, and that if any, progress is made it will be in the current round of negotiations under the General Agreement on Tariffs and Trade.

French and U.S. politicians, facing national elections in both countries next year, have been reluctant to reduce the subsidies.

Mr. Shultz defended the U.S. subsidy program as the only possible response to the European stance.

"We are not willing to hand over traditional U.S. markets to subsidize European markets," he said. "That's the way our export enhancement program got started in the first place and we'll continue with that."

In a televised news conference, Mr. Shultz said the answer is to change the pattern of subsidies in the United States, Europe and Japan so that the assistance goes into the pockets of farmers without distorting production costs.

Mr. Shultz spoke to journalists in Ottawa, Berlin, Paris, London and Tokyo in a U.S. Government satellite television hookup from Washington.

In addition to pressing for an end to agricultural subsidies, Mr. Mulroney wants to use the Venice summit to push for an expanded program of economic sanctions against the Government of South Africa.

But Mr. Shultz said that further sanctions will not force the white-minority regime in Pretoria to dismantle the apartheid system of racial discrimination.

Black workers would be the first to suffer from sanctions, he said.

Many black South African leaders, including Nobel laureate Archbishop Desmond Tutu, have called on the United States and other Western nations to impose strong sanctions.

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Crosbie wants court order to ground cut-rate air fares

The Canadian Transport Commission has been told to get tough with British Airways in a dispute over lower air fares, Transport Minister John Crosbie said Tuesday.

"I've told them (the commission) to apply for a court injunction; ... we're not going to be pushed around by the British," Crosbie said in an interview.

"We're going to force the issue."

Last week British Airways slashed fares for regularly scheduled flights between Canada and Britain in apparent violation of a bilateral air agreement.

It did not follow required practice of asking the commission for permission to introduce the lower fares and then ignored a cease-and-desist order issued by the commission.

The British Airways action is viewed as the latest twist in a dispute that could end in the disruption of civil aviation between the two Commonwealth partners when a bilateral air agreement expires at the end of the year.

A spokesman for British Airways called Crosbie's statement "strange (when) set against the Canadian policy to have a freer market between Canada and the United Kingdom."

Sandy Gardiner, vice-president of public affairs for North America, said in a telephone interview from New York City also said the new fares are popular.

"British Airways feels it has been treated unfairly and in a discriminatory fashion and is now considering its next course of action."

Last week the commission was prepared to seek a court injunction or cancel British Airways landing rights in Canada after the airline ignored the cease-and-desist order.

But it had second thoughts and asked the government for instructions "because there are diplomatic and transport policy issues involved," spokesman Evan Browne said in an interview.

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Marxist revolution.

Even if some of these complications could be avoided, the question remains: what kind of austerity can one demand from a country where the annual per capita income doesn't exceed $150?

In the long run, however, it is the economy of the industrialized north that will find itself in danger. The over-production of consumer goods, the growing exportation of everything produced and developed in industrial countries, will increasingly find that the markets for their exports are not there.

Even now, some of the poor states such as Burkino Faso or Ghana, have begun to return to a policy under which they must rely on their own resources and own production. "We are forced to revert to the stone age," a deputy prime minister of Ghana said bitterly.

As a result, Ghana has limited imports from western countries to items of extreme necessity only. Brazil, the impoverished industrial giant, is undercutting western exporters in a more sophisticated manner. The government in Brazilia has banned computer imports to boost its own computer industry.

The money saved by not paying back its debts for a certain period is going to be used for subsidies to make the newborn computer industry competitive.

In a matter of 10 years the majority of the Third World countries will refuse to pay their debts. While such a change in relations between the international banks and underdeveloped countries was not foreseen by those who used to enthusiastically oppose the astronomical loans for the Third World development, and for the ambitious projects of the socialist world, the decision of the poor countries not to repay their loans couldn't be looked upon in black and white terms.

The steady economic decline of the African states and many Latin American countries, the increasing poverty there, and the absence of hope in overcoming the difficulties, have become the only harvest this endless rain of loans has brought them.

From practical and moral points of view, the continuation of spending almost entire budgets on repaying thee loans, can no longer be justified.

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Le Japon ne veut pas être isolé au Sommet de Venise

par Philippe Ries

TOKYO (AFP) — Le sommet de Venise sera le dernier pour Yasuhiro Nakasone, qui doit se retirer en octobre, et le premier ministre devra s'efforcer une nouvelle fois d'éviter l'isolement de son pays, qu'il s'agisse d'économie ou de désarmement.

La stabilité monétaire est "la" priorité pour le gouvernement japonais. La baisse du dollar face au yen n'est pas perçue seulement comme un phénomène monétaire, mais comme le châtiment infligé au Japon pour son excédent commercial avec les Etats-Unis et la lenteur mise à stimuler sa demande intérieure.

Pour montrer que le Japon fait son devoir, M. Nakasone arrivera à Venise avec une description détaillée des "mesures économiques d'urgence" adoptées vendredi dernier. Cette injection de $42 milliards dàns l'économie devrait, selon les économistes officiels, permettre au payś d'atteindre l'objectif de 3.5% de croissance du produit national brut au cours de l'année budgétaire 1987 (avril 1987 — mars 1988).

Impact minime

Les mêmes responsables avouent cependant que l'impact sera minime sur l'excédent commercial qui, en yens, a augmenté de 23.7% au cours de l'exercice 1986, et de 70% en dollars.

Pourtant, les exportations du Japon ont diminué, de 1.4% en volume, explique le MITI (ministère du Commerce international et de l'Industrie), alors que ses importations progressaient de 14.4%, et même de 26.5% les seuls produits manufacturés.

M. Nakasone devra convaincre ses interlocuteurs que ce renversement de tendance a été masqué jusqu'à présent par la baisse des prix du pétrole et l'effet de la hausse de la valeur en dollar des exportations et celui de la baisse des importations en raison de la forte appréciation du yen. Selon le MITI, ces deux phénomènes sont responsables de 90% de l'augmentation de l'excédent commercial l'an dernier.

A Venise, le Japon s'efforcera également d'éviter que son attitude ultra-protectionniste ne soit montrée du doigt dans la discussion sur le dossier agricole. Si la production du riz demeure un sanctuaire inviolable, Tokyo est ouvert pour le reste à une négociation au sein du GATT, qui a le mérite de renvoyer à plus tard des choix politiquement périlleux.

Yasuhiro Nakasone

Autre crainte jsponaise: l'oubli des intérêts de l'Asie dans le marchandage planétaire sur les euromissiles. Le Japon plaidera en faveur de l'option Double Zéro. D'une manière générale, les Japonais sont trés réservés sur l'ampleur de l'évolution en URSS sous la houlette de Mikhail Gorbatchev. "Les mots doivent être appuyés par des actes", souligne un porte-parole des Affaires étrangères, qui affirme que les objectifs à long terme de la politique étrangère soviétique n'ont pas changé.

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Agriculture

A bitter harvest

CANADA MAY NOT be setting the world on the road to agriculture trade reform, as the Tories in Ottawa like to think, but it could help bring some sanity to destructive subsidy wars.

The world's agriculture is in the throes of a deepening crisis caused by the continuing one-upmanship in protectionism between the United States and the European Economic Community (EEC). That race has exceeded the initial purpose of the subsidies, to support farmers' incomes, and has become an incentive for farmers to produce more.

More production means surpluses, which in turn cause market gluts and inevitable drops in prices that force further government subsidies, often by buying produce at inflated prices to save farmers from bankruptcy.

Canada has been drawn into the centre of the maelstrom by its geographical location (the EEC lumps it in the same bag as the U.S.), and by its role as an agricultural exporter.

It follows that when Canada's traditional foreign markets drop, its exports suffer and so do farmers' incomes and the national economy. That is a main reason why Canada's agriculture is in bad shape and hundreds of farmers face the loss of their lands.

In 1986 Ottawa came through with a $1-billion program to aid grain producers; this year it may have to provide more and even that may not be enough, given the fact that grain and oilseed farmers lost $4 billion in 1986 and may lose more this year.

While the two sides continue to arm for the battles ahead, Canada could adopt the role of mediator. The framework for mediation has already been set by the 24-nation Organization for Economic Co-operation and Development (OECD) which agreed that farm subsidies should be controlled.

That view is shared by the 14-member Cairns Group which stressed the need for a truce and asked for reforms to be adopted during the current round of talks on the General Agreement on Tariffs and Trade (GATT).

Obviously the will for peace is there. But it is difficult to find ways to bring it about, considering the deep rivalries that separate the two economic giants, the U.S. and EEC.

So far Canada has set a goal. But we doubt farmers would "sleep better" because of it, as trade minister Pat Carney contended recently. Many farmers will not survive until the end of 1988 to benefit from the GATT reforms. Canadians do not expect miracles. But we wield considerable influence in both camps, which we might be able to use effectively in at least halting the spread of agricultural protectionism until GATT provides a solution.

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Carney prepared to bet on free-trade deal by fall

A-27

By Bob Hepburn Toronto Star

WASHINGTON — International Trade Minister Pat Carney said yesterday she's willing to bet money that Canada and the United States will reach a free-trade agreement this fall.

"What would you want to put on the table?" she taunted reporters who expressed doubts that a free-trade deal would be signed in the coming months.

"We are in the final stages of negotiation," Carney said. "That means all the easy stuff has been done. Now we are dealing with the key issues. We are in rocky patches.

Full confidence

"But I certainly have full confidence that we can resolve these issues and sign an agreement," she told a news conference that closed her two-day visit here.

Canadian negotiator Simon Reisman and his U.S. counterpart, Peter Murphy, recently admitted the talks are facing major problems, the resolution of which will require tough political decisions.

The key concerns include Canada's demand for immunity from U.S. trade laws by creating a new set of trade rules that provides for a binding dispute-settlement mechanism, as well as an American request that Canada drop all its remaining restrictions on foreign investment.

Pressed concerns

Carney pressed Canada's concerns about the free-trade package during meetings with Commerce Secretary Malcolm Baldrige, U.S. Trade Representative Clayton Yeutter and Senate finance committee chairman Lloyd Bentsen.

Carney's trip was her first visit to Washington in the last seven months.

Murphy is planning to table the American response to Canada's suggestion for a dispute-settlement mechanism at the next round of negotiations, tentatively set for mid-June.

A draft agreement must be

See CARNEY/page A14

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External Affairs Canada | Affaires extérieures Canada

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Reagan natural leader of Big Seven

By Jeremiah O'Leary
THE WASHINGTON TIMES

NEWS ANALYSIS

For all the controversy currently surrounding his administration, President Reagan remains the natural leader of the seven industrial democracies who will hold their 13th annual economic summit in Venice next week.

After all, it was Mr. Reagan, who changed the rigid style of the summits because he was dissatisfied with the old practice of writing the concluding communiques before the meetings even started.

But despite elimination of the prefabricated communiques, the Big Seven rarely are able to come up with any achievement stronger than a general consensus.

More than anything else, an economic summit is an opportunity for the seven leaders to get to know one another better and freely exchange ideas in a social setting from which later agreements and policies may spring.

Mr. Reagan, who left Washington today for the meeting, and his counterparts from France, the United Kingdom, Canada, Italy, West Germany and Japan will talk day and night about the major political and economic issues of the day. They are not likely to make binding decisions about anything.

In short, the name of the game in Venice will be rhetoric and generalities.

Every summit has a dominating theme, however.

Some years it has been bashing the Japanese because of their favorable trade balance. Once it was French stubbornness about denunciations of Libya's terrorist government. And former Canadian Prime Minister Pierre Trudeau often chose to ruffle the feathers of the American eagle.

Senior U.S. officials say this year the major political focus will be on East-West relations.

But the summiteers also are sure to discuss the tinderbox in the Persian Gulf, Soviet occupation of Afghanistan, South African apartheid and Third World debt.

They also are sure to discuss terrorism again, especially in light of the American and West German hostages being held by Moslem extremists in Lebanon.

Mr. Reagan will stress the need for an "adequate force" to guard oil shipments in the Persian Gulf, Secretary of State George P. Shultz said yesterday in a briefing here that also was telecast overseas by the U.S. Information Agency.

This force will not necessarily mandate additional participation beyond the existing British and French naval forces already in the region, he said.

Mr. Shultz noted yesterday, "What is needed is an adequate force to deter the use of force against us."

Mr. Reagan is expected to tell West German Chancellor Helmut Kohl and Japanese Prime Minister Yasuhiro Nakasone that since they cannot contribute naval strength in the Gulf, they should share the diplomatic and financial weight of the escort service provided by the U.S. Navy.

Also, because the oil in the region flows to the West, the United States does not want the Persian Gulf to become a place where the Soviet Union has a major role.

"The future belongs to the brave," Mr. Reagan said earlier this week. "Free men should not cower before such challenges, and they should not expect to stand alone."

The economic side of the talks will focus on trade imbalances, protectionism and stabilizing world currencies.

The Big Seven also probably will pledge an all-out fight against AIDS.

But one thing that won't be discussed is the U.S. reply to Soviet proposals on the elimination of medium- and short-range nuclear weapons in Europe.

"This is a negotiation between the U.S. and the Soviet Union," Mr. Shultz said.

President Reagan faces problems at home with a burgeoning budget deficit, an uncooperative Democratic Congress, the specter of the Iran-Contra deal and the danger of an expanding war in the Persian Gulf. But he is not alone among the summit participants.

It will be a short summit for British Prime Minister Margaret Thatcher, who faces a Labor Party challenge in national elections June 11. Italian Prime Minister Amintore Fanfani also is up for re-election within days of the Venice meeting.

Political problems at home also assail Mr. Nakasone, expected to leave office this fall; French President Francois Mitterrand is hampered by divisions with Premier Jacques Chirac; and Canada's Prime Minister Brian Mulroney is at a low point of popularity.

The real achievement of the summit for Mr. Reagan is likely to come in his individual discussions with the other leaders.

For one thing, he will reiterate his earlier warning to Japan and West Germany that growth-oriented domestic policies on their part are needed to bolster the world trading system on which they depend.

Mr. Reagan said Monday that there will be an American backlash against any country which sells heavily in the United States but whose markets are not open to American goods.

The sting in this message to Japan may be relieved by lifting the $300 million in sanctions President Reagan has imposed against Japanese semiconductors used in television sets and computers.

But Mr. Reagan also will call on Japan to share some of its wealth with the less-developed countries.

On June 6, President and Mrs. Reagan will fly to Rome for what would have been a state visit there, too, if it were not for Italy's muddled political situation. Instead, the Reagans will have an audience with Pope John Paul in the Vatican.

On June 12, Mr. Reagan will fly to West Berlin to take part in the celebration of the city's 750th anniversary. He and Mr. Kohl will make major speeches there. Mr. Reagan will also make a brief state visit to Bonn on the same day.

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Summit deck is full of 'wild cards'

By Johanna Neuman
and Jessica Lee
USA TODAY

They call them economic summits. But the annual meetings of seven industrialized democracies might be more accurately called political parleys.

As President Reagan leaves today for the 13th annual summit, which opens Monday in Venice, wild-card issues again could take center stage.

The summit planners — called "sherpas," for their mountain-climbing work — chart economic agendas.

But over dinner and lunch, the leaders of the United States, France, West Germany, Italy, Canada, Japan and Great Britain often talk current events. The result: Wild-card issues overshadow those of money.

In 1985 at Bonn, for instance, President Reagan mentioned his wife's anti-drug crusade during dinner one night. His colleagues rallied, urging international drug interdiction.

In 1986 at Tokyo, the nuclear accident at Chernobyl provided fodder for an allied statement on the need for international notification.

The "sleeper" issues that may emerge this year:

■ Persian Gulf. President Reagan on the eve of his departure said he'll talk to the allies about "community security interests" in the gulf.

But his effort to get allied help is a long shot. West Germany and Japan are restricted by their constitutions from helping armed patrols. And the West Germans also worry about tilting the balance in the Iran-Iraq war while they're negotiating with Iran to win freedom for their hostages.

■ AIDS. The disease that claims an estimated 7 million carriers worldwide ranks high on the agenda.

U.S. sherpa Alan Wallis said the hope is a 15-minute discussion in Venice could galvanize international efforts. The proposal: endorse the World Health Organization's program for accelerated research.

■ Agriculture. Leaders could come up with a bold stroke to reduce domestic agriculture subsidies. Western farmers, protected by subsidies, undercut markets for debt-strapped Third World nations.

The aim: to put all aspects of agriculture market relations on the negotiating table during this summer's round of world trade talks (General Agreement on Tariffs and Trade).

■ Apartheid. The Canadians are pushing a resolution decrying South Africa's segregation, but some of the allies are uncomfortable with imposing sanctions against Pretoria.

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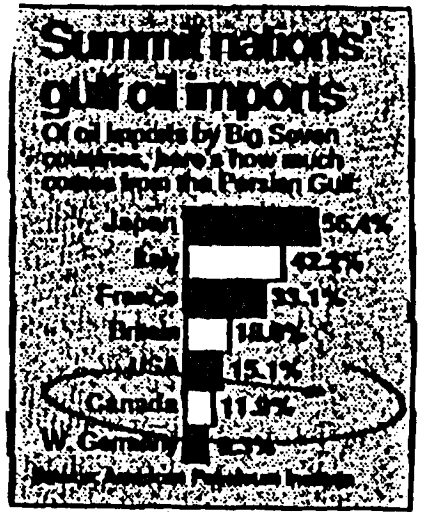

By Julie Stacey, USA TODAY

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COVER STORY

Fed turnover stirs summit anxieties

The priority of leaders at summit will be to stem the plunge of the dollar

By Jessica Lee
and Bill Nichols
USA TODAY

WASHINGTON — For eight years, whenever the world wanted to know about U.S. monetary policy, all eyes turned to the towering figure of Paul Volcker.

But no more.

As President Reagan leaves today for the 13th annual Economic Summit, June 8-10 in Venice, Tuesday's bombshell resignation of the respected Federal Reserve chairman gives him further pressure.

With an already ticklish set of tasks awaiting him, Reagan now also must sell anxious world leaders on the stability of the dollar and USA economy after Volcker.

At 3:30 p.m. Monday, in a face-to-face meeting at the White House, Reagan asked the powerful central bank chairman to stay on, and Volcker said, "No," confirming earlier hints to chief of staff Howard Baker that Volcker wanted to return to private life. Veteran economist Alan Greenspan was named to take the Fed hot seat.

Congressional plaudits for Volcker rang: Sen. William Proxmire, D-Wis., chairman of the Senate Banking Committee, called the resignation "a serious loss to this country"; Rep. Charles Schumer, D-N.Y., said Volcker "kept the the nation's economic ship of state afloat."

As a staunch anti-inflationist whose tough policies are credited with fueling one of the largest peacetime expansions in history, Volcker's exit seems guaranteed to turn up the anxiety level at the seven-nation summit.

When they gather Monday, the top priority of leaders of the United States, Japan, West Germany, Great Britain, France, Italy and Canada will be to stem the plunge of the dollar.

"For the first time, the United States is in transition from a highly overvalued dollar and a huge trade deficit to a lower dollar and a lower trade deficit," explains economist Charles Schultze, who chaired President Carter's Council of

Summit plan: Bolster the buck

Continued from 1A

Economic Advisers.

"The problem is managing that transition."

The dollar really is the world's medium of exchange. When it plunged in 1977-78, members of the European Economic Community set up their own monetary system to protect against instability.

"If the dollar becomes unstable or if world confidence were shattered, international financial stability would be shattered," says C. Fred Bergsten, director of the Institute for International Economics.

Since Volcker's tough resolve helped keep up confidence in the dollar during his term, some analysts fear his departure could send the dollar spiralling further. And the dollar already has tumbled so far — more than 40 percent since 1985 — it threatens Europe and Japan.

A free-falling dollar could spark recession in those countries: The values of their currencies could surge while that of their exports could plunge, shrinking the net worth of their dollar investments.

At home, an uncontrolled slide by the buck could mean restive financial markets, rising interest rates and a steep rise in the current 6 percent inflation rate.

In the Plaza Agreement of 1985, the United States, France, Great Britain, West Germany and Japan pledged to coordinate their monetary and fiscal policies to bring down the inflated value of the dollar in an orderly way.

Since then, representatives (finance ministers) of the Group of Seven — the five nations plus Canada and Italy — have been meeting every three months or so, talking over the global economic problems.

But all the coordination in the world will mean little unless the summit countries take the difficult political decisions necessary to stabilize the dollar and keep trade open. Experts say that's doubtful — even in the USA — given the political problems that most of the summit participants face at home.

To do its part, for example, the United States must produce more and consume less to bring down its trade deficit from last year's record $150 billion level.

On the other hand, West Germany and Japan, the top U.S. trading partners, must consume more and export less to expand their domestic economies.

But, "the whole thing turns on what the White House does," Bergsten observes about stabilizing the dollar.

"If President Reagan were aware of how deep the risks were, then he might be willing to compromise more with Congress on a tax increase."

But Reagan dismisses any suggestion of new taxes to trim consumption and the national debt. "I will veto any legislation that raises the American people's taxes," he declared last month before the National Association of Manufacturers.

Schultze sees "dim prospects" for a political solution, which means it will continue to be up to the Fed, and its new leader, to solve problems through monetary policy — particularly interest rates.

And a tug of war over the dollar isn't the only topic on summit partners' plates — problems caused by trade protectionism, agriculture reform and the perilous debt of developing countries chisel away at economic interdependence.

Beryl Sprinkle, chairman of Reagan's Council of Economic Advisers, reports that after two years of a depreciating dollar, "we are finally seeing solid evidence that the trade deficit is shrinking."

But that proof did not stop Congress from adopting protectionist trade legislation and forcing the Reagan administration to tighten quotas on steel, textiles, forest products and other imports.

Free trader Reagan still can feel the white heat of protectionist pressure — and it is protectionism on a global scale that governs current agriculture market relations, one of the most serious economic problems facing the Venice meeting.

Every member of the Group of Seven subsidizes its farm products, contributing to a world market characterized by food surpluses in industrialized countries and massive hunger in developing nations.

"It's bankrupting our individual countries. It's causing frictions among us and our summit partners, between us and the EC and Japan," said W. Allen Wallis, President Reagan's principal summit planner, of the subsidy practice.

If the group takes action on last year's statement of intent to cut farm subsidies, the cash-strapped developing nations could see early benefits.

Third World nations, many of which have no hope of repaying millions in debts and interest, could sell their agricultural products for cash if it weren't for competition from the subsidized produce of economic heavies.

The magnitude of that Third World debt — exceeding $960 billion in 1986 — has led some USA banks to write off some loans, and prompted a new approach to refinancing.

Under the new plan advanced by Treasury Secretary James Baker, lending banks would develop a menu of options to allow debtor countries to participate in new loan plans.

But Wallis ruled out debt forgiveness as a U.S. strategy.

Wallis said the U.S. goal, an international version of "Reaganomics," remains essentially the same for the poorest and the richest of the world's economies: Create the conditions for growth-oriented domestic policies.

But can that policy, or any of the others mulled over in Venice, succeed without a dollar the world can believe in? Reagan must convince his peers he can deliver — and that he doesn't need the steady hand of Paul Volcker to lead the way.

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Handshakes may turn to fistfights over trade

By Jessica Lee
USA TODAY

A trade war threatens as leaders of the Big Seven industrial democracies gather in Venice, Italy, for their annual economic summit.

Stabilizing the dollar is a top agenda item — but accomplishing that depends on how well the economies of those nations are coordinated.

U.S. willingness to act could mean the difference between success and failure on two fronts:

- Reform of agriculture markets.
- Reducing trade protectionism, which ranks second only to stabilizing the dollar.

"We have to get our trade deficit down," said C. Fred Bergsten of the Institute for International Economics in Washington. "If we don't, that will just keep the trade protectionist pressures in white heat and could disrupt the world trade system."

The United States slapped sanctions on Japanese electronics imports this year, accusing Japan of dumping microchips on the world market.

Other nations have retaliated against U.S. protectionism.

When the United States tightened controls on forest product imports from Canada, for example, Canada retaliated against USA chemicals.

And the European Economic Community struck back against U.S. quotas on specialty-steel imports.

Summit leaders will try resolving:

- Trade imbalances between the USA and its main trading partners. During 1983-1986, the USA trade deficit doubled while West German and Japanese surpluses tripled.
- Hefty agriculture subsidies in the United States and Europe draining national budgets. But Europe will not cut subsidies unless the United States does so, and vice versa.

"At Venice, we expect to cement the political will to reform," W. Allen Wallis, President Reagan's chief summit planner, told reporters.

But few experts expect changes.

Bruce MacLaury, president of Brookings Institution, said leaders of the Big Seven "face the same old problems and they're not much closer to agreed positions."

DEPARTMENT OF EXTERNAL AFFAIRS
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Baker Predicts Pact to Monitor World Economies

Journal of Commerce Staff

VENICE SUMMIT

WASHINGTON — National leaders at the Venice economic summit next week will endorse new procedures for monitoring economic policy coordination, Treasury Secretary James Baker predicted.

The procedures, which he said will be kept confidential, involve the "economic indicators by which we measure when policy coordination is going well or not going well."

The kinds of economic indicators usually mentioned in this regard include economic growth, inflation, budget and payments balances, and interest and exchange rates.

The Reagan administration, said Mr. Baker, is willing to make the procedures public, but other governments agreed to them on the condition that they be kept secret.

Mr. Baker said he expected the seven summit participants — the United States, Britain, West Germany, France, Italy, Japan and Canada — to reaffirm their "resistance to protectionism" and to strongly endorse the new Uruguay trade negotiations round, including efforts to remove agricultural trade subsidies.

The United States, he said, also expects a reaffirmation of the exsiting strategy — sometimes called the Baker plan — for helping the heavily indebted developing nations.

President Reagan, he indicated, will push at Venice for actions implementing policies already agreed on. Japan's new $42 billion economic stimulus package is the kind of action the United States seeks, Mr. Baker said.

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WORLDNET WITH SECRETARY OF STATE GEORGE SHULTZ ON THE VENICE ECONOMIC SUMMIT

JUNE 2, 1987

Washington -- Secretary of State Shultz says there have been "very thorough consultations" with the North Atlantic allies on intermediate-range nuclear forces matters, and at the upcoming NATO foreign ministers meeting he expects a firm "consensus" supporting U.S.-Soviet INF talks.

The Secretary, in an interview on the "Worldnet" satellite television program June 2, said that at the Reykjavik meeting, "of course, we'll have to go on and discuss other aspects of the security situation, and I think particularly, we'll want to focus on conventional armaments and chemical weapons and things of that kind."

Following is a transcript of the interview:

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MODERATOR: Good afternoon. Today for our viewers in Europe and participants in Berlin, London, Paris, Ottawa and Tokyo, Worldnet presents a special news conference with Secretary of State George Shultz.

Secretary Shultz will answer questions on the upcoming economic summit in Venice, Italy. Mr. Secretary, thank you very much for joining us this morning. It is nice to have you.

SHULTZ: Thank you.

MODERATOR: Secretary Shultz is speaking to us from the Old Executive Office Building. Due to time restraints, we will go directly to our participants for questions.

QUESTION: Mr. Secretary, I think international cooperation in the field of economics has made some progress as far as monetary policies are concerned since the Louvre Agreement.

I think there are other fields where cooperation between nations could be bettered, I think especially to financial policies.

My question on this concern is: Now, as we in Germany have reduced our forecast economic holds for this year to only one percent, what should the Federal Republic of Germany do to contribute to better international development of the economy?

ANSWER: Growth in the world economy is an essential ingredient to working with a great many problems. It is desirable in and of itself, but of course it is needed to provide Third World countries a basis for paying and handling their debt and so on.

So growth is important. It has been heartening to see the Japanese step up to this problem and in the stimulative package that Prime Minister Nakasone announced the other day, there is an even greater amount of stimulus than was originally thought.

It seems to me Germany needs to take a look at its hold card and ask whether or not it should do more than it is now doing. The same can be said for other countries. Growth does not come just from one country alone; it comes from the general atmosphere throughout the world economy to which each country contributes.

Q: President Reagan has said that during the Venice Summit, he intends to focus on the Gulf. He has been saying quite clearly that he wants more help, more involvement by the European allies.

Bearing in mind that France and Britain have both had warships there for considerable time, what specifically does America want from its allies at this stage?

A: Well the specifics, as far as each individual country, are still being thought through, but I think one would expect at a minimum a general support for the idea of the importance of keeping the Straights of Hormuz open and for protecting the vitality of international waterways -- especially in the Gulf, since so much of the oil that flows to the free world and, more particularly, to Europe comes out of that area.

I think everyone should be looking at this with a sympathetic point of view and considering various things that we might ask or that they might think to do themselves.

As you point out, both the British and the French are already represented in terms of specific things that they are doing.

Q: Do you think that the seven will make a declaration on disarmament in Venice?

A: I do not think it is so much disarmament. There is certainly going to be discussion of East-West issues and security issues, and there has traditionally been now for a number of years a statement about that.

It is a particularly good moment (and) because of terms of nuclear armaments, there seems to be an emerging allied consensus about how to handle our INF negotiations. This, after all, can only be viewed as a great success for the coherence and cohesion of the West as we have approached this whole dual-track decision, and we are beginning to see the payoff from that.

Brian Kelleher, CBC Radio: Does the Reagan administration at this time favor any intensified economic sanctions against South Africa?

A: We have a greater degree of sanctions in effect now than most other countries do. Obviously it is a subject that tortures everybody because we abhor apartheid. We know what we are against; we are against apartheid.

We know what we are for; we are for a different pattern of government where everybody can have a chance to take part and where the economy of South Africa -- and for that matter southern Africa -- can measure up to its really tremendous potential. That is what we would like to see.

It is a matter of great concern that we do not seem to be getting there. I do not know that further sanctions are necessarily going to advance that cause.

Q: With regard to the communicated interest in the Gulf, what kind of cooperation do you want Japan to make specifically? Is it that Japan defray, for example, some of the costs of the American naval commitment in the Gulf, or is it that Japan takes on more specific duties in protecting the sea lanes towards the free American naval units for the Gulf?

A: The specific things that Japan might do, we are trying to think out. We will be talking with Prime Minister Nakasone about that when the President gets to Venice. Of course, we would welcome Japan's own ideas about what it should do.

After all, Japan gets a very high proportion of its oil from the Persian Gulf, and so it must be concerned and, therefore, be ready to take its part of the burden of responsibility for keeping those waters open.

Q: Let me just switch to another subject which might be interesting for the listeners and viewers in Europe.

The American ambassador in Bonn has recently expressed his view about the reunification of Germany and we, in Berlin, expect a visit of President Reagan next week. As far as we know, the President will deliver a major speech and he will mention his idea and support this idea of reunification in Germany.

The question is: Do you think, as the Secretary of State of the first major power in the world, that this reunification might come in any coming future? How do you think the Russians think about this topic?

A: First of all, one of the things I have learned as Secretary of State is never to scoop the President. He will make his speech and you will know what he says when he says it.

What we think more generally is that there should be a Europe that does not have dividing lines in it. Let's start right there in Berlin. Let's get rid of the Berlin Wall. That is a reality of division and it is a symbol of division. The first thing is to get rid of all these things intended to divide European countries from one another.

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As far as Germany is concerned, obviously you have a people of the same background and heritage and speak the same language. There has got to be a yearning to move together and no doubt starting in various ways such as getting rid of the impediments to movement, looking at family visits, reunification and so on, things of that kind and moving on.

So, way out in some future, that is one thing immediately. Let's try to do things that are doable. You can take a bulldozer and knock that wall down.

Q: Mr. Secretary, following up this question: If you look at the new flexible Soviet leadership under Mikhail Gorbachev, do you think new attempts could be made to improve Berlin's position within East-West relations?

A: I think it is something we should continue to aspire to as we always have. We would like to see Berlin be a more open city without a wall. We would like to see greater access to Berlin. We have worked and will continue to work on those matters so that Berlin can have a life that is more normal.

It does appear that Berlin is a flourishing city as you would expect. I think when you contemplate that we are celebrating the seven hundred and fiftieth year of the existence of that city, it shows the staying power and the vitality of Berlin.

Q: At the recent briefing in West Berlin after the Warsaw Pact summit promised a (inaudible) Ambassador to Bonn, (inaudible), stated that the division of Germany was fixed by the Western allies during the 40s according to documents here seen. Whereas, the Russians stated they have always tried to keep German unity up to the middle of the 50s. Are there, in U.S. Archives, any documents hitherto unknown to prove this fact?

A: I do not have the slightest idea.

Q: President Khomeini of Iran said on Saturday of ending the war in the Gulf as opposed to ending the war on land. Do you see anything in what he has to say about keeping sea routes open including Strait of Hormuz as offering any sort of way forward?

A: We welcome statements that respect the freedom of navigation and the openness of the Straits. We have been working in the United Nations to have a call -- I think there is general agreement on the importance of a call on both parties to that war -- for a general ceasefire, not just in the Gulf but as a general proposition at established international borders.

We would like to see that take place. If one party or the other is not willing to do that, we think the way to proceed is for the world generally through the Security Council to say that the recalcitrant party should not have any arms sold to it so it cannot carry on the war. That is what we are driving for in the United Nations.

Q: A few minutes ago, earlier this morning, Mr. Lawson, the British Chancellor of the Exchequer said it would clearly be helpful if the United States were to raise taxes to achieve a better balance in the world economy.

My question to you is: Can the United States reasonably ask its allies to do more to stimulate world economy without some bold initiative to reduce its deficit?

A: The United States is in the process of reducing its deficit. The deficit in this fiscal year as compared to last fiscal year probably will be reduced on the order of, I gather, around 35,000 million dollars.

That is a pretty good swipe to take out of it. The budget being worked on this year will also have a major reduction from the previous year. So it is being worked on very hard.

As to precisely how we do this, of course, that is something that will have to be considered here in the United States. The major thing, and the President has emphasized this over and over again, is to keep the size of government down; therefore, to keep the flow of spending, which is always threatening to burst out even more, under control. That is the way to do it.

Q: What would the United States like to see emerging from the summit regarding agriculture and agricultural trade?

A: The OECD in its recent meeting made a very good statement recognizing the great importance of this subject, recognizing that the leading industrial countries — that is those that will be meeting in Venice -- have programs in place that are not good programs insofar as the world agricultural economy is concerned.

Therefore, they must address reform. Just as in the Tokyo Summit, a strong statement along these lines was made and it helped us in the OECD deliberations. It helped us in the work getting the Uruguay Round started.

So a similar strong statement made from this year's summit will help push those negotiations along and help bring the agricultural picture into a more sensible pattern.

Jeff Sallot, Globe & Mail: A follow up on a previous question. You said that you did not feel that further sanctions against South Africa would be helpful. What then is the program or what initiative can Western industrial nations take to put further pressure on the Pretoria regime?

A: I do not know just what there is to do. We need to keep stating our view. We need to keep pushing on what is right and what is wrong. We need to support those who seem to be working in this direction.

It was interesting to see that now leaders in the church, the Afrikaaner church, are saying that apartheid is not compatible with Christian principles as espoused by that church. There are all sorts of ways of trying to keep the moral facts very much in front of people.

It is not at all clear to me that sanctions which have the objective of taking the bread and butter out of the mouths. After all, who are the workers you are punishing? They are black workers. It is not at all clear to me that that is the way to proceed.

It is a very hard issue. If I had the answer to it, I would tell you. It is one of those questions that is just very difficult. I do not have the answer except I know what is wrong: Apartheid. I know what is right and that is a different kind of government.

I know what needs to be done to get there. The people in South Africa who have leadership roles need to be able to talk to each other and negotiate something different. So that means the white government needs to be willing to do that.

To do that, they have to release from prison people like Nelson Mandella. They have to be ready to sit down with the leaders of the South African blacks and talk to them about change. So far they do not seem to be willing to do it.

Susan Flory, CKO: Your new AIDS testing policy that has created such a stir, is this undertaking going to expand into your area of foreign policy? Are you going to be promoting this internationally including this country, Canada?

A: As far as the State Department is concerned, we test for AIDS for people who wish to join the Foreign Service. When any person and family are to be sent abroad, we require a test.

This is so that on the one hand we know what is going on so that proper medical treatment can be given. So we are very much in action as far as our own department is concerned.

The President also stated that we feel in the United States that this is a communicable disease like a number of others. We test immigrants for these communicable diseases.

Those that have them are restricted insofar as entry into this country is concerned. So those are the types of things that we are doing.

This is a major problem of a world scale. We are just beginning to learn about it. One of the things that needs to be done is to collect more comprehensive statistics about how many people have this disease and what is the pattern of its spreading so that we understand it better.

If we understand it better, then we will be able to do something about it. Those are the things that we have in mind.

George Appleton, ISN: Recently here in Ottawa, the Cairns Group of grain-exporting nations gave Prime Minister Mulroney a mandate to try and negotiate an end to the grain-export subsidy war between your country and European exporters.

What is the U.S. position on this? Is there any give-and-take? Are you willing to cut back or possibly end grain export subsidies altogether?

A: We are not willing to hand over traditional U.S. markets to subsidize European products. That is the way our export enhancement program got started in the first place, and we will continue with that.

I think the answer here is to change the pattern of subsidies as they apply -- not just the export-enhancement program, but the general pattern of subsidies as they apply around the world -- not just in the United States, not just in Europe but in Japan and in other countries. It has to be done on a multilateral basis.

That is being addressed in the Uruguay Round, and I hope that Prime Minister Mulroney comes on strong in Venice and joins and helps to get, as I am sure he will want, a strong statement on the agriculture question.

The basic fundamental way of dealing with this is to separate the payments that go to farmers from prices and production goals so that you put income in one category and production and price in another category. Then the countries that are able to produce at the lowest cost will be the ones that are favored in world markets.

Q: It has been the position of Japan that the question of reducing INF should be approached globally. There is a growing concern in Japan about 100 Soviet warheads in Asia that appear to be left out of the INF negotiations.

Is Asia going to be left out in the whole scheme of the arms control negotiations?

A: The United States has always approached the INF negotiations on a global basis. The tentative agreement that was reached at Reykjavik does reduce these missiles on a global basis.

Insofar as Asia is concerned, the 100 that are left -- if that is the way it turns out and we continue to advocate their elimination -- are much less than the 600 or 700 that are there now.

So you make progress -- that is a lot of progress -- and we will keep at it. So there is not any difference of opinion on the need for a global zero.

Coming all the way from where we are now with around 1,400 Soviet warheads or so, down to 100 is a great deal of progress. That progress is reflected in Asia as well as other parts of the world.

Q: You have mentioned earlier in a barely positive fashion about the recent Japanese government decision on the six million million yen package to boost the domestic demands.

Now, last fall the Japanese government also decided on a similar package in the order of 3.6 million million yen and that did not deliver very much.

Do you have any reason to believe that this recent package is going to be meeting your expectations?

A: Well, it is certainly a lot more than nothing, so it is positive. It is more than what was talked about when Prime Minister Nakasone was here and as best I can understand it -- and we are still trying to study and understand this package -- it has up front a major reduction in tax rates. We think that getting the tax burden down is one way to stimulate an economy. It has worked in the United States, and there is no reason why it cannot work in Japan.

Q: What is the prospect of listing the 100 punitive tariffs in conjunction with the Japanese semiconductors?

As it is, Japan will be sitting in the defendant's seat, sort of speaking, at the court of this summit meeting. Does not the summit meeting provide a good timing to lift the sanctions?

A: These sanctions were undertaken on the strength of an agreement that had been reached between the United States and Japan on various sales practices -- prices and so forth -- having to do with the chip market. They will be lifted as the facts of change or of conformance of Japan with the agreement that it made become evident.

We have now had about a month to observe, and we are looking at

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those facts. Of course, you cannot determine a trend from one-month data. But nevertheless, they are being examined carefully.

It is not a question of somebody doing something they would like to do. It is a question of looking at the facts and seeing what the facts warrant. That is what is now underway.

Q: President Reagan deferred to the Japanese plan to share its trade surpluses with the lesser-developed nations, in his recent speech. Coming as it is in a speech commemorating the Marshall Plan, may I take it that Mr. Reagan regards this recent Japanese initiative as epic-making as the Marshall Plan of 40 years ago?

A: We regard it as an important move and encourage Japan to step forward because it has accumulated large assets as a result of its trade surpluses and is kind of in a position not exactly like the United States, of course, right after World War II, but in the position of a country with a lot of resources that it can make available if it chooses to.

So the President welcomed the initiative that Prime Minister Nakasone informed him of Japan's intention to step forward with a substantial sum. How epic-making it will be, of course, remains to be seen. But it is a move in the right direction. The President meant to describe it in a very positive tone, as I am doing here.

Q: A question to the outside balance of the United States. The competition situation of the United States has become much better by the devaluation of the dollar. The question is: How long will the U.S. enterprises need to adapt their production to the new market condition and to increase the exports so considerably that the GATT in the trade of balance can be (inaudible)?

A: Of course, that process of changing the trade balance is already underway as U.S. exports have been rising a little and as imports have been declining on a volume basis, if not on a dollar basis. I think this will undoubtedly continue.

Bear in mind that the reason why the trade deficit occurred and occurred rapidly was not a sharp decline in U.S. exports. It was a huge increase in imports into the United States that resulted from the very high dollar, among other things, and the expansion in the U.S. economy relative to other economies.

Now as those conditions change, we can expect to see this trade balance change. I suppose if it changes in the same direction that it changed before, a good deal of what will happen will be having to do with imports into the U.S. market. There, the U.S. companies are very adept at competing.

Q: What is the foreseeable outcome of the Reykjavik meeting scheduled for early June?

A: That will be a meeting of the foreign ministers of NATO and, therefore, is a meeting involving all of the alliance members and, no doubt, the discussions in Venice involving some of the alliance members plus Japan will get reflected in Reykjavik. But all of the alliance members will be there.

We have had a very thorough consultation on the INF matters, and I expect to see that consensus emerge and be established there. Of course, we will have to go on and discuss other aspects of the security situation, and I think particularly we will want to focus on conventional armaments and chemical weapons and things of that kind.

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NEW ACTION FOR POOREST DEBTORS LIKELY, BAKER SAYS

Washington -- U.S. Secretary of the Treasury James Baker says the United States expects "there will be movement...at the summit" on the need to give the poorest debtor countries some special consideration in managing their economic problems.

Interviewed June 3 by European, Japanese and Canadian reporters via USIA's "Worldnet" television satellite network, Baker said that with respect to the middle-income debtors, the commercial banks should place greater consideration on "a menu of options" whereby capital can flow to these countries without substantial amounts of new lending.

"It would be not inappropriate, if the banks thought it was appropriate, to consider interest capitalization now that banks are provisioning in the United States, exit bonds, the Philippine investment note-type approach," he said.

Baker answered questions from foreign reporters several days before the scheduled June 8-10 summit in Venice, in which leaders from Italy, the United States, United Kingdom, France, Japan, West Germany and Canada, and a representative of the European Community will participate.

The treasury secretary made these additional points:

-- He does not expect any change in the conduct of monetary policy when Alan Greenspan replaces Paul Volcker as chairman of the U.S. Federal Reserve Board.

-- The Venice summit will be a time to examine the progress made in implementing previous commitments on macroeconomic policy.

-- European Community implementation of its proposed tax on oils and fats would result in U.S. retaliation and threaten the world's free-trading system.

Following is a transcript of the Baker interview:

(begin transcript)

MODERATOR: Welcome to Worldnet's "Dialogue." Today, for viewers in Europe and participants in London, Bonn, Paris, Montreal, Brussels and Tokyo, we present a special news conference with the Secretary of the Treasury James Baker. Mr. Baker will answer questions on the upcoming economic summit. Welcome, Mr. Secretary.

BAKER: Thank you.

MODERATOR: I would like to go directly to our participants for their questions.

QUESTION: The financial markets appear to have reacted badly to the departure of Paul Volcker. Does this worry you? Does it cast a cloud over the summit?

ANSWER: I don't think it does. It does not worry us. The markets have come back pretty well overnight and this morning -- the foreign exchange market and the bond market here in the United States.

I think it is to be expected that anytime someone of the stature and the reputation of Chairman Volcker decides it is time to move back into the private sector, you are going to see some adverse reaction market-wise.

We, frankly, had anticipated that. We are pleased to see that overnight markets have come back and seem to have stabilized pretty much across the board. We think that in the medium and long term, that will be the case. Frankly, we think that Mr. Volcker's replacement is an outstanding individual in his own right.

Q: Which role should Bonn play at the summit in Venice? What do you think about the measures Foreign Minister Stoltenberg has already announced; I mean. the additional tax reduce of 5,000 million marks in 1988?

A: The measures that Germany agreed to take in Paris in connection with the Louvre Accord in February, I think all would agree Germany is moving expeditiously to take. We are very pleased with that.

We supported Germany's decision to take those measures. We were quite pleased as well, frankly, to hear Minister Bangemann tell us at the OECD meeting in Paris several weeks ago that if growth falls off in Germany and if growth does not live up to expectations, then it would be Germany's intention to take another look at their situation and see if there is additional room.

We think that is a reasonable position. We support that. Clearly the timing and nature of whatever economic moves might be considered is a matter for the Federal Republic of Germany to determine.

Q: Did the White House receive the full endorsement of other Western governments to announce Mr. Volcker's departure just five days before the Venice Summit? Otherwise, how do you justify the timing of an announcement that can only have a disturbing effect on financial markets?

A: Quite frankly, we do not accept the assumption of your question that it can only have a disturbing impact. We believe on the contrary that to leave the question of succession hanging out there during the summit would have been a mistake.

Under our law. the term of the chairman of the Federal Reserve expires on August 6. In 1983, when President Reagan decided to reappoint Chairman Volcker, it was felt that that decision should be made in conjunction with the summit, if you will, so that there would not be endless speculation and uncertainty.

It was our feeling as well this time that the announcement should be made in advance of the summit so that there would not be an extended period of uncertainty leading up to and during the summit.

I might say that Chairman Volcker shared this view as well. We discussed the timing of the announcement.

Q: Private banks in the United States and also in Canada and around the world have decided to take a loss to certain loans to the Third World and developing countries such as Brazil. That puts in jeopardy the so-called Baker Plan. What is your strategy now?

A: First of all, they have not decided to take losses. What they have done is provision against the possibility of future losses. They have moved an item of capital from one place on the ballot sheet to another, but it still represents bank capital under the rules and regulations that govern the U.S. banking system.

We have characterized this move as a positive step, all in all. We think that there are perhaps some downside to it; but overall, we think it will be positive because it will put U.S. banks on more of a par with European and Japanese banks, which have gone further in this provisioning than have U.S. banks.

It will enable U.S. banks to negotiate economic reforms in these debtor countries from a position of strength rather than a position of weakness. The real heart and guts and soul, if you will, of the so-called Baker Plan is free market economic reforms in the debtor countries.

It is critical that we get those free market economic reforms if these countries are going to find a way to grow their way back. We think any solution to the debt problem rests on growth.

Contrary to the assumptions of some. we do not think it means the end of our proposal for solving the debt problem. We never suggested nor do we not suggest that the problem is solved simply by throwing a specific amount of money at it without obtaining the necessary reforms.

Q: The financial markets seem to be quite pessimistic on the Western summits (and) expect some kind of a monetary agreement or an updating of the Louvre Agreement. Can you give them ideas what to expect?

A: For some time, we have been cautioning against getting expectations out of hand in connection with the summit.

What we have said is this: We had a major agreement at the Louvre as recently as February on macroeconomic policy steps that the major countries should take. That was supplemented by another major agreement undertaking in April here in Washington at the G-7 meeting.

The actions that need to be taken have been agreed to. It is now a question of implementation. So what we would like to see coming out of the summit is a reaffirmation by the heads of state of the actions that have already been agreed to at the finance minister level and progress toward implementation.

I think we are seeing progress toward implementation. The package announced late last week by the government of Japan is a clear step in this direction. We have just discussed the fact that Germany is moving to fulfill its commitment.

Quite frankly, we are going to have some rather, I think, substantial and satisfactory progress made in 1987 in the United States on reduction of our fiscal deficit. Many people have not focused on this fact, but we are going to see a deficit reduction accomplishment in the United States in fiscal 1987 which ends in September of 18-plus percent.

We are going to have a reduction of that magnitude. That is a substantial deficit reduction. So the question is one of implementation. We want to see reaffirmation by the heads of state of the undertakings already agreed to. I think we are beginning to see implementation.

Q: As you just mentioned, the Japanese government has recently decided an emergency economic package. How do you (assess it)?

A: We are still in the process of analyzing the details of the package. We do not have all of them. In particular, of course, we do not have the specific detail with respect to the suggestion for making additional flows available to the Third World.

With respect the economic package itself, we are still looking for some detail. I must say that we are very pleased to see the package come in the 6,000,000 million yen range rather than the 5,000,000 million yen range. We think that is a very positive development. We think the fact that there about -- as we understand it -- 1,000,000 million yen in supply-side tax cuts which are supplemental to the spending portion of the package is an extremely good development.

Again, the question is implementation and we look forward to hearing more at the summit about the forecast for when this package might be implemented.

Q: Mr. Baker, could I ask a question about to what extent do you think progress can be made further about implementation of the international economic policy coordination at the summit? Do you think there will be some differences on this matter among the seven countries who are arriving, especially from West Germany and Britain? How do you manage and do you have some new idea on this new issue?

A: Let me say that I think that we have made considerable progress over the last several years in improving the process of international economic policy coordination. We now meet more frequently. We meet as a group of seven. There is some symmetry there because of the summit with the heads of state.

We have worked very hard at the finance minister level to develop the details of a new process involving the use of economic indicators. We do not plan to publicize the details of that process because we have agreed not to. The finance ministers have certainly agreed to this. It would seem to me reasonable therefore to suspect that the heads of state would simply confirm or reaffirm the understandings arrived at at the finance minister level.

Q: In referring to the packages announced by Japan and Germany, you talked both times about the importance of actual implementation.

Do you see a need for some international group -- I would not use the word "agency" -- but organization or whatever that would monitor implementation of these kinds of packages and make reports to the summit?

A: No, I really do not. We have such a group now. First of all we have plenty of international organizations. In my view we do not need any new ones. We have such a group that is charged with that responsibility now and that is the International Monetary Fund in the exercise of its surveillance responsibilities.

We see now a move toward enhanced surveillance. As I mentioned just a moment ago we do meet a bit more frequently now. We review our forecasts and our performance, in somewhat more detail, with the managing director of the IMF there. We seek to resolve differences of opinion and agree on remedial action that should be taken.

In all of this there is no effort to cede sovereignty, nor should there be. I mean the United States would be in the forefront of those nations suggesting that there should be no ceding of sovereignty to some international body or process.

I think we have the necessary tools to do the job. It is a case, I believe, of simply sticking with it, doing it on a regular basis and having the discipline to make the changes that are necessary.

Q: Mr. Secretary, Germany has about 8 or 10 percent of the total market of the total U.S. imports. How can Germany help you to improve your trade deficit by encouraging its own economy...to grow?

A: I think it is more a question of not so much helping the United States with its trade deficit as helping the world sustain non-inflationary growth. We have been extraordinarily fortunate over the past 54 to 55 months.

We have enjoyed, since World War II, almost unprecedented sustained economic growth without inflation. That growth is now slowing down world-wide. The principal engine of that growth has been the U.S. economy. It has begun to slow a bit. So our suggestion is that other countries -- particularly surplus countries -- should help pick up some of the slack.

Germany is the leader in Europe. Many economies in Europe have to follow the German example. It is important that Germany do what it can, within the limitation of maintaining the gains that have been made against inflation.

We have always said that; we do not for one minute suggest that any pump-priming measures should be resorted to or that there should be anything done which would tend to permit a resurgence of inflation. Within that limitation, we would like to see all countries around the world, including Germany and including all other surplus countries, do what they can to help maintain this sustained growth we have seen around the world.

Q: The common market is discussing an oil-fat tax on different products which would affect very much your country. How would your government react if such plans become reality?

A: That would be one of the most unfortunate things, I think, that could possibly happen to the world economy. We are fighting desperately in the United States to avoid protectionist legislation in our Congress.

Our view is that it is extremely important that the United States not go protectionist. As the world's largest economy and the world's biggest market, if we go protectionist, I fear for the, frankly, for the survival of the world's free-trading system.

However, it will be extraordinarily difficult for us to continue this fight if we are hit with a 1,800 million to 2,000 million dollar tax on oils and fats. We would have no alternative but to respond and retaliate. We would retaliate and there would be a serious danger, in my view. of having that erupt into a broader confrontation.

We have made these views known to the EC countries and we hope very much that they will not move in this direction.

Q: You just told us that you would respond in one way or the other. Could you give us some details of how your response would look like?

A: We would prefer, obviously, to discuss those with the countries involved. We would expect to do that before we would discuss them publicly.

Q: Mr. Secretary, last year the United States militarily decided to impose a curb on sugar import quotas. Do you think such measures are compatible with your desire to coordinate the various economic policies on the commodity world market?

A: No. We are not particularly proud of that fact, if I may say so. That is an example of the type of action that we would hope -- we in the administration -- would like to see the world avoid. I do not for one minute suggest that we do not have some sins of our own, because we do.

It is extremely important to the health of the world economy generally that we do everything we can to avoid moving toward protectionism around the world. This was a step in that direction as far as we are concerned -- we are not particularly proud of that -- and we are doing what we can to prevent a much broader based protectionist bill from becoming law.

Q: Mr. Secretary, are you really unhappy with the departure of Mr. Paul Volcker?

A: Am I really unhappy? Absolutely. Make no mistake about that. I have enjoyed a particularly close working and personal relationship with the chairman. I think we have been able to work together very effectively.

Therefore, as I said yesterday, not only would I have been extremely pleased if his decision had been otherwise, I am quite confident that President Reagan would have been extremely pleased.

Having said that, I have to say that we are extraordinarily fortunate in the United States and around the world in having someone of Alan Greenspan's qualifications available to take over that sensitive post.

Q: With the resignation of Paul Volcker -- with whom you sometimes disagreed -- it is difficult to imagine that U.S. monetary policy will remain unchanged. What do you think the upcoming changes will be?

A: Well. I do not accept the premise of your question in either respects: Number one, you say with whom I sometimes disagreed. The only disagreements on policy that the chairman and I ever had related to the issue of regulation of the financial services industry within the United States. That was not, if I may say so or characterize it, a major disagreement. So I simply do not agree with the premise of your question.

Secondly, Chairman Volcker and Chairman-Designate Greenspan both made it clear at the White House yesterday that there would not be significant changes in monetary policy, as far as the United States is concerned. I am quite satisfied that that is the case.

I might also point out that the president of the United States, in connection with announcing this appointment yesterday, pointed to the fact that one of the most extraordinary achievements of recent years has been the gains we have made against inflation.

For four years -- the last four years -- we have gotten inflation down from double digits in the United States to under 4 percent. We want to maintain that. So I do not expect to see changes in monetary policy in the United States.

Q: Mr. Secretary, you have just mentioned that you are not suggesting pump-priming in the so-called surplus countries. But does that mean that you will be content with supply-side tax cuts, but supply-side tax cuts may mean larger deficits, and larger deficits means larger issues of treasury bonds to finance those deficits.

Is that compatible with lower interest rates in less surplus countries like Germany or Japan and others?

A: Well, I do not think that you should assume that it is necessarily incompatible, if I may say so. We had some of the most substantial supply-side tax cuts ever implemented in history, implemented in the United States in 1981, which increased, some would argue, increased the size of the U.S. deficit.

I do not think that is what increased the size of the U.S. deficit. I think what increased it was the fact that we had a very extensive recession in 1982. But even if you accept that argument, I would remind you that when those tax cuts went into force, went into place, the prime interest rate in the United States was 20.5 percent.

That has declined steadily over the past four years to 7.5 percent. It is now back up to 8.25 percent. But it does not automatically follow that supply-side tax cuts result in higher interest rates. It is not inconsistent with suggesting that we do not want pump-priming measures to suggest that we would love to see some supply-side tax cutting, following the United States example.

Q: Mr. Secretary, you admitted at the IMF meeting last March that the Baker Plan for the indebted countries was not as efficient as you expected it to be. Are you planning the possibility of changing this plan to make it more efficient? What do you think should be done for the African countries in particular?

A: First of all, let me make sure you understand that the debt strategy of the United States really applied to the medium-sized debtor countries -- at the time 15 debtor countries -- and not the poorest countries of sub-Saharan Africa.

We do believe that special consideration should be given to the plight of the poorest countries of sub-Saharan Africa. We expect that there will be movement on this front at the summit. There already has been, in terms of more generous Paris Club rescheduling provisions in the form of the negotiation of a larger IDA-8 (eighth replenishment of the International Development Association) and so forth. So you need to separate those two problems.

With respect to changes in our debt strategy for the medium-sized debtors, I said at the IMF meeting that we had been disappointed with the scope and extent of commercial bank lending. We have been pleased with progress in some respects -- economic reforms by many countries -- and the superb job that the multilateral institutions have done -- the World Bank and the IMF -- in stepping forward and enhancing their role.

We think there should be an emphasis on, perhaps, the consideration by banks of a menu of options, whereby they can offer some new money but some other means of getting capital to the medium-sized debtors, such as debt-equity swaps. It would be not inappropriate, if the banks thought it was appropriate, to consider interest capitalization now that banks are provisioning in the United States, exit bonds, the Philippine investment note-type approach.

So we have suggested that there be a menu of options looked at by the banks themselves.

Q: You have defined major surplus countries, such as Japan and Germany, of picking up the slack in the world economy as growth slows down. Do you envisage any role for smaller nations such as Canada? Would that imply -- whatever role that would be -- imply any changes in our economic policies?

A: I think it is important, as I think I indicated in an answer to a prior question, that any countries that are in a position to help pick up slack do so. Those would be primarily the surplus countries that might have room for additional growth without retriggering inflation. Let me say one more time, we certainly do not suggest that.

To the extent that Canada has some room to move, we would be, obviously, pleased to see Canada move. But do we have specific suggestions? No more than we do in the case of the other countries, where we have said the nature and timing of any such measure has got to be determined, obviously, by the countries themselves.

That is a decision we would make for ourselves in the United States; that is a decision we clearly would expect Germany, Japan, Canada, and any other country to make for themselves.

Q: What are the most important similarities and differences in the American and Canadian Summit agendas? In particular, will you present the North American Free Trade Talks as a model to be followed by other summit nations?

A: I am not in a position to speak to the Canadian agenda at the summit, so I really cannot tell you what the difference is between the U.S. agenda and the Canadian agenda at the summit. I do expect to have some meetings with my counterpart before the summit begins, once we get to Venice.

The free trade talks, I think, are extremely important to Canada and to the United States. I think if we are able to reach agreement on a free trade agreement between these two major trading partners, it could have profound effects worldwide. First of all, it would set an outstanding example.

Clearly, we will make this case in Venice. But, of course, it is premature to assume that we will get there because it is very difficult to negotiate such an agreement. But if we are able to do so, I think it would be a truly outstanding legacy which the Reagan administration would leave and which would redound, of course, I think, to the benefit of the Mulroney administration. It is very important; it would, I think, energize the economies of both countries if we are able to get there. There are still some major hurdles along the way.

Q: Mr. Secretary, you speak of the legacy that a free trade agreement would leave an example for the whole world. However, you also speak of...a move toward protectionism in your view. Would this possible move toward protectionism scuttle a chance for a free trade deal between Canada and the United States?

A: It would clearly make and does make attaining the objective somewhat more difficult. We have always said and I think the government of Canada recognizes and says that no agreement is going to be approved that is not good for Canada and good for the United States. If the agreement is good for the United States, the Congress will approve it. If it is good for Canada, the government of Canada will approve it.

Q: What policy changes would you like to see to open international borders to the flows of international capital?

A: Well, I am not sure that we have specific policy changes to suggest, although we do favor free capital markets. We favor the elimination of any controls on capitals just as a generic matter.

We favor national treatment, national right of establishment of financial institutions, quite frankly, across borders. We have very liberal policies here and free open policies here in the United States in that regard. We would like to see other countries move in that direction.

We have had specific talks with the government of Japan in this regard over the past several years. Progress is being made there. In the free trade agreement talks with Canada, we are talking about reform in financial services in both countries to enhance the free flow of capital between the countries.

Q: Mr. Secretary, the value of the dollar came down some 40 percent in the last few years, but the balance of payment deficits did not come down any. Are you still waiting for the (inaudible), in my view, to work? Do you expect the dollar to go down even further to make the J-Curve work, or do you plan other measures to bring the deficit down?

A: Let me say that it is the view of all seven of the summit countries that any further decline of the dollar could be counterproductive. The question of the U.S. trade deficit not having shown improvement is very questionable in and of itself. Your statement to that effect is questionable.

Last month our trade figures showed our exports were up 21 percent. It showed our imports were down in volume terms. Not in dollar terms, correct, but in volume terms down. We think this is solid progress toward a reduction in the trade deficit of the United States.

Q: The United States has yet to reduce its huge budget deficit. Are you really confident that you can do that without raising your taxes?

A: The answer to your question is yes. We have pledged to reduce our fiscal deficit. In 1983 our fiscal deficit was 6.3 percent of GNP. At the end of this year it will be 3.9 percent of GNP. By the accounts of all economist, not just administration economists, but independent economists as well, we will see deficit reduction in the United States this year in the neighborhood of 40,000 million dollars. Moving from 220 down to 175 or 180.

That, by any standard or measurement, is substantial deficit reduction. It is a reduction in our deficit or 18 plus percent. That is substantial deficit reduction and substantial progress on our commitment.

Q: Once again on the resignation of Mr. Volcker. There are some (inaudible) in Japan, what kind of impact will it have on the U.S. monetary policies?

A: As I have said before, I do not think that you are going to see substantial changes in monetary policy as a consequence of the decision of Chairman Volcker to retire and the president's appointment of Alan Greenspan to succeed him.

As evidence of that I would point to the statements of the president of the United States himself yesterday and to the statements of Chairman Volcker and Dr. Greenspan as well.

Q: Facing the danger throughout economic situation, the stability of currency is imperative, I think. Do you think that at the coming summit conference in Venice there will be an agreement on the measures of stabilizing the currencies.

A: I think that it would be the hope of most of the countries that the summit leaders would reaffirm the undertakings of the countries in the Louvre Agreement in February and at the G-7 meeting here in Washington which followed.

Again, let me say that it is our view that the actions which have been agreed upon will do the job. The question now is implementation. I have to also believe we have begun to see substantial steps toward implementation.

Q: In connection to that, some say that in the meetings of the financial ministers there have been some kind of agreement on strengthening surveillance. Is that true?

A: I think it is fair to say that finance ministers have agreed upon improvements in the process of -- in the surveillance process; yes. It would be not inappropriate in our view for the heads of state to confirm the agreements which their finance ministers have already made.

Q: Earlier you praised the roll of the multilateral lending institutions in promoting the plan that bears your name. Aren't you somewhat unhappy about the state of confusion that seems to be reigning on the World Bank, which could limit its effectiveness in this respect?

A: The answer is: absolutely not. I am not aware of any state of confusion that is reigning in the World Bank. In my view, there is no state of confusion reigning in the World Bank.

Q: Don't you think it would be better instead of closing your markets for the imports to encourage your own industries by some (inaudible) to become more (inaudible) in the world market?

A: We absolutely think that is the route to go. As I have said earlier, we are doing everything we can as an administration to resist protectionist tendencies in the United States. The president has sent a very comprehensive package of competitiveness measures to the Hill. We believe that is the route to go.

Q: Is the United States ready in Venice to join the European initiative for reducing the African debt on the long run? If yes, under what conditions?

A: The United States, as I indicated a moment ago, is concerned about the debt problems of some of the poorest of the poor in sub-Saharan Africa. We have favored relaxation of Paris Club terms with respect to those debtors.

Last year, the United States recommended the establishment of a structural adjustment facility in the IMF to more concessional funds available to those borrowers. The United States has joined in support of an enhanced and enlarged IDA-8, 50 percent of the proceeds of which we have agreed will go to those borrowers.

We are concerned about the plight of those countries. We want to do what we can within reason to address that problem. There will be a discussion of some other measures. I am not prepared at this point to judge the resolution in Venice of those issues.

Q: Does protectionist pressure on both sides of the border threaten the special economic relationship between Canada and the United States?

A: I think it could if it were permitted to get out of hand. That is why we are laboring so hard to keep it under control here in the United States. I know that you are doing the same thing in Canada.

I think the fact that we are sitting down now consistently and constantly and trying to hammer out this free trade agreement gives us a leg up, if you will, in fighting the protectionist tendencies that are cropping up in both Canada and the United States.

It is important that we continue to do this. It is important we make progress toward an agreement.

Q: Do you think that the current level of the Japanese yen to the U.S. dollar is reasonable?

A: Well, I don't comment upon the appropriate level of the dollar other than to say to you that all of the G-7 countries agreed as far back as February at the Louvre Agreement in Paris. They reaffirmed this agreement in Washington in April. They agreed that any further decline of the dollar could be counterproductive.

Q: Are you going to put any contingency plans in the summit in Venice regarding oil prices in case tension in the Gulf escalates?

A: Do you mean are we going to get together and have some agreement with respect to the maintenance of a certain minimum price for oil or something like that? Is that what you mean?

Q: Yes, that is what I mean.

A: I think we will have a full discussion of matters involving the Persian Gulf, primarily political matters. Of course, the question of the economic effect of what might happen in the Persian Gulf will be discussed. I don't think you will see these countries getting together to somehow agree on what might or might not be the appropriate price for the commodity of oil.

Q: Are you satisfied by the way the Baker Plan has been implemented in Africa, especially in regard to the Ivory Coast, which declared last week that it could not repay any more?

A: Let me say that I am satisfied that the Ivory Coast has made an extraordinarily good-faith effort. It has implemented some of the free market economic reforms that we think are essential if these debtor countries are going to grow their way back and earn their way back.

They have been adversely affected by some commodity price declines, and they are having a difficult time. But we have absolutely no criticism of what the government of the Ivory Coast has done in order to try and reform its economy. We should be understanding of countries that have moved in this direction and in this way.

(end transcript)

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Free-trade talks model for summit, U.S. says

By Bob Hepburn Toronto Star

WASHINGTON — President Ronald Reagan will use the Canada-U.S. free trade talks to show leaders at next week's Venice economic summit that removing international trade barriers helps all countries, U.S. Treasury Secretary James Baker said yesterday.

A Canada-U.S. trade agreement "could have profound effects worldwide," Baker said during a closed-circuit television interview broadcast to six countries.

"It would set an outstanding example," he said. "Clearly, we will make this case in Venice" next week when Reagan meets the leaders of six other big Western industrialized nations — Canada, the United States, Britain, Japan, West Germany, France and Italy.

Baker, one of the most influential U.S. cabinet members, said a free-trade deal "would be a truly outstanding legacy" for Reagan.

And it would also "benefit" the Progressive Conservative government of Prime Minister Brian Mulroney, Baker said. The Tories are sitting in third place in the latest public opinion polls.

Too early

But he warned reporters that it is too early to assume an agreement can be signed.

"There are still some major hurdles along the way," he said, adding that it will be difficult to resolve the problems that are plaguing the negotiations.

Among the obstacles, Baker conceded, is the rising mood of trade protectionism in the U.S. Congress. This "clearly makes attaining the objective somewhat more difficult," he said.

"We have always said — and I think the government of Canada recognizes — that no agreement is going to be approved that is not good for Canada and good for the United States."

Baker declined to list his country's exact goals regarding improved American access to Canadian financial circles — a subject that has emerged as a major obstacle in the trade talks.

Ottawa is reluctant to give American companies unrestricted rights to invest in Canadian industries.

"We favor national treatment,

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national right of establishment of financial institutions, quite frankly, across borders," the U.S. treasury secretary said. "We have very liberal policies here. We would like to see other countries move in that direction."

Baker answered questions from reporters in Montreal, London, Paris, Brussels and Tokyo.

While Baker was discussing trade, Canadian Trade Minister Pat Carney was in Washington to review the negotiations with U.S. officials.

Carney met with U.S. Trade Representative Clayton Yeutter and Senator Lloyd Bentsen, a Texas Democrat who heads the powerful Senate finance panel — the group that will study the free-trade agreement sent to Congress.

She later told Canadian Press she had warned the U.S. officials that moves by Congress to crack down on alleged unfair trade subsidies by Canada would probably lead to Canada taking similar action.

Carney insisted her visit should not be seen as a sign the trade talks are in trouble.

"No, no, no, no," she responded when asked whether her presence meant negotiations were faltering.

Why not a world food cartel to avert a crisis for farmers?

BY LAWRENCE KERR

Mr. Kerr is a Chatham farmer who has served as an adviser to various government and agricultural agencies.

CHATHAM, Ont.

FARMERS ARE responsible for the quality, the appeal and the safety of the world's food and they have done a wonderful job in giving value in quality and economy. But there is trouble in the profession.

On many farms, soil is eroding due to repeated sowing of a single crop and because of the huge and powerful machinery at the average farmer's disposal. Nothing is being done to stop this erosion because farmers are struggling to survive financially. It is unreasonable to expect a farmer to save the soil at the cost of losing the farm.

A second and more serious crisis occurs in the farmer's economic position. According to an October, 1986, report commissioned by the Ontario Institute of Agriculture: "Return to capital on farmer investment fell from 5.7 per cent in 1975 to 2.1 per cent in 1982. Returns were 3.2 per cent in 1983 and 4.1 per cent in 1984. This does not take into account the decreases in asset values that occurred in the past five years."

Work for nothing

The report fails to mention that even these drastically low returns were achieved only because the average farmer worked, managed and carried the business risks, headaches and heartaches of farming for nothing. Canada's manufacturers, forest industry and mining operations would be very competitive indeed if they had to pay such a low rate of return on their capital while spending nothing for their labor and management.

At the root of the farmer's trouble, of course, are surpluses — an international problem that demands an international solution. With that in mind, it seems impractical, if not impossible, to secure economic justice for farm people unless production can be regulated.

Kerr Farms in 51 summers has never experienced an unsatisfactory price or an unprofitable crop in any commodity enjoying a reasonable level of production control.

Scientific and technological advances responsible for farm commodity surpluses are still moving forward. The recent breakthrough in plant breeding may well provide a momentous boost to production, meaning production must be regulated if farmers are to receive anything approaching the economic justice they deserve.

What about an international food-exporting cartel? It would require the participation of the European Community, the United States, Canada, Brazil, Argentina, Australia, New Zealand and South Africa. It might be left to each economic unit to restrict its production and exports of the major agricultural commodities to an agreed-upon percentage of a base figure (a three- to five-year export average). Such restrictions should be based on setting aside units of farmland in soil-conserving crops not to be used for human food or animal feed, although animal feed would be permitted in disaster areas.

Consideration would also be given to reforesting areas especially vulnerable to erosion. The long-term international dividends from soil conservation should prove equal to the dividends in economic justice.

Many people will insist that such a proposal would be impractical, but it seems less impractical than the course the world is following: food-exporting nations are spending staggering amounts to subsidize prices, exports or storage while their surpluses grow and their soil is being overworked and destroyed.

Of course, international cartels have not enjoyed a good record of success; attempts to prevent surpluses in coffee, cocoa, rubber and tin have not fared well. Neither have the members of the Organization of Petroleum Exporting Countries.

An international cartel to manage food production could enjoy three important differences. Other international cartels have been based on greed rather than on justice. Control objectives for food would, of necessity, be based on securing an over-all supply and an over-all price level that would be in the best long-term worldwide interests of consumers, governments and farmers. Another difference would lie in the interlocking objective of conserving the soil and conserving the able farmers in food-exporting countries.

A third difference, and the most important, is that no other international cartel, particularly OPEC, has been able to achieve and maintain control of all supplying nations. OPEC's problem is that Britain, Norway, Mexico, the Soviet Union and other exporting nations are not members. Also, if OPEC nations such as Nigeria, Ecuador, Iraq and Libya selfishly decide to break rank, Saudia Arabia, Kuwait and the United Arab Emirates don't have enough clout to keep them in line. However, there is no food-exporting nation that could face sanctions imposed by Europe, plus the United States, Canada and a few other countries.

One problem with agricultural surpluses is the cost to governments of storing, subsidizing or making price-stabilization and support payments. The United States will spend about $27-billion this year on farm support. Western European nations will spend $23-billion, and these costs, by increasing national deficits, raise interest rates and open the door to other groups' deficit-enlarging demands on governments.

Subsidies a problem

A particular problem of agricultural surpluses is the discord over subsidies and exports that may arise between the free nations, particularly between the European Community and the United States. Canada is well positioned to promote co-operation in supply management.

There are many who feel that subsidies compound and perpetuate the farm problem. They feel that agriculture's woes can only be cured by the laws of supply and demand. They maintain that increasing population will overtake the surpluses. This is questionable. The past decade has witnessed the most rapid rise in population the world has seen — 923 million more people — and yet the increase coincides with a dramatic fall in the farmer's fortunes.

For more than 15 years, nations dependent on agricultural exports for their balance of trade and standard of living have not fared as well as nations with industrial economies. The 1969 World Population Data Sheet shows food-exporter New Zealand with a per capita product equal to 244.4 per cent of that of Japan and 113.5 per cent of that of West Germany. The sheet for 1985 shows New Zealand at 76.3 per cent of Japan's figure and 64.8 per cent of West Germany's.

In the same 16 years, world population increased by 1.294 billion, a figure nearly double the global population in 1600. Even if the law of supply and demand could guarantee economic justice to farm people, the cure might prove very slow — and very costly, considering the worldwide loss of soil and people able to work it.

Certainly, there are those who feel it is morally wrong to manage or restrain food production in a world with so many starving. That is a simplistic and short-sighted viewpoint. Over the long term, conserving the food-producing soils and retaining the able, well-informed farmers will do immeasurably more for the world's undernourished than the present disheartening and deteriorating farm situation.

Farmers probably would accept compulsory "set aside" areas, if doing so held the prospect of a just and equitable price structure. Supervising these set-aside areas would not be unduly difficult or expensive if farmers were organized into small groups, electing their own officers and assuming group responsibility for enforcing rules.

For example, the set-aside areas should be determined as a percentage of production capacity rather than a percentage of hectares. So, farmers would be required to map their land showing which fields were at average production and which above or below that. Set-aside areas also would have to be rotated every year or two to obtain maximum returns from soil-building crops.

Also, to encourage reforestation, set-asides given over to trees should be credited at their productive rating plus a bonus of 30 or 40 per cent. Like production controls as a whole, a plan to reforest substantial areas of erodable crop land with no financial grief for the landowner and no expense to the taxpayer has much to commend it.

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Getting that sinking feeling about Venice

PETER COOK

To state it as succinctly as possible, the problem that next week's seven-nation Venice summit needs to solve is this:

The cause of slow economic growth, of currency instability and rising protectionism is something quite basic. There has been a failure by the surplus countries, principally Japan and West Germany, to provide enough stimulus. The U.S. economy is slowing down and cannot be expected, because of its deficits, to add to global growth.

While it is easy to throw stones and accuse the Reagan Administration of making policy mistakes, the fact is that Washington — with departing Federal Reserve Board chairman Paul Volcker a towering figure in the process — can take credit for leading the world out of the recession of the 1980s.

That period of leadership, however, cannot continue. So the job in Venice is to work out how, in the absence of Washington, the world can avoid sliding into an unwanted recession.

To judge from statements made by U.S. Treasury Secretary James Baker, on a Worldnet worldwide press conference from Washington yesterday, grand initiatives to do this will have to wait.

If there is a word that is currently a favorite of Mr. Baker's, it is the word "reaffirm." A lot of things in Venice are to be reaffirmed.

The dictionary definition of the word "affirm" means "to declare or state positively." Mr. Baker is in a mood not just to affirm the positive state of international economic co-ordination that exists after recent finance ministers' meetings in Paris and Washington and Paris again but to say how satisfied he is with the size of Japan's latest stimulus efforts and West Germany's commitment to think about a stimulus effort and, yes, even Canada might be able to help out too.

He also asserts, in passing, that it is the right of each country to conduct its economic affairs as it chooses. But, lest that should be thought of as too negative, he hastens to say that the Venice meeting will provide an opportunity for the heads of state to reaffirm what finance ministers have agreed to in the way of consensual co-operation.

Very nice too. But weak collective leadership may be worse than no leadership at all.

And, if we are in for soothing pronouncements but no real changes in policy, the financial markets are unlikely to respond with understanding and joy.

Everyone's patience for meetings where leaders waffle on about how well they get on together while deciding nothing of consequence is beginning to wear thin.

Yes, it will be pleasant if the heads of state reaffirm what the finance ministers have affirmed, as Mr. Baker has said they will.

But if that is going to be the main result of an economic summit — otherwise filled in with talk of policies toward the Soviet Union, the Persian Gulf, AIDS, African debt and the Geneva trade talks — then it will be a case of the Western economies lying down and waiting for the steamroller to hit them.

The economic co-ordination that Mr. Baker and other put so much store in was described by a former European Community official Etienne Davignon in the following terms: "The first year, we discuss it. The second year, we decide about it. The third year, we don't do anything about it."

And our own Finance Minister Michael Wilson has said of the process that "whether one country is going to respond to the concerns of the others is up to them, it's their sovereign right."

In simpler times, when economies were less interdependent and there were fewer billions churning around the world's currency markets, the Bretton Woods system tied the world's finances to gold and pegged exchange rates.

Those times ended with the abandonment of the gold standard in the 1970s. And it is not clear how, in the face of trade wars and debt crises and warnings of recession, the world economy can regain its moorings.

If one can make a generalization, it is that the United States has shown itself able to act as an economic leader, as it did in the first half of the 1980s, but has the clout to do this only fitfully.

Juxtapose its position of today with that of, for example, the Versailles summit of 1982.

Then, tempers flared because a self-confident Reagan Administration was proud of having a strong currency and wanted nothing to do with the monetary schemes of the Europeans and Japanese to weaken the U.S. dollar and lower interest rates.

In Venice, the reverse will be true. Please let's have some cooperation so that the dollar will not fall further, say the Americans. Maybe yes, maybe no, say the Japanese and West Germans.

The impasse in which this leaves us is one in which the United States — shackled by deficits that are not going to allow it to unshackle itself for years — simply cannot perform a global role. Most critically, it cannot help Third World debtor nations who send 60 per cent of their manufactured exports to the U.S. market versus only 20 per cent to more tightly controlled European markets and less than 10 per cent to Japan.

If the Venice summit affirms and reaffirms that we are on the right track, it will be a travesty of what responsible leaders ought to be doing and saying. It will also point to the vacuum left by Washington's loss of economic power.

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Baker warns EC on its plan

BY DAVID
STEWART-PATTERSON
The Globe and Mail

OTTAWA

A proposed European Community tax on fats and oils could cause havoc and let slip the dogs of trade war in Congress, says U.S. Treasury Secretary James Baker.

"We (in the White House) are fighting desperately in the United States to avoid protectionist legislation in our Congress," he said during a televised press conference.

"It will be extraordinarily difficult for us to continue this fight if we are hit with a $1.8-billion to $2-billion (U.S.) tax on oils and fats. We would have no alternative but to respond and retaliate. We would retaliate and there would be a serious danger, in my view, of having that erupt into a broader confrontation."

He refused to say what measures the United States might take if the EC goes ahead and imposes the tax.

The Commission of the EC proposed the consumer tax on oils and fats earlier this year in an effort to cover some of the huge costs of its agricultural subsidies. It is also intended to help EC butter makers and olive oil producers, but would do so at the expense of imported vegetable and marine fats and oils.

Canada could also be severely hurt by the proposed tax, both through lost sales in Europe and through depressed prices in the rest of the world as displaced U.S. soybeans sought other markets.

In 1986, Canada exported more than $600-million (Canadian) worth of oil seeds and vegetable oils. Canola seeds and oil account for most of the exports.

The so-called Cairns Group of 14 agricultural exporting countries, which includes Canada, condemned the proposed EC tax at its meeting in Ottawa in late May.

The group, which accounts for 25 per cent of world agricultural exports, said the EC action was not in keeping with a recent commitment by all industrialized countries to avoid any new measures to restrict agricultural trade.

The U.S. Senate, in a unanimous vote in March, asked President Ronald Reagan to "vigorously oppose" the proposed EC tax, which it said would price U.S. soybean oil

to tax fats and oils

out of the European market and hurt 500,000 U.S. farmers.

Mr. Baker said that imposition of the EC fats tax on the eve of worldwide talks on agricultural trade under the framework of the General Agreement on Tariffs and Trade, "would be one of the most unfortunate things, I think, that could possibly happen to the world economy.

"Our view is that it is extremely important that the United States not go protectionist. As the world's largest economy and the world's biggest market, if we go protectionist, I fear, frankly, for the world trading system," Mr. Baker said.

He admitted that the EC has not been alone in imposing new restrictions on agricultural imports.

"I don't for one minute suggest that we don't have some sins of our own, because we do. But it is extremely important to the health of the world economy generally that we do everything we can to avoid moving toward protectionism around the world."

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Arms for lobster?

Foreign suppliers dislike bartering to get Canadian defence contracts

BY ROBERT MATAS
The Globe and Mail

Bofors, Sweden's largest arms maker, had to search from one end of Canada to the other for something to buy before it could bid on a contract to supply guns for Canada's new warships.

It found a variety of products ranging from lobsters and plywood to iron castings, automotive components and computers.

After winning an $18-million contract, Bofors went with its full shopping basket to a trading house in Europe and arranged for the Canadian products to be taken off its hands.

The deal is part of a sophisticated barter system used when Canada buys military goods that are not manufactured in this country. Foreign suppliers involved with construction of Canada's new warships must offset the cost of their equipment with Canadian exports of comparable value.

A federal white paper on defence, to be released tomorrow, is to include a multi-billion-dollar list of military goods that will be required by the Canadian Forces into the next century.

Defence observers said in interviews that military spending on new equipment in the past 10 years has been influenced by non-military programs for regional expansion and development of a high-technology industry in Canada.

Foreign suppliers do not like the arrangements, but Canadian suppliers appreciate the Government's support.

The link between defence procurement and industrial development has created a boom in some specific regions for some specific

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Your morning smile

In croquet, there's no rest for the wicket.

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Foreign sellers dislike bartering for contracts

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industries. But it has also created a barrier between allies in NATO, raised the cost of acquiring equipment and opened the door for political favoritism, businessmen from the defence industries said in interviews.

"We're changing the commercial rules that have lasted for 200 years," Paolo Trabalza, a commercial counsellor at the Italian Embassy in Ottawa, said in a recent interview.

For years, countries concentrated on specialization in the marketplace and active trading in commodities. Now, everyone wants to do everything at home, he said. "Everything is considered strategically important and no one wants to be in the hands of another country."

Italy, a NATO ally, was shut out of the contracts for Canada's patrol frigates because its businessmen would not agree to barter with the prime subcontractor, a spokesman for the subcontractor has said.

Mr. Trabalza has not received specific complaints about Canada's defence contracts, although some businessmen have told him they find some difficulty in dealing in Canada.

But he said he was surprised that Canada requires private firms to buy material they do not need to do business with the Government.

Stan Kendall, Canadian representative for Bofors, said he believes the contracts should be awarded strictly on a competitive system and not on the basis of proposals for industrial benefits.

"I don't think it (requiring industrial benefits) is a good way. It adds to the cost."

Nevertheless, Bofors is prepared to provide industrial benefits. "It's part of the way of the world. It's not just Canada," he said.

Mr. Kendall noted that the Government wants to get away from requiring purchases of lobsters and other goods to offset imports. The Government now places greater value on foreign suppliers working with a firm in Canada on high-technology manufacturing that can compete in the world market.

Bofors prefers the new requirements and has successfully transferred a special technique to manufacture ammunition to Canadian Arsenals Ltd. of Quebec, he said.

The arrangement could benefit both Canada, which has acquired a new capability, and Bofors, which is looking for access to the lucrative U.S. market, Mr. Kendall said.

"I'm for establishing these industries in Canada. Bofors is anxious for joint ventures and is looking right now for some," he said.

Robert Brown, president of the Canadian Industrial Benefits Association, a new group of domestic and foreign businessmen and bureaucrats, said it would be a lot easier if everything was "just like Sears, where it is dollar for product."

But that is not the real world, he added. Several countries, including the Netherlands and Australia, operate in a similar fashion.

If a company wants the contract, it has to play by the rules. "If you don't, you don't get the order and if no orders, then no work," he said.

Mr. Brown, who is also director of industrial benefits for Litton Systems Canada Ltd., said Canada is paying a premium on defence contracts to arrange for industrial development.

Suppliers involved with the association believe there is considerable work involved in meeting the Government's requirements. A company has to administer the arrangements, keeping piles of papers to allow Government bureaucrats to audit the records, he said.

The Government wants to use its defence spending to have private industry implement its economic development policies, he said. "This makes it difficult for us. Regional dispersion does not make business sense."

Nevertheless, companies seeking defence contracts realize that when two bids are close on price, technology and quality, then industrial benefits will make the difference. "Like the NDP in a minority, the industrial benefits could hold the balance of power."

Mr. Brown also said the requirement of industrial benefits opens the door for political interference. Companies bidding for military contracts realize they must be sensitive to the political needs of the Government and they try to come as close as possible, he said.

Requiring foreign firms to work with Canadian companies to manufacture the technology — an approach used by the Government on some other defence procurements — is better than requiring a straight purchase of Canadian goods, he said.

But even that approach does not always succeed. Mr. Brown questioned whether anyone evaluates the quality of management in the Canadian firms receiving technology from abroad.

Sometimes, a foreign firm is required to transfer technology to a Canadian company that is poorly managed and the technology withers on the vine, he said.

Transfer of technology to a Canadian company has no value unless it has a market for the product. Just bringing in technology does nothing, he said.

Mr. Brown said the contractual arrangements with the Government have become a commodity that is traded like any other product. The ne contractor will agree to provide the offsets, but then go to the contractor and compel that ipany to accept part of the offset uirement to get the business.

The subcontractor may also pass the obligations on to its suppliers. Eventually, some company will do something in Canada for the original contract, he said.

Kenneth Lewis, president of the Aerospace Industries Association of Canada and former deputy commander of NORAD, said the association, which represents 185 companies, also likes the shift to joint ventures with Canadian and foreign companies.

But he was critical of schemes to ameliorate regional disparities.

"It's hard for a politician to resist introducing something that may be good for a specific region, but not necessarily good for the country or an industrial sector."

Most of the politically inspired projects to deal with regional disparity have gone broke, he said. "They have been pouring money down the drain. . . . Instead, they should back winners, companies that have proven they can make it in the market."

Nevertheless, Mr. Lewis did not object to the Government's paying a premium to have the work done in Canada. "It's an investment," he said.

James Clarke, president of the Shipbuilding and Ship Repair Association, said the shipbuilders do not like to see the Government go outside the country for any of its purchases.

The Government should increase employment as much as possible, using its spending for several purposes if possible, he said.

The shipbuilders wish the market were big enough to sustain a domestic industry and they could meet the Government's need without any imports. Nevertheless, they want a trade-off, if Government is spending elsewhere, he added.

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Money traders proceed warily before summit

BY MARIAN STINSON
The Globe and Mail

Money markets turned thin and turbulent yesterday after Tuesday's panic, which followed the disclosure that Alan Greenspan will replace Paul Volcker as chairman of the U.S. Federal Reserve Board.

U.S. dollar rebounds; doubts remain
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A growing perception that the new chairman is an adamant inflation fighter who will not alter U.S. monetary policy dramatically helped the market rebound.

The approach of the economic summit in Venice early next week injected a note of caution, as traders avoided taking major

RISE — Page B2

Rise expected in bank rate

● From Page B1

positions before the meeting.

However, the strong commitment to stabilize the U.S. dollar that was made by finance ministers of the major Western industrialized nations at a meeting Feb. 22 is expected to be reiterated.

"The market is not expecting a tremendous amount from the meeting," but rather "lip service" to statements that the dollar is at or near its proper rate on foreign exchange markets, said Joshua Mendelsohn, vice-president of economics with the Canadian Imperial Bank of Commerce.

"North American markets are in a period of consolidation, awaiting U.S. trade figures" that will be released at mid-month, said June Riley, an economist in investment banking and money markets for the Royal Bank of Canada. "Until then, the market will be cautious . . . with choppy trading (for the dollar) expected as we head into summer."

"Although we are likely to see some short-term volatility in Canada and the U.S., the U.S. dollar will stabilize and improve, because it is perceived as undervalued at the moment," said Patti Croft, an economist with Burns Fry Ltd.

However, concern remains about weakness in the U.S. economy, and an improvement in the trade balance is needed for interest rates to fall.

A recent uptick in Canadian short-term rates is likely to prompt an increase of about 10 basis points in the bank rate from last week's setting of 8.44 per cent.

That would maintain the increase in the gap between Canadian and U.S. short-term interest rates that has widened to 245 basis points this week from 230 a week earlier.

The Canadian dollar closed at 74.55 cents (U.S.), up 0.19 cents in quiet trading.

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Reagan place Venise sous le signe du plan Marshall

Reuter et AFP

WASHINGTON

■ Le président Ronald Reagan a quitté hier Washington pour Venise, où il assistera du 8 au 10 juin au sommet annuel des pays occidentaux les plus industrialisés, qu'il a placé sous le signe du 40e anniversaire du plan Marshall par lequel les États-Unis aidèrent l'Europe à se relever des ruines de la guerre.

De l'aéroport de Venise, le président et son épouse Nancy se rendront par hélicoptère à la villa Condulmer, à une vingtaine de kilomètres de la cité des doges, où ils prendront des vacances en attendant l'ouverture du sommet.

Prenant la parole sur les pelouses de la Maison-Blanche avant son départ, M. Reagan a déclaré que les pays participant au sommet avaient pour devoir de «mettre fin aux déséquilibres commerciaux intolérables, réformer la politique agricole et rétablir la stabilité sur les marchés de change internationaux».

Pour que les quarante prochaines années soient aussi prospères que les quarante années écoulées l'ont été grâce au plan Marshall, «les principales puissances économiques du monde doivent également oeuvrer à l'élimination des injustices dans l'environnement commercial international pour garder les marchés ouverts et maintenir les courants commerciaux», a-t-il ajouté.

«À ce sommet économique, a déclaré M. Reagan, je regarderai autour de la table et je verrai — grâce en partie à la générosité et à la sagesse de notre nation au cours des quarante dernières années — non pas les dirigeants de pays brisés, désespérés et despotiques, mais ceux de démocraties fortes et stables, de pays qui aujourd'hui sont des partenaires de l'oeuvre de paix sur la scène mondiale.»

En ce qui concerne les questions de politique internationale, le président a déclaré:

«À Venise, nous discuterons des moyens d'améliorer les relations Est-Ouest, de la réduction des armements, des problèmes des droits de l'homme, des conflits régionaux et de coopération bilatérale.

«Nos discussions contribueront à renforcer la solidarité occidentale, indispensable à la réalisation de progrès sur les sujets de désaccord entre l'Est et l'Occident.»

Les États-Unis insisteront à Venise pour des efforts accrus de la RFA et du Japon pour soutenir l'économie mondiale. Et ils ne manqueront pas de pousser en faveur d'une coordination plus étroite et structurée de la politique économique des grandes puissances démocratiques, ayant compris qu'ils ne pourront pas résoudre isolément leurs problèmes économiques.

Cette idée, souligne-t-on dans les mêmes milieux, n'avait guère cours à Washington au moment où le Général George C. Marshall, alors secrétaire d'État du président Truman, a lancé le 5 juin 1947 à l'Université de Harvard son plan de lutte contre «famine, pauvreté, désespoir et chaos» dans l'Europe de l'après-guerre.

Le but était de relancer l'économie mondiale «afin de permettre des conditions politiques et sociales nécessaires à l'existence d'institutions libres.

Le démarrage du plan Marshall, au printemps de 1948, a coïncidé avec le blocus de Berlin, épreuve de force Est-Ouest qui a duré un an, suivi par la création en 1949 de l'OTAN (Organisation du traité de l'Atlantique du Nord), et le début, à peine un an plus tard, de la guerre de Corée.

Ce plan a permis d'apporter entre 1948 et 1952 un total de $13,35 milliards aux économies de 18 pays européens, dont la partie occidentale de l'Allemagne divisée. Les économistes estiment que l'industrie américaine a largement bénéficié de l'expansion rapide des marchés du vieux continent, où le dollar a rapidement remplacé la livre sterling comme principale monnaie commerciale.

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Vegetable-oil tax invites retaliation, U.S. tells EC

By JAY BRYAN
of The Gazette

U.S. Treasury Secretary James Baker warned the European Community yesterday that it will be courting a trade war if it passes a proposed tax on vegetable oils, an important U.S. agricultural export.

Baker made the comment during a satellite press conference on next week's economic summit meeting in Venice of seven leading industrial nations. The press conference linked Washington with Montreal, Tokyo, Paris, London, Bonn and Brussels.

The summit is unlikely to produce any new initiatives, Baker said, noting that the major initiatives to coordinate economic policy had been agreed on during two earlier meetings this year by finance ministers of the summit nations and of nations belonging to the Organization for Economic Co-operation and Development. Baker said he expects the heads of state at the summit simply to endorse these initiatives.

Baker said the appointment of economist Alan Greenspan to replace the retiring chairman of the U.S. federal reserve system, Paul Volcker, marks a continuation of Volcker's anti-inflation policies.

On Canada-U.S. free-trade negotiations, Baker warned that there are major obstacles to be overcome before an agreement will be possible, but added that the Reagan administration still views such an agreement as an "extremely important" goal that "could have a profound effect worldwide and set an outstanding example" for other trading nations.

Baker said he had no specific advice for Finance Minister Michael Wilson on Canada's role in stimulating world economic growth. The U.S. has offered frequent hints to Japan and West Germany — countries with huge merchandise trade surpluses — that they should stimulate stronger domestic growth.

Baker said the U.S. was satisfied with West German economic policy and had been pleasantly surprised by Japan's package of tax cuts and spending moves unveiled last week.

But his response to a question about the proposed European Community tax on vegetable oils was much tougher.

"We would have no choice but to retaliate, and we would retaliate," he said, warning that this "would be one of the most unfortunate things that could happen to the world economy" at a time when protectionist pressures threaten to get out of hand.

In Washington, U.S. Secretary of State George Shultz said the Reagan administration will join Prime Minister Brian Mulroney at the summit in pushing for an end to agricultural trade wars.

"I hope Prime Minister Mulroney comes on strong in Venice and joins to help get a strong statement on the agriculture question."

Shultz was referring to Mulroney's promise to take the subject of agricultural subsidies to Venice as the top item on the Canadian agenda.

Canada, along with the U.S., Britain, France, West Germany, Italy and Japan, begin their three-day meeting in Venice on Monday.

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Mulroney carries several tasks

By BARRY WILSON

OTTAWA (Staff) — When prime minister Brian Mulroney travels to Venice next week for the annual summit of seven industrialized countries, he will be speaking for a significant bloc of nations.

Spokesmen for both the Cairns Group of Fair Agricultural Traders and the least developed nations of Africa have asked Mulroney to represent them at the meeting.

They want the prime minister to tell the other summit leaders of how the subsidy war, which is depressing commodity prices, is having a devastating effect on their fragile economies.

Mulroney has vowed to use the summit to win support for ending the problem.

Around the table will be some of the major subsidy and tariff sinners — the United States, Japan and European Community members Great Britain, West Germany, France and Italy.

"We have reason to be optimistic that at least there is growing political will to bring about change," Mulroney said May 29 during a meeting with Canadian farm leaders.

"We still have much to do and we must keep up the pressure."

Mulroney plans to ask the other summit leaders to endorse the agreement worked out a month ago by the Organization for Economic Co-operation and Development (OECD). All the summit countries are OECD members.

That agreement called for a freeze and gradual reduction in farm supports that distort trade or encourage surpluses, a responsible disposition of surpluses and a commitment to making agriculture more susceptible to market signals.

Canadian government officials say a commitment by the leaders of the major subsidizing countries to end the trade war would give great impetus to the GATT talks on agriculture, which begin this summer.

Australian trade minister John Dawkins, chairman of the Cairns group, said at the end of the group's Ottawa meeting May 23, he would consider Mulroney's efforts at Venice a success if he emerges with endorsation of the OECD agreement.

"He will have our full and enthusiastic support for what he does there," Dawkins said.

The Cairns group includes countries as diverse as Hungary, Argentina, Thailand and Fiji.

Last week, Canadian farm leaders also praised Mulroney and his government for their international efforts to end the trade war.

Mulroney told them his confidence is growing that the issue will be resolved.

"However, these trade problems didn't spring up overnight and it is going to take some time to get a rational international consensus to overcome them," he said. "The political will for action is building."

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Meeting result bodes no sudden turnaround

DESPITE GROWING official optimism about negotiations to end the international food trade war, farmers will be wise to keep the unfolding events in cautious perspective.

They should not expect quick relief from the effects of the subsidy war.

Barry Wilson

Even if the most optimistic scenario occurs and the international community agrees by late 1988 to begin to dismantle the support and subsidy programs which have caused the problem, the phase-out will be years in the making.

Officials and politicians attending the recent two-day meeting of the Cairns group of fair agricultural traders in Ottawa were unwilling to speculate publicly about when results of the negotiations would work their way down to the farm.

They stressed, instead, the importance of beginning the process.

"The Chinese have a proverb that even the longest journey begins with a single step," Hungarian deputy foreign trade minister Tibor Melega said in an interview. "It is high time we started walking."

Canadian trade minister Pat Carney refused to answer the question directly, preferring to speculate that the mere fact a political will is emerging to deal with the issue should give farmers confidence in the future and should help strengthen farm prices.

Farmers "will sleep better at night," she claimed at a wrap-up news conference after the conference ended.

The reality well-rested farmers should contemplate is, officials from several delegations say privately, that market relief will not become evident until well into the 1990s at the earliest (barring a natural disaster or bad harvest that cuts world production dramatically and raises prices).

In other words, the present state of agricultural markets will likely prevail for at least another five years.

Farmers getting close to the financial wall and hoping for quick relief because of the international bargaining would be well advised to pin their hopes elsewhere.

"You can't look for anything concrete in the marketplace for some time," conceded Saskatchewan Wheat Pool director Harold Yelland, an observer at the Cairns meeting. "But by the 1990s I hope the situation is improving."

The reasons for the slow pace of practical results, even if leaders agree to the principle of agricultural reform, are relatively simple — process and politics.

Process is the most immediate issue.

Before agreement can be reached, several time-consuming stages must be followed.

The main forum for negotiations will be the talks being held in Geneva under the auspices of the General Agreement on Tariffs and Trade (GATT).

Last fall, ministers from the GATT countries agreed for the first time to include agriculture in the list of priority issues to be discussed and various preparatory meetings (such as Cairns and the Venice Summit of leaders from the industrialized countries) are being held to reinforce that commitment.

In July, the Americans begin the process in Geneva when they table their detailed proposals for agricultural reform.

By fall, other countries are to have tabled their own proposals and then bargaining and compromising starts.

In late 1988, a meeting of trade ministers will be held to assess progress in a number of fields and many countries are hoping at that stage there will have been enough agreement on food issues to announce a package of early reforms.

Even if that optimistic hope is fulfilled, individual countries will not begin to make their domestic moves until 1989. If there is no "early harvest" of agreement, the talks themselves could drag on into the 1990s.

Assuming agreement is reached, then politics become a braking factor.

Governments with farm sectors dependent on support or subsidies will be certain that the time allowed for reducing those programs is long enough to allow a gradual transformation or contraction of their farm economies.

None of this detracts from the remarkable progress made by the politicians during the past year.

But to avoid disappointment, farmers would be wise to temper their enthusiasm with some realism about the distance between international negotiating rhetoric and practical results.

For many farmers feeling the pinch right now, the fruits of these negotiations will be reaped by their successors.

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Agenda Is Certain To List Agriculture

By ANNE MEADE
Journal of Commerce Special

GENEVA — The fragile peace worked out at the Organization for Economic Cooperation and Development ministerial meeting in Paris last month has placed agriculture on the right track for the Venice summit.

The OECD consensus on agricultural reform was a major political breakthrough. The basis of that accord was a behind-the-scenes agreement between the United States and the European Community to halt the trade war of the past five years, OECD sources claim.

Only the two biggest agricultural producers in the world could afford to agree to reduce their subsidies on exports.

But it has taken a heavy toll on their treasuries. In the United States the direct cost of farm programs has risen from $3 billion-$6 billion in the early 1980s to $26 billion, with additional off-budget costs of $10 billion to $12 billion.

In the European Community costs have doubled in the past five years, reaching $22 billion, excluding direct expenditures by national governments. The economic summit meeting of leaders from the seven major industrialized countries in Venice next week is expected to generate political commitment at the highest level to reform of international agricultural trade. This is essential in order to give momentum to the negotiations getting under way on the General Agreement on Tariffs and Trade in Geneva, where agriculture is seriously on the agenda for the first time.

The Venice summit could strike at the heart of the problem by focusing on starting reform at the domestic level.

Present policies of the seven countries represented at the summit are based on subsidizing

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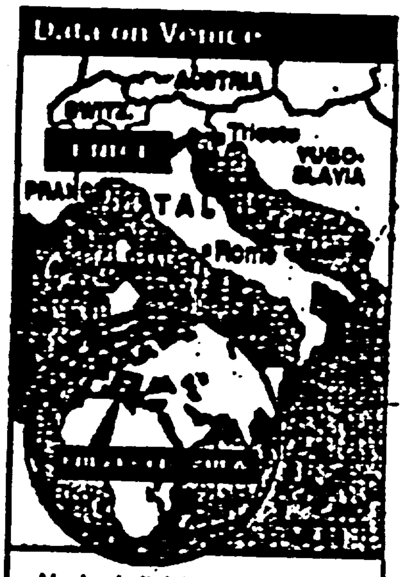
Data on Venice



- Venice is Italy's 11th largest city; population 340,000 in 1983
- Sits on islands about a mile offshore; crisscrossed by canals
- Sand bar called the Lido lies between Venice and Adriatic Sea
- Square at St. Mark's Cathedral is the city's most famous place
- Until the 18th century, Venice was a powerful city-state ruled by a prince called the "doge"
- Economy is based on tourism; Marghera, a busy port, is nearby

Knight-Ridder Graphics Network

Venice Summit Certain To Tackle Agriculture

CONTINUED FROM PAGE 1A

economic production by putting pporting prices that are higher an world market prices. The re- lt is a stockpile of agricultural mmodities that can't be sold of international markets.

The gap between domestic sup- rt prices and world market ices has increased steadily since early 1980s. The domestic price wheat in the EC is twice the rld price. The United States sup- rts sugar at three times the rld price. And for rice the Japa- se domestic price is almost eight es greater than the world price.

This government-supported ice gap has caused havoc on in- national markets. While interna- nal prices have plummeted, rld stocks have grown enor- usly. Since the early 1980s world art prices have fallen by 50% le stocks have risen by more n 70%.

World sugar prices are down by , but stockpiles are 45% higher. tter prices have fallen about and stocks have increased to million tons. EC stocks of beef risen to over 600,000 tons — ut three times the usual level. d grains, rice and oilseeds have ered similar price declines and ous overproduction.

ere are three groups of ag- ltural producers. The first p can be categorized as being most efficient and so their s are closest to world prices. y are Australia, New Zealand parts of Canada.

e second group is made up of countries such as Japan, Switzerland and the Scandinavian countries whose agricultural policies are primarily oriented toward food security. This mentality comes from traumatic memories of food shortages during the last war, so that price efficiency considerations are not of primary concern to them today.

> The gap between domestic support prices and world market prices has increased steadily since the early 1980s.

The third group is made up of the intermediary producers, such as the United States and the EC. The analytical tools are now available to make an international comparison of agricultural protectionism thanks to the comprehensive work carried out by the OECD Secretariat under the ministerial mandate given to it in 1983.

As its work progressed it also became clear that it was not possible to talk only about trade problems while countries pursued diverse objectives in their domestic agricultural policies.

More trade liberalization in agriculture is only part of the solution. Excess domestic production is considered to be the fundamental problem and if biotechnology delivers on its promises there could be an exponential growth of output in the 1990s.

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more than 40 politicians and government officials and made five formal presentations.

Their efforts finally bore fruit, when on March 13, the group was informed that the seven other provinces would support it on its call for an exclusion for the Maritimes from the softwood export charge.

White said Len Simms, the chairman of the Canadian Forestry Ministers Council, wrote the coalition to say the CFML unanimously supported the following resolution, that: "The provincial forestry ministers recognize the unique concern of Maritime softwood lumber producers and recommend that a request for special consideration be put forward for consideration at the earliest possible date."

He said this led to the March 25 select committee of the House of Commons on Bill C-37 (the "memorandum of understanding" between Canada and the U.S. which entails the export charge), recommending unanimously to International Trade Minister Pat Carney that: "Those corporations which meet the criteria originally set out and including all mills in Atlantic Canada be added to the exempt list."

And on May 5, said White, the Senate standing committee on banking, trade and commerce, on presenting its report on Bill C-37, had as its first recommendation, that: "A regional exclusion should be negotiated for the Maritime Provinces."

Sean Corette, of Cole and Corette, Washington, D.C., who also took part in the Thursday panel discussion, said there has been a substantial debate and misunderstanding about the amount the export charge or replacement measures must raise. But it has been precisely stated the figure was $500 million Canadian dollars.

"Over the last several months, we have heard claims that $1.1 billion Canadian dollars must be raised, but the basis for discussing a figure higher than $500 million Canadian dollars simply is not there," he said.

Corette said he could not foresee the Maritime Provinces having any problem getting an exclusion from the softwood export tax, since the region "fully qualifies" for adjustment under the terms of the memorandum of understanding between the two governments.

"This adjustment should be either a total exclusion of the Maritime Provinces from any export tax or, at most, an export tax in the total sum of $50,000 to $60,000, instead of the present tax which is approximately $850,000," he said.

3 LATIN AMERICAN DEBT

FINANCIAL TIMES (LONDON) JUN 4 1987

Alexander Nicoll on the quest for profitable solutions to the Latin American debt crisis

Fresh approach to Third World lending

A NEW spirit of entrepreneurial competition has emerged between—and even within—US banks with large loans outstanding to troubled Third World debtor countries.

After being all cast into the same boat by Mexico's 1983 cash crunch, which was followed by repeated reschedulings in all but two Latin American countries, the stronger and bolder banks are stepping out.

Their balance sheets strengthened—but with the realisation that their Third World exposure will remain a problem for some time to come—they are seeking to develop profitable businesses out of the mess.

Its ultimate goal, to return major debtors to voluntary lending in the marketplace, was clearly being pushed far into the future as Brazil suspended interest payments to banks in February.

That a new approach must be developed was signalled earlier this year by the problems which surrounded the arrangement of a $7bn loan for Mexico—now commonly viewed as the last "forced lending" package along tradtional lines.

The new trend falls in with the general desire of commercial banks to develop as investment banks: getting loans off the balance sheet, earning fees as arrangers of deals, and moving into areas such as venture capital.

Bankers with this bent, and with responsibility for Latin American businesses of their banks, had been chafing at the increasingly creaky containment policy adopted by the banking community towards the debt crisis: trying to persuade all creditor banks to put up new loans so that interest payments could be maintained and accounting losses avoided.

Its ultimate goal, to return major debtors to voluntary lending in the marketplace, was clearly being pushed far into the future as Brazil suspended interest payments to banks in February.

That a new approach must be developed was signalled earlier this year by the problems which surrounded the arrangement of a $7bn loan for Mexico—now commonly viewed as the last "forced lending" package along traditional lines.

Citicorp's decision last month to add $3bn to its loan loss reserves, followed by banks including Chase Manhattan and Security Pacific, set the seal on a new attitude: to take losses on loans where necessary, perhaps through trades or sales of debts or through innovative instruments, but with a view to using the portfolios and thedebter economies as a potential source of profit.

Under this approach, banks are still to be asked to take part in new financings. Mr John Reed, Citicorp chairman, said in announcing the provision: "We believe that it is vital that countries with good economic policies receive the support of the international community, both with regard to equity investment and debt investment. This is not a negotiating ploy. It will not change our posture on negotiations in any way."

Apart from being pressured by example into reporting embarrassing losses which they may be less able than Citicorp to withstand, some New York bankers complain that the unilateral and aggressive Citicorp move has undercut the co-operative spirit which has so far characterised banks' handling of the debt crisis.

Mr John Reed: advocates support for countries with good economic policies.

Co-operation between bankers had recently been enhanced by a task force of money centre and regional banks, headed by Morgan Guaranty, which had worked on regional bank concerns and influenced elements of the Argentine package.

Bankers complain that its work has been undercut by Citicorp's move because regional banks, which have often been unwilling to participate in new financings, will show renewed reluctance to put up new money since, by implication, they simultaneously have to reserve against it.

Bankers also point out that the menu is particularly appealing to banks such as Citicorp which, thanks to their extensive Latin American networks, can use new instrumente to competitive advantage.

They believe that the scope for using instruments such as debt/equity swaps is limited and that the menu can have only a marginal impact on the overall debt problem.

There are differing views even within banks. This is suggested by the fact that the new policy has been most forcefully adopted by Citicorp, which has itself been the leader of traditional forced lending packages as chairman of the advisory committees for the three biggest debtors, Brazil, Mexico and Argentina, as well as Peru and Uruguay.

However, the key is that instead of forcing banks into semi-compulsory lending, it must be made attractive to them to take part. Hence the "menu of options" of which a $1.95bn financing for Argentina now being sought is the prototype. If banks are unwilling to lend, they should be encouraged—in sharp contrast to previous practice—to leave the field so that new money lent by others is not simply paid out in interest to them.

The new approach is far from being a universal one. Though there is no disagreement that old methods needed revamping, even US banks which have embraced new mechanisms such as debt/equity swaps have been discomfited by Citicorp's decision.

Consequently, questions abound in New York about the future role and composition of the advisory committees which negotiate with debtors on behalf of creditor banks.

Though no bank appears to be jockeying to take over the unenviable leadership role, it could prove more difficult for Citicorp to persuade other committee members to adopt packages along the lines it wants.

There have already been some notable disagreements between Citicorp and other banks—on the Philippines and Chile, with Manufacturers Hanover the chairman in both cases. Citicorp's reserve posture makes it more likely to hold out for what it wants.

Meanwhile, moves have already been under way to shake up the membership of committees—perhaps including more Japanese, British and US regional banks—to reflect current loan exposures and individual banks' changing interests. Those could now be accelerated.

Also uncertain is the impact on the negotiating stance of debtor countries. "Citicorp has changed the terms and taken the risk that its move will encourage the banks more than it will embolden debtors," says a senior official at a rival New York bank.

Such questions—mostly still unanswerable—about the future conduct of banks' negotiations are probably more pertinent at this stage of the debt crisis than blanket predictions that, for example, new bank lending will cease or that the Baker Plan is dead.

These questions tend to ignore the fact that big lender banks, especially with relatively low levels of loan loss reserves in the US—even after the latest moves and similar decisions expected from other banks—still have a huge interest in a smooth resolution. A prolonged withholding of interest payments by one or more major debtors would still be very costly to them.

Negotiations with Brazil are looming, and the pattern for them will be crucially affected not only by the Brazilian internal situation but by the success or otherwise of the Argentine package.

Citicorp, as chairman of Argentina's committee, last week made a show of being the first to pledge its commitment to the loan, as did other US banks on the committee. It remains to be seen whether its components, including incentive fees for early commitment, will encourage other banks to follow, avoiding the problems which dogged the Mexican loan. If they do not, the handling of the debt crisis really will be back on the drawing board.

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External Affairs Canada Affaires extérieures Canada

SUBJECT/SUJET

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Weak Hand

Reagan Goes to Venice Hurt by U.S. Position As Top World Debtor

But Japan and Germany Face Difficult Problems, Too; Defense Matters Involved

A Trail of Broken Promises

By WALTER S. MOSSBERG

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—When President Reagan sits down next week in Venice for his seventh economic summit meeting, he will be playing with the weakest hand he has held in years.

Since last year's summit in Tokyo, the U.S. has become a net debtor nation—the world's leading debtor, in fact—and both the budget and trade deficits have hit new records. Even though the deficits now are receding, long-term improvement is expected to be tough and slow. The president is embroiled in scandal and has lost control of the Senate. And the Democratic Congress is moving to pass the most protectionist trade bill in years, despite his veto threat.

"We aren't any longer on the economic high ground," says Robert Hormats, a former Reagan administration assistant secretary of state for economic affairs. "It's hard to lecture others when we haven't got our own economic act together." As a result, says Mr. Hormats, now a vice president of Goldman, Sachs & Co., "I think the president's ability to accomplish his goals at the summit is very limited."

Seeking Support

At the summit with the leaders of Canada, France, Britain, Italy, Japan and West Germany, Mr. Reagan will seek renewed support for policies designed to reduce the U.S. trade deficit, which was $166 billion last year, and to stabilize the dollar after its two-year decline.

Yesterday, Treasury Secretary James Baker stressed that U.S. policies won't change when Alan Greenspan succeeds Paul Volcker as the Federal Reserve Board chairman. Mr. Greenspan "is firmly committed to the fight against inflation, as Paul Volcker was and as the administration is," Mr. Baker said in an ABC News interview. He added that Mr. Reagan named Mr. Greenspan after learning that Mr. Volcker didn't want a third four-year term because "to leave the question of a successor hanging out there during the Venice summit would have been a mistake."

In a speech last week, Mr. Reagan said that in Venice "I'll ask the leaders of the other industrial nations to stimulate their economies. We want them to buy more goods, not only from America but from throughout the world, so they can help us make prosperity world-wide."

Political Problems

All the leaders want to help the U.S. reduce its trade deficit without triggering a global recession, but the economic stimulus that the U.S. is seeking from the major surplus countries—Japan and Germany—poses tough political problems for their inflation-sensitive governments.

What's more, America's record of keeping its own economic promises to allies has been spotty at best. "The president has failed to deliver the one thing that every other country wants from him—a serious attack on his budget deficit," says C. Fred Bergsten, who heads the Institute for International Economics, a Washington research center.

The huge U.S. budget and trade deficits, stemming from Americans' penchant for consuming more than they are producing and then borrowing to pay the bills, have made Washington increasingly dependent on foreign credit. When Mr. Reagan looks across the summit table, he will be facing senior creditors rather than junior allies.

"He's the supplicant," Mr. Bergsten says. "He's the guy who's dependent on their continued financing for his economic strategy."

U.S. Flexibility Limited

This dependence puts new pressures on U.S. officials and limits their flexibility. The need to keep foreign central banks and private overseas lenders financing the deficits is increasingly influencing U.S. economic policy. This spring, for instance, the Federal Reserve raised short-term interest rates in an effort to bolster foreign investment in dollar-denominated assets.

But the implications of the America's debtor status extend beyond economics. As the leader of the Western defense alliance, the U.S. may find it more and more difficult to balance military leadership with economic dependence. Already, there is growing congressional interest in the idea of withdrawing some U.S. troops from West Germany, which has a large trade surplus with the U.S. and is perceived as able to raise its own military spending.

"Can the world's leading debtor also be its leading power?" Mr. Hormats asks. "It's a question you ask yourselves going into this summit. It's *terra incognita*. If you're constantly asking everyone to do things for you economically, can you lead the Free World?"

Although America's weaknesses are real, the president isn't without cards to play. Problems such as the trade deficit "don't change the stature that the president will have at the summit," Secretary Baker said in a recent interview. "Why? Because we are still far and away the world's largest economy."

America's $4.4 trillion gross national product—its output of goods and services—

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Weak Hand: At Summit, Reagan Will Be Hurt by Big U.S. Debts

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dwarfs Japan's $2.4 trillion economy. Though economic growth shows signs of slowing, the U.S. is in the 53rd month of an economic upturn that has absorbed vast world exports and created record numbers of American jobs. "In terms of the fundamentals, the U.S. economy is very strong," says Richard Cooper, a Harvard economics professor who served as President Carter's undersecretary of state for economic affairs. "It's flexible, it's dynamic. It's probably in better shape than any other major economy."

At the summit, Mr. Baker says, "we will be able to make a reasonably good presentation on what we've done to carry out past promises." He notes that the federal deficit this fiscal year is expected to fall to about $180 billion, down sharply from fiscal 1986's $220 billion.

In addition, officials cite tremendous progress in the past year toward economic-policy coordination. All the big industrial nations now agree that the U.S. must cut its budget and trade deficits. They also agree that the only way to achieve that without a world-wide recession is for Germany and Japan to grow faster and import more as the U.S., aided by the weaker dollar, cuts its trade deficit by reducing imports and raising exports.

Administration officials contend that the U.S. record in cutting the budget deficit, however disappointing, still tops the performance of the Germans and the Japanese on their promises to grow faster. And they say foreign complaints about the deficit are often a smokescreen by other nations to hide their own shortcomings.

Foreign Difficulties

What's more, other summiteering leaders have their own political problems—some worse than the president's. Japanese Prime Minister Yasuhiro Nakasone recently had to withdraw an unpopular tax plan and is expected to leave office in October. German Chancellor Helmut Kohl has just emerged from a bruising political fight over arms control. And the Japanese and German economies both have enormous structural problems, including deeply rooted agricultural subsidies that distort markets and a mercantilist export drive that will have to be modified by building domestic demand.

Mr. Reagan plans to take the rhetorical offensive in Venice. "I'll tell them that we, for our part, will finish putting our own house in order," he said in his recent speech. "I will tell them that I will spend this summer and fall going to cities and towns across America. I will be asking the American people to help us keep the deficit spenders in Congress from wrecking America's economic future."

But the U.S. budget-deficit problem is real. Next year's deficit reduction is expected to be only about half this year's cut, unless pending budget negotiations produce a breakthrough. The balanced budget required by the landmark Gramm-Rudman law for fiscal 1991 seems out of reach. And the president still resists any form of tax increase to reduce the red ink, a move that the other nations advocate.

Chancellor Kohl says he plans to ask U.S. officials at Venice "how they plan to make progress in fulfilling their obligations . . . in particular, reduction of the U.S. budget deficit." A German economic official adds, "For the credibility of the U.S., it is absolutely essential that you come to agreement on bigger cuts in the budget deficit, on the order of $40 billion a year, with tax increases included."

In Defensive Position

A senior administration official, while expressing confidence in the U.S. economy as a whole, says, "A lot of people at Venice are going to be asking the president, 'Is Gramm-Rudman for real?' And he's not going to be able to say yea or nay. He could be very much on the defensive at the summit," this official adds, "because we haven't made the one big macroeconomic contribution" that the U.S. promised—major deficit cuts.

And the trade deficit, while likely to narrow now that the dollar has fallen, would have to turn into a big surplus over the next decade—at other nations' expense—to generate the income needed by the U.S. to service its mounting foreign debt. Mr. Bergsten estimates that the U.S. will need a $200 billion annual turnaround in trade during the 1990s to wipe out the trade deficit and service its foreign debt. This would require a trade surplus running as high as $50 billion a year. But how export-driven Europe and Japan or debt-plagued developing nations would do all that buying from America isn't clear.

Sen. Lloyd Bentsen, the Texas Democrat who heads the Senate Finance Committee, says, "We can't hide our embarrassing emergence as the greatest debtor nation in the history of mankind. Who would have imagined that by the end of this decade, America will owe three-quarters of a trillion dollars to our creditors abroad? Our situation reminds me of the T-shirt slogan that says: 'I can't be broke. I've still got checks.' "

Third World Debt

Adding to the administration's problems, its two main policy tools for dealing with international economic problems have both been weakened. Mr. Baker's successful effort to drive down the dollar has been halted after producing roughly a 50% de-

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The Reagan Years, in the U.S. and Abroad

How the major industrial nations have fared economically

	U.S.	JAPAN	GERMANY	U.K.	FRANCE	ITALY	CANADA
Real growth (Annual percentage change)							
1980	-.2%	4.8%	1.5%	-2.5%	1.1%	3.9%	1.5%
1986	2.5	2.5	2.4	2.5	2.2	2.8	3.1
Consumer prices (Annual percentage change)							
1980	13.5%	7.7%	5.4%	18.0%	13.3%	21.2%	10.2%
1986	1.9	0.6	-0.3	3.4	2.2	5.9	4.2
Balance of payments (In billions of U.S. dollars on a current-account basis)							
1980	$1.9	$-10.7	$-15.7	$-6.8	$-4.2	$-9.7	$-1.0
1986	-140.6	86.0	36.0	-1.6	2.7	4.7	-6.8
Unemployment (Annual percentage change)							
1980	7.2%	2.0%	3.4%	6.8%	6.6%	7.6%	7.4%
1986	7.0	2.8	7.9	11.6	10.7	11.1	9.6
Government deficit (As percentage of GNP)							
1980	2.3%	6.5%	1.8%	3.5%	1.1%	10.8%	2.4%
1986	5.0	4.3	0.7	2.6	2.9	14.2	4.9

Source: International Monetary Fund

cline. The markets may still push it down further, but Mr. Baker, worried about an erosion of confidence in the dollar, has had to stop encouraging them. Thus, he has lost a tool for pressuring other nations.

And the Treasury chief's plan for easing Third World debt burdens by trading new loans for debtors' economic reforms has been thrown into doubt because big U.S. banks, by increasing their loan-loss reserves, are raising questions about their willingness to lend new money. Nevertheless, the summit communique is expected to reaffirm support for the Baker plan.

Japan has promised to help a bit by increasing its Third World lending by $30 billion. In addition, the Nakasone government has promised a $43 billion domestic-stimulus package that appears to meet its pledges to the U.S. And even Germany, which has stubbornly resisted U.S. pressure to stimulate its economy, has begun slightly paring its interest rates and has promised to consider accelerated fiscal stimulus if its growth lags.

These moves may prove to be less than meets the eye, but they give Prime Minister Nakasone and Chancellor Kohl at least a talking point at the summit. In any event, the relationship between the U.S. and its allies has subtly changed. "We've gotten ourselves into a position where we want them to do things, but we owe them," a senior U.S. official says. "The debtor country, the deficit country, has got all the pressure on it."

Shying Away

Germany and Japan, while often smug about their trade prowess, are uncomfortable with Washington's predicament. One Japanese government analyst, insisting on anonymity, says the current U.S. bind is more worrisome than earlier trade problems. "The major difference now," he says, "is that the size of the debt of the U.S. has grown so much. . . . The key currency nation is now a debtor nation. It is a concept we have never seen before, and we are uneasy with it."

Both countries insist that they aren't ready to take over global economic leadership. "The U.S. cannot be replaced in the economic field as the leader in the world," a German government analyst says. Among the reasons for their reluctance: their much smaller economies, the burdens of acting as growth "locomotives," and even hangovers from World War II, which have left their neighbors and themselves wary of seeming to dominate others.

Mr. Hormats agrees. "We have gone from an American hegemony to a need for plural leadership of the system. In effect, the power has shifted, but the responsibility hasn't. These countries have enormous economic power," he says, but "they continue to look to us as the fixer of the system."

And can the U.S. shoulder the twin burdens of debt and defense of its allies? The National Journal says members of Congress are deluging the Library of Congress with requests for information on the implications of U.S. troop reductions in Europe. It is harder and harder for U.S. politicians to justify keeping 250,000 troops in Germany and 60,000 in Japan while the U.S. runs trade deficits with those countries.

"National security involves economic security, too," Sen. Max Baucus, a Montana Democrat, says. "We Americans will project force and strength better overseas when we're stronger economically."

Such sentiments are likely to grow as Mr. Reagan moves to use the U.S. Navy to protect oil tankers in the Persian Gulf, even though Mideast oil is much more important to Europe and Japan than to the U.S. The summit participants probably will express support for the president's view that free navigation must be preserved in the gulf. But whether they will endorse U.S. military steps to protect shipping isn't known, and military assistance from the allies seems highly unlikely.

Nevertheless, Mr. Reagan will stress the need for sharing the burdens of defense as well as economic adjustment. "While our country is still looked to for leadership," he explained in a speech Monday, "the Free World is now undeniably a partnership among democracies."

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As Gathering of Leaders Approaches, European Economies Remain Listless

By PHILIP REVZIN

Staff Reporter of THE WALL STREET JOURNAL

PARIS—Despite last year's unexpected boon from lower oil prices, Europe's economies are listless going into next week's Venice summit and are likely to remain so for some time.

Forecasters, such as those at the Organization for Economic Cooperation and Development here, have been steadily revising downward their growth targets for this year. The OECD now expects the world economy to grow by a modest 2.5% this year and next, with Europe's biggest economy, that of West Germany, inching along at 1.5% to 2%. Even Europe's growth "stars," Italy and Britain, aren't expected to grow *faster* than the 3% a year that is needed to cut Europe's high, and in some cases still rising, unemployment rolls.

But economic policy makers across Europe neither expect nor, in most cases, want major policy initiatives aimed at spurring growth from the seven-nation meeting. Despite forecasts in some countries—including France, West Germany and Holland—of possible recessions by the fall, concerns about already-increasing inflation have led many Europeans to counsel caution.

'The Real Question'

"The downward revision of some forecasts isn't as important as the real question, whether this is the beginning of a long-term recession," says a top West German economic policy maker. "The answer is clearly no. It's a short-term adjustment."

Thus, the Germans will firmly resist pressure from the U.S. and others at Venice to reflate their economy to sop up some of Germany's 36.7 billion mark ($20.42 billion) trade surplus.

Carlo Ciampi, governor of Italy's central bank, said in a speech last weekend that Italy, too, now fears renewed inflation, after price increases had stabilized around a relatively low 4% annual rate. Mr. Ciampi warned, however, that Italy's trade balance is deteriorating and that 3% growth may be too much to hope for this year, and he called on Germany to stimulate its economy and buy more Italian goods.

The French also are worried. The government statistics office recently cut its forecast for French economic growth for this year to 1.5% from 2.8%, while saying inflation could rise to more than 3.5% by year-end, compared with a 2% rate last year. Banque Paribas calls the French economic outlook "gloomy" with "the evaporation of the hopes of recovery in growth" that had been inspired by the decline in oil prices. France, too, wants to sell more of its goods to Germany, its biggest trading partner.

Differences on New Steps

All the European countries also want Japan to make good its promises to open up its economy and buy more from abroad, and they want the U.S. to meet its deficit-cutting targets, in order to stabilize currency values. But Europeans differ on what, if any, new commitments should be made in Venice, following international agreements on these matters at the Louvre in Paris last February.

The French are expected to once again bring up the notion of specified "target" zones for currencies, which central banks would enforce through coordinated intervention on foreign-exchange markets. Both the U.S. and Germany often have vetoed such a proposal, and will do so again.

French President Francois Mitterrand also will float a plan for countries with current-account surpluses—notably Germany and Japan—to "recycle" those surpluses through vastly increased aid to indebted Third World nations, especially in Africa. This proposal isn't expected to attract wide support either, though Japan has announced plans to expand its aid program.

With both Italy and Britain in the middle of election campaigns, neither is expected to offer fresh initiatives. As for West Germany, officials there say the fragility of the European economies means it would do more harm than good to fiddle.

The Germans, who have promised to review their economic growth and take extra stimulative measures if needed, say they've reviewed and none are needed. The government says forecasts of growth under 2% this year are too low. But most private forecasters think German gross national product actually contracted in the first quarter.

West Germany, like Britain, has reported a gradual decline in joblessness this year. But the average unemployment rate for 1987 is expected to remain around 9% in Germany and 11% in Britain, and economists say it could rise again if growth remains sluggish. OECD economists say that unless growth picks up substantially, unemployment in the 24-nation organization overall won't budge from the 11% level, representing 31 million people, for the foreseeable future.

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Summit Is Unlikely To Set Bold Accords On Economic Issues

By Ellen Hume

Staff Reporter of The Wall Street Journal

WASHINGTON—White House officials don't expect bold economic initiatives or agreements from the Venice summit. In fact, as soon as the economic topics are covered, President Reagan hopes to change the subject to arms control.

White House officials want the government leaders from the six other industrial nations to join the U.S. in a statement backing the "double-zero" proposal to remove certain nuclear weapons from Europe, as Soviet leader Mikhail Gorbachev proposed in April. Mustering support for arms control, these officials believe, would strengthen Mr. Reagan's position and help deflect attention from the two liabilities he brings to the summit—the U.S. budget deficit and the Iran-Contra scandal. An arms-control statement might also help make up for the likelihood that the summit won't produce much economic news.

A top priority will be to promote stability in exchange rates, but nothing new is expected. Treasury Secretary James Baker told foreign journalists yesterday that he expects "a reaffirmation by heads of states of actions that have already been agreed to" at earlier meetings in Paris and Washington.

Some analysts worry that the currency markets may react negatively to a bland restatement of policy. "We have a lot of the same old problems faced before by these principals. We are not much closer to agreed solutions. The danger, therefore, is that we'll have statements that will depreciate the currencies even further," says Bruce MacLaury, an undersecretary of the Treasury under President Nixon and currently the president of the Brookings Institution.

To help reduce its trade deficit, the U.S. again will stress the need for Japan and West Germany to stimulate their economies, but they aren't likely to go beyond already-announced programs. Mr. Reagan also will ask the other nations to remove import barriers, particularly on agricultural products. But his own credibility will be weak here because the Democratic Congress is moving forward on a protectionist trade bill. Moreover, Mr. Reagan isn't likely to yield on the major trade dispute between Washington and Tokyo—U.S. sanctions on certain TV sets, computers and other Japanese products because of semiconductor-agreement violations.

In addition, Mr. Reagan will seek verbal support—but doesn't expect financial or military help—from the other leaders for the U.S. naval protection of oil tankers and other shipping in the Persian Gulf.

On other issues, Mr. Reagan is expected to agree to a statement about working together to combat AIDS and to discuss drug abuse, relief for southern Africa, and support for the Afghan rebels, administration staffers say. Although the issue of terrorism may come up, White House planners don't expect to break new ground.

Mr. Reagan will make a one-day trip to Rome Saturday to visit Pope John Paul II before the pope's visit to Poland. After the summit and a tentatively scheduled news conference in Venice next Thursday, Mr. Reagan will go to West Berlin the next day to deliver a major speech advocating the razing of the Berlin wall and the reunification of Germany. Then, he will visit West German Chancellor Helmut Kohl in Bonn before returning to Washington.

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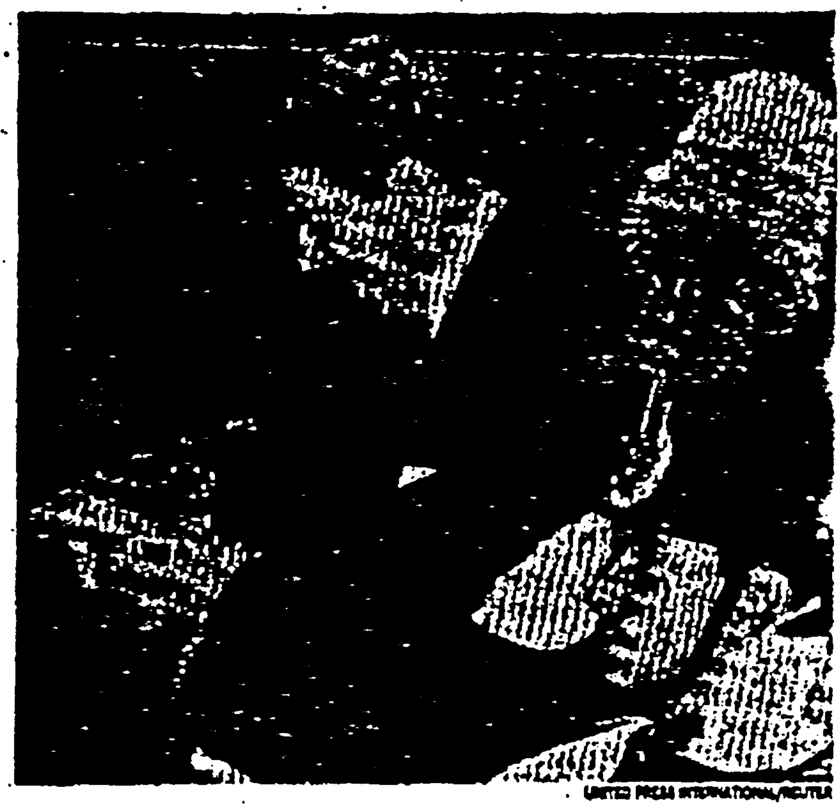
Reagan Begins European Visit

President Pledges to Aid Allies in Sustaining Peace, Prosperity

By Lou Cannon
Washington Post Staff Writer


UNITED PRESS INTERNATIONAL/REUTER

Reagans pass Italian honor guard as they depart Air Force One in Venice.

VENICE, June 3—President eagan arrived here today on a ne-day trip to Europe, pledging a enewed commitment to the west- n alliance in an all-out effort to stain "the longest period of gen- al peace in this century and the eatest prosperity in the history of an."

On Air Force One en route to enice, national security adviser ank Carlucci told reporters that e Reagan administration had ompleted its review of what sug- stions" it should make to the al- s in assisting the United States to otect oil tankers in the Persian ulf.

Carlucci noted that West Ger- any and Japan have constitutional strictions on their military roles t that France and Britain already re providing naval protection for ir own vessels in the gulf.

"What is it that we want those ips to do?" Carlucci said. "It's as ch a presence and coordination tter as much as anything else."

State Department officials said in ngressional testimony last week t U.S. credibility in the Middle t had been damaged by the Iran ms deal. But Carlucci disputed , saying, "If we had totally lost credibility, the Kuwaitis ldn't be asking us to reflag ves- ."

eagan has vowed repeatedly to p oil flowing through the gulf pite Iranian warnings that tank- and the ships that shield them uld be considered military tar- s in the Iran-Iraq war, which has ed nearly seven years.

arlucci said arms control would a major topic when the seven ders of the industrialized democ- ies meet here next week. He d they were "close to a common ition" on an agreement to elim- te intermediate-range missiles in rope.

arlucci also said the administra- believes that "we need to press d vigorously" toward an agreement on strategic nuclear weapons.

Reagan will relax at a 17th century villa 11 miles north of here for two days before going to Rome and a meeting with Pope John Paul II. Beginning Monday he will attend the 13th annual economic summit, which will last three days.

Reagan will conclude his European trip, which could be the last of his presidency, with a speech at the Brandenburg Gate in West Berlin on June 12 and a meeting with West German Chancellor Helmut Kohl before returning to Washington that day.

"On this trip, I will commemorate the 40th anniversary of the Marshall Plan," Reagan said in a departure ceremony on the south lawn of the White House before flying here. "Forty years ago the United States said that if Europe were ever to see an end to the specter of war that had haunted that great continent over the centuries, all of its peoples would have to know freedom, democracy and justice. And so we extended both to allies and former enemies a helping hand, a hand of compassion, a hand of hope."

Reagan went on to say that after the Soviet Union declined to participate in the Marshall Plan, the United States helped rebuild Europe.

"At this economic summit, I will look around the table and see—thanks in part to the generosity and wisdom of our nation over the past 40 years—not the leaders of broken, desperate and despotic nations, but the leaders of strong and stable democracies, countries that today are our partners for peace on the world stage," he said.

However, a number of these world figures—like Reagan himself—appear to be in the twilight of their leadership.

Japanese ~~Prime Minister~~ Yasuhiro Nakasone is expected to step down in October. Canadian Prime Minister Brian Mulroney, a close ally of Reagan, ~~is at the~~ nadir of his popularity after a year of scandals.

Here in Italy, where elections

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will be held June 14, longtime political figure Amintore Fanfani is heading a caretaker government. Fanfani greeted Reagan when he arrived here tonight at Marco Polo Airport and will represent Italy at the summit talks.

British Prime Minister Margaret Thatcher, Reagan's firmest ally among the alliance partners, will be here for only one day of the summit because of the British elections, which will be held June 11. Thatcher is considered the strongest of the summit leaders, and her Conservative Party is favored to win for a third consecutive time.

West Germany, where Kohl's Christian Democratic Party recently lost two state elections, and France are the other participants.

"At Venice, we will talk about how to improve East-West relations," Reagan said in a departure statement to students of James Madison High School in Fairfax County. "We will discuss arms reduction, human rights problems, regional conflicts and bilateral cooperation. Our discussion in Venice will help strengthen western solidarity, which is indispensable to progress on issues of contention between East and West."

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libre échange canado-américain, la classe moyenne en mouvement et les programmes sociaux dans les années 90.

À certains égards toutefois, ces sombres prévisions font exception pour le Québec. Selon les leaders interrogés (20 % sont Québécois), la croissance économique du Québec sera l'événement le plus surprenant de la prochaine décennie au Canada. Le rôle gouvernemental plus modeste sur le plan économique d'une part, la confiance et le dynamisme manifesté par le secteur privé d'autre part sont deux facteurs conjugués dont « le résultat sera une renaissance qui ne fait que commencer au Québec ».

La société Hay, une firme établie à Toronto mais ayant divers bureaux dont un à Montréal, mène cette enquête depuis cinq ans, dans le but de mettre en lumière les enjeux et les tendances pour l'avenir du Canada. Le plus récent coup de sonde a été effectué entre novembre 1986 et janvier 1987. Ce qui s'en dégage se résume en deux mots: « Confiance ébranlée », alors qu'un an auparavant, le sentiment était plutôt qu'il était « inutile de s'alarmer ».

M. Tom Atkinson, directeur de projet chez Hay, a expliqué à quelques journalistes, hier, que hors Québec on éclate de rire lorsqu'on dit que le Québec sera la surprise économique de la prochaine décennie. « Pas moi », ajoute-t-il. Quand on demande si les Canadiens vont faire preuve de plus d'esprit d'entreprise et de confiance en eux, au lieu de se fier au gouvernement, 91 % des leaders répondent oui au Québec, comparativement à 52 % seulement en Ontario et 72 % dans le reste du Canada.

Selon M. Atkinson, il y a des raisons à cela: le Québec a, en particulier, traversé une profonde crise politique sans périr, ce qui lui donne une assurance nouvelle. Puis, il a dû faire face à la récession qui a frappé plus fort chez lui qu'ailleurs. La reprise y fut plus lente aussi, par rapport à l'Ontario où la relance a été largement faite par des filiales américaines. Au Québec, ce sont les Québécois qui ont fait la relance et en très grande partie avec des petites et moyennes entreprises. Les leaders d'opinion pensent donc que les dirigeants d'entreprises au Québec ont la confiance nécessaire pour faire les investissements destinés à améliorer la compétitivé.

Dans ses conclusions, Hay va jusqu'à dire que les Québécois ont peut-être été « des collectivistes dans le passé, mais dans l'avenir ce seront des individualistes ». On ne fait cependant aucune allusion au phénomène typiquement québécois d'une forme d'entrepreneurship collectif, tel qu'on le constate entre autres au Mouvement Desjardins, chez Ro-Na, Métro-Richelieu ou encore au Fonds de solidarité des travailleurs du Québec. M. Atkinson reconnait qu'il y a là sans doute un aspect oublié par les leaders, qui retiennent surtout la redéfinition du rôle de l'État québécois.

Quoiqu'il en soit, dans un communiqué explicatif, Hay fait la remarque suivante: « L'émergence du Québec comme pouvoir économique important surprendra de nombreux canadiens (en particulier à Ottawa), qui pensent que le Québec est une province démunie avec beaucoup d'industries faibles et un taux de chômage chroniquement élevé. Les dirigeants québécois et ceux des autres régions ne nient pas les points faibles de l'économie, mais croient que le potentiel de croissance dans d'autres secteurs fera plus que compenser pour les pertes ailleurs, comme dans l'industrie de la chaussure ».

Il y a sans doute de nombreux observateurs au Québec qui ne partageront pas totalement cet optimisme, qu'il importe de situer dans son contexte. Les leaders d'opinion interrogés l'ont été selon la répartition suivante: 10 % des Maritimes, 20 % du Québec, 30 % de l'Ontario, 20 % de l'Ouest, 15 % d'Ottawa (hauts fonctionnaires fédéraux) et 5 % des Etats-Unis (personnes informées sur le Canada). Cela donne un bloc important de 45 % de répondants ontariens, pour qui les secteurs dits mous ne sont pas nécessairement la première préoccupation. Par secteur d'activités, on a cette autre répartition: 15 % de l'administration fédérale, 17 % des administrations provinciales, 29 % de l'industrie, 18 % des organismes de recherche, 16 % des groupes d'intérêts et 5 % des médias.

Quoiqu'il en soit, tous ces répondants manifestent à l'égard de l'avenir du Canada un pessimisme qu'ils n'avaient pas ces dernières années, alors qu'ils croyaient à une adaptation. Ils en arrivent à croire maintenant que « la plupart des Canadiens, ainsi que ceux qu'ils ont élu, ne veulent pas faire face aux difficiles problèmes que le pays doit affronter et préfèrent croire encore que les abondantes ressources naturelles, la proximité des États-Unis et sa stabilité politique suffisent à assurer sa prospérité économique ». Les répondants, qui sont dans plusieurs cas des employés du secteur privé, ne sont pas plus tendres envers les grandes sociétés, qui ne répondent pas davantage que le citoyen moyen devant les défis à relever. Les leaders trouvent que « les Canadiens et leurs dirigeants politiques continuent de croire que le Canada est une nation riche en ressources qui prospérera dès que la brève période de récession globale qui prévaut prendra fin ».

Pour leur part, les leaders interrogés [illegible] dire que « le Canada perd rapidement du terrain face à la plupart des nations industrielles et par rapport à beaucoup de pays récemment industrialisés comme la Corée et le Brésil ». Ils font valoir qu'à moins d'un changement important de direction — rien ne leur permet de croire que cela va se produire — le Canada stagnera pendant que d'autres pays atteindront des niveaux de vie plus élevés, avec la conséquence qu'il ne pourra plus conserver son niveau actuel de services sociaux et encore moins d'améliorer la qualité de la vie.

Selon eux, le déclin va se produire très lentement, ce qui incite plusieurs leaders d'opinion à espérer qu'une crise ou une quelconque commotion ne se produise pour que l'attention des Canadiens se porte sur des défis auxquels il faut faire face. Mais, comme ils ne prévoient pas de crise, ils ont peu d'espoir que la tendance à la baisse ne soit enrayée au cours des années qui viennent.

Hay, conseillers en administration, ne veut pas divulguer les noms de ces penseurs et décideurs influents qu'il consulte. On a fait un effort particulier pour repérer les véritables leaders d'opinion avec qui sont réalisés des entretiens personnalisés et confidentiels d'environ 90 minutes; ils doivent en plus répondre à un questionnaire standard. Le choix des personnes consultées s'est fait en fonction de leur perspicacité et de leurs connaissances et près de 70 % des répondants sont réinterrogés chaque année. Il ne s'agit donc pas d'un sondage scientifique mené dans le grand public, comme on en voit très souvent, ce qui ne diminue en rien la valeur des perceptions qui ressortent d'une telle démarche de prospection.

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MENACE DE RÉCESSION

UN THÈME central hantera les sept dirigeants des pays industrialisés lors du sommet qui débute lundi prochain à Venise : la menace de récession qui plane sur l'ensemble de l'économie mondiale. Le taux de croissance diminue inéluctablement depuis plusieurs mois. Il ne dépassera pas les 2 % cette année dans les pays de l'OCDE et pourrait bien devenir nul dès l'an prochain. Sans un minimum de croissance, comment aborder de manière cohérente et efficace les autres questions économiques prévues à l'ordre du jour, comme le protectionnisme, la fluctuation des taux de change et l'endettement international ?

Après la récession de 1982, les États-Unis ont assumé « spontanément » le rôle de locomotive en adoptant des mesures fiscales et budgétaires qui ont ranimé fortement la consommation. Mais l'économie américaine n'est plus aussi compétitive qu'elle l'était. Dès 1983, son déficit commercial commença à croître rapidement. Il devenait de plus en plus évident qu'elle ne pourrait continuer à garder la tête du convoi sans risquer de tomber en panne. D'où les appels répétés de Washington pour que les Allemands et les Japonais prennent la relève et assument à leur tour le leadership.

Bonn et Tokyo se font tirer l'oreille. Ils n'ont peut-être pas tout à fait tort. Ils ont résisté aux pressions des Américains et l'histoire leur a, en partie du moins, donné raison. Ils étaient persuadés que le déficit commercial américain ne pouvait être réduit sans une dévaluation du dollar. En septembre 1985, pour la première fois, les États-Unis acceptaient une baisse coordonnée (dans le cadre du Groupe des cinq, qui devint plus tard le Groupe des sept) de leur devise.

L'opération fut un succès. La valeur relative du billet vert a diminué sensiblement pendant que le déficit commercial américain commence enfin à plafonner. Mais il faudra attendre encore plusieurs mois, peut-être quelques années, avant que le commerce extérieur américain sorte réellement du tunnel. Entre temps, l'ombre de la récession s'étend.

Japonais et Allemands ont répondu prudemment et timidement aux demandes des Américains qui souhaitent que leurs partenaires stimulent davantage leur économie. Le gouvernement nippon a déposé la semaine dernière un programme de relance dont le coût est deux fois plus élevé que celui présenté en 1986. L'effort a été noté certes, mais il n'impressionne aucune capitale à l'Ouest parce qu'il est jugé nettement insuffisant. Le plan mis en oeuvre l'an dernier n'a eu que des effets très marginaux à l'échelle internationale. On doute que le plus récent ait des répercussions vraiment significatives. Quant au gouvernement allemand, il a adopté des mesures fiscales, mais leurs retombées ne se feront sentir que lentement et sur une période relativement longue. Or, le temps presse.

Manifestement, Bonn et Tokyo ne veulent pas prendre des mesures trop radicales qui risqueraient de perturber leur économie. Ils se méfient, les Allemands notamment, d'une reprise de l'inflation qui affaiblirait leur position concurrentielle sur les marchés mondiaux.

La situation paraît donc bloquée. Si les Sept se sont entendus en septembre 1985 pour coordonner leur politique monétaire, ils ne sont pas encore parvenus toutefois, en ce qui touche les politiques macro-économiques, à mettre au point des mécanismes efficaces de concertation. Les douze sommets qui ont précédé — celui de Venise est le treizième — ont certes permis d'améliorer la coordination de certaines politiques macro-économiques. Ils n'ont pas été inutiles. Loin de là. Mais ils n'ont pas encore débouché sur une harmonisation efficace, capable de prévenir les dérapages et les récessions.

Le contexte actuel invite fatalement au repli, comme en témoignent tendances protectionnistes. Le Japon et l'Allemagne de l'Ouest, qui profitent d'un surplus commercial très élevé, disposent d'une marge de manoeuvre que les Américains ont perdue, ces dernières années, et qu'ils ne retrouveront pas à court terme. Ils espèrent bien sûr que la récession, qui viendra de toute façon, passera plus doucement qu'on le prévoit, et qu'il sera toujours temps alors de prendre les moyens qui s'imposent.

Il ne sera alors peut-être pas trop tard pour eux ni pour l'ensemble des pays industrialisés. Mais les pays du tiers-monde, accablés par une dette insurmontable et condamnés à une baisse de leur niveau de vie, risquent de s'effondrer. Avec comme seule consolation de faire partager une partie de leur misère par quelques pays créditeurs.

— ALBERT JUNEAU

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Au sommet de Venise

Ottawa veut moins de protectionnisme

PIERRE APRIL

OTTAWA (PC) — Le Canada transportera au Sommet de Venise, du 8 au 10 juin, toute la panoplie de ses problèmes économiques intérieurs, dont la solution ne peut se trouver que sur la scène internationale et avec la collaboration des pays industrialisées.

Au cours d'une séance d'information, donnée hier dans la capitale, les porte-parole du gouvernement canadien, responsables du Sommet des Sept (Canada, Italie, États-Unis, Allemagne fédérale, Grande-Bretagne, Japon et France), ont souligné que malgré les gains enregistrés au cours de l'année dernière, il y a toujours de sérieux défis à relever dans le monde des pays fortement industrialisés.

« Malgré ces cinq dernières années, dites de reprise, ont souligné les porte-parole, l'économie mondiale commence à donner des signes d'essoufflement. »

Le Canada pense surtout aux effets néfastes des attitudes protectionnistes grandissantes qui se retrouvent sous forme de guerres commerciales bilatérales et qui mettent en péril les accords multilatéraux.

Les économistes et politicologues canadiens qui ont participé à la préparation des dossiers qui seront débattus à Venise pensent en particulier à la guerre des subventions que se livrent, dans le secteur agricole, l'Europe et les États-Unis. Déjà le Canada a dû investir plus de $2.5 milliards pour soutenir les producteurs de blé de l'ouest canadien dans cette guerre.

Ils se sont aussi inquiétés de l'incertitude sur les marchés financiers mondiaux, spécialement en regard des taux de change, et se sont demandés si tout cela ne créait pas un environnement hostile aux investissements et au progrès économique, ici au pays et ailleurs dans le monde.

Le Canada arrivera au Sommet, lundi, avec la ferme intention de sensibiliser les représentants des autres pays participants au fait que le temps est venu de trouver une solution aux politiques protectionnistes et de relancer les négociations multilatérales en faveur d'une libéralisation des échanges.

M. Mulroney, qui avait, en 1986 à Tokyo, fait inscrire la question de l'agriculture à l'ordre du jour du Sommet de Venise, reviendra à la charge. Le maintien des prix de soutien à des niveaux élevés dans de nombreux pays et les subventions à l'exportation ont artificiellement stimulé la production et produit un écart marqué entre l'offre et la demande.

Le Canada a aussi fait preuve de leadership, au cours des dernières années, dans la recherche de solutions pour venir en aide aux pays en voie de développement et pour démontrer aux nations les plus industrialisées et les plus riches qu'il est primordial de se pencher aussi sur les problèmes particuliers des pays débiteurs.

Le premier ministre Mulroney cherchera à s'assurer que les réserves de l'Association internationale de développement de la Banque mondiale seront généreusement reconstituées. Il encouragera l'adoption de mesures spéciales pour résoudre les problèmes de dette publique des nations les plus pauvres.

Par ordre d'importance, le Canada s'attardera à la question de l'agriculture, aux négociations commerciales, à la dette des pays moins fortunés.

« De façon générale, a souligné un porte-parole du gouvernement canadien, nous allons continuer à travailler, comme nous l'avons toujours fait dans le passé, à nous assurer que les intérêts et les points de vue des pays en voie de développement soient pris en considération aux cours des discussions du Sommet. »

Comme prévu, les chefs de gouvernements traiteront des relations Est-Ouest, de l'Afrique du Sud et de terrorisme international.

L'attaque irakienne récente d'un navire de guerre américain dans les eaux du golfe Persique fera sûrement partie des discussions. « Au cours des dernières années, a dit le porte-parole, la situation au Liban, la guerre Iran-Irak et le réacteur nucléaire de Tchernobyl se sont retrouvés à l'ordre du jour, cette année ce sera évidemment la situation dans le golfe Persique. »

Même s'il est primordialement économique, le Sommet de Venise ne pourra pas ignorer les ravages épidémiques du sida. Les chefs des sept pays les plus industrialisés devront s'engager à mettre en commun toutes leurs ressources en matière de recherches scientifiques et leurs moyens économiques pour venir à bout de ce virus.

Ils devront aussi s'interroger sur la compatibilité de mesures envisagées pour contrer la propagation du sida, avec la sauvegarde des droits et libertés de la personne.

Le Canada, qui accueillait en avril dernier une conférence internationale sur la bioéthique, sera intéressé à parler de cette sérieuse question de la recherche médicale sur des êtres humains. Le rapport rendu public à Ottawa par les scientifiques sera remis aux autres participants.

Au chapitre des relations Est-Ouest, le Canada recommandera aux autres de vérifier la bonne foi des dirigeants soviétiques sur la question du désarmement et des droits de la personne. Un désagengement soviétique de l'Afghanistan et du Cambodge, selon les porte-parole canadiens, démontrerait leur bonne foi.

La question sud-africaine, un dossier où le Canada fait figure de proue, sera discutée. Le premier ministre Mulroney, qui a effectué un voyage en Afrique au printemps, sera en mesure d'informer ses collègues de ce qu'il a vu et entendu au Zimbabwe et au Sénégal et sur ses conversations avec les leaders des pays africains membres du Commonwealth et du Sommet de la francophonie, qu'il recevra à Québec et Vancouver, l'automne prochain.

L'industrie du bois d'oeuvre profite d'un sursis inespéré mais temporaire

JEAN-PIERRE LEGAULT

Profitant d'une hausse des prix sur les marchés canadiens, l'industrie du bois de sciage du Québec n'a pas encore trop souffert de l'imposition de la taxe de 15 %, sur les exportations aux États-unis. Mais ce n'est que partie remise. Lorsque le boum actuel de la construction dans l'est du pays se résorbera, les producteurs devront absorber une baisse d'environ 13 % du prix du bois pour compétitionner sur le marché américain.

La situation qui prévaut actuellement dans la construction en Ontario et au Québec a en effet permis à l'industrie québécoise de minimiser, à ce jour, les répercussions de cette taxe que le gouvernement fédéral acceptait « volontairement » d'imposer en décembre dernier à ses producteurs, à la suite des récriminations des États-Unis. Le gouvernement américain soutient que l'industrie canadienne profite de subventions indirectes et constitue donc des concurrents déloyaux.

Mais, en dépit d'une baisse relative de la part de bois canadien dans les importations américaines, la production québécoise des deux premiers mois de l'année a augmenté, comparativement à l'année précédente. De janvier 1986 à janvier 1987, elle est passée de 331,961 PMP à 354,350 PMP. Pour février, elle était de 374,069 et a légèrement fléchie à 371,796 La production annuelle canadienne atteint quelques 24 milliards de PMP.

Les producteurs de l'est, au premier chef Domtar, Donohue et Normick-Perron, ont absorbé sans trop de mal l'imposition de la taxe en bénéficiant de la situation du marché canadien pour diminuer la part de leur production destinée aux marchés d'exportation. Ainsi chez Donohue, 70 % du bois était acheminé vers les États-Unis, le reste étant pour consommation locale. Aujourd'hui, ces chiffres sont inversés.

De plus, la fébrilité qui règne depuis quelques temps sur le marché du bois a permis aux producteurs de profiter de hausses de prix appréciables au Canada sur les produits de longueur assortie, celui des autres ne subissant pas de baisse. Ainsi, le mille PMP se trnasigeait à $ 3.24 le 20 mai dernier. Hier, il valait $ 3.44. Il s'agit là d'une augmentation de 6.2 % en trois semaines.

Chez Donohue, on estime toutefois que la situation actuelle est très temporaire. « Le marché canadien ne pourra pas supporter encore longtemps une telle production », explique M. Gilles Gaudreault. « Nous sommes dans une situation tout à fait exceptionnelle ».

Selon lui, les producteurs n'auront bientôt pas le choix que de retourner sur les marchés américains où les prix se demeurés au même niveau depuis décembre dernier et, pour certains produits, ils ont même tendance à baisser.

Avec la nouvelle taxe, les producteurs canadiens devront baisser leurs prix pour faire face à une industrie américaine qui roule présentement à plein régime. Plusieurs petits moulins y ont été réouverts récemment et la production est redevenue ce qu'elle était durant les années 70 alors que des records étaient abaissés année après année.

Le volume des exportations québécoises de bois d'oeuvre aux États-Unis n'a pas diminué suite à l'imposition de la taxe, selon une étude de l'Association des manufacturiers de bois du Québec. Il aurait même légèrement augmenté.

Toutefois, selon un document de l'Association nationale des producteurs de bois, l'imposition de cette taxe s'est fait sentir dès sa mise en application : la part du Canada sur le marché américain du bois d'oeuvre a chuté à 28.7 % en janvier et février derniers. Elle était de 31.5 % pour la période correspondante de 1986 après avoir connu un sommet en 1985, s'accaparant le tiers des importations de bois d'oeuvre des États-Unis, pour un montant de $ 4 milliards.

En une année, la consommation américaine de bois d'oeuvre s'est accrue de 11.2 %, mais les exportations canadiennes vers ce pays n'ont augmenté que de 1.4 %, de janvier 86 à janvier 87.

Les 10 ministres provinciaux responsables des forêts se sont rencontré lundi dernier, à Winnipeg, pour discuter de l'utilisation qui sera faite des sommes perçues en vertu de cette taxe de 15 %. Le ministre fédéral du commerce extérieur, Mme. Pat Carney, a maintenant en main les projets des provinces et pourra amorcer les négociations avec son homologue américain et tenter de le convaincre que les mesures canadiennes sont suffisantes à leurs yeux pour que l'industrie canadienne ne soit pas accusée de profiter de subventions.

Au bureau du ministre québécois délégué aux forêts, M. Albert côté, on soutenait, hier, que les mesures de remplacement proposées par le Canada, mesures différentes d'une province à l'autre, respectent l'esprit de l'entente de décembre dernier. Mais on se refusait à élaborer sur la position du Québec. On sait cependant qu'en vertu de la nouvelle politique forestière d'avril dernier, la province compte récupérer environ la moitié des $ 100 millions que lui procurerait cette taxe grâce à l'augmentation des droits de coupe. Le gouvernement envisagerait de verser le reste dans un fonds spécial qui serait créé sur le modèle du Heritage Fund albertain.

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Le sommet de Venise

L'économie mondiale sans leadership

Pierre S. Pettigrew

Directeur des services internationaux chez Samson Bélair

PAR DELÀ l'aspect relations publiques et les communiqués négociés à l'avance, les sommets comportent une dynamique interne entre les principaux acteurs et un niveau réel de discussions internationales.

Malheureusement, se retrouveront à Venise des leaders de la vieille génération sans grande envergure : un M. Reagan affaibli, âgé et en fin de mandat, la vétéran Mme Thatcher dont le programme politique appartient plus au passé qu'à l'avenir, M. Kohl sans originalité et des leaders préoccupés par leurs situations domestiques tel le couple Mitterrand-Chirac à l'approche des élections présidentielles, M. Fanfani, 82 ans, chef intérimaire d'un gouvernement en crise, et M. Mulroney dont l'équipe est moins populaire que les deux partis d'opposition. Les participants actuels ont hérité des sommets qui convenaient davantage à des leaders plus ouverts à la discussion d'idées comme les Schmidt, les Giscard, les Trudeau, et à la limite les Carter.

Les difficultés de l'économie américaine

L'année 1986 a brutalement mis à l'épreuve la capacité économique des États-Unis. Le déficit commercial a atteint un niveau record de $ 170 milliards, c'est-à-dire que les Américains achètent de l'étranger presque deux fois plus qu'ils ne vendent. Le marché américain a donc été une source importante de croissance économique pour les partenaires commerciaux des États-Unis.

Le déficit budgétaire a également atteint un niveau record de $ 221 milliards, doublant la dette nationale par rapport à 1981. Cela provient de l'échec de la théorie de l'économie de l'offre (supply-side economy), de la croissance des dépenses militaires et de la chute des revenus à la suite de la grave récession de 1981-82. Le financement des nombreuses fusions et acquisitions et de la consommation a fait doubler également la dette privée des Américains depuis 1980. Ainsi, la dette publique et privée des États-Unis se chiffre maintenant à près de $ 9 billions et augmente plus rapidement que l'économie.

Les assises industrielles et le leadership scientifique des États-Unis demeurent solides. Les principales raisons de leurs difficultés sont en voie de se corriger : l'administration Reagan a procédé à une « dévaluation compétitive » du dollar de 40 %; l'accès au marché est restreint par des mesures protectionnistes, telle la taxe de 100 % sur l'électronique japonaise, et on a réduit les transferts de technologie sous licences à une fraction du coût de recherche. De plus, au GATT, les États-Unis insistent pour garantir une protection internationale de la propriété intellectuelle. Cette nouvelle stratégie américaine vise à forcer le Japon et l'Allemagne fédérale à partager davantage le coût des responsabilités économiques globales.

Le danger d'une récession

Le sommet de Bonn en 1978 avait attribué au Japon et à l'Allemagne fédérale, selon la théorie des locomotives conçue par l'OCDE, la responsabilité de tirer le convoi de l'économie mondiale en achetant des sommes considérables de dollars américains. Ils avaient ainsi accumulé une réserve explosive d'inflation. Avec les effets conjugués du second choc pétrolier, il leur fallut de longues années pour en éliminer les effets et ils en gardent un souvenir pénible.

Néanmoins, tous les gouvernements conviennent qu'une nouvelle récession ne pourra être évitée à moins de mettre fin aux fluctuations excessives des taux de change, et à la hausse des taux d'intérêt destinés à stabiliser le dollar américain, et au protectionnisme qui n'offre aucune perspective d'avenir.

Pour affronter ces défis, une coordination des politiques économiques nationales est essentielle. Ainsi, en février dernier, à la suite de résolutions des sommets de Bonn en 1985 et de Tokyo en 1986, le groupe des Sept s'est mis d'accord pour coordonner davantage les opérations des banques centrales afin de stabiliser le dollar américain. On se dirige peu à peu vers la mise en place de balises à la fluctuation des taux de change favorisées jusqu'ici par la France, mais rejetées par les Allemands et les Britanniques. Ce serpent monétaire requiert la participation active des États-Unis, du Japon et de l'Allemagne fédérale.

La réforme du système des taux de change peut sembler moins urgente qu'il y a deux ans lorsque le dollar américain était terriblement surévalué, mais elle demeure essentielle pour calmer les conflits commerciaux et les problèmes de l'endettement des pays en voie de développement.

Venise devra rappeler les engagements monétaires contractés dans l'accord de Paris et se pencher sur l'endettement mondial. La solution de ce problème est aussi politique, comme le soulignait récemment le professeur Louis Sabourin. Avec une dette des PVD de plus de $ 1 billion et la décision par le Brésil, de cesser ses paiements aux institutions privées tant qu'il n'aura pas obtenu un rééchelonnement de sa dette ($ 143 milliards), l'urgence d'une action concertée est nette.

Il faut réaménager les fonctions du FMI et de la Banque mondiale. Le FMI, qui a favorisé des prêts à court terme, devrait permettre à la Banque mondiale de jouer de pair avec les prêteurs commerciaux son rôle d'expert de prêts à long terme à des conditions plus favorables. Le Fonds, qui incidemment a recouvré en 1986 plus de fonds qu'il n'en a prêtés, concentrerait ses activités sur le contrôle des changes.

Au chapitre du commerce international, la concurrence est féroce. Les États-Unis, et plus encore l'Europe, luttent pour enrayer leur déclin alors que le Japon cherche à étendre sa puissance commerciale. La compétitivité de certains pays nouvellement industrialisés comme la Corée et Taïwan accentue les tensions. Le sommet sera l'occasion de calmer les conflits en cours et d'appuyer la huitième série de négociations commerciales multilatérales du GATT. Les solutions à long terme viendront de là.

La coopération internationale

On doit rappeler au Japon et à l'Allemagne fédérale leur engagement d'encourager la consommation intérieure pour réduire leurs exportations et diminuer leurs excédents commerciaux. En parallèle, les États-Unis devront contrôler leurs déficits budgétaire et commercial sans trop recourir au protectionnisme.

À ce jour, les Japonais ont mieux réagi que les Allemands aux exigences de l'économie mondiale. Au début de 1987, le Japon, dont le surplus commercial atteignait $ 90 milliards en 1986, a créé un programme d'aide multilatérale de $ 9 milliards pour les trois prochaines années. C'est un début.

L'Allemagne fédérale doit cesser de prétendre que sa consommation interne croît suffisamment pour réduire les surplus qu'elle écoule à l'étranger. L'ensemble des pays qui adhèrent au système monétaire européen doivent en renforcer le mécanisme afin que l'expansion allemande puisse être étendue aux pays voisins. Il est évident que, dans ce monde où la démarcation entre politique économique interne et externe s'efface, une réelle coopération internationale doit émerger. Le sommet de Venise doit ouvrir la voie à cette émergence.

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quable a deux causes : la libéralisation du commerce et les progrès dans les télécommunications. La libéralisation du commerce des biens et du capital a créé de nouvelles possibilités pour les industries de services. Pour leur part, les progrès dans les télécommunications ont entraîné la transmission rapide de données à travers de grandes distances qui a permis aux industries de services de fonctionner sur une échelle internationale.

Les principaux exportateurs de services sont la Communauté économique européenne, les États-Unis et le Japon qui ont fait ensemble 74 % du commerce mondial des services en 1984. Leur importance relative va cependant en diminuant, car en 1973, ils représentaient 81 % du total. Ils subissent une concurrence de plus en plus forte de la part de pays nouvellement industrialisé, tels l'Inde, la Corée, le Brésil. La volonté américaine, appuyée par la CEE, d'éliminer le protectionnisme dans ce secteur, vise à pouvoir concurrencer les étrangers dans leurs marchés.

Protectionnisme

Un pays peut actuellement invoquer une grande variété de raisons pour protéger ses entreprises nationales de service ; sécurité, balance des paiements et protection d'une industrie domestique. Les restrictions au commerce portent sur le droit d'établissement, sur les obtentions de licences et de certifications, sur les exigences quant à la nationalité de l'employé, sur les limites de propriété étrangère et sur les politiques nationales d'achats. Plusieurs de ces points relèvent de la souveraineté nationale.

Les barrières au commerce sont plus complexes que dans le cas des biens. Par exemple, au Québec, on impose des exigences en matière de doublage sur les films produits à l'extérieur de la province. Il existe un monopole complet dans le domaine légal : des avocats étrangers ne peuvent pas ouvrir de bureaux ou offrir des services ici.

En publicité, la loi sur l'impôt ne permet plus de déduire les dépenses publicitaires dans les publications étrangères. Dans les domaines de la construction et l'ingénierie, les firmes locales sont préférées aux firmes étrangères dans les contrats gouvernementaux.

Autre difficulté, les services s'infiltrent dans tous les secteurs économique et il est presque impossible d'isoler l'élément service d'un produit. L'informatique et l'ingénierie, par exemple, font partie intégrante de la plupart des produits manufacturés. De plus en plus de produits comportent une part importante de services qui sont intégrés au produit. La libéralisation promise sera-t-elle une menace ou une opportunité pour l'industrie québécoise des services ? Tout dépend de la façon dont elle s'adaptera aux changements à venir. En fait, on prévoit que la réduction des barrières sur le commerce mondial des services aura un impact semblable à celui qu'avait suscité après la deuxième guerre mondiale, la réduction des tarifs douaniers sur le commerce des biens.

Entre 1950 et 1985, alors que le tarif douanier moyen a été réduit de 40 % à 4 %, le commerce mondial est passé de 250 milliards à 2 000 milliards

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Au sommet de Venise

Ottawa veut moins de protectionnisme

PIERRE APRIL

OTTAWA (PC) — Le Canada transportera au Sommet de Venise, du 8 au 10 juin, toute la panoplie de ses problèmes économiques intérieurs, dont la solution ne peut se trouver que sur la scène internationale et avec la collaboration des pays industrialisées.

Au cours d'une séance d'information, donnée hier dans la capitale, les porte-parole du gouvernement canadien, responsables du Sommet des Sept (Canada, Italie, États-Unis, Allamagne fédérale, Grande-Bretagne, Japon et France), ont souligné que malgré les gains enregistrés au cours de l'année dernière, il y a toujours de sérieux défis à relever dans le monde des pays fortement industrialisés.

« Malgré ces cinq dernières années, dites de reprise, ont souligné les porte-parole, l'économie mondiale commence à donner des signes d'essoufflement. »

Le Canada pense surtout aux effets néfastes des attitudes protectionnistes grandissantes qui se retrouvent sous forme de guerres commerciales bilatérales et qui mettent en péril les accords multilatéraux.

Les économistes et politicologues canadiens qui ont participé à la préparation des dossiers qui seront débattus à Venise pensent en particulier à la guerre des subventions que se livrent, dans le secteur agricole, l'Europe et les États-Unis. Déjà le Canada a dû investir plus de $2.5 milliards pour soutenir les producteurs de blé de l'ouest canadien dans cette guerre.

Ils se sont aussi inquiétés de l'incertitude sur les marchés financiers mondiaux, spécialement en regard des taux de change, et se sont demandés si tout cela ne créait pas un environnement hostile aux investissements et au progrès économique, ici au pays et ailleurs dans le monde.

Le Canada arrivera au Sommet, lundi, avec la ferme intention de sensibiliser les représentants des autres pays participants au fait que le temps est venu de trouver une solution aux politiques protectionnistes et de relancer les négociations multilatérales en faveur d'une libéralisation des échanges.

M. Mulroney, qui avait, en 1986 à Tokyo, fait inscrire la question de l'agriculture à l'ordre du jour du Sommet de Venise, reviendra à la charge. Le maintien des prix de soutien à des niveaux élevés dans de nombreux pays et les subventions à l'exportation ont artificiellement stimulé la production et produit un écart marqué entre l'offre et la demande.

Le Canada a aussi fait preuve de leadership, au cours des dernières années, dans la recherche de solutions pour venir en aide aux pays en voie de développement et pour démontrer aux nations les plus industrialisées et les plus riches qu'il est primordial de se pencher aussi sur les problèmes particuliers des pays débiteurs.

Le premier ministre Mulroney cherchera à s'assurer que les réserves de l'Association internationale de développement de la Banque mondiale seront généreusement reconstituées. Il encouragera l'adoption de mesures spéciales pour résoudre les problèmes de dette publique des nations les plus pauvres.

Par ordre d'importance, le Canada s'attardera à la question de l'agriculture, aux négociations commerciales, à la dette des pays moins fortunés.

« De façon générale, a souligné un porte-parole du gouvernement canadien, nous allons continuer à travailler, comme nous l'avons toujours fait dans le passé, à nous assurer que les intérêts et les points de vue des pays en voie de développement soient pris en considération aux cours des discussions du Sommet. »

Comme prévu, les chefs de gouvernements traiteront des relations Est-Ouest, de l'Afrique du Sud et de terrorisme international.

L'attaque irakienne récente d'un navire de guerre américain dans les eaux du golfe Persique fera sûrement partie des discussions. « Au cours des dernières années, a dit le porte-parole, la situation au Liban, la guerre Iran-Irak et le réacteur nucléaire de Tchernobyl se sont retrouvés à l'ordre du jour, cette année ce sera évidemment la situation dans le golfe Persique. »

Même s'il est primordialement économique, le Sommet de Venise ne pourra pas ignorer les ravages épidémiques du sida. Les chefs des sept pays les plus industrialisés devront s'engager à mettre en commun toutes leurs ressources en matière de recherches scientifiques et leurs moyens économiques pour venir à bout de ce virus.

Ils devront aussi s'interroger sur la compatibilité de mesures envisagées pour contrer la propagation du sida, avec la sauvegarde des droits et libertés de la personne.

Le Canada, qui accueillait en avril dernier une conférence internationale sur la bioéthique, sera intéressé à parler de cette sérieuse question de la recherche médicale sur des êtres humains. Le rapport rendu public à Ottawa par les scientifiques sera remis aux autres participants.

Au chapitre des relations Est-Ouest, le Canada recommandera aux autres de vérifier la bonne foi des dirigeants soviétiques sur la question du désarmement et des droits de la personne. Un désagengement soviétique de l'Afghanistan et du Cambodge, selon les porte-parole canadiens, démontrerait leur bonne foi.

La question sud-africaine, un dossier où le Canada fait figure de proue, sera discutée. Le premier ministre Mulroney, qui a effectué un voyage en Afrique au printemps, sera en mesure d'informer ses collègues de ce qu'il a vu et entendu au Zimbabwe et au Sénégal et sur ses conversations avec les leaders des pays africains membres du Commonwealth et du Sommet de la francophonie, qu'il recevra à Québec et Vancouver, l'automne prochain.

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L'industrie du bois d'oeuvre profite d'un sursis inespéré mais temporaire

JEAN-PIERRE LEGAULT

Profitant d'une hausse des prix sur les marchés canadiens, l'industrie du bois de sciage du Québec n'a pas encore trop souffert de l'imposition de la taxe de 15 % sur les exportations aux États-unis. Mais ce n'est que partie remise. Lorsque le boum actuel de la construction dans l'est du pays se résorbera, les producteurs devront absorber une baisse d'environ 13 % du prix du bois pour compétitionner sur le marché américain.

La situation qui prévaut actuellement dans la construction en Ontario et au Québec a en effet permis à l'industrie québécoise de minimiser, à ce jour, les répercussions de cette taxe que le gouvernement fédéral acceptait « volontairement » d'imposer en décembre dernier à ses producteurs, à la suite des récriminations des États-Unis. Le gouvernement américain soutient que l'industrie canadienne profite de subventions indirectes et constitue donc des concurrents déloyaux.

Mais, en dépit d'une baisse relative de la part de bois canadien dans les importations américaines, la production québécoise des deux premiers mois de l'année a augmenté, comparativement à l'année précédente. De janvier 1986 à janvier 1987, elle est passée de 331,961 PMP à 354,350 PMP. Pour février, elle était de 374,069 et a légèrement fléchie à 371,796. La production annuelle canadienne atteint quelques 24 milliards de PMP.

Les producteurs de l'est, au premier chef Domtar, Donohue et Normick-Perron, ont absorbé sans trop de mal l'imposition de la taxe en bénéficiant de la situation du marché canadien pour diminuer la part de leur production destinée aux marchés d'exportation. Ainsi chez Donohue, 70 % du bois était acheminé vers les États-Unis, le reste étant pour consommation locale. Aujourd'hui, ces chiffres sont inversés.

De plus, la fébrilité qui règne depuis quelques temps sur le marché du bois a permis aux producteurs de profiter de hausses de prix appréciables au Canada sur les produits de longueur assortie, celui des autres ne subissant pas de baisse. Ainsi, le mille PMP se trnasigeait à $ 3.24 le 20 mai dernier. Hier, il valait $ 3.44. Il s'agit là d'une augmentation de 6.2 % en trois semaines.

Chez Donohue, on estime toutefois que la situation actuelle est très temporaire. « Le marché canadien ne pourra pas supporter encore longtemps une telle production », explique M. Gilles Gaudreault. « Nous sommes dans une situation tout à fait exceptionnelle ».

Selon lui, les producteurs n'auront bientôt pas le choix que de retourner sur les marchés américains où les

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

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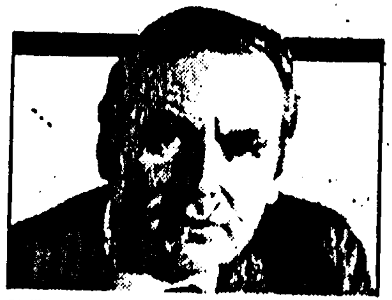
Everyone would like success to spoil Japan, but it won't



PETER COOK

For months, the Americans and Japanese have been locked in trade talks that have been given the title of "market-oriented, sector-specific" negotiations, or MOSS for short.

The pattern of the MOSS talks has become a familiar one in which Washington can point to a minor amount of progress but no breakthrough in doing away with Japan's invisible barriers and opening markets for U.S.-made telecommunications, pharmaceuticals and farm products. For their part, the Japanese bargain hard and make concessions grudgingly.

So ritualistic and predictable have the discussions become that the Americans jokingly refer to the MOSS acronym as More of the Same Stuff.

In the cut and thrust of international economics leading up to next week's seven-nation Venice economic summit, there is no doubt which nation has been cut at, and thrust upon.

For Japan, it has been MOSS all the way.

Everyone has a suggestion on how the Japanese economy could be run in a way that will make the world a better place in which to live. And the attitude of other summiteers, the United States, Canada, West Germany, France, Britain and Italy — all of whom impose restraints on Japanese goods but still face a substantial trade deficit with Tokyo — is guided by perceived and real frustrations about rising economic imbalances and closed markets. More MOSS.

Japan has promised that things will change. At each recent summit, Japanese leaders have arrived bearing gifts: lower tariffs, tax cuts, monetary stimulus.

True to form, Prime Minister Yasuhiro Nakasone will go to Venice clutching a stimulative package, this one worth $42-billion (U.S.), that commits Tokyo to faster consumption-led growth that should pull in a greater volume of imports.

The package has some credentials. U.S. trade negotiator Clayton Yeutter describes it as something Mr. Nakasone can take to Venice with pride. And Mr. Nakasone will be stressing it, and Japan's good neighbor policies, when he meets Prime Minister Brian Mulroney ahead of the opening ceremonies Monday.

But the real question is whether anything will be altered much or if Japan's critics will be mollified.

Tokyo's package aims to get growth in a sluggish economy to 3.5 per cent over the next 12 months. Although that sounds fine, it is at the low end of what other governments think desirable, and there are doubts, after the failure of previous efforts, whether the plan will do the job. There are also questions about whether the Diet will approve it, and whether it will draw support from a bevy of contenders — Noboru Takeshita, Susumu Nikaido, Shintaro Abe, Kiichi Miyazawa — lining up to succeed Mr. Nakasone. The factional politics of the ruling Liberal Democrat Party is not likely to ensconce any of them as a strong leader. And, though Mr. Abe and Mr. Miyazawa have reputations as internationalists, the other two do not.

As for Mr. Nakasone, he is being driven from office after failing to make progress in reforming the tax system — which represented another step in turning the Japanese economy toward the model its critics have in mind.

The charge that is likely to be levelled at Tokyo is that, once again, it has promised little and may deliver less.

And the Japanese are going to be hard put to disprove it — although they can always counter their sternest adversaries, the Americans, by wondering aloud when Washington is going to do something about its budget deficit.

Three-day summits are a form of political gamesmanship. Creditor Japan is a natural target for debtor America, and the Japanese economy — with its ability to make substantial productivity gains, create high rates of saving and investment and maintain huge trade surpluses — is the envy of other industrial countries.

Still, there are limits on the demands for change that realistically can be made of Japan — beyond making such a competitive country get by with a much higher-value currency.

The Japanese are talking of recycling surpluses toward the Third World instead of U.S. financial markets, which would be a creative thing to do. Their trade position is deteriorating rapidly in volume terms; investment has faltered; unemployment is becoming a larger problem; and traditional barriers, for example in agriculture, are being loosened.

All this is "progress" of the kind that critics of Japan want. But, despite the clamor, there are no signs that change will be more radical or that a workaholic, aging Japanese population will kick the savings habit and turn itself into a nation of American-style spendthrifts instead.

Nor is there any kind of consensus that will permit an overhaul of the tax system or the country's archaic retail distribution system or will curtail land speculation, however sensible these reforms may be.

It is hard to lead a nation toward being a Volvo-in-every-garage, country cottage, consumer society if it does not want to be led. And one of the surprising things is how pessimistic the Japanese are about their own prospects and how resolutely they refuse to think of themselves as either rich or deserving of Western-style affluence.

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Advance Scoop From Venice

By RICHARD LAWRENCE

WORLD TRADE

WASHINGTON — Scoop Gnocchi, the onetime Venetian canal kid who made it big as a gondolier-tenor, has just offered us a deal.

And not just any deal. It's even more than a scoop, he says. To put in plain Italian, he calls it a coup — a journalistic coup.

What he claims to hold is a copy of the communique from next week's economic summit communique. It contains, he says, the words to be uttered by the leaders of the United States, Japan, Canada, West Germany, Britain, France and Italy after they complete three days of talks next Wednesday in Mr. Gnocchi's home town.

Our source, who makes his living taking tourists on 10-mile canal trips between the ducal palace and the adjoining basilica, is a businessman. He has wired only a few snippets of the alleged communique. The rest can be had for a price, he says. If the price is right, he'll grant exclusive rights.

The week before a summit meeting, of course, authoritative communiques are easy to come by in Venice. Every dealer in genuine Renaissance objets d'art has one up for sale. But from what Scoop Gnocchi has supplied so far, he may actually have stumbled on to the real thing. At least, his version jibes with what high Reagan administration officials have said about discussing international economic cooperation and the need for some countries (Japan and the Europeans) to undertake "structural" economic reforms. And it makes mention of the other things on President Reagan's agenda: reviving the Uruguay Round trade negotiations, especially in the agricultural area; increasing aid for sub-Saharan Africa; and discussing the dangerous currents in the Persian Gulf.

Despite Mr. Gnocchi's high-grade merchandise, we've decided not to buy: paying for purloined goods is against company policy. Using them for free, however, is not. Since the gondolier was unwise enough to offer us enticing tidbits without charge, we are pleased to pass on to our readers some of the language that will allegedly be in the communique scheduled to hit the headlines next Wednesday.

The seven leaders, Scoop reports, will say: "We reaffirm the objectives of achieving non-inflationary growth of income and employment, and promoting exchange market stability through policies designed to bring about greater convergence of economic performance in this direction. . . .We are focusing on near-term policy actions leading to convergence of economic conditions in the medium term. The overall medium-term perspective remains essential, both to ensure that short-term policy innovations do not lead to divergence and to reassure business and financial markets."

When pressed, Scoop hedges on the exact wording of that clause; there is, he suggests a possible alternative:

"We accept a joint responsibility to work for greater stability of the world monetary system. We recognize that this rests primarily on convergence of policies designed to achieve lower inflation, higher employment and renewed economic growth, and thus to maintain the internal and external values of our currencies."

So much, Mr. Gnocchi says, for the general economic policy statement. He next imparts the phrases the seven will use to attack protectionism, to wit:

"We commit ourselves to halt protectionism and. . .to reverse it by dismantling trade barriers. We will actively pursue the current work programs in the General Agreement on Tariffs and Trade." The summiteers, he reports, will say they are agreed on "the important contribution which a new round of multilateral trade negotiations would make to strengthening the open multilateral trading system for the mutual benefit of all economies, industrial and developing."

As for agriculture, where the United States is pushing so hard for more "market-oriented" policies, Scoop says the communique will declare:

"When there are surpluses, action is needed to redirect policies and adjust structure of agricultural production in the light of world demand. We. . .express our determination to give full support to the work. . .in this field."

The key phrases in the communique on the developing countries' debt conundrum, according to our tenor in Venice, will include:

"We agreed to confirm the strategy on debt and continue to implement and develop it flexibly case by case; we have reviewed progress and attach particular importance to helping debtor countries to make necessary economic and financial policy changes. . . ."

As regards sub-Saharan Africa, Mr. G. assures us, the seven leaders will declare: "We are greatly concerned about the acute problems of poverty and drought in parts of Africa." They will refer to "joint efforts of the international community to help."

Richard Lawrence is a world trade reporter in The Journal of Commerce's Washington bureau.

DEPARTMENT OF EXTERNAL AFFAIRS
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VENICE SUMMIT

Economists Offer Bleak Predictions

By KEITH M. ROCKWELL
Journal of Commerce Staff

WASHINGTON — Three leading economists offered a House subcommittee a bleak assessment of the prospects for success at next week's economic summit in Venice.

The current political weakness of the principal summit leaders and the entrenched economic positions of the United States, Japan and West Germany offer little hope for a successful summit meeting, they said.

They took that view in testimony Thursday to the House Subcommittee on International Finance Trade and Monetary Policy of the Committee on Banking Finance and Urban Affairs.

I.M. Destler, senior fellow with the Institute of International Economics, said the most constructive move the leaders could make would be for President Reagan to pledge to enter a budget summit with Congress in exchange for commitments from U.S. allies to spur domestic demand.

"Unfortunately," he continued, "because of the weakness of current political leaders and the strength of their economic commitments, the more likely prospect is that there will be more muddling through, more half-measures, more economic and trade frustration, until perhaps a crisis forces decisive policy movement."

Alan J. Stoga, senior associate at Kissinger Associates, offered an equally grim outlook. He agreed with Mr. Destler that a lack of commitment and political weakness make a successful summit unlikely.

"Most of the leaders who will gather in Venice face national elections within the next eighteen months. Some will leave office this year or next year," he said.

"Almost inevitably, this means that short-run domestic political concerns will increasingly shadow discussions of international economic strategy making it harder to achieve consensus, or, perhaps, even to acknowledge the gathering risks in the global system."

Mr. Stoga said the current international economic strategy is seriously flawed and the optimism widely expressed by the Reagan administration and other industrial leaders was "whistling past the graveyard."

At a time when interest rates are rising, world trade slowing, economic growth stagnating and sovereign debt expanding what is needed is "aggressive and creative leadership, domestically and internationally," he said.

Pedro Pablo-Kuczynski, managing director of First Boston International Bank, urged the summit leaders to work on keeping interest rates low. Any rise in interest rates, said Mr. Kuczynski, would exacerbate the already perilous developing nation debt crisis.

"Every 1% rise in interest rates costs Latin American debtors somewhere over $3 billion a year. That is roughly 4% of exports. If interest rates rise 2%-3%-4%, it will put these countries in the dire position of 1981-82. If the leaders don't address this problem, they could find themselves having to take measures that will be extremely costly to them."

Mr. Kuczynski conceded that Venice may not be the best forum for handling the less-developed nation debt crunch but nonetheless he urged the leaders to give greater support to the multilateral development banks, like the World Bank, the Inter-American Development Bank and the Asian Development Bank.

He said the United States hasn't given those institutions enough support and he criticized the leaders of the banks for not taking a more aggressive role in the debt crisis.

Because the banks are sitting on significant reserves, he said, a capital increase is not needed to step up lending to the debtor nations.

"We have an opportunity where, without a significant amount of taxpayer money, the major international institutions can double or triple disbursements for worthwhile projects," he said.

All three men had harsh words for West Germany, saying it hasn't lived up to its commitment to stimulate its domestic economy and reduce its external surpluses.

In stark contrast to the testimony of the economists, Charles H. Dallara, senior deputy assistant secretary for international economic policy at the Treasury Department, painted a bright picture of the global economic outlook.

"As we approach the Venice summit, I believe it is fair to say that the progress that has been made toward more effective international coordination of economic policies has helped produced results where it ultimately counts — in supporting the achievement of the basic objectives of sustained low inflation growth and reduced imbalances," he said.

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Merchants of Venice get summit prices

By Jeremiah O'Leary
THE WASHINGTON TIMES

VENICE, Italy — Shakespeare's "Merchant of Venice" would feel at home here in the Queen City of the Adriatic where several thousand reporters and delegates to the seven-nation economic summit are rapidly going broke, thanks to the extraordinarily high cost of every necessity of life.

Some examples: A female reporter had a simple lunch of a bowl of minestrone and was handed a bill for the lira equivalent of $10; individual rooms for the press at the Hotel Lido Excelsior, which had been forecast to be $270 per night, are $376 nightly, not including a value-added tax and a city tax.

"At these prices," said one lady reporter wryly, "Marcello Mastroianni ought to come knocking on my door at least once a night."

The huge press contingent from around the world is billeted at hotels on the Lido, a sandspit facing the Adriatic Sea and at least an hour away from Venice proper by water-bus. A one-way trip from the mainland to the Lido costs $60.

Lunch at the Taverna on the beach was a startling experience: a journalist who ordered a simple plate of spaghetti was charged $30. The fork was free.

The European-printed Wall Street Journal in the hotel cost 1,900 lira, or $1.50 in cold cash. A 16-page edition of the newspaper USA Today also cost $1.50.

The gambling casino next door to the hotel costs $13 just for admission, and one reporter speculated it could cost $1,300 to get out. Gamblers were warned that the minimum bet at the blackjack and baccarat tables goes up arbitrarily to bring excitement into the lives of the $2 bettors.

"This is an economic summit in more ways than one," said one correspondent who, for the first time in his career, will be doing his own laundry to avoid bankruptcy.

The continental breakfast of coffee and rolls in the hotel, it turns out, is 20,000 lira, or about $18. Lamentably the coffee pot holds only a cup and a half. Juice is extra.

But there is a relative bargain in the all-you-can eat buffet. One reporter loaded his plate for the standard price of $20 in U.S. currency.

The logistics of holding the summit meeting of the leaders of the seven Western industrial democracies in Venice are marvelous for security, since each leader is housed on a different island or in a separate inland villa.

But there is always the problem of possible traffic jams among the gondolas in Venice's canals and lagoons. For lesser folk, obliged to use the water-taxis or water-buses, there is always the imposing cost of going from Point A to Point B.

Aside from the Alaskan gold rush prices, the climate in Venice is about like that of Rehoboth Beach, Del. — on a cold, rainy day.

President and Mrs. Reagan are doing somewhat better at the Villa Condulmer, the 17th century former monastery where they are staying. Yesterday they walked in the rose garden after a late breakfast. Mr. Reagan is not on an expense account.

The president spent the rest of the day reading intelligence and news reports, lunching on the patio and preparing for radio speeches he makes today and tomorrow, according to press spokesman Marlin Fitzwater.

Tomorrow, Mr. and Mrs. Reagan will fly to Rome for an audience at the Vatican with Pope John Paul II.

The Persian Gulf oil situation will be summed up this way, Scoop maintains: "We have considered the possible implications of a further deterioration of the situation in the Gulf for the supply of oil. We are satisfied that . . . adequate supplies could be maintained for a substantial period of time by international cooperation and mutually supportive action. We will continue to act together to that end."

Mr. Gnocchi was not so generous as to provide that section of the communique addressing structural economic adjustment. He hinted, however, that it will refer to efforts to "improve training and mobility of our labor forces." That section may be missing because our source disapproves: as a bona fide Venetian gondolier, he wants little to do with more mobility.

If these phrases sound authoritative, that's understandable. Like any fast-dealing entrepreneur, Mr. Gnocchi has his sources. In this case, however, those sources are yellowing with age. Precisely the same wisdom, we note, emanated from the economic summits of 1982, 1983, 1984 and 1986 — word for word.

Bacia la mano, Signor Gnocchi!

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Economic talks awaited with skepticism

By Andrew Borowiec
THE WASHINGTON TIMES

VENICE, Italy — Western Europe awaits the forthcoming economic summit of the seven biggest industrial democracies skeptical that the leaders will do anything to cope with a long list of economic difficulties.

Editorialists, commentators and politicians showed little faith in the meeting's ability to solve problems of industrial and developing nations.

Some commentators cast doubt on the solidity of President Reagan's leadership. They saw the U.S. accent on the need for a joint stand to guarantee free navigation in the Persian Gulf as a effort to distract attention from economic issues that normally would be the focus of the summit beginning Monday.

West European politicians and press are urging the United States to exercise caution in the Gulf, yet there also are plenty of appeals for Washington to "live up to its world role."

"Even American congressmen, who often have a limited view of international problems, should weigh the consequences of yet another withdrawal from the Middle East, particularly after the hurried departure of the Marines from Beirut in 1984," said France's liberal Le Monde.

The Europeans do not minimize the importance of the Gulf, a major oil supplier to the old continent. But they do not agree among themselves about the means to be deployed to keep the Gulf open.

The economic summit usually is a high-level forum for an extensive exchange of views, but is not a policy-setting meeting. West European opinion makers cautioned that the broad agenda for discussion — including terrorism, disarmament, the fight against drugs and AIDS — might dwarf the elusive task of curing the world's economic ills.

With 1½ years of his second term to go, Mr. Reagan is being variously described as "on his way out" or "losing influence."

Italy, the host country, has only a caretaker government headed by Amintore Fanfani before the June 14 elections. Britain's Prime Minister Margaret Thatcher is in the middle of her own campaign for the June 11 vote.

The other summit participants are Japan, Canada, West Germany and France, each with an interest in discussing a different priority issue.

The West European atmosphere of skepticism was compounded by the jittery currency markets and stock exchange performance after the resignation of Paul Volcker as chairman of the Federal Reserve Board. In most capitals, front-page editorials spoke of Mr. Volcker's prestige and influence, and worried about the possible consequences of his departure.

In Italy itself, there was little cheering. "Our country is incapable of making major decisions in this pre-electoral period," said the respected daily Corriere Della Sera.

Commented Milan's Il Giorno: "No one has any illusions. The positions are far apart on all major international economic problems."

Many Europeans feel it is up to the United States to set an example in solving the economic problems underlined by currency fluctuations, massive intervention to support the wobbly dollar and the threat of inflation-breeding high interest rates.

To quote Le Monde again, "The passing of time increases the possibility of brutal and uncontrolled adjustments."

West European economists are almost unanimous in saying that Americans live beyond their means with an unprecedented debt. Many Third World countries are unable to pay their debts, and the specter of a possible collapse of the international banking system is being mentioned with increasing frequency.

At the same time, many Europeans confess their inability to play a significant role in the search for economic and other solutions. As so often in the past, the United States is seen as the scapegoat for the world's ills — as well as its possible savior.

There are not many optimists, but the authoritative London Economist said that although the summit "is widely expected to achieve nothing ... even an unspectacular plan of coordinated policy could make a big impression on the markets."

EXT 936 (82/8)

SUBJECT/SUJET

PUBLICATION U.S.A Today

DATE June 5

Red carpet treatment

Italy, between governments, out to prove a point

By Jessica Lee
USA TODAY

VENICE, Italy — The airport here is closed to international flights as soldiers — some toting guns, others with trained dogs — patrol this ancient seaport city.

While security is ready, some rest while others make final preparations for the 13th annual economic summit that opens here Monday night.

President and Mrs. Reagan spent a quiet day Thursday amid the rose gardens of the secluded Villa Condulmer, a 17th century hotel outside Venice. The villa, spruced up with a $4-million renovation, sports an 18-hole golf course and stables.

The Reagans planned to invite staffers to join them for a John Wayne film, *Angel and the Bad Man.*

When the summit opens Monday, the Reagans move to a four-room suite — with newly installed hot tub — at the luxurious Hotel Cipriani.

The White House has taken over the former U.S. Consulate in Venice, which usually houses a branch of Wake Forest University. A phone call to the university's number is answered, "The White House."

Italians view the task of hosting the summit as an opportunity to prove Italy — despite the absence of an elected government — ranks as one of the world's most stable industrial powers.

A major test of Italian efficiency came Wednesday night when the direct USA-Italy telephone lines failed to relay computer transmissions sent by some 200 USA journalists.

Italy had installed the direct link as a favor to the United States. But arriving reporters, finding their laptop computers couldn't communicate by phone to their newspapers back home, started screaming.

Panic ensued. A press entourage of 3,000 is expected by Monday.

The problem? Echo suppressors blocked the computer signals. Italian phone experts working with an AT&T diagnostician made corrections in time for Thursday deadlines.

The Italians furnished another favor to USA journalists: Cable News Network is available for those at the Hotel Excelsior.

By Vince Mannino, Reuters

ON GUARD: Paramilitary officers carrying automatic weapons examine supplies arriving at a Venice dock Thursday in preparation for the summit.

Venice crossroad

Venice is accustomed to being an international crossroad.

Venice — whose citizens, including Marco Polo and Casanova, brought the city treasures from East and West — is now famous as a tourist mecca and convention site.

Of 2 million USA tourists visiting Italy annually, "at least half go to Venice," says the Italian Travel Office's Jo Inzarillo.

Here are significant events in the city's history:

- 452 — fugitives fleeing barbarian invaders occupy the lagoon islands.
- 697 — doge (elected ruler) is chosen — system evolves into republican government that lasts more than 1,000 years.
- 1204 — crusaders, commanded by the doge of Venice, sack Constantinople. Among Venice's booty: island of Crete.
- 1380 — defeats rival Genoa. With control of trade routes, Venice reaches its commercial and naval zenith.
- 1453 — Turks capture Constantinople, cutting off trade route, signaling Venice's decline. But the arts flourish and city becomes a playground for nobility.
- 1797 — Napoleon captures Venice, overthrows republic.
- 1934 — site of first meeting between Adolf Hitler and Benito Mussolini.
- 1980 — is host to the sixth economic summit.

—By Richard Lattare

External Affairs Canada   Affaires extérieures Canada

SUBJECT/SUJET

PUBLICATION Journal of Commerce

DATE June 5

AIDS Foes Seek Summit Pledge

WASHINGTON — People battling the AIDS epidemic on the front lines want next week's seven-nation economic summit to produce a pledge of global cooperation, compassion and commitment to fight the deadly disease.

The AIDS virus, which already has killed 31,836 people worldwide and has infected as many as 10 million more, promises to be among the major issues addressed by President Reagan and the leaders of Japan, West Germany, France, Italy, Britain when they meet Monday through Wednesday in Venice.

"Two years ago, it would have been difficult to imagine the Venice summit discussing AIDS," said Jonathan Mann, director of the World Health Organization's AIDS program, at the Third International Conference on AIDS.

"We'd like to see out of that summit a reaffirmation of the global nature of the problem, and we'd like to see funds. We'd like to see resources."

Mr. Mann urged the government leaders to establish an AIDS trust fund, under the World Health Organization's guidance, that would be available to economically strapped countries, particularly those in Africa.

Global AIDS control will cost billions of dollars over the next five years, he predicted.

"I think it's more the problem of health authorities than the heads of governments, but they also have to realize that there will be more economic impact in the future," said Luc Montagnier, professor at the Pasteur Institute in France and one of the discoverers of the AIDS virus.

Screening immigrants for the AIDS virus, as President Reagan has suggested, is the first step in slamming the door on international cooperation, said Larry Gostin, executive director of the American Society of Law and Medicine in Boston.

"I'd like to see (the summit conferees) agree to drop international barriers to travel and immigration," he said, noting that already, Iraq, Saudi Arabia, the United Arab Emirates, China and India all have begun to erect barriers to travel as well as immigration.

"Basically, the very first thing countries do when there's a panic is they close their borders," Mr. Gostin said. "What they should be doing is saying, this is very much like an economic trade issue, that you don't close your borders. You try to make arrangements so people can travel freely, and you deal with it on a public health level within each country, because I think it will escalate. And within a year, I think you'll find that half the world will have set up some kind of travel and/or immigration barriers so that people are constantly screened." (AP)

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SUBJECT/SUJET

PUBLICATION U.S.A Today

DATE June 5

VENICE: 13TH ECONOMIC SUMMIT

Reagan: Arms progress brings a summit closer

By Johanna Neuman
USA TODAY

VENICE, Italy — President Reagan, hopeful that progress on arms control will pave the way for a U.S.-Soviet summit, Thursday hailed West Germany's endorsement of a Soviet plan to ban medium-range nuclear weapons in Europe.

"It's a major step," said White House spokesman Marlin Fitzwater. "Progress toward a summit moves forward with progress toward an (intermediate nuclear force) agreement."

But Reagan warned: "No summit meeting has been scheduled."

Asked about European polls showing a majority think Soviet leader Mikhail Gorbachev is more interested in detente than Reagan, the president replied: "The last guest to arrive at a party usually gets the attention."

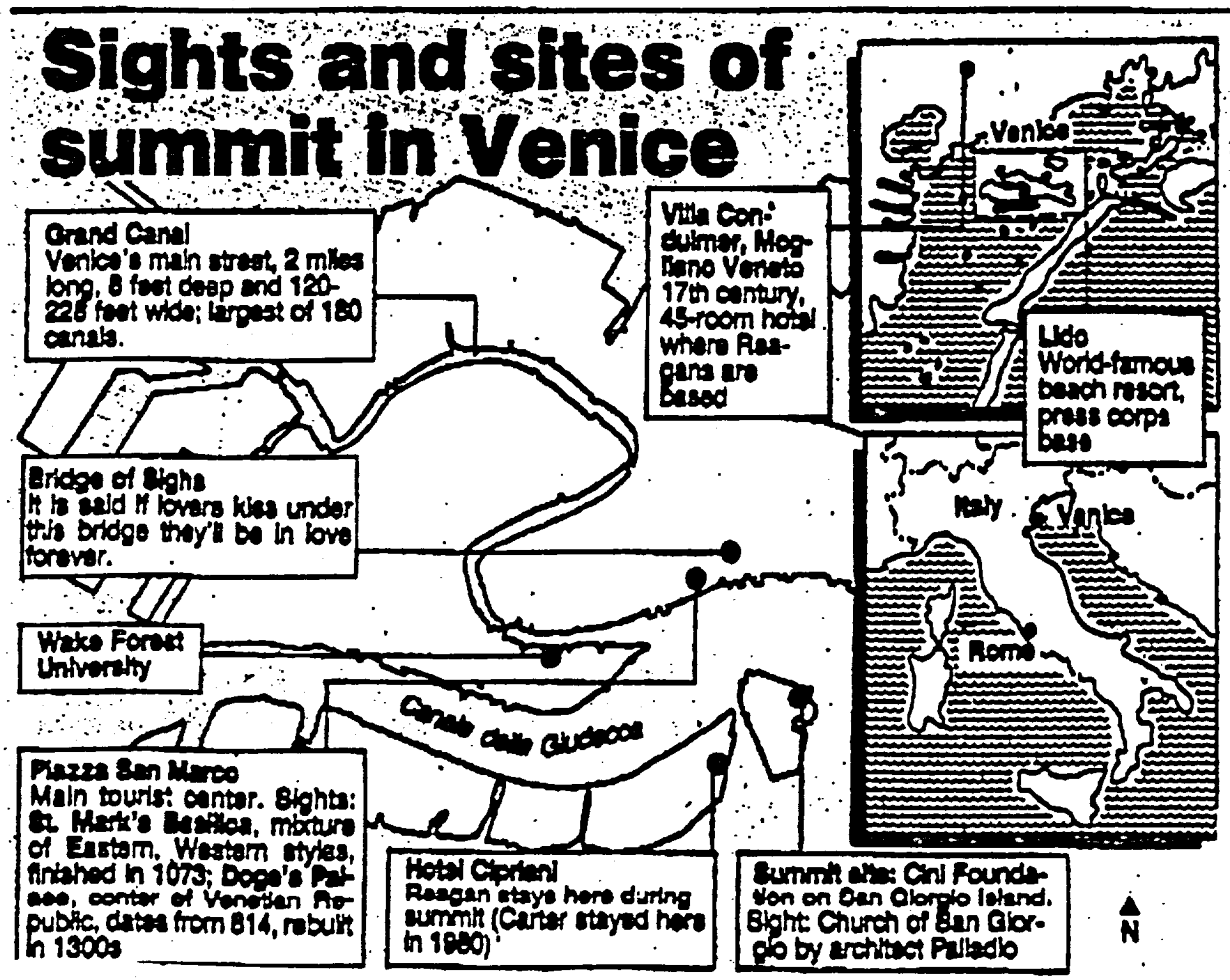
On the eve of next week's economic summit, the White House hopes Thursday's West German parliamentary decision to keep its short-range nuclear missiles will fuel a growing allied consensus for a superpower pact on medium-range arms.

"I am confident that based on discussions within NATO and ... here in Venice, a foundation will be laid" for a pact, said Reagan.

A sticking point: verifying elimination of a class of weapons, which will be discussed at the summit and at a meeting of NATO ministers June 11 in Reykjavik.

■ Reagan's plans, 1A

Sights and sites of summit in Venice



External Affairs Canada
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SUBJECT/SUJET

PUBLICATION New York Times

DATE June 5

Reagan Seeks New U.N. Push in Gulf

By GERALD M. BOYD
Special to The New York Times

VENICE, June 4 — President Reagan will seek support at the economic summit meeting here for a United Nations resolution threatening Iran and Iraq with an arms embargo if they refuse negotiations to end their war, White House officials said today.

The resolution would be the centerpiece of the Administration's strategy for forging a united posture on gulf policy among the leaders of the seven major non-Communist industrialized nations. Their talks begin here Monday.

Officials said that the decision to pursue the measure in the General Assembly was made out of the recognition that Mr. Reagan would be unable to secure a unified position among the summit nations' leaders for increased military action in the Persian Gulf to keep its sea lanes free from attack.

"Realistically, it is the only thing," said a senior White House official here.

On another matter that may arise at the summit meeting, ostensibly on economic matters, the White House indicated that Mr. Reagan could be near lifting economic sanctions against Japan. The President imposed the sanctions April 18 on a range of Japanese consumer electronics products in reprisal for what Washington called Tokyo's failure to live up to a trade agreement. The accord was intended to help the semiconductor industry in the United States.

Indicating that the United States and Japan could be close to resolving the trade rift, the White House spokesman, Marlin Fitzwater, said the President is reviewing new data on whether Tokyo is opening its semiconductor markets and on whether it continues to sell the chips in third countries below cost, a practice known as "dumping."

The senior White House official said that there was some support within the Administration for the President to lift the sanctions while here, but that Mr. Reagan has not made a final decision.

On policy in the Persian Gulf, officials said that the United Nations resolution envisioned by the Administration would be similar to one that has been stalled in the Security Council.

Iran Arms Embargo Threat

The thrust of that measure is to warn Iran and Iraq that unless they agree to a ceasefire, withdraw to international borders, and negotiate a compromise, they would be subject to a United Nations-approved arms embargo.

White House officials said the President's attempt at seeking support here for a new initiative was regarded as a way of getting such a measure out of the Security Council. The endorsement of the leaders attending the summit meeting, one senior aide said, would bring new pressure on the Chinese, which the Administration has accused of selling missiles to Iran, and which has opposed such a resolution thus far.

"The Chinese would not want to stand alone on this," the aide said.

The Administration had stepped up public criticism of China as Mr. Reagan arrived here on Wednesday. Frank C. Carlucci, the President's national security adviser, said the United States was "obviously displeased" that the Chinese were selling missiles to Iran, and that the practice added "new dimensions" to the threat in the Persian Gulf.

By seeking unified support for such an approach, Mr. Reagan could also be trying to ease concerns in France, which has been worried that the resolution might hamper its arms sales to Iraq.

Mr. Reagan's discussion of the Persian Gulf has emerged as a key political issue at the summit talks in the wake of an Iraqi missile attack on the American frigate the Stark, in which 37 sailors were killed. The attack has heightened tension just as the United States is preparing to allow 11 Kuwaiti tankers to fly the American flag and to provide naval escorts for those vessels in the gulf.

Japan Weighs a Contribution

Special to The New York Times

TOKYO, June 4 — Prime Minister Yasuhiro Nakasone hinted today that Japan might consider requests for financial contributions to protect freedom of navigation in the Persian Gulf.

But Mr. Nakasone said he wanted first to discuss the matter at the Venice summit conference.

A newspaper report today quoted an unidentified senior Foreign Ministry official as saying that Mr. Nakasone was prepared to offer financial help to protect oil tankers in the gulf "if money can solve the problem."

In their public comments, Ministry officials have insisted repeatedly that Japan's Constitution prevents it from getting involved, even financially, with military operations far from its shores.

Asked about the report, Mr. Nakasone pointedly did not repeat the argument that Japan was unable to take such action. Instead, in remarks to foreign journalists, he took a noncommittal stand.

External Affairs Canada | Affaires extérieures Canada

SUBJECT/SUJET

PUBLICATION Washington Post

DATE June 5

Reagan Hopes Summit Will Boost Image

By Lou Cannon
Washington Post Staff Writer

VENICE, June 4—President Reagan will try to rescue his damaged reputation for leadership at home by attempting to show that he can still function as an effective performer on the world stage, according to White House officials.

"It's not morning anymore, but it's not the twilight of the Reagan presidency either," said a senior White House official before Reagan departed on a nine-day European trip centered around the 13th economic summit here of the seven industrialized democracies. His reference was to Reagan's 1984 campaign slogan, "It's morning again in America."

While the official acknowledged that Reagan had been damaged by a series of events, especially the Iran-contra scandal and the loss of the Senate to the Democrats last year, he contended that the president could still seize the initiative on arms control and other issues during the final 18 months of his term.

But some officials say privately that they are doubtful that Reagan can do more than simply survive. They are worried that the 76-year-old president may be slowing down and that the economy may be cooling off after a long period of prosperity.

"There's no juice anymore," said an official here today, reflecting on the lack of administration initiatives on a trip expected to be the last European visit of the Reagan presidency.

Even the usually optimistic president has made few claims for what is shaping up as a summit of low expectations.

In speeches and conversations with allied leaders, Reagan plans to speak out on subjects including AIDS and economic freedom. White House officials said he will give particular emphasis to arms control negotiations with the Soviet Union and to allied military cooperation to protect the flow of oil supplies through the Persian Gulf.

But even before Reagan gave his first speech of the trip—a 20-minute discourse on summit themes that will be televised in Western Europe on Friday morning—officials were cautioning reporters to expect little in genuine results.

Reagan is bringing no new economic proposals. He had planned to celebrate the 40th anniversary of the Marshall Plan that rebuilt Europe with a speech in the historic Roman building where the European Community was born, but the speech and Reagan's state visit were scrapped after the Italian government collapsed.

White House officials privately admit it is unlikely that either Britain, where elections will be held Thursday, or France will join in a cooperative effort to escort oil tankers through the Persian Gulf. West Germany and Japan are prohibited from undertaking military roles by restrictions in their constitutions.

Both France and Britain now provide naval escorts for their own ships through the gulf. Reagan has accepted a plan from the Joint Chiefs of Staff to beef up U.S. naval forces in the region and to use them to escort American-registered Kuwaiti tankers through the gulf.

After years of urging the allies not to sell arms to Iran—a project known as Operation Staunch—administration officials are on the defensive here because of the Iran arms deal.

The highest White House hopes, both on the present trip and in the remainder of the Reagan presidency, are pinned on progress in arms control negotiations with the Soviet Union.

A Washington Post-ABC Poll completed Monday shows that 62 percent of Americans approve of Reagan's handling of relations with the Soviet Union and that 67 percent believe he is serious about making progress on arms control issues. These ratings are far higher than Reagan receives on his overall handling of foreign policy.

National security adviser Frank C. Carlucci said on Air Force One en route from Washington that the administration expected the summit participants to issue a statement expressing a common position on an agreement with the Soviet Union to eliminate medium-range nuclear missiles in Europe.

Today, White House spokesman Marlin Fitzwater opened his daily briefing by reading a statement by Reagan welcoming West German support for the early elimination of these missiles and calling NATO actions on this issue "a major success story" that lays the foundation for an arms agreement. Fitzwater said it moves the superpowers a little closer to a new summit meeting.

The White House also hopes to win favorable news media attention for Reagan at a speech he will give in Berlin at the Brandenburg Gate on June 12 that will stress his support for freedom and the peaceful reunification of the two German states.

Reagan also hopes to make a positive impact by meeting at the Vatican Saturday with Pope John Paul II on the eve of the pontiff's weeklong trip to Poland. It will be the third meeting between them.

On his first trip to Europe as president in 1982, Reagan nodded off briefly during a televised appearance with the pope. Aides blamed this embarrassment on a grueling schedule in which Reagan flew to Rome the morning after a long concluding day of the economic summit, which that year was held in Versailles, France.

This year Reagan should be well-rested after two full days of relaxation at a 17th-century villa 11 miles north of Venice during which his most strenuous official activity will be the taping of two speeches.

"We're not taking any chances this time," a White House official said.

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DATE June 5

Japan Says It Could Play Limited Role in Gulf

Contribution Might Be Money, Not Troops

By John Burgess
Washington Post Foreign Service

TOKYO, June 4—Japan is willing to contribute to "international cooperation" aimed at protecting commercial shipping in the Persian Gulf and will make new diplomatic initiatives to try to end the war there, Prime Minister Yasuhiro Nakasone told foreign journalists today.

Nakasone did not spell out what type of international cooperation he meant. He sidestepped questions over whether his government is prepared to help fund escort operations by U.S. or other military forces.

He said Japan would decide its role if and when an "international and workable scheme" to guard shipping is devised. In any case, Japan's role would be "peaceful and nonmilitary," he said.

Nakasone's remarks came as he prepared to leave for the seven-nation summit meeting in Venice next week. Security in the gulf, where Japan buys 60 percent of its oil, is set to be a major subject of discussion.

Sending Japanese warships there is considered here to be politically and legally out of the question. The country has a "peace constitution" that rules out foreign expeditions, and antimilitary sentiments left by World War II remain strong in much of society.

But with pressure mounting from Washington, some Japanese officials favor paying some of the costs incurred by other forces there, providing they are deployed under the flag of the United Nations or some multilateral grouping.

In his 4½ years in office, Nakasone has favored gradually expanding Japan's role in international security affairs, which he argues is its responsibility as it emerges as an economic superpower. However, he faces stiff opposition in many quarters.

Since the attack on the USS Stark last month, President Reagan has been calling on U.S. allies to help in the gulf. Members of Congress have criticized Japan, complaining that it is getting a military "free ride" from the United States.

Many Japanese have bridled at this criticism, seeing it as another example of Japan-bashing born out of trade disputes.

A sustained shut-off of gulf oil would mean economic catastrophe here, as Japan maintains only a 90-day emergency reserve. Over the past three years, five ships crewed by Japanese or operated under the Japanese flag have been attacked in the gulf and one Japanese sailor killed.

Opposition circles here have assailed the U.S. naval presence in the gulf as foolhardy and demanded Japan take no role.

But in the Japanese government, the U.S. effort is generally regarded as a common-sense response to a threat to commercial shipping. "We would like to pay tribute as well as express gratitude for the efforts that are being made by the United States and some other countries for the maintenance of safety of navigation in that area," Nakasone said today.

The idea of Japanese forces going to the gulf is seen as so outlandish here that laughter swept the room at a press luncheon in Tokyo last week when the guest speaker, Foreign Minister Tadashi Kuranari, was asked about it. He said no.

Still, many members of the government feel that funding multilateral peace-keeping operations would be a good way for Japan to expand its security role.

In the gulf, directly underwriting a lone effort by the United States would be too much for the public to accept, many Tokyo analysts say. But if the force operated under the flag of the United Nations or some multilateral organization, it would be easier to peddle politically.

Throughout the Iran-Iraq war, Japan has kept full diplomatic relations with both sides and it buys oil from both.

Nakasone promised efforts to pursue peace in the U.N. Security Council, to strengthen political and economic stability of the gulf states, and to aid reconstruction once the war is over. Foreign Minister Kuranari is reported to be trying to arrange a visit to Iran after the Venice meeting, presumably to discuss a possible settlement.

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Farm subsidies, Third World top summit priorities

Robert W. Howse, chief editorial writer for The Chronicle-Herald and The Mail-Star, travels to Venice, Italy, this weekend to report on the annual summit meeting of the seven leaders of the West's industrial nations.

By Robert W. Howse

Farm subsidies and Third World debt are likely to top the economic agenda as the seven leaders of the West's industrial nations club convene their annual summit meeting in Venice Monday.

The Venice Summit — 13th in a series initiated by France in 1975 — brings together American President Ronald Reagan, Japanese Prime Minister Yasuhiro Nakasone, West German Chancellor Helmut Kohl, French President Francois Mitterrand, British Prime Minister Margaret Thatcher, Canada's Prime Minister Brian Mulroney and host Prime Minister Amintore Fanfani of Italy. All but Mr. Fanfani — a caretaker until Italy's elections next week determine who will head a new coalition government — are veterans of last year's Tokyo Summit.

See Summit page 38

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Gathering in the ancient Adriatic seaport, whose merchant fleet dominated the world trade of the Middle Ages, the Big Seven are under pressure to begin to sort out the problems which threaten to undermine a more complex trading system today. So many of the themes of previous recent summits will echo again in the old Rialto market and across St. Mark's Square.

Prime Minister Mulroney's chief trade concern will be farm subsidies, which are a heavy drain on all members' treasuries and have sparked an international trade war as food-producing nations clear huge inventories built up by subsidized overproduction. This dumping has depressed world prices and farmers' incomes, forcing governments to come to the rescue with new aid.

Last year, Ottawa paid out $1 billion to the most seriously affected group, grain farmers. Recently, the four western premiers suggested a minimum of $1.6 billion would be needed to help farmers weather a further drop of 18 per cent in grain prices this year.

At Tokyo, Mr. Mulroney was successful in placing agricultural trade on the summit agenda for the first time, though nothing eventually came of an informal proposal to establish a group of "eminent persons" to study the problem of subsidies and trade barriers and to suggest remedies.

Subsequently, however, steps have been taken to address the issue. In September, at talks in Punta del Este, Uruguay, which opened a new negotiating round of the General Agreement on Tariffs and Trade (GATT), it was agreed in principle for the first time to bring farm trade under formal GATT rules.

Last month, the annual meeting of the Organization of Economic Cooperation and Development (OECD), the 24-member group of industrial nations which includes all the Big Seven and the major farm-subsidizing governments, issued a report and ministerial statement critical of their current subsidy practices. The communique said member governments should work jointly to help farmers directly through income support, rather than through price supports, which encourage overproduction. The OECD members also pledged to refrain from any new production incentives and to "act responsibly" in disposing of surplus

Mr. Mulroney comes to Venice with a unique mandate to push for further reform on farm trade. Canada is the only Big Seven nation which is also a member of the Cairns Group of 14 middle-sized food-exporting countries, which want an early resolution of the trade war in food.

Meeting in Ottawa in May, the members of the group — which accounts for about one-quarter of world food exports and includes Australia, New Zealand as well as South American and Southeast Asian exporters — formally asked Canada to represent their interests in Venice.

Another key item on the agenda will be a debt-relief plan for some of the poorest African nations. Officials preparing ground for the summit — known in summit-speak as Sherpas, after the Tibetan guides used by Himalayan climbers — have said the plan could involve forgiveness of government loans and easing of trade-credit payments for some 15 countries, most in the sub-Saharan region. U.S. Trade Representative Clayton Yeutter has reinforced this notion in suggesting the summit will consider a "Marshall Plan" for the Third World. The Marshall Plan, conceived 40 years ago this summer, was the American aid program designed to underwrite the reconstruction of post-war Europe.

Included in the list of unfinished summit business are such concerns as stabilizing currency exchange rates, bringing down America's huge trade deficits with her principal trading partners and heading off protectionism. There also may be further progress in co-ordinating the economic policies of the seven to achieve balance and growth in the world economy, following the Louvre Agreement reached in Paris last February. At that time, Japan and West Germany undertook to stimulate their economies while Washington promised to reduce its budget deficit.

Last year's summit brought international economic co-operation back into fashion after several years of strong disagreement between the Reagan administration and America's chief trading partners. Most marked was the shift of the U.S. administration away from free-floating exchange rates in favour of a new policy of joint intervention in foreign exchange markets. This was designed to drive down the value of the dollar, increase American competitiveness and dampen the rise of protectionism in Congress.

This shift began with the September, 1985, "Plaza Hotel" consensus by the Group of Five countries (G-5 — America, Japan, West Germany, France and Britain) to engineer the dollar's fall. In Tokyo, G-5 was given a stepsister, G-7, by allowing Canada and Italy to sit at the policy-co-ordinating table when their interests were affected. Ottawa hailed its membership in the club as Canada's major achievement at the summit.

At Tokyo, and since, U.S. Treasury Secretary James Baker has pushed to formalize and extend the role of G-5 and G-7. He believes it should include efforts to harmonize broader economic policies, such as government budgets, which underlie exchange rate movements.

Last spring, Mr. Baker touched off a fuss in Canada by suggesting that Canada's membership in G-7 created an obligation to work with other members of the group to

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SUMMIT

redress trade imbalances. That process, he said, could put pressure on Ottawa to revalue the dollar upward and lower the federal budget deficit. Like West Germany, Britain and Japan, Canada's political leaders have been wary of yielding traditional sovereignty in such areas.

But co-ordination of budgets — at least for the three biggest summiteers — remains high on the Venice agenda. President Reagan said last week he will continue to press Tokyo and Bonn to expand their economies. And Washington remains under pressure from its partners to ease interest rates by reducing its budget deficit. In this case, it is Mr. Reagan who is loathe to desert a domestic priority — his pledge of no tax hikes — to meet an international obligation.

The West German and Japanese governments are being pressed to stimulate their domestic economies — through higher public spending, lower taxes and regulatory reform — to offset the dampening effect a lower U.S. deficit would have on world demand. Having achieved a more competitive dollar, the Americans are concerned their exporters will now be stymied by the sluggish growth of the West German and Japanese economies. Both have been battered by the decline of their own exports as the mark and yen have risen against the dollar.

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Farm subsidies, Third World top summit priorities

Robert W. Howse, chief editorial writer for The Chronicle-Herald and The Mail-Star, travels to Venice, Italy, this weekend to report on the annual summit meeting of the seven leaders of the West's industrial nations.

By Robert W. Howse

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The Venice Summit — 13th in a series initiated by France in 1975 — brings together American President Ronald Reagan, Japanese Prime Minister Yasuhiro Nakasone, West German Chancellor Helmut Kohl, French President Francois Mitterrand, British Prime Minister Margaret Thatcher, Canada's Prime Minister Brian Mulroney and host Prime Minister Amintore Fanfani of Italy. All but Mr. Fanfani — a caretaker until Italy's elections next week determine who will head a new coalition government — are veterans of last year's Tokyo Summit.

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Rites à Venise

S'il existe un pays qui laisse encore l'impression de croire aux rites des traditionnels sommets économiques des pays industrialisés, c'est le Canada.

Conviction que la réunion de têtes bien faites dans un lieu enchanteur va obligatoirement accoucher en quelques heures de solutions a deux douzaines d'énigmes? Ou enthousiasme inentamé du participant qui, arrivé le dernier dans le prestigieux forum des «7», croit encore à la magie des formules?

L'explication est peut-être plus simple. Il y a déjà une douzaine de jours, le quotidien économique *Les Échos* (Paris), en prévision du sommet de Venise, qui s'ouvre aujourd'hui, faisait observer que, de tous les participants, seuls le president Mitterrand et le premier ministre canadien Mulroney pouvaient penser à Venise avec sérénité.

Il est vrai que l'ombre de l'Irangate suit partout le président Reagan. S'il s'est dépêché d'entreprendre le voyage bien avant l'ouverture de la conférence, c'est peut-être pour changer d'air.

Mme Thatcher, quant à elle, est dans une position particulièrement intéressante. Ses électeurs prennent le chemin des urnes le lendemain du sommet. Pour pasticher John Kennedy, Margaret Thatcher se demande moins en ce moment ce qu'elle peut faire pour Venise que ce que Venise peut faire pour sa fortune politique...

Quant a l'Italie, le pays hôte, elle élit un gouvernement dans une semaine. M. Nakasone, premier ministre du Japon, pays dont on attend beaucoup pour la relance de l'économie, n'est pas assuré de son poste à la tête du parti libéral et du gouvernement.

Consciencieusement, les services canadiens ont préparé un très beau cahier en prévision du sommet de Venise. «Le Canada cherchera à s'assurer que les pays du Sommet maintiennent leur ferme engagement à lutter contre le protectionnisme...»

À cet égard, nul n'ignore qu'Ottawa a vivement souhaité l'inscription de la question de l'agriculture à l'ordre du jour. Or, on peut craindre que les attentes ne soient déçues, le temps manquant pour l'examen d'un problème qui préoccupe à bon droit le gouvernement canadien.

Le temps ne risque-t-il pas de manquer également pour le survol de questions comme la dette des pays défavorisés, les politiques monétaires et fiscales, le terrorisme international, le contrôle des armements, les conflits régionaux?

Le conflit entre l'Iran et l'Irak et la situation qui prévaut dans le golfe Persique préoccupant beaucoup Washington, il serait surprenant que M. Reagan ne sollicite pas énergiquement l'avis et le concours de ses alliés. Dans ce genre d'assemblée, le poids des États-Unis est habituellement souverain.

Guy CORMIER

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Selon une étude de la BCIC

L'endettement des compagnies à son plus bas niveau depuis cinq ans

JEAN P. DÉCARIE

La situation économique des entreprises canadiennes est au beau fixe. Une étude publiée, hier, par le Service économique de la Banque canadienne impériale de Commerce (BCIC) indique en effet que l'endettement des compagnies est à son plus bas niveau depuis cinq ans.

«Qui paie ses dettes s'enrichit», dit le proverbe. Et c'est la maxime que semblent avoir suivie les compagnies canadiennes au cours des cinq dernières années, soit depuis la récession de 1981.

«L'équilibre entre les dettes des sociétés canadiennes et leurs capitaux propres est revenu à un niveau vraiment plus acceptable qu'il ne l'était à cette époque», explique Derek Jones, économiste à la BCIC.

Pour illustrer le changement survenu, M. Jones indique qu'en 1982, le ratio d'endettement des entreprises se situait en moyenne à 1,70, alors qu'il est maintenant à 1,50.

Ces chiffres reflètent en fait ce que représente la dette par rapport à l'avoir des actionnaires.

Les entreprises ont donc maintenant 1,50 $ de dette pour chaque dollar de capitaux propres (avoir des actionnaires ainsi que les bénéfices non répartis) contre 1,70 $, en 1982. Il faut noter toutefois que ce ratio d'endettement était encore inférieur à 1,50 $, en 1980; il se situait alors à 1,47 $.

L'explication de ce rassainissement des finances des compagnies se trouve, selon M. Jones, dans la croissance ininterrompue de l'économie canadienne au cous des cinq dernières années et dans la vigueur du marché canadien des obligations et des actions.

Résultats

Cette étude de la BCIC coïncide par ailleurs avec le dévoilement des résultats financiers de la Banque pour le dernier trimestre.

La rentabilité de la BCIC, à l'instar de ses nombreuses consoeurs canadiennes, a été fortement affectée par la décision du Brésil de suspendre le remboursement de sa dette.

Cette banque canadienne, qui compte parmi l'un des dix plus grandes banques d'Amérique du Nord, a consenti pour 1,1 milliard de dollars de prêts au Brésil.

En décidant d'affecter la dette contractée par le Brésil dans la section des prêts à intérêt non comptabilisé, la Banque canadienne impériale de Commerce a vu son bénéfice net (son revenu net) baisser de 21 millions de dollars.

Malgré cette lourde perte, la BCIC a réussi à augmenter ses revenus d'un maigre 800 000 $ au cours de ce trimestre par rapport à la même période l'an dernier. Ses revenus nets consolidés ont donc totalisé 75,1 millions de dollars.

Ces gains sont essentiellement le fruit du portefeuille de titres de la banque et de l'augmentation de 2,8 milliards de dollars (ou 25%) de ses prêts hypothécaires.

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SOMMET DE VENISE: MULRONEY ENTEND PLAIDER LA CAUSE DE NOS AGRICULTEURS ET STIGMATISER L'AFRIQUE DU SUD

Fort de son succès du lac Meech, M. Brian Mulroney s'envole aujourd'hui pour le Sommet économique des Sept nations les plus industrialisées, à Venise.

> **De la dette internationale au désarmement en passant par le terrorisme et le sida...**

JEAN P. DÉCARIE

Il interviendra autour des politiques de commerce international, surtout de celles qui étranglent notre agriculture, et de la dette des pays du Tiers-Monde. Il dénoncera aussi la politique d'apartheid en Afrique du Sud.

Sur le plan économique, les enjeux du Sommet qui se déroulera du 8 au 11 juin sont multiples pour le Canada.

D'entrée de jeu, les Sept constateront que le cycle de la croissance économique s'est poursuivi pour une cinquième année consécutive mais qu'il s'essouffle.

Sous l'impulsion du président Ronald Reagan et de concert avec la France, l'Angleterre et l'Italie, le Canada pressera le Japon et l'Allemagne d'activer leur croissance interne afin de maintenir en vie ce cycle d'expansion.

Ces deux pays affichent présentement les balances commerciales internationales les plus élevées des sept nations industrielles.

Le Canada insistera alement sur l'urgence ue les négociations ultilatérales sur le mmerce international, us les auspices du ATT, aboutissent au us tôt à des accords ncrets.

MM. Mulroney et esgan se feront les pôtres d'une plus gran- e libéralisation des changes commerciaux ntre les Sept.

Selon le porte-parole u premier ministre, les résentes négociations ur le libre-échange entre nos deux pays seront maintes fois évoquées comme preuve de nos engagements respectifs sur cette question.

Agriculture

M. Mulroney se fera plus pressant encore au sujet des questions agricoles pour exposer les méfaits du protectionnisme et les politiques nationales de subventions pratiquées par les pays européens.

Rappelons que c'est M. Mulroney qui a tenté le premier, en 1985, d'inclure les questions agricoles au Sommet de Bonn.

Il avait alors essuyé une fin de non-recevoir sans équivoque du président français François Mitterrand, directement visé par cette question.

Ce n'est pas sans raison que le Canada insiste que soient négociées rapidement les politiques de subventions.

Le soutien des pays européens à leurs agriculteurs a obligé le Canada à verser 1 milliard de dollars de fonds supplémentaires à ses agriculteurs, cette année.

Si la production mondiale, artificiellement maintenue par des politiques de subsides, continue sur sa lancée, le Canada devra verser 4 milliards de dollars pour dédommager ses fermiers, l'an prochain.

Dette internationale

Mulroney entend favoriser une aide accrue de la part des pays riches et le rééchelonnement de la dette des pays de l'Afrique sub-saharienne.

En ce qui touche la dette des pays en développement à revenu moyen (Amérique latine et Indonésie), la position canadienne s'alignera vraisemblablement sur celle des autres participants, qui consiste à faire du cas par cas.

Politique

Il sera beaucoup question de relations Est-Ouest au cours du sommet.

Et le Canada compte obtenir un engagement de solidarité de six nations autour de la position américaine sur le désarmement.

Mais le caractère politique de l'intervention de M. Mulroney sera davantage marqué par l'engagement qu'il a pris, auprès des pays de la Ligne de front en Afrique australe, de soulever le problème de l'Afrique du Sud à la table des Sept.

Le premier ministre y condamnera la politique d'apartheid en la décrivant comme le pire affront à la dignité humaine.

«M. Mulroney a obtenu que soit inscrite à l'ordre du jour de la rencontre la situation de l'Afrique du Sud.

«Il compte surtout sensibiliser les chefs de délégation aux besoins d'assistance des pays voisins du régime Botha», indique Marc Lortie, attaché de presse du premier ministre.

Outre ces questions, le volet politique du Sommet portera encore sur le terrorisme et la situation précaire des pétroliers qui sillonnent le golfe Persique, centre mondial de la production du pétrole.

Enfin, le sida mobilisera un accord des Sept pour cimenter la collaboration des chercheurs au profit de l'esprit de concurrence qui prévaut actuellement.

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Caught in the middle

7-12-16

By **Derek Ferguson** Toronto Star

REGINA — In times of trouble, cruel jokes come to the fore.

The latest here goes to the heart of the unprecedented economic crisis gripping Prairies' agriculture.

"Why do they bury farmers only two feet under?" goes the tasteless query.

"So they can get their hands out."

Whining-farmer jokes are definitely on the upswing in western cities. The concern here is that this urban-rural schism is duplicated nationally by Central Canada's misconceptions about the state of western agriculture.

The fear is so great that in May, Garfield Stevenson, president of the farmer-owned Saskatchewan Wheat Pool, Canada's largest grain company, journeyed to Toronto on a public-relations mission.

"We see it demonstrated quite often that the urbanite is concerned about all these dollars going into agriculture," Stevenson said.

"They say, 'When will it end? How much more?'"

And Stevenson admits they have a legitimate concern. This year, for the first time in Canadian history, government assistance to Prairie grain farmers will almost equal expected total revenue, about $4 billion, from grain exports.

These exports account for about 75 per cent of total Prairie production.

In the fiscal year 1986-87, federal and provincial expenditures on grains and oil seed producers, respectively, was $2.5 billion and $630 million for a total of $3.1 billion.

This included the $1 billion federal deficiency payment — the Special Canadian Grains Program announced in October, 1986 — as well as Canadian Wheat Board losses ($200 million), crop insurance, fuel tax rebates, advance payments, Western Grain Stabilization Act expenditures ($705 million) and Western Grain Transportation Act costs (more than $700 million).

Stevenson and other farm spokesmen say this support, and more, must be forthcoming again this year if the mainstay of the Prairie economy — and an integral sector of Canada's economy — is to stave off collapse.

The economic and social cost of not doing this would soon make Canadians wish they had opened their wallets.

"What we are talking about is a megabucks industry that is being starved out," says Barb Isman, executive director of the 11,000-member Western Canadian Wheat Growers.

"The Canadian taxpayer is going to have to decide whether an industry (solely grain) that generates one-half million jobs, which is the backbone of the econo-

CANADA'S FARM CRISIS

First of three-parts

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Free trade reefs and shoals

Federal Trade Minister Pat Carney came back from a quick trip to Washington, moderately optimistic about getting through the reefs and shoals now evident in the free trade negotiations with the United States.

She was ready to bet money that a deal will be made by next fall's deadline. She didn't suggest, however, what the odds should be.

Carney went to Washington for talks with Commerce Secretary Malcolm Baldridge, Trade Representative Clayton Yeutter and Senate finance committee chairman Lloyd Bentsen. All three are key political figures behind U.S. chief negotiator Peter Murphy.

Carney's central concern was to push Canada's demand for exemption from U.S. fair trade laws to make any agreement acceptable. The Canadian negotiating position is that there should be an independent arbitration procedure for binding settlement of trade disputes.

On the other hand, Canada is resisting an American demand for the elimination of all remaining Canadian restrictions on foreign investment. This could be the tradeoff in the whole negotiation scenario.

In the actual trade negotiations, the U.S. reply to Canada's demand for exemption from fair trade laws is due at the next meeting between Murphy and Canadian chief negotiator Simon Reisman this month.

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try, which generates about $6 billion in foreign currency a year is worth supporting."

Verna Mitura, of the Saskatchewan Wheat Pool's research division, says if the national agri-food sector is taken into account, 15 per cent of the Canadian labor force - about 1.6 million workers - depends on agriculture for employment.

In 1985, the agri-food industry accounted for about one-fifth of all economic activity in Canada, according to the Saskatchewan Wheat Pool. And Agriculture Minister John Wise said total farm cash receipts in 1985 were almost $20 billion.

Mitura points out that a host of economic sectors depend on the farm. These range from manufacturing (farm machinery, fertilizers, pesticides) to processing (flour mills, bakeries, breweries) to those involved in the distribution and transportation of grain and farm supplies. Many others, including oil companies, food wholesalers, retail stores and financial institutions, do business with farmers.

Stevenson said without support this infrastructure will collapse, as it already has in some hard-hit rural areas.

"We won't save everybody from bankruptcy, but we have to save a large (number) of those people, because in much of Saskatchewan, whole communities depend on agriculture."

The upshot of failing farms and collapsing towns is higher unemployment and, eventually, higher welfare costs for urban taxpayers.

"Just look at the jobs farm people are holding down that could be held down by others," Stevenson said. "I know of communities where 24 out of 25 farm families have some form of off-farm income."

Another effect of farmers going under will be a reduced market for eastern manufactured goods, Stevenson said.

According to federal estimates, farmers buy 12 per cent of the country's motor vehicles, 17 per cent of its petroleum products, 7 per cent of its chemical products and 5 per cent of its wholesale and retail products.

The cause of western Canada's agricultural crisis is what Prime Minister Brian Mulroney has described as an "insane" trade subsidy war between the United States and the European Community, which can be traced to mounting stockpiles of grain on the world market.

International reserve stocks are now equal to almost 30 per cent of annual international consumption. And with the world's major grain exporters subsidizing their producers to grow more wheat, reserves will continue to stockpile.

The subsidy war began in earnest almost three years ago and the Farm Credit Corporation has estimated that about 30 per cent of Canada's 172,000 farmers are now in serious financial trouble — either behind on loan payments or on the brink of bankruptcy.

Since the September, 1985, introduction of the U.S. farm bill, which provides a subsidy of about $100 a tonne to American wheat farmers, Prairie farmers have faced drastic income declines. Last year, their incomes fell by 30 per cent.

And with the announcement this spring, by Charlie Mayer, Federal Minister responsible for the Canadian Wheat Board, of an 18 per cent cut in initial prices for grain, effective Aug. 1, the decline in income for this crop year is expected to be almost 50 per cent.

The domestic price of wheat is annually set by the federal government in conjunction with the Canadian Wheat Board, which makes its recommendations for the upcoming crop year based on domestic and international supply.

The recent price cut means Canadian farmers will receive $110 a tonne for wheat, while their highly subsidized American counterparts will receive about $215 a tonne.

Isman said that even older, well-established farmers who own their land and machinery — about 60 to 70 per cent of

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Subsidy war catches Canadians in middle

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Prairie farmers — while still solvent, are suffering.

She said, for example, that a farmer in this category who grossed $200,000 on his farm prior to the U.S. farm bill now makes $100,000.

If the maximum $25,000 payout from the special grain deficiency provision and the maximum $18,000 from the Western Grain Stabilization Act are added, the farmer's gross income is boosted to $143,000.

"He's still out $57,000," she said, adding that his costs will have increased.

Losses feared

In Saskatchewan, which accounts for about 50 per cent of farm production on the Prairies, the average net income of the province's 63,500 farmers was $10,000 last year. And prices have fallen heavily since then.

According to forecasts for 1987-1988, even Saskatchewan's debt-free farmers will operate at a loss unless they receive increased government assistance.

This means that if a debt-free farmer grows only top-grade wheat, matches last year's record yield, collects the average government support payments and sells all his grain, he will still lose at least $9,000 on a 1,000 acre farm.

Farm Credit Corp. estimates that 8 per cent (14,000) of the country's farmers are on the verge of insolvency, with 23 per cent (40,000) suffering severe cash flow problems. More than two-third's of Canada's farmers live in the west.

Earlier this month, the federal government decided to terminate the 19-month moratorium on Farm Credit Corp. foreclosures. More than 10,000 farmers in the three Prairie provinces were $227 million behind in loan payments to the crown corporation at the time the moratorium was lifted.

"Technically, we could forclose on each one," said Marshall Stachniak of Farm Credit's Edmonton office.

But Stachniak said the agency intends to do everything it can to help farmers keep their land.

"Any farmer who has the ability to work out his problem and has long-term viability, we're going to work with them and give them as much time as they need to pay back arrears."

Isman said that federal support for 1987-1988 has to be at least $700 million above what Prairie farmers received for the '86-'87 crop year if massive failures are to be prevented.

This is twice the amount the west received from the special deficiency payment. And even if that is doubled for this crop season, as Isman advocates, it will not protect those 14,000 farmers on the verge of going under.

For this reason, the 7,000-member National Farmers Union is calling for up to $5 billion in total assistance, says Saskatchewan's regional co-ordinator Gil Pedersen.

But all farm groups and the Saskatchewan government agree that federal support payments for the coming crop season must total about $3 billion at a minimum.

Isman says her figure would give Prairie farmers the price a bushel of wheat brought prior to the 1984-1985 crop year, which preceded the passage of the U.S farm bill. She says this amount is needed to maintain Prairie grain farm receipts at the $6 billion to $7 billion they totalled in pre-U.S. farm bill days.

Failure to provide increased government assistance, Isman warns, will not only hurt farmers who are cash-strapped, but will begin to gnaw deeper at those who are solvent and making a marginal profit.

This could undermine their incentive to plant, Isman says, and Canada could forfeit its hard-earned, historic markets.

Fair trade

"Our interest in Canada is to stay in the marketplace — retain our market share internationally," she says. "To do otherwise, tells the U.S. and (European Community) that they can use their treasuries unfairly to throw fair traders out of the marketplace."

Once Canada loses its place in the international market, it will never regain it, she argues.

The Prairie economy will be the first to feel the loss, but the ensuing collapse will teach the rest of the country a lesson that should have been learned long ago: The problems of western Canada are the problems of Canada.

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PM heading to summit with farms on his mind

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By Val Sears Toronto Star

OTTAWA — Prime Minister Brian Mulroney arrives amid the watery splendor of Venice tomorrow, determined that the view from this summit will focus on the farm.

Despite distractions of piazza and palace — not to speak of debt managment, macroeconomics, terrorism and AIDS — Mulroney's sherpas have firmly planted the flag of agricultural policy on the top of the agenda for this meeting of seven heads of government.

The Venice summiteers — the United States, Britian, France, Italy, West Germany, Japan and Canada — will be wrestling with some of the most tormenting problems of world economics in the next few days: how to achieve stable currencies, how to finance Third World debt, how to stimulate growth and control inflation.

Political issues

As well, there will be discussions — on their carefully guarded island — of political matters: arms control, East-West relations, protection of international shipping in the Persian Gulf.

Canada intends to propose the United Nations Security Council try to arrange a ceasefire between Iraq and Iran along with an arms embargo on both countries.

But the top item on the Canadian agenda is progress, or at least no slippage, in international efforts toward a truce in the food subsidy wars.

In this, the United States at least wishes Canada well.

"I hope Prime Minister Mulroney comes on strong in Venice and joins to help set a strong statement on the agriculture questions," said U.S. Secretary of State George Shultz in a television interview.

The fact that the United States and the European Community are pouring huge sums of money into grain production — in defiance of market needs — is bankrupting Canadian grain farmers and is in danger of bankrupting the Community.

Since 1981, world wheat prices have fallen by almost half, while grain stocks have increased by 85 per cent.

But the memory of wartime starvation and the power of the farm lobbies have prevented any real action on the problem in Europe and — in the case of rice — in Japan.

Gradually, however, in the past months, international talking shops such as the General Agreement on Tariffs and Trade (GATT) and the Organization of Economic Co-operation and Development (OECD) have begun to get a handle on the problem.

It is curiously appropriate that Venice, which invented capitalism in its 14th century heyday, is the host city for talks on the darker side of its creation six centuries later.

The world is in deep trouble over big debts. The United States is the greatest debtor in the history of mankind. It owes three-quarters of a trillion dollars to its creditors.

There are Third World countries in Central America and southern Africa which owe so much money they may never be able to repay it.

And yet Germany and Japan are swollen with cash. So much so that Japan is being urged to create a new sort of Marshall Plan to channel its wealth to starving, debt-ridden nations.

The summiteers will be talking about poverty, debt and faltering trade, while outside their rooms they will see the skyline of the most luxurious and oriental city in Europe.

Venice is a museum, triumphantly restored to its Renaissance glory. No one is permitted to eat lunch out of paper bags, nor sleep under the arches of St. Mark's Square.

The price of a Bellini cocktail in Harry's Bar would feed a Sudanese family for a month.

Some 9,000 Italian troops and police will be on guard as the leaders' vaporettos scoot from their island meeting sanctuary back to their hotels. The Venice administration guesses there will be 4,000 journalists waiting to record the leaders' droppings.

Canada's political sherpas, who help the leader to the summit, may not be identified, although their preparatory work will largely decide the outcome.

Persian Gulf

At a press briefing earlier this week, the sherpas said Canada's priorities, beneath the overarching issue of macroecnomics, are battling protectionism, agricultural problems and seeking a solution to the international debt situation.

But it may be, as has happened at other summits, that a hot political issue could dominate discussions.

"This time," said the chief sherpa, "it could be the Persian Gulf."

U.S. President Ronald Reagan has ordered the U.S. Navy to protect oil tankers in the Gulf, risking another attack such as the Iraqui missile hit that nearly sank the Stark.

Now he wants the summit countries to pitch in with military help because, after all, most of the oil goes to them.

The summiteers, including Canada, probably will express support for the president's view that the right of free navigation be preserved in the international waters of the gulf.

But there's bound to be sharp disagreement about actually providing naval forces.

A political sherpa said the leaders will also talk about East-West relations and the "Gorbachev phenomenon."

External Affairs Minister Joe Clark, who along with Finance Minister Michael Wilson, will be attending the summit, said in a recent speech "the verdict is not yet in" on recent developments in the

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Soviet Union.

"But our traditional responses will not be adequate to deal with the Soviets in the years ahead.

"A more open relationship is not going to be easy. What opportunities occur may be modest, and they will have to be explored with caution. But they should be explored.

"The era of an unresponsive and lethargic Soviet Union is probably over. We should therefore anticipate the impact of a dynamic, more powerful U.S.S.R., whose ultimate goals have probably not changed. The Soviet Union is going to be more formidable and probably more flexible. . . ."

Mulroney is anxious to press the problem of apartheid in South Africa on the summit leaders. But a sherpa said there was "not great enthusiasm for the summit to deal with South African issues."

Nonetheless, South Africa is on the agenda and Canada will press for some statement that will reassure the front-line states in southern Africa that they have the world's attention. Mulroney also wants something to take to the Commonwealth leaders when they meet in Vancouver in October.

There will be discussions of terrorism, as well, with countries pressing for more co-operation in intelligence gathering.

The worldwide pandemic of AIDS will be on the table for the first time. The leaders want research efforts to be co-operative not competitive. And they want information and co-ordination to battle the plague in southern Africa where it has hit hardest.

Mulroney will take his views on arms control to the summit, although specific discussions on the NATO alliance will await a later meeting of military leaders.

In a speech to the North Atlantic Assembly last month, he said: "It is not that arms control has failed; it is rather that arms control has been asked to do too much.

"Arms control does create precedents, rules of the road which can guide the competition. It does create a framework of predictability. That is why the government of Canada has consistently expressed the view that the SALT agreements and the ABM treaty should be adhered to by both sides."

He will tell the summiteers that Canada supports the so-called "zero-zero option," that is the elimination of both long- and short-range missiles in Europe.

The Prime Minister has scheduled some one-on-one talks with several world leaders. He will talk to Japan's Yasuhiro Nakasone about world debt and congratulate him on the "tremendous breakthrough" of allowing the issue of rice subsidies to be put on the table.

He will also have talks with Chancellor Helmut Kohl of West Germany and, after the formal summit is over, with Reagan.

Mulroney will return to Ottawa next Thursday.

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Venice summit won't solve main problem facing West

RICHARD GWYN
International Affairs

LONDON — Forty years ago this weekend, a single speech, flat and unemotional and lasting less than 10 minutes, created a new international order.

Europe faced "economic, social and political deterioration of a very grave character," said then U.S. secretary of state George Marshall in his commencement address of June 5, 1947 at Harvard University.

Only if the United States did "whatever it is able to do to assist" could Europe break the "vicious cycle" whereby it lacked the funds to buy the industrial equipment it needed for economic recovery, Marshall said.

Just three years after the Marshall Plan officially began, Europe was back on its feet.

This was Marshall's immense, personal achievement. But his real achievement was to re-define the post-war world. Henceforth, that world was to be U.S.-led. Instead of retreating into isolationism as after World War I, the United States would, in Marshall's phrase, "face up to the vast responsibility that history has clearly placed upon our country."

Some would date the beginning of the end of the post-war Pax Americana to the '60s and to the erosion of U.S. moral, political and financial leadership by the Viet Nam War.

Some would date it from the '70s and the Soviet Union's attainment of the nuclear parity.

Some would pick a date in the late '70s when Japan's emergence as a rival economic superpower became unarguable, and irreversible.

Whenever it began, the trend is unmistakable. As happened to the British Empire before it, and to all the others back to the Roman Empire, the end of American international hegemony is in sight.

What isn't in sight, cannot yet even be dimly perceived, is who — now that the United States can no longer "stand tall" by itself alone — will stand up to share world leadership with it.

This is the real agenda of the Western summit that opens tomorrow in Venice.

As they always do, the seven leaders, including Brian Mulroney, will talk about trade and debt and currency exchanges and interest rates. As again they always do, they will avoid either controversy or specific commitments while taking good care to sound as if they are doing something.

Since advance expectations for Venice are so low — two of the seven nations, Britain and Italy are in the midst of elections; two other

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U.S. view of government's role more limited than in Canada

DAVID CRANE

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☐ David Crane is a writer on political and economic affairs for The Star.

WASHINGTON — The Americans have one kind of country and their own way of doing things. That's fine for them.

But Canadians have a different kind of country and they need the freedom to do things their own way as well. However, the risk in a comprehensive free trade agreement is that we would be forced to apply American solutions to Canadian problems, making us more American and less Canadian in the process.

One of the fundamental differences between the two countries, as observed by Peter Morici, one of Washington's keenest Canada-watchers, lies in our conflicting attitudes toward the role of government.

Americans by and large dislike government intervention. But "in contrast to Americans, Canadians see a greater legitimate role for government — a proactive role in shaping patterns of domestic economic development and managing U.S.-Canadian economic relationships," says Morici, vice-president of the National Planning Association, a U.S. research institute.

While the U.S. political system, from its earliest days, has viewed government as something to be constrained and even distrusted, the Canadian political tradition, derived from Britain and represented in the crown, has seen government as a positive agent.

In Canada's case the role of government was reinforced by an ambition to build a new nation across a vast wilderness; by a desire as part of the social compact of being Canadian to provide decent social, medical and educational services throughout the nation; and by a recognition of the importance of sustaining a Canadian identity in resources, industry and culture in the face of a much more powerful neighbor to the south.

But a key part of the price Canadians would be forced to pay for a comprehensive trade pact with the United States is likely to be a permanent limitation on the use of government in shaping Canada's future.

One example of government leverage that could be lost is the capacity to press foreign-owned subsidiaries in Canada to pursue export sales, increase research and development, seek out Canadian suppliers, enlarge the role of Canadian management, permit Canadian participation in ownership, and develop and use Canadian technology in resource mega-projects. The Americans call such policies "administrative protectionism."

Morici says it's understandable why Canadians are drawn to such government policies. While Canadians are impressed by the opportunities of greater access to the U.S. marketplace, "they are often concerned that an element of inertia, or cultural bias, causes American companies to favor servicing the Canadian market from the United States when trade barriers are reduced or eliminated, even when Canadian locations are at least as cost effective as U.S. locations."

These same Canadian concerns, as Morici spelled out this week in a paper prepared for the International Canadian Studies Conference at McMaster University, "appear even stronger about R&D (research and development), managerial and administrative functions, which can be easily kept in the United States even when production is located in Canada."

But for a free trade agreement "to serve U.S. long-term interests, it must assure that Canada will abandon its use of administrative protection," said Morici. "As a general principle, U.S. firms should be treated, under Canadian policies, practices and regulations, in a manner no less favorable than their Canadian counterparts."

What particularly worries Americans, Morici said, is that Canada might return to the policies pursued by Canada in the 1970s, such as the "Third Option" policy to diversify Canadian trade away from high dependence on the U.S. "A trade agreement would reduce prospects that Canada could again return to more nationalistic and interventionist policies."

In this way, a free trade agreement clearly impinges on Canadian sovereignty, constraining the freedom of action of federal and provincial governments. "For an agreement to successfully promote the rationalization of the North American economy, the two governments must ultimately be willing to let the chips fall where they may with respect to the location of jobs and investment," Morici argued.

Among other things, he said, this means "Canadian policy makers should not be permitted to seek to manage the allocation of investment, production and jobs between the two countries as industrial rationalization is taking place or after it is completed."

Canadians do view these issues differently from Americans and expect their government to get involved. They're not likely to give that up. They want Canadian-style solutions to Canadian problems.

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leaders, Ronald Reagan and Japan's Yasuhiro Nakasone, are near to the end of their political limits — the minimal and the predictable may just be enough.

The agenda item left undealt with would be the only item that matters — how to manage the world now that the United States lacks the means, and the imaginative reach of a contemporary Marshall, to lead it alone?

Economically, Japan and West Germany can provide the means Washington now lacks. In the '50s, the United States accounted for 33 per cent of the world's wealth. Today its share has dropped to 23 per cent. The combined share of the troika, though, amounts to a dominating 37 per cent.

Japan and West Germany, though, are yesterday's societies — impressive externally yet aging, inward-looking, unambitious and essentially uninterested in the world beyond their borders.

The obvious alternate alliance is that of Europe and the United States. The pair are intimately inter-connected culturally and historically let alone militarily, politically, economically.

Yet the Old World is a tired world. Its exhaustion of will and nerve has been dramatically illustrated by Europe's hand-wringing and foot-dragging once it realized that East-West arms' reduction talks might actually mean some arms being reduced.

Europe in essence fears any future other than the one it already has. That's the personality of a follower, not of a leader.

One off-centre combination could be the United States and the Soviet Union. Such a partnership seems implausible. Yet it's not inconceivable.

Reagan seemed to suggest it in a recent speech. The Soviet Union, he commented, had refused to take part in the original Marshall Plan. But if its leaders, "reject the closed, isolated and belligerent policies they inherited, if they wish to be part of the free world economy, we welcome the change."

Reagan may not have meant what he said, nor have understood it. Either way, he's unlikely now to be able to do anything about it.

So the source problem behind all our current problems of unrepayable debt, of yo-yoing currencies and of escalating trade wars, will remain all but certainly the same after Venice as before it: The Pax Americana is unravelling, but no new international order is arising in its place.

Someday soon, Western leaders, and perhaps those of the Soviet Union, are going to have to face up collectively to the "vast responsibility that history has clearly placed upon (them)."

It won't happen in Venice. It may — just — begin to happen there, in talks in the corridors and in strolls along the canals.

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A leadership test for the President

U.S. President Ronald Reagan recently said that the message he will take to the other major industrial nations at next week's economic summit in Venice will be to "tell them that I will spend this summer and fall going to cities and towns across America . . . asking the American people to help us keep the deficit spenders in Congress from wrecking America's economic future." The translation of Reagan's rhetoric is clear: He will not increase taxes, and that means the U.S. budgetary deficit is not likely to fall very much, if at all.

Reagan went on to say that he would ask the leaders of the other summit nations to stimulate their economies. But if Reagan doesn't offer his summit partners something more substantial than a pledge to coax the American people to reduce their demands for government spending, his request for stimulus is going to fall on deaf ears. As far as the West Germans, in particular, are concerned, it makes no sense for Reagan to ask them to rechannel their savings into spending unless the U.S. economy stops soaking those very savings up. They believe that, without a cut in the U.S. deficit, stimulus can only lead to higher inflation or higher real interest rates.

Reagan's inflexibility on tax increases has already cost him a lot. He goes to Venice not as the protector of U.S. hegemony but as the spokesman for the nation with the world's largest debt. Says one former U.S. official: "He's the supplicant. He's the guy who's dependent on their continued financing for his economic strategy."

Yet Reagan still doesn't seem to fathom that economic co-ordination is a two-way street. And his continued stubbornness at Venice could cost the world a lot. The risks of recession are growing. The upward drift in U.S. interest rates can only compound the problems of Latin American debt. And although Reagan says he opposes protectionism, his intransigence on fiscal policy has become an invitation for even more.

If Reagan refuses to budge on these economic issues, it's indeed possible that he will not be able to push through his ideas on defence and arms control. Asks Robert Hormats, a former U.S. assistant secretary of state: "Can the world's leading debtor also be its leading power? . . . If you're constantly asking everyone to do things for you economically, can you lead the Free World?" If Reagan doesn't start leading by example, the U.S. may lose its ability to lead at all.

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Summit won't do much about economic ills

By Robert Reno
Newsday

VENICE, Italy — President and Mrs. Reagan are wallowing in a specially made Portuguese bed that was shipped here to assure that if he nods off during the economic summit it will not be for want of attention to the sort of details that make us imagine he'll function from a villa on the Adriatic as majestically as he commands the Western World from the Oval Office.

The most casual logistics of these affairs inevitably tend to dominate our awareness of their august proceedings because otherwise people might notice that the leaders of the free world can waste time like anybody else. The president got here four days early. And Margaret Thatcher even scheduled an election during the summit, infuriating her Italian hosts who suspect it implies she's spending less than a day at the summit because it really doesn't matter whether she comes or not.

It's not that the economic summits are pointless. It would look terrible if they didn't hold one. But it has become an unspoken but rather firm rule that they will not be used as occasions for making the sort of decisions that would suggest the Western economic alliance is a systematically functioning instrumentality.

The leaders are self-conscious about this so they always end up making pronouncements about extraneous subjects like terrorism, which they have repeatedly deplored even as U.S. officials privately complained that the others aren't sufficiently rigid in their dealings with kidnappers. But this year terrorism is out because discussing it would involve too many embarrassing questions about the Reagan administration's enthusiasm for swapping cakes, TOW missiles and even Holy Bibles for Americans held in Lebanon.

Recent summits have also witnessed American attempts to market the Star Wars program as an interalliance economic development project. But since it's been so recently proved that the major industrial centres of the Soviet Union can be effectively laid waste by a fleet of inexpensive Cessnas piloted by teenage amateurs, nobody here is carrying a Star Wars sales kit this year.

So this year's summit is expected to make a stab at pretending it can do something about AIDS, a safe subject because the most learned scientists on earth have already met and concluded their helplessness before this plague.

It's what the summit won't do that gives the best clue to the critical economic questions that are facing the alliance. It won't really resolve the incipient trade war between the U.S. and Japan and between the European Community and Japan. It won't cure the Third World debt crisis because that would require granting a seat at the conference to the major U.S. banks, which have recently seized the initiative on the question from Secretary of Treasury James A. Baker III.

The biggest concern within the alliance, of course, is whether Alan Greenspan can infuse world financial markets with the same sort of confidence and faith that Paul Volcker commanded as chairman of the Federal Reserve Board.

President Reagan could have flown Greenspan over here to give pep talks except that might imply the sort of slavishness to the president's economic policy which was precisely what Volcker didn't imply and which made him so widely admired abroad.

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Canada just along for the ride in Venice

By Dan Turner
Citizen staff writer

The biggest political gondola to be launched at the Venice Economic Summit next week will be filled with leaders debating the West's prospects of sinking or swimming in the Persian Gulf.

The biggest economic gondola afloat will host an examination of whether key western leaders are genuinely committed to taking the domestic decisions needed to head off worldwide recession.

In neither boat is Brian Mulroney — representing the least influential of the western world's seven strongest countries — likely to get his smallest pinky finger near an oar.

The Persian Gulf is on the meeting's Monday-to-Wednesday agenda because the Americans, badly burned by the May 17 Iraqi missile hit on the frigate *Stark*, want it there.

The Americans have appeared confused as to how much chest hair they can show in the Gulf without getting it tugged out by the combatants in the Iran-Iraq war, and are looking for ways to end the conflict.

It is an important issue, given the economic chaos oil shortages have caused around the world in recent years and the fact that more than half of Japan's and Italy's oil imports and a third of France's, pass through the Strait of Hormuz.

Unlike the other six countries in the Group of Seven industrial democracies (the U.S., Japan, West Germany, France, Britain, Italy) Canada has had no experience in throwing its weight around anywhere, and its opinion doesn't count.

As for the main economic issue in Venice — how to deal with the enormous U.S. trade deficit without further devaluing the American dollar and thereby risking inflation and higher interest rates — only three countries really matter: the U.S., Japan and West Germany.

It is generally agreed that for these three big shots to keep the world economy from deteriorating, the U.S. should work harder at shrinking its deficit (so funds that could be used for growth aren't tied up financing it) and the Japanese and the Germans — both with large trade surpluses — should boost government spending and reduce taxes (so as to create demand for U.S. exports).

So far the Big Three have shown some progress in this vital attempt at "international economic policy co-ordination," as it has been labelled.

Japanese Prime Minister Yasuhiro Nakasone's recent announcement of a six-billion-yen stimulation program is being lauded as a breakthrough, even though the Germans have been painstakingly cautious in getting on with tax cuts and the Americans have continued their dogged opposition to tax hikes that would bite further into their deficit.

Canada's impact on this kind of big time wheeling and dealing can best b demonstrated by example: when to world financial officials got together t apply pressure to devalue the America dollar at the Plaza Hotel in New Yor in 1985 — the biggest international economic decision of the decade — Canad wasn't even invited even though the Americans were the hosts.

So where does that leave Prime Minister Brian Mulroney, External Affairs Minister Joe Clark and Finance Minister Michael Wilson in Venice, at a time when Mulroney is desperate to show that anybody who can conquer Meech Lake can hold his own on the canals?

The answer, for the most part, is tagging along in a rowboat.

Which doesn't mean there isn't glory to be won, but it's going to be tough sculling.

The one item Canada has single-handedly wrestled on to the agenda — white minority rule in South Africa — is

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• Le sommet des Sept

Pas d'affrontements

par Jean Burner

VENISE, Italie (AFP) — Les responsables des sept pays les plus industrialisés du monde occidental éviteront de s'affronter au sommet de Venise sur les grands problèmes économiques (croissance, monnaie, protectionnisme) et mettront en avant leur consensus sur le désarmement et la dette du Tiers-Monde.

C'est ce qui ressort des positions exprimées par les participants (Japon, Etats-Unis, RFA, France, Italie, Grande-Bretagne et Canada) et la CEE, à deux jours de l'ouverture de ce 13e sommet.

• **CROISSANCE:** Les Etats-Unis, soutenus par la France, la Grande-Bretagne, l'Italie et le Canada, réclameront avec insistance au Japon et à la RFA, les deux pays les plus prospères du monde occidental, de prendre des mesures de relance conjoncturelle. Tokyo et Bonn mettront en avant pour leur défense le programme de relance japonais de $43 milliards US et le programme ouest-allemand de réduction des impôts de $28 milliards à l'horizon 1990.

Le test déterminant à Venise pour la concertation macro-économique sera l'adoption ou non d'une liste des principaux indicateurs économiques: PNB, demande intérieure, taux d'inflation, balances commerciales et des comptes courants, situation budgétaire, données monétaires et taux de change.

• **MONNAIE ET DOLLAR:** Les Sept sont d'accord sur la nécessité de stabiliser le cours du dollar, référence du système monétaire international. Les Européens, soutenus par le Japon, demanderont aux Etats-Unis de réaffirmer leur conviction que le dollar doit maintenant rester stable face aux principales autres monnaies du monde occidental, Yen et DM notamment. En cas de réponse vague des Etats-Unis à cette demande, argumentent-ils, une nouvelle tempête monétaire risque de secouer à brève échéance les marchés financiers, ce qui entrainera une hausse généralisée des taux d'intérêt et à terme une récession économique. Dans ce contexte, les Européens et le Japon demanderont une fois de plus aux Etats-Unis de mettre en ordre leurs finances et de prendre des engagements concrets sur la réduction de leur déficit budgétaire.

• **PROTECTIONNISME ET QUESTIONS AGRICOLES:** Tout le monde sera sur la sellette à Venise. Les Sept sont évidemment d'accord pour combattre le protectionnisme et mettre fin progressivement aux subventions dans le secteur agricole. Mais chacun entend défendre en priorité ses intérêts nationaux.

Les Etats-Unis et le Canada veulent traiter le dossier de manière privilégiée et prioritaire: s'estimant victimes de la politique de subventions du Marché commun agricole, ils veulent obtenir au minimum un engagement des Sept confirmant celui pris fin avril à Paris par les ministres des Finances de l'OCDE d'accélérer le processus menant d'une part à l'élimination des subventions agricoles et d'autre part des politiques protectionnistes.

La France et la CEE ne veulent pas du forcing américain sur les subventions agricoles et estiment que les négociations commerciales doivent être menées de manière globale, et non séparément.

• **DETTE DU TIERS-MONDE:** Les Sept sont d'accord pour donner un signal concret marquant la volonté des pays les plus riches de venir en aide aux plus pauvres, notamment en Afrique. Trois grands dossiers devraient être abordés: l'allègement du fardeau de la dette existante, les possibilités d'augmenter les flux financiers vers les pays les plus endettés, et les moyens de remédier aux variations erratiques des cours des matières premières, ressources essentielles pour de nombreux pays africains.

La France, la Grande-Bretagne, le Japon et le Canada insisteront pour recycler, via les institutions financières internationales, une partie des excédents extérieurs dégagés par la RFA et le Japon. Ils demanderont aussi un allongement des périodes de remboursement et un allègement des taux. La CEE prône un programme spécial d'aide aux pays les plus pauvres d'Afrique.

Pour ne pas être en reste, le secrétaire américain au Trésor James Baker présentera un nouveau plan à Venise, demandant aux banques de convertir leurs créances en investissements locaux.

• **DESARMEMENT:** Les "Sept" se déclarent dorénavant tous favorables à la "double option zéro", avancée par le Kremlin et avalisée par la Maison-Blanche: disparition d'Europe de toutes les fusées nucléaires intermédiaires américaines et soviétiques (FNI), aussi bien LRINF de 1,000 à 5,000 km de portée (SS-20 et SS-4 plus Pershing-II et missiles de croisière) que SRINF au rayon d'action entre 500 et 1,000 km (SS-12-22 et SS-23).

Quelques désaccords existent à l'intérieur du camp occidental lui-même: la RFA souhaite la prise en compte ultérieure des fusées SNF de portée encore plus réduite, entre zéro et 500 km, mais se heurte au refus notamment de Paris et Londres qui craignent une dérive vers la dénucléarisation de l'Europe. Les ministres de la Défense de l'OTAN, appuyés par le Japon mais éconduits par la Maison-Blanche, souhaitent en outre la disparition totale des LRINF, alors que les projets de traité en négociation à Genève prévoient le maintien de 100 têtes nucléaires de cette catégorie de part et d'autre.

Les "Sept" devraient en outre réaffirmer leur attachement de principe à la doctrine de la riposte graduée et à la stratégie de la dissuasion nucléaire.

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Carney seeks fair trade

TRADE MINISTER **Pat Carney** came to Washington last week. Part of her mission: to press Canada's case for a special binational body to settle trade disputes under a free-trade agreement. It's Canada's top demand in the free-trade negotiations, but Americans have deep reservations. First, U.S. negotiators say Canada is attempting the impossible in searching for a way to insulate itself for all time from Congress's evolving definitions of unfair trade practices; it can't be done. Second, the U.S. is not prepared to give up its sovereignty to the extent implied by the establishment of a joint tribunal to adjudicate trade disputes. Third, the U.S. says joint institutions with binding authority are the sort of development normally associated with a common market, not a simple free-trade agreement. By all accounts, these will be tough arguments to overcome.

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Behind tableau of unity in Venice lurk questions on trade, glasnost

BY JOHN FRASER 7 K
Globe and Mail Correspondent

LONDON

This year's economic summit of leaders from the major Western industrialized countries, which begins in Venice on Monday morning, will feature the usual splendid tableau of unity set against a reality of continuing discord in trade, international uncertainty and precarious political tenure.

Like the United States, a majority of the European Community nations have been putting intense pressure on Japan to open its markets, although some recent moves in this direction by the Government of Prime Minister Yasuhiro Nakasone has taken some of the heat off the trading giant.

Because of this, according to briefings by Canadian and British officials, it is West Germany that will have to bear the burden of any "friendly and co-operative concern" as it is "encouraged" to live up to the unending and elusive goal of freeing world trade.

If there is one theme that will transfix the Venice summit, however, it will be the new reality in the Soviet Union. How on earth are the leaders to cope with the extraordinary challenges of Mikhail Gorbachev? How far can the politics of *glasnost* (openness) go? Are the economic reforms being pushed by Moscow more than an attempt to tinker lightly with the status quo? What is to be done about all these unsettling disarmament initiatives?

These questions, and many others directly related, have haunted the chanceries and government offices of the West all year, and the leaders will be anxious to exchange views.

The summits began in 1975, and were intended to be modest, informal affairs. Because of the intense interest of the Western media — several thousand journalists will be stomping all over the Doge's Palace or commandeering gondolas at outrageously inflated prices — they have long since ceased to be much more than what one British commentator has called a high-profile "waxworks show" or the ultimate photo opportunity.

The leaders of the United States, Canada, France, Britain, West Germany, Italy, Japan and the European Community are taken through their complex paces by a tribe of special advisers, known in summit jargon as "sherpas" (after the intrepid mountain guides of Nepal), to come up with a final communiqué mostly written weeks before.

This year, the summit is colored by the shaky domestic political foundation upon which a majority of the summit leaders rest.

U.S. President Ronald Reagan is in his final years of office and still bogged down in the quagmire of the Iran-contra scandal. An extra place has to be made for the Hydra-headed French leadership of socialist President François Mitterrand and conservative Prime Minister Jacques Chirac because neither trusts the other to negotiate alone.

British Prime Minister Margaret Thatcher, four days away from meeting her electorate at the polls, will drop by for only one day and it is expected that much of her time will be devoted to showing herself off in a spectacular international setting for the benefit of the voters back home.

As for Italian Prime Minister Amintore Fanfani, the official host, he is clinging to power by the merest prayer. Picked to lead a caretaker government until national elections are held in less than two weeks, he will be a charming but utterly controlled creature of his cautious sherpas.

Japan's leader will be stoic, as usual, while both Canada's Brian Mulroney and West Germany's Helmut Kohl — ostensibly safe in their current mandates — will be posturing mightily to shore up sagging domestic reputations. Under such circumstances, no real ganging-up on any member nation, not even Japan or West Germany, is likely.

Nevertheless, there is a host of issues, both economic and political, that are scheduled for some sort of discussion and resolve.

Mr. Reagan is sure to solicit concrete and moral assistance for his recently proclaimed goal of providing gunboat protection for oil tankers in the Middle East. He will take it in any form he can get it: actual ships and sailors (France and Britain), conscience money (Japan) and appropriately worded sentiments in the final communiqué (everyone).

The spectre of acquired immune deficiency syndrome will make its first major appearance at a summit, a sign of its gathering menace. Also on the agenda are the continuing agricultural crisis of overproduction, international debt in the Third World, the complex arrangements for multilateral trade negotiations and a grab bag of issues under the general heading of "environment, science and technology."

"At the very least," according to an editorial in yesterday's well-regarded British newspaper The Independent, "it keeps countries like the United States, West Germany and Japan — which naturally are tempted to use their economic clout to clinch bilateral deals — firmly locked into a multilateral procedure."

As a British background official pointed out, the summit is a reminder to those countries flirting with increased protectionism that they have major commitments and responsibilities "on the other side of the road."

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WHICH WAY OUT?

BY JOHN KOHUT
The Globe and Mail

IT WAS a bold act when in February Brazil's President Jose Sarney halted interest payments on $68-billion of his country's $108-billion debt. The nation would not pay the debt with the hunger of its people, Mr. Sarney said.

Three months later, Citicorp, the largest U.S. bank, made an equally bold move by setting aside $3-billion to cover some of its problematic loans to Third World countries. In essence, it was recognizing the possibility that some of the $14.7-billion problem loans might never be repaid. It was also effectively positioning itself to take a harder stance in the often acrimonious debt negotiations with Third World countries.

After a period of relative calm, the players in the debt game have started to show their cards. At stake is not just the hundreds of billions of dollars owed by developing nations. Analysts say the soundness of major Western banks, the political and economic stability of Third World countries and the possibility of a worldwide recession are all in question.

It is against this backdrop that the leaders of the Group of Seven leading Western industrial countries will meet for their annual economic summit in Venice on Monday. The presidents of Brazil, Argentina and Uruguay appealed last week to the Group of Seven to seek a way at their meeting to lower interest rates on developing countries' foreign debts. During the past five years, Latin American countries paid $130-billion interest on debts of $370-billion, and recent increases in interest rates threaten to undo what economic growth they have achieved. The three South American presidents also reminded the industrialized nations' leaders that only through increased trade — the sale of Third World products to the rich countries — could the developing nations ever be in a position to repay their loans.

Although the Seven are expected to announce some action to help the poorest debtor nations — mostly those in Africa who "simply can't wait any longer," in the words of one Canadian official — they are not likely to do more than talk about the larger, more global problem.

For one thing, the vast majority of this mostly Latin American debt is owed to commercial banks, and Western governments are reluctant to interfere in the decisions of these institutions. (Most loans to the poor African nations, on the other hand, have been made by Western governments themselves.) Secondly, the Citicorp decision may have reduced the urgency for the Group of Seven leaders to address the matter, because it shows that the banks are dealing with the problem in their own way, the Canadian official said.

Analysts fear, however, that as banks and debtor countries act to protect the interests of their constituencies — shareholders and voters, respectively — each may exacerbate the problems of the other.

In the middle are multilateral lending institutions such as the World Bank and the International Monetary Fund. But both institutions are limited by their government bosses as to how much money they can lend, and their difficult roles as intermediaries between the private banks and debtor countries are unlikely to become any easier after Citicorp's decision.

"Venice may be the last chance the developed countries have for imposing a vision on the situation before things start unravelling on their own," one analyst said.

THE DEBT CRISIS first raised its head in 1982 when Mexico announced it was unable to repay its debts that were coming due. A few months later Brazil threatened to declare itself insolvent unless its request for refinancing its maturing debts was met.

After much arm-twisting by the IMF, commercial banks were persuaded to come up with enough new money for both countries to have their loans rolled over. World economic growth in 1985 and 1986 helped developing countries increase exports and thus foreign currency earnings, enabling them to service their debts. A precarious stability set in, with few significant events to radically alter the balance — at least on the surface.

Then Brazil, which carries the largest debt in the developing world, dropped its bombshell that it would halt repayments to commercial banks, saying the capital outflow was draining its economy. The banks would have to come up with new money to enable it to grow.

Developing countries say they are at the mercy of world trade conditions. Industrial nations must take steps to spur the increasingly sluggish world economy and overcome their tendency to protect their own producers, all of which is making it harder for the Third World to market its goods.

Though Brazil says it will resume payments when it gets new financing from commercial banks, there is still fear that, if pressed to the wall, it might be tempted to follow the lonely path Peru took in mid-1985 when it decided to limit payments on its $14-billion foreign debt to 10 per cent of its export earnings. This week Brazil proposed paying half the interest it owes to pri-

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Page D1

Which way is out for the world's financial crisis?

• From Page D1

vate creditors while refinancing the rest.

Any radical action by a major debtor could hurt Western banks, especially U.S. banks that previously set aside few funds to cover problematic loans. They had been living with the fiction, many analysts say, that those loans would eventually be repaid in full.

In essence the Citicorp decision was an accounting change. But it was a change that will have a "behavioral impact," according to World Bank vice-president and treasurer Eugene Rotberg. "On balance it will make the lending to developing countries more selective and . . . give the banks more market control."

It could also make negotiations between the banks and developing countries applying for loans more confrontational.

Citicorp, which has been the lead manager in several major refinancing packages, says it will continue to live up to its responsibilities, but analysts are skeptical. They see no reason why Citicorp will not take advantage of its new approach to risky debts to simply resist debtors' demands for softer terms.

Several analysts argue that this is fine to the extent that it concentrates the minds and willpower of debtor nations to follow sensible economic policies. Certainly there has been waste and mismanagement. Economists say that Brazil's cruzado plan, which froze prices to control inflation, led to a surge in domestic consumption at the expense of exports. Bankers wonder why Argentina, which has debts of about $50-billion, has decided to establish a new capital city at this time.

But analysts of the Third World problem say developing countries have made enormous adjustments over the past few years, and there are limits to what can be expected of them.

The Citicorp move, followed by several U.S. banks including the Chase Bank, probably helps strengthen the Western banking system because it has at least started to phase in what many see as inevitable defaults. In the wake of the Mexican debt crisis of 1932, Canadian and European banks had already begun building up their loan loss provisions, preparing for the worst.

It now, however, may be more difficult for Third World countries to raise money from commercial banks. "It's a little hard for the banks to say on one hand the loans to these countries require special reserves and then turn right around and make new loans to these countries," one analyst said. If that is the case, then it is a serious setback for U.S. Treasury Secretary James Baker's initiative on Third World debt.

THE BAKER PLAN, launched in 1955, envisioned "growth-oriented adjustment" for these countries — that is, they should be given help in achieving progress while trying to restructure their economies, thus bettering the chances of keeping up their debt payments.

Analysts agreed that the plan identified the problem correctly, but that it has been seriously underfinanced. Mr. Baker called on commercial banks and multilateral lending institutions to provide $20-billion and $6-billion respectively to help these countries grow.

But World Bank figures show that disbursements of new money from banks and official creditors actually dropped, from $10.4-billion in 1934 to $5.3-billion in 1955 and to $2.6-billion last year.

(The 1986 figure does not include $3.5-billion for Mexico, which was agreed on last year but took six months to complete because some of the 500 banks involved were reluctant to come up with their share.)

Roy Culpeper, program director of the Ottawa-based North-South Institute, says that in 1934, for the first time, more money was transferred from the Third World to the industrialized countries than was sent to it. In that year $12-billion flowed from debtors to their creditors. The amount rose to an estimated $29-billion

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James Baker: Initiative on Third World debt faces a serious setback.

last year, representing a drain of financial resources from the developing to the industrialized world.

The U.S. Treasury Department maintains that the Baker plan is still intact, that no shift in strategy is required, that banks have been coming up with the money, albeit less quickly than hoped. Moreover, they say, it was a three-year program to ease the problems of developing countries, not a sudden effort to clear away debts which will be around for a long time.

On that last point all analysts agree. The debt problem does not lie in the fact that Third World countries now owe more than $1-trillion. If borrowed funds are used wisely, they can be an investment in the future of a country. The problems come when a country can no longer meet its interest obligations.

It is then that the government must make difficult choices — it can upset its creditors by going into arrears, or upset its people by austerity programs that cut living standards. And a large proportion of the population in many debtor nations already live in severe poverty.

IN SUB-SAHARAN AFRICA, the debt problem has already reached crisis proportions. For these nations, the only hope is aid from governments and international lending bodies.

Zambia represents an extreme example of a country deeply in trouble, even though its estimated debt of $5-billion looks tiny compared to that of Mexico, Brazil or Argentina. But $5-billion is considerably more than Zambia's total annual gross national product. The country's annual debt service obligations in 1986 amounted to about 95 per cent of its export earnings.

Zambia's debt problems will mean even more hardship for its people, but will not bring down the Western financial system. If a country like Brazil were to declare a moratorium on payments, perhaps in conjunction with other developing nations, it could start a chain reaction that might ultimately cause a severe world recession.

For the time being, analysts say a deteriorating Third World debt problem can still be kept under control. It requires, however, a lot of circumspection and care.

Self-interest may act as an incentive for creditors and debtors to compromise. Third World nations do not want to be cut off from credit lines, and the banks still stand to reap enormous profits from doing business in developing countries, many of which have seen better times and still have much growth potential.

Also available are instruments such as converting debt into equity — a method by which the lending bank takes an ownership share in the developing country's industry instead of repayment. Alternatively, they can sell their debt at a discount to others for investment in that debtor country. Though not an over-all solution, this helps Third World economies stay on their feet while giving creditors some return on their loans.

The World Bank could help developing countries more if its 151 member nations gave it the authority to raise its capital lending. They all agree such an increase is needed, but have taken no action.

Within the IMF there appears to be greater recognition that its aid packages should be extended over perhaps 10 years instead of the current norm of three to five years. IMF aid always comes with conditions requiring developing countries to make adjustments. Sometimes it is simply not possible to make these adjustments given the time constraints.

Most important of all, according to analysts, is the need for world economic growth so debtor nations can find markets for their goods.

With so much at stake for all sides, the Group-of-Seven nations need to take the lead in ensuring that all parties accept their share of the burden so everyone can stay in the game.

"The governments of the developed countries have to make sure adjustments are made," one analyst said. "We have not got a static situation any more."

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date June 6 *Publication* Ottawa Citizen

Reagan calls for elimination of farm subsidies by 2000

VENICE (AP) — U.S. President Ronald Reagan, in a pre-summit television address beamed into Europe, denounced government agricultural subsidies Friday as a costly "farms race" and proposed they be eliminated worldwide by the year 2000.

Reagan said that improving economic co-operation among the seven summit countries — Britain, Canada, France, Italy, Japan, the United States and West Germany — is high on the agenda for the summit, which opens Monday night. Prime Minister Brian Mulroney, External Affairs Minister Joe Clark and Finance Minister Michael Wilson will represent Canada.

"Agricultural subsidies, for instance, have been some of the worst culprits behind our growing trade frictions," he said. "Let's jointly defuse this growing farms race by setting a goal of a subsidy-free world for the year 2000."

Although Reagan has criticized farm subsidies before, it was the first time he had called for ending them by a specific date.

However, presidential spokesman Marlin Fitzwater called Reagan's proposal more of a wish than a specific target date for abrogation of all agricultural subsidies.

During a briefing, Fitzwater conceded that it was "not realistic" to expect other western leaders to embrace the concept during the summit.

But, said Fitzwater, "the challenge of the year 2000 is a starting point for conversations and should generate very good dialogue at this summit."

Farm subsidies are widely used by summit countries to help promote agricultural exports. They enjoy considerable domestic political support, particularly in France and West Germany.

In his address, broadcast by the United States Information Agency, Reagan also told Europeans that a U.S.-Soviet accord on a new treaty to eliminate hundreds of medium- and short-range nuclear missiles from Europe and Soviet Asia is close.

"We're not there yet, of course; some hard questions remain. But the prospects are good," Reagan said. His remarks further demonstrated the president's intentions to seek a summit endorsment of the broad outlines of a potential superpower arms control agreement.

Canada just along for the ride in Venice

By Dan Turner
Citizen staff writer

The biggest political gondola to be launched at the Venice Economic Summit next week will be filled with leaders debating the West's prospects of sinking or swimming in the Persian Gulf.

The biggest economic gondola afloat will host an examination of whether key western leaders are genuinely committed to taking the domestic decisions needed to head off worldwide recession.

In neither boat is Brian Mulroney — representing the least influential of the western world's seven strongest countries — likely to get his smallest pinky finger near an oar.

The Persian Gulf is on the meeting's Monday-to-Wednesday agenda because the Americans, badly burned by the May 17 Iraqi missile hit on the frigate *Stark*, want it there.

The Americans have appeared confused as to how much chest hair they can show in the Gulf without getting it tugged out by the combatants in the Iran-Iraq war, and are looking for ways to end the conflict.

It is an important issue, given the economic chaos oil shortages have caused around the world in recent years and the fact that more than half of Japan's and Italy's oil imports and a third of France's, pass through the Strait of Hormuz.

Unlike the other six countries in the Group of Seven industrial democracies (the U.S., Japan, West Germany, France, Britain, Italy) Canada has had no experience in throwing its weight around anywhere, and its opinion doesn't count.

As for the main economic issue in Venice — how to deal with the enormous U.S. trade deficit without further devaluing the American dollar and thereby risking inflation and higher interest rates — only three countries really matter: the U.S., Japan and West Germany.

It is generally agreed that for these three big shots to keep the world economy from deteriorating, the U.S. should work harder at shrinking its deficit (so funds that could be used for growth aren't tied up financing it) and the Japanese and the Germans — both with large trade surpluses — should boost government spending and reduce taxes (so as to create demand for U.S. exports).

So far the Big Three have shown some progress in this vital attempt at "international economic policy co-ordination," as it has been labelled.

Japanese Prime Minister Yasuhiro Nakasone's recent announcement of a six-billion-yen stimulation program is being lauded as a breakthrough, even though the Germans have been painstakingly cautious in getting on with tax cuts and the Americans have continued their dogged opposition to tax hikes that would bite further into their deficit.

Canada's impact on this kind of big time wheeling and dealing can best be demonstrated by example: when top world financial officials got together to apply pressure to devalue the American dollar at the Plaza Hotel in New York in 1985 — the biggest international economic decision of the decade — Canada wasn't even invited even though the Americans were the hosts.

So where does that leave Prime Minister Brian Mulroney, External Affairs Minister Joe Clark and Finance Minister Michael Wilson in Venice, at a time when Mulroney is desperate to show that anybody who can conquer Meech Lake can hold his own on the canals?

The answer, for the most part, is tagging along in a rowboat.

Which doesn't mean there isn't glory to be won, but it's going to be tough sculling.

The one item Canada has single-handedly wrestled on to the agenda — white minority rule in South Africa — is considered a nuisance by the likes of Margaret Thatcher and Ronald Reagan, and offers next to no prospect of a commitment toward tougher sanctions or official Group of Seven involvement in dialogue between militant blacks and the white-minority government headed by P.W. Botha.

A government official who briefed journalists on the summit Thursday claimed it was something of a triumph to even have the group discussing the issue, particularly given its reluctance to consider regional disputes.

Translation: Mulroney's points here have already been compiled in getting the subject on the agenda. Any further scoring through an attempt at impassioned revelation of what he learned when he visited Zimbabwe in January would be ironic, since Mulroney never even found time to address his own Parliament on what he learned.

Canada is more likely to make an impression on another moral issue dealing with Africa — the relief of debt for bankrupt sub-Sahel countries, much of which has been rung up through government-to-government loans or loans through the World Bank.

Canada and now Italy have shown leadership in forgiving many of these loans, and Canada has proposals in the Group of Seven's bureaucratic hopper to recirculate some of the Japanese and European surpluses in an attempt to help rejuvenate some of the world's more pathetic economies.

But in the eyes of the hardball-playing leaders of the industrialized world — not to mention voters concerned with their own pocketbooks back in Canada — these are small potatoes.

There is, however, one item on which the Mulroney government has been active and — even in hardball players' terms — ranks closer to the very big economic issues than the almost-tiny.

It is the problem of worldwide agricultural subsidies which are threatening to destroy the health of traditionally-strong agricultural economies in countries such as Canada and Australia, which have small enough treasuries to face a losing battle in head-to-head combat with the European Economic Community, the Americans, and the Japanese.

Canada has been forced into joining a subsidies war it can't afford, announcing a $1-billion assistance plan for western grain farmers last fall in the midst of its drive to reduce its budgetary deficit.

Even that won't prevent widespread farm bankruptcies — the practice of basing subsidies on production has created agricultural gluts which keep driving prices lower and lower.

This year the Canadian Wheat Board has been forced to pay farmers 15 per cent less for wheat than it did last year, and the prices for barley and feed oats were even worse.

The EEC and Japan have been the main culprits in the subsidies battle, with the Americans becoming more and more involved in an effort to counterpunch the EEC until it hurt.

The signs are that the EEC, which spends two-thirds of its budget on agricultural subsidies, is finally running out of money, and Nakasone has again shown courage by indicating he is willing to take on Japan's incredibly powerful agricultural lobby, representatives of the most uneconomic and protected rice growers in the world.

In the nine months since Canada — as a member of the 13-member Cairns Group of middle-sized agricultural nations — has been involved in pushing for reform of the international agricultural marketing system, some impressive gains have been made that may some day see the General Agreement on Tariffs and Trade (GATT) roll back the subsidies.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

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Subject
Sujet ....

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The latest came in Paris three weeks ago, when western finance ministers emerged with a commitment to phasing out the use of farm subsidies.

The 24 members countries agreed that agricultural policies should respond to market signals, that stockpiles should be frozen at current levels, and that future domestic aid to farmers should be direct income support rather than production incentives, which would be less likely to produce gluts.

Canada is going to Venice with hopes of convincing world leaders to set a timetable for bringing in realistic negotiating proposals to begin the subsidies rollback.

Canadian officials are wary about how much progress they'll make — in fact one official said he thought it would be a major accomplishment if they simply prevent slippage from the firm language of the OECD agreement.

But if Mulroney and his ministers are going to make any impact on issues of more domestic importance than helping Africa, they might at least get their hands on the oar on this one.

— AP graphic

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VENICE SUMMIT
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OTTAWA CITIZEN JUN JUIN 9 1987

Agriculture top Venice priority

The Venice Economic Summit is not expected to produce any dramatic decisions or announce any new policies. That doesn't mean it's a waste of time.

The heads of the seven leading industrial nations — Britain, Canada, France, Italy, Japan, the U.S. and West Germany — together with the presidents of the European Commission and the European Council; consider these annual get-togethers to be unique opportunities.

The political significance of the gatherings is diffuse and difficult to assess. Leaders go there to judge each other's policies and promises, to see how much unanimity exists on the macro-economic front, as well as to explore the feasibility of new economic initiatives in their joint interest.

Inevitably, major international political issues are also raised informally. The object is to test the waters, and to seek the commitment of political will to pursue broad co-ordinated policies relating to specific areas and problems of the world.

Venice will feature agriculture, a subject introduced by Canada at last year's Tokyo summit. This will be Prime Minister Mulroney's top priority again. Domestic subsidies and protectionism demand urgent action to redirect national policies. A ringing declaration of intent, with or without a specific timetable, could be the major outcome of this discussion.

Other economic issues, such as debt repayment problems of developing countries, are bound to be considered. So will the state of world trade. The assembled leaders are certain to give an important impulse to the recently-launched Uruguay Round of Multilateral Trade Negotiations.

On the political front, Reagan will discuss the situation in the Persian Gulf. He will seek understanding and support, if not a co-ordinated approach, for his commitment to keep the Gulf sea-lanes open and the flow of oil unimpeded. Ways of ending the Iran-Iraq war are bound to be considered, including a UN ceasefire and possible sanctions against offenders.

East-West relations will be topical, especially Mikhail Gorbachev's more open approach to domestic and foreign affairs. Arms control developments are bound to be debated, as will the prospects for the next superpower summit.

Mulroney is publicly committed to raise the questions of South and southern Africa. But the mood doesn't seem right to pursue a commitment for co-ordinated action at this time.

Cynics who say these summits are mere grandstanding are mistaken. If Canada is "just along for the ride," we're in company with those who can make all the difference to our future prosperity and stability. What better way to spend a few days?

VENICE Summit

3

NEW YORK TIMES JUN JUIN 6 1987

Reagan Urging Nations To End Farm Subsidies

By GERALD M. BOYD

Special to The New York Times

VENICE, June 5 — President Reagan urged today that his counterparts at a seven-nation economic summit meeting set a goal of eliminating agriculture subsidies by 2000.

Mr. Reagan, trying to highlight his priorities in preparation for the start of the talks here on Monday, said the subsidies were a cause of international trade frictions, and he called on the leaders to work jointly to gradually abolish them.

"Agriculture subsidies, for instance, have been some of the worst culprits behind our growing trade frictions," Mr. Reagan said in a speech broadcast to Europe by the United States Information Agency. "Let's jointly diffuse this expensive farms race by setting a goal of a subsidy-free world for the year 2000."

A Priority Topic

Mr. Reagan's comments served to underscore his plans to make discussion of the subsidies, which exist in all the nations taking part in the meetings here, a priority when economic and political talks begin. The meeting will bring together leaders of Britain, France, Italy, West Germany, Canada, Japan and the United States.

In the speech, the President did not mention his Persian Gulf policy, which is expected to be the most pressing political issue at the talks here. Focusing instead on arms control, he called upon the United States and Western nations to improve conventional military forces to counter Moscow's advantage as the two sides near an agreement to eliminate medium-range nuclear weapons.

Mr. Reagan said the top priority of the United States remained "deep, equitable and verifiable reductions" in long-range nuclear missiles. Asserting that the Soviet Union was stockpiling chemical weapons and that it has an advantage in conventional forces, he added:

"Indeed, given the Soviet superiority in these forces, we must improve our conventional defense capabilities, difficult and expensive as that might be. The United States will not waiver in our commitment to the defense of Europe."

Mr. Reagan said the United States would continue to support the doctrine of "flexible response," which provides for the availability of conventional and other means to repeal a Soviet attack.

In terms of the farm issue, the Administration had similarly made the enormous cost of aiding farmers an issue at the economic summit meeting last year in Tokyo. But it emerged only with a declaration on the need to discuss such practices and without a date for such talks.

United States officials have said that Mr. Reagan will be hoping to convince the other leaders in Venice on mutual, step-by-step reductions in farm subsidies in talks already planned under the General Agreement on Tariffs and Trade.

Under the United States strategy, an attempt would be made to reach an understanding to gradually reduce the subsidies in a manner that allows farmers to maintain their incomes but that does not subsidize their production. The Administration has been spending about $26 billion to subsidize American farmers, many of whom are facing serious financial hardships. Mr. Reagan had used the subsidies in the 1986 election as an example of his commitment to help farmers at the time of such hardships, saying that it was providing more for farmers than the last five Administrations combined.

Attention on West Germany

In addition to farm subsidies, Mr. Reagan said he would seek to make good on an understanding reached in Tokyo to reduce instability in exchange rates and promote economic growth. Signaling out West Germany, he said its sluggish economy slowed growth across Western Europe.

"It is essential that Germany follow up on its commitment to revive its sluggish economy," he said.

Mr. Reagan also singled out Japan, saying it needed to do more to help end the trade imbalance in the world economy by opening up its markets.

"It's time for Japan to let free the pent-up consumer demand in their nation," he said. "Allow the Japanese people to enjoy more of the benefits of the remarkable economy they have worked so hard to build."

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External Affairs Canada
Affaires extérieures Canada

SUBJECT/SUJET

PUBLICATION Financial Times of London

DATE June 6

HEADING: "POLICY MADE AT THE GRASSROOTS".

THE DEPARTURE of Mrs Thatcher for the Venice summit, accompanied perhaps by a secret sigh of relief from Conservative Central Office, just as much as the solemn television broadcast by President Reagan, contributes to an illusion which is shared by the heads of state and those they govern: that the world's economic fate lies in the hands of politicians.

Heads will be shaken and tables banged over the US deficit, the lack of stimulus in Japan and Germany, and the consequent dangers of recession or of instability. Meanwhile, in the outside world, company directors, brokers and investors, consumers and their bank managers will continue to take decisions which determine what actually happens.

They are of course influenced by Government policies, but these are not normally at the front of their minds: and at times these private transactors can make policy in spite of their governments.

Something of the kind may now be taking place in the US. The US government deficit is a result of political decisions, though its level also depends heavily on the rate of growth of the private economy.

Problems unsolved

The American trade deficit, on the other hand, is the measure of the tendency of the entire US economy to outspend its income, and the government deficit is only one element in the sum. Reduced spending by consumers and by companies, in an effort to reduce their own burden of private debt, also tends to reduce the national trade deficit.

If home-produced goods are unsold, incomes fall in line with spending, and companies and consumers find that their problems of debt are unsolved. They may then try to make heavier cuts. If it is demand for imported goods and equipment which falls, then US incomes are maintained, the trade balance improves, but the deflationary effect of lower spending has an impact on America's trade partners.

The weakness of recent US economic numbers illustrates this process. Consumer spending, house building and corporate investment are all flat or worse, and the car market is suffering its sharpest recession for several years. In recent months defence spending and foreign trade have helped to maintain some modest growth in output, but there has been an unplanned rise in inventories which is likely to depress production in due course.

The motive is the burden of debt. US companies are now over-geared as the result of an enormous substitution of debt for equity. Consumers are simply over-borrowed. Lacking the privilege of governments, which can print their own money, they are responding to these pressures.

The result for the world economy will be exactly what the US Treasury Secretary, Mr James Baker, has been warning his opposite numbers about for many months. It cannot be taken for granted, though, that this danger will be recognised by America's Summit partners: for one paradoxical result of a deflation which is voluntary rather than imposed is that it will tend to make the US fiscal deficit bigger.

Since most governments are now highly concerned to control their own deficits, and the Japanese and the Germans are positively obsessed with this idea, they may well argue that a rising US fiscal deficit redoubles the needs for prudence on their part. The result would be not co-ordinated policies, but co-ordinated deflation.

There are some ways of squaring this circle. The Japanese have long distinguished between general government spending and some kinds of productive investment, which can be financed off-Budget. Mrs Thatcher's greatest fiscal innovation, the use of asset sales to replace borrowing, is also attracting admiring imitators. Both devices have helped to finance the proposed Japanese fiscal stimulus without actually inflating government borrowing.

Exact reverse

The Germans, on the other hand, are now reported to be suffering doubts about their own proposed tax reform, which involves heavy cuts, on the grounds that the disappointing growth of the German economy has depressed revenue. This is simply the logical counterpart of Mr Nigel Lawson's willingness to cut taxes as a reward for the growth now being achieved.

The targeting of government deficits, in short, tends to reserve stimulus for economies which are already putting up a satisfactory growth performance, and prescribe fiscal tightening for those which are lagging. This is the exact reverse of the kind of balanced policy co-ordination which the Americans have been seeking, and helps to explain why hopes for economic progress at Venice are so subdued.

It does not seem likely that this depressing prospect will be cleared by sudden re-conversion of the heads of state to the reasoning of the late Lord Keynes. The best that can be hoped for from the politicians is some helpful fudging. However, German and Japanese citizens could yet prove more powerful than their leaders, just like the Americans. If they can develop a keener appetite for spending their enhanced real incomes, balance could yet be restored.

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External Affairs Canada
Affaires extérieures Canada

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DATE June 6

IMF calls for aid to poorer nations

Independent June 6/87

By Steve Levinson
Economics Correspondent

THE SEVEN industrial nations at next week's Venice summit are being asked by the International Monetary Fund for a substantial increase in aid to the world's poorest nations.

According to officials preparing for the summit, IMF managing director Michel Camdessus has already canvassed the industrial countries on a plan to raise the size of the IMF's special "structural adjustment facility" from $4bn to $12bn and is seeking endorsement for this in Venice.

The pool was set up last year to give direct help to the hardest-pressed countries, and officials said Japan was prepared to put up $4bn of the planned increase with the other industrial nations asked to provide the remainder.

International debt problems are expected to feature prominently on the summit agenda, and Japanese prime minister Yasuhiro Nakasone said yesterday when he left Tokyo that the talks would attempt to remove uncertainties both about debt and currency fluctuations.

"We have to take this opportunity to remove completely uncertainty about the world debt problem and foreign exchange rates by strengthening our policy co-ordination," he added.

Nigel Lawson, the Chancellor of the Exchequer, although only attending the summit for one day, is hoping that there will be backing for a plan he has fostered which would involve debt rescheduling for the poorest sub-Saharan African nations.

Another major issue facing the summit is the danger of a slowdown in world economic activity.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

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Mood of Summit Planners Less Upbeat Than in '86

mplementing Earlier Accords to Be Focus

By Hobart Rowen
Washington Post Staff Writer

NEWS
NALYSIS

The western world's top leaders heading for their 13th annual onomic summit in Venice worried out economic growth, their mood rkedly different from the upbeat pectations that preceded the 86 Tokyo summit.

t best, the seven heads of gov- nment—most of whom have suf- ed declining popularity or face ional election contests within the next several months—say they will offer no new initiatives, merely earnest effort to translate older eements into action.

resident Reagan, moving to- d the end of his final term and aged by the Iran-contra scan- may also find American lead- ip diminished by the fact that United States has become a tor nation, while other powers, bly Japan and West Germany, enjoying relative economic suc- and surpluses.

this situation, all delegations ve been careful to suggest that re important results may come t of noneconomic discussions in nice on such topics as the war in Persian Gulf, East-West rela- tships or the AIDS epidemic.

"The best thing about the Venice mit will be Venice itself," said of the Canadian officials prepar- for the three-day meeting, ch begins Monday. It will be at- ded by heads of government m the ~~United States, West Ger-~~ y, Japan, Britain, France, Can- , and Italy as well as represent- ~~tives of the European~~ Community.

The series of summit meetings launched under the steward- p of former French president ry Giscard d'Estaing and for- West German chancellor Hel- Schmidt in Rambouillet, nce, in 1975.

o a certain degree, this summit, east on the economic side, will d like a replay of recent meet- of the International Monetary d or the Organization of Eco- ic Cooperation and Develop-

See SUMMIT, A18, Col. 1

SUMMIT, From A1

ment in Paris, with the leaders endorsing agreements drafted earlier by their finance ministers.

As Treasury Secretary James A. Baker III put it this week: "You shouldn't expect to see [new policy measures] every time there's a multilateral gathering. The question is implementation, so we will go to the summit with the view that we have [already] agreed upon what needs to be done."

President Reagan said before leaving Washington for Venice: "I'll ask the leaders of the other industrial nations to stimulate their economies. We want them to buy more goods, not only from America, but from . . . the world, so they can help us make prosperity worldwide."

That's been the exact pitch, for the past two years, from the American side, with only limited results. As Alan Greenspan, the new chairman-designate of the Federal Reserve Board, has emphasized, such appeals are heeded only to the extent that they match domestic priorities. Japan and, most notably, West Germany move slowly on domestic expansion, hesitant to renew inflation.

Equally, the demand by West Germany and Japan that the United States get its own house in order by slashing its federal budget deficit has a limited impact.

"Whatever Reagan's good intention on the budget, it's not a parliamentary system in the U.S.", said a European Community spokesman. "Reagan still has to deal with Congress."

By being beholden to other nations—especially Japan—to finance its deficits, the United States now has fewer economic resources of its own to stimulate the world economy and less political influence in setting the economic agenda.

But Japan comes to the summit only days after outlining a $43 billion fiscal expansion plan that it initially promised in early international meetings.

"This is Japan's largest public works expenditure in 10 years," said Koji Watanabe of the Japanese Ministry of Foreign Affairs. The unspoken hope is that the Japanese package, which the others agree this time involves "real money," will put similar pressure on the Germans.

With the new fiscal package and an additional $20 billion pledged for aid to Third World countries, Japanese officials predicted that the usual criticism of their failures to open markets will be minimized in Venice.

The Germans, meanwhile, said they will repeat their earlier commitment to cut taxes, but Kohl will carefully avoid making new promises to expand the economy.

JAMES A. BAKER III
. . . "The question is implementation"

"The problem with the Japanes is that they make acceptable pron ises, but you have to press them t make good on them," complained senior U.S. official.

"You don't have that probler with the Germans: they do jus what they say they will do. Th problem with the Germans is tha you can't get them to move enough they are too hung up in their psy chological fix about inflation."

As the leaders meet, the globa economic outlook is somewhat sha ky. Undersecretary of State Alle Wallis, the summit preparer fo Reagan, said last week, "We've go problems . . . . The growth in th summit countries is not as strong a it could be and ought to be, and fur thermore, it seems to be weakening. And unemployment, especiall in Europe, remains very troublesome."

Uncertain prospects for economic growth and recent volatility in the exchange markets were complicated further by the dramatic decision by Federal Reserve Board Chairman Paul A. Volcker to retire in August.

"Somehow, the economic world won't be the same any more," said Dietrich von Kyaw, economics minister of the West German Embassy in Washington. "Paul Volcker not only broke the back of inflation, but in the early years, he also contained the debt crisis."

Although Reagan's quick choice of Greenspan, another fiscal conservative, to succeed Volcker has been widely applauded, the upcoming shift adds one more element to a picture of uncertainty that contrasts sharply with the optimism that preceded the Tokyo summit.

Then, the expectation was that the decline in the dollar, and lower interest rates and oil prices promised a noninflationary revival of the global economy that would reduce the huge U.S. trade deficit, as well as ease worries about the Third World debt that overhangs the banking system.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date ....June 6........ Publication ....Washington Post........

Reagan Assures Europe Of U.S. Commitment

'We Will Sustain' NATO's Credibility

By Lou Cannon
Washington Post Staff Writer

VENICE, June 5—President Reagan today sought to reassure Western Europe that the American commitment to Europe's military defense would not be diminished by a U.S.-Soviet accord to slash their arsenals of European-based nuclear missiles.

In a speech televised throughout Western Europe, the president said that NATO nations "must improve our conventional defense capabilities, difficult and expensive as that might be" in order to counter the strength of Soviet conventional military forces.

"The United States will not waver in our commitment to the defense of Europe," Reagan said. "We will sustain the credibility of NATO's doctrine of flexible response, which has served us well and remains the center of alliance strategy."

A senior official said Reagan was mindful of European concerns that a pending accord to eliminate medium-range missiles from Europe would represent a weakening of the American defense commitment to the Continent.

He said the president would respond to these anxieties throughout his nine-day trip to Europe. Asked what Reagan's priorities are, the official replied, "Arms control, arms control, arms control."

The accord would remove from Europe all medium-range missiles carrying nuclear warheads with ranges of between 600 and 0,500 miles. It would also get rid of superpower missiles in the 300-to-600 mile range.

The West German government endorsed the outline of this proposal Thursday but said the accord must not remove the U.S.-controlled nuclear warheads on 72 West German Pershing IA missiles, which can hit targets up to 450 miles away.

Both the West German government and the Reagan administra-

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tion regard these missiles as third-country systems, like those of the British and French, that are not covered by the proposed treaty. The Soviet Union has taken the position that the West Germans can keep the missiles but the U.S.-controlled warheads must be removed.

The senior official, who discussed Reagan's priorities on condition he not be identified, acknowledged that this difference had the potential to be "a deal-breaker." But he expressed hope that West German public opinion would ultimately favor the U.S.-Soviet agreement even if this meant that the government of Chancellor Helmut Kohl has to give ground on the issue of the Pershings.

In his speech today, Reagan conceded that "some hard questions remain" before the accord can be reached but said "the prospects are good.' He coupled his optimism about arms control with a denunciation of Soviet policies in Europe since the end of World War II, beginning with the observation that Soviet dictator Joseph Stalin had refused to allow East European nations to participate in the Marshall Plan, which rebuilt Western Europe.

"We've heard a lot about the Soviet desire to participate in the world economy—to no longer be the odd man out," Reagan said. "Well, the ground rules remain the same as they were 40 years ago. No playing the spoiler. No manipulation of world organizations for political gain. Open your economy. Open your political system. Open your borders. Let your people go."

Referring to Soviet leader Mikhail Gorbachev's policy of *glasnost*, or openness, without mentioning him by name, Reagan said, "We hope that the first few tokens of change in the Soviet Union signal a real desire to open up that closed society."

Reagan also said the treaty to eliminate medium-range missiles "will not be the end but the beginning of the arms reduction effort. Our top priority remains deep, equitable and verifiable reductions in intercontinental nuclear arms."

In his speech today, transmitted by the U.S. Information Agency to Western European countries, Reagan said agricultural subsidies will be a major topic of discussion among the seven industrialised democracies participating in the 13th annual economic summit that opens here Monday.

Reagan called for "setting a goal of a subsidy-free world" for agricultural commodities by the year 2000 despite the increase of U.S. agricultural subsidies during his presidency.

He also denounced protectionism, comparing it to the "evil of drugs" because "it will end up destroying all those who use it."

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VENICE SUMMIT

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June 6, 1987

Reagan urges end to farm subsidies

By Mike McNamee
Staff Writer of The News

VENICE, Italy — President Reagan called Friday for thorough reform of agricultural policies, saying he hopes to set a goal of "a subsidy-free world for the year 2000."

In a speech broadcast from Venice throughout Europe, the Middle East, Latin America and Asia, Reagan said farm subsidies "have been some of the worst culprits behind our growing trade frictions."


Ronald Reagan

During the same speech, Reagan criticized the Soviet Union as "an example to the world of how not to run a country."

Expressing skepticism at the sincerity of Soviet leader Mikhail Gorbachev's much-publicized social and economic reforms, Reagan urged the Soviet Union to open its political and economic systems and participate in international economic organizations.

"The choice is theirs: They can either participate in the advance of history, or fall farther and farther behind into economic irrelevance," the president said.

U.S. officials hope to win a strong endorsement for agricultural reforms at next week's seven-nation economic summit here. Reagan and his counterparts won't discuss specifics, but will try to throw their support behind trade talks to clear away the maze of subsidies, quotas and production controls that ensnare world farm trade.

Reagan's goal of ending farm subsidies by the year 2000, however, could create domestic political problems. U.S. farm subsidies have soared during the Reagan presidency, to $26 billion a year. Last fall, Reagan campaigned for farm-state senatorial candidates by pointing out that his administration has spent more for farmers than any other in history.

White House spokesman Marlin Fitzwater said Reagan's speech laid out "a general goal" that is "certainly in line with U.S. policy." The administration has long championed a more market-oriented farm policy, but with little success. The sharp increase of subsidies during the worst farm crisis in 50 years "is proof that subsidies don't work," Fitzwater said.

U.S. officials single out the European Economic Community and Japan as the most protectionist nations on farm products. The U.S. Department of Agriculture estimates that European farm exports will fall by $6 billion or more without extensive support programs. Japanese barriers keep an estimated $680 million in U.S. products out of the country — not counting the potential market for U.S. rice if Japan deregulated its rice market.

He said the Soviet Union became a superpower by "simply amassing huge stockpiles of nuclear weapons." But he said that his "Star Wars" space-based defense system would make nuclear missiles obsolete.

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The Secretary of State for External Affairs Interview with David Halton, CBC Television, Venice, June 7, 1987

David Halton:

very much the last moment producing this plan for a UN Security Council involvement in settling the Gulf dispute?

SSEA: There is no question that the Gulf War has two very serious implications. One is to the sea routes - that was drawn to everyone's attention, I guess, by the attack by mistake on the American ship. But secondly, there is a radiation of tension throughout the region of the Middle East. As you would know, the Crown Prince of Jordan was recently in Canada. That was my most recent opportunity to discuss directly with leaders of a Middle Eastern country the ricochet impacts of tensions in the Iran-Iraq War. It's a tragic war. It has gone on a long time without any kind of apparent settlement. The Secretary General is doing his best. We think that there would be value to an extra effort through the Security Council to try to seek mediation. Obviously, a key is to try to get some limitation of the supply of arms and also other agreements that would be binding upon both sides. I think that there is an interest in the part of other countries who are gathered here at the Summit to use that mechanism to see if we can find a way by that route to bring an end to the war that is tragic, dangerous on a number of fronts.

David Halton:

The Americans though seem to be, sir, on a somewhat different track in suggesting that alied help in keeping the sea lines in the Gulf open. Are they likely to respond favourably to bringing in a UN involvement - an institution which they haven't really regarded in the past as a tremendously effective organ for solving this kind of dispute?

SSEA: No instrument has been particularly effective in solving this dispute and that is the reality which we are all facing. I don't expect that there will be United States opposition to recourse to the Security Council. I think that they may well also seek some support by their alies in other forms. But I would think probably in forms that would be consistent with any initiatives to have this addressed again through the Security Council. The Security Council, of course, has some particular credentials for trying to deal with both the suppl

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of arms and bringing to bear the authority of the world upon the search for a solution. When a war goes on a long time it reaches a point where there may be enough war worriness on both sides that a serious initiative that seems to be broadly based might evoke some response - I don't think that that would stand alone. I think that obviously United States and others would want to take some actions would ensure that so long as a solution eludes us, there are means to stop escalation.

David Halton

If we could return to the agricultural issue here, sir, apparently Canada's main priority - and if you could give us a sense of what we see as the benchmarks for judging success on that issue at this conference?

SSEA: Some continued progress - we made a great deal of progress at the meeting of Economic Ministers of the industrialized countries at the OECD in Paris a month ago. As you know since then , Canada has hosted a Cairns meeting of countries, many of whom were not present in Paris. At the very least, we want to be able to move that progress forward not fall back from the agreements that were reached at Paris - and we think that there is a fairly good prospect in doing it although there is always some resistance to some of these measures both in Europe and some resistance to the idea of a truce from the United States so its by no means guaranteed, no means cut and dry. Some of the statistics that became evident to Canada during the meeting with the Cairns Group are really quite shocking. We know the impact upon Canadian farmers but the impact on a country like Argentina for example, not simply in terms of its agricultural export but in terms of its entire international economic position. Those statistics are compelling and in addition to making our own case we intend to be citing the evidence that was brought forward by the Cairns Group to make it clear that the countries that are really at the root of this subsidy war can't ignore its impacts upon a wide range of other nations.

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David Halton:

So, in a sense then our benchmarks are to ensure that we get rapid movement - and rapid movement I gather is taken to mean that negotiating positions tabled in that July meeting of GATT?

SSEA:

We would like to have negotiating positions tabled early. We would like to have some agreement that the matter will be reviewed again on the political level by Ministers or at the next Summit in Ottawa. We don't want to try to be too cut and dry with a Canadian formula because sometimes there might be agreement on the principle that would break down when you tried to bring it into the precise language of a formula. We believe that there has been considerble progress made in the year since Tokyo. Unfortunately, that hasn't showed up yet in the subsidy practices of most countries. They are reconsidering their policy; they haven't changed it. I don't think that we are going to get any changes in policy here but we want to make sure that the reconsideration of the policy stays on track.

David Halton:

Does the community oil fats proposal seem to suggest that we are not very much on track?

SSEA:

Community oil fats proposal suggests that. Some of the concerns that some aspects of the concerns that the effects of the policy community in the United States express regarding the truce suggest that we have made a lot of progress in Paris; we want to keep it but we also want to try to set forth some kind of very general time table that will indicate that we are keeping on track. But none of these things are easy and certainly the agricultural question which has moved a long way since Tokyo is still a long way from being solved.

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Trade, foreign debt key summit issues

Canada to emphasize need to fight protectionism, move towards liberalized trade

By Brian Cole
Winnipeg Free Press

VENICE — While Prairie farmers may be preoccupied with the outcome of talks on agriculture at this year's economic summit, they may also want to keep a close eye on the progress of discussions on the broader issues of trade and international debt.

Those two issues are expected to take up a large chunk of the time the world leaders will spend on economic issues.

As well as the economic issues of the day, the leaders, or summiteers as they are called, will discuss political matters such as South Africa, AIDS and East-West relations, terrorism and perhaps the situation in the Persian Gulf.

Spokesmen for Prime Minister Mulroney, expected to arrive here this morning, say Canada, along with President Reagan, is expected to emphasize the need to fight protectionism in all areas and to move towards liberalized trade.

Progress in this area would be consistent with Canadian efforts to seek a reduction in trade barriers with the United States in the free-trade talks now under way.

It would also assist efforts to reform agricultural trade and help Canadian farmers in efforts to find new markets for their products.

A recent study prepared for the Trilateral Commission noted that the difficulty in reforming agricultural trade can be linked to the overall trade problem.

trilateral commission noted that.

'Ability to pay'

It noted that if trade barriers in general could be reduced, thereby increasing the flow of trade between developed and less-developed countries, it would be less difficult to deal with agricultural protectionism.

"The adjustments required of agriculture will be reduced if the developing countries, especially the rapidly developing ones, are given reasonable access in markets of the industrialized countries for their manufactured products.

"The most significant potential for expansion of farm products is in such rapidly growing countries. The growth of that market depends on their ability to pay.

"We cannot emphasize too strongly that protection of manufactured products, especially in steel, automobiles and textiles and other labor intensive products, has imposed significant economic burdens on agriculture through increasing costs and limiting export markets," the report noted.

The discussion on trade is related to another issue dear to Mulroney's heart — international debt.

According to a Canadian government briefing book, outstanding external debt of developing countries exceeded $1 trillion US at the end of 1986.

Most of the world's attention has been focused on the debt of Latin America, estimated at close to $400 billion US.

One of these countries is Argentina, one of the Cairns Group of fair-trading food exporters.

Like Canada, Argentina has been hard hit by the U.S.-European agricultural trade war, estimating its losses at $11.8 billion US over the last five years.

Ernesto Figueras, Argentina's agriculture minister, said in a recent interview that if something isn't done to resolve the trade issue, his country will not be able to make payments on its external debt.

Canada believes the more pressing .

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problem is the $86 billion US owed by the poorer countries, particularly those in the sub-Sahara region of Africa.

'Leadership'

While Canada will be pushing for a general capital increase of the World Bank to help mid-income debtors like those of Latin America, the priority will be to address the problems of the poorest countries.

"Their debt is owed mainly to the governments of industrialized countries and to the international financial institutions of which summit countries are the major shareholders," a federal spokesman told reporters during a recent off-the-record briefing.

"We feel this situation calls for leadership and humanity on the part of the world's richest countries.

"We want both to deal with the debilitating effect of debt overhang and to offer to them renewed hope for development and growth."

Also high on the list of priorities will be the situation in South Africa, which Mulroney believes to be one of the major human-rights issues of the day.

"The prime minister's visit to Africa earlier this year allowed him to see the impact of South Africa's policies in the region," a federal spokesman said.

Although the issue will be on the summit agenda, the spokesman said, "we don't know what, if anything, will emerge."

Leaders of the seven countries that make up the summit group are also expected to discuss East-West relations in terms of the "Gorbachev phenomenon" and how his liberalizing policies may affect Western economies.

"I think all of them feel the need to assess the Gorbachev phenomenon and what it means for us in the West," a Canadian spokesman said.

He noted that External Affairs Minister Joe Clark said recently that it would be advantageous to the West to draw the Soviet Union further into the global economy.

On AIDS, Canada wants summit leaders to endorse a statement calling for co-operation on research into acquired immune deficiency syndrome, rather than competition.

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PM takes farmers' plight to summit

Canada seeks commitment

By Brian Cole
Winnipeg Free Press

VENICE — Prime Minister Mulroney was to arrive in this historic Italian city this morning prepared to take the plight of financially devastated farmers from Carman to Cairns, Australia, to the floor of the economic summit this week.

Farmers throughout the West and around the world are caught in a vicious U.S.-European trade war that has depressed commodity prices to record lows.

Trade, debt key issues/10

The trade war has driven farmers into bankruptcy, shaken the foundation of the rural way of life and cost small countries such as Canada billions of dollars in lost revenue and huge deficiency payments.

Although negotiations to reform agriculture are to begin under the General Agreement on Tariffs and Trade in Geneva next month, the summit is an important indicator of how serious countries will be in negotiating agricultural reform, according to Canadian and American officials.

A strong statement of commitment could signal some form of relief from the trade war within the next two years, while a lukewarm response could be devastating for Prairie farmers and the federal treasury.

Mulroney hopes to use this summit

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Farm focus on PM

Mulroney seeks trade war end

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to emphasize the importance of a quick resolution in agricultural trade and obtain a strong statement to that effect from the seven world leaders attending the meeting, according to federal spokesmen.

"We can fully expect agriculture to be the dominant trade policy issue at Venice," one federal government spokesman said during an earlier media briefing, adding:

"For Canada, progress on agricultural reform will be a priority objective."

While Mulroney will be carrying the hopes and concerns of more than 100,000 Prairie farmers to the summit, they won't be the only ones watching his progress.

Canada is also representing the millions of farmers from countries belonging to the 14-member Cairns Group of fair trading food exporters.

The Cairns group decided during a meeting in Ottawa last month to ask Mulroney to emphasize to summit leaders the need for agricultural reform.

As well as discussing agriculture, Mulroney and the summit leaders will also discuss the need for general trade liberalization, the debt crisis facing less-developed countries, East-West relations, South Africa the AIDS problem and possibly drug abuse.

As well, it is expected issues such as the gulf war could arise.

On agricultural reform, Canada, along with the United States, will define progress by getting leaders to approve a timetable for negotiations that would see the possibility of an "early harvest" which would include some form of subsidy rollback by late 1988 or early 1989, a government spokesman said.

Esentially, Mulroney, with strong support from the United States, will be using the recent agreement of the Organization for Economic and Co-operative Development as a basis to push for an early harvest on agricultural reform.

To forefront

That agreement, which was endorsed by the European Community as well as Japan, was the crowning achievement in a two-year struggle to lift agricultural reform from the list of unmentionable trade issues to the forefront of world discussion.

Canadian officials were thrilled with the OECD agreement, noting that it called for a truce in the trade war and the tabling of specific negotiating proposals at the GATT, a spokesman said.

However, recent discussion in the European Community about the possible imposition of an oil and fats consumer tax and noises in the U.S. Congress about boosting the $1-billion export enhancement program have put a damper on the enthusiasm of a month ago.

One spokesman said last week the imposition of an oil and fats tax could scuttle the forthcoming talks on agriculture as well as trade in general.

Spokesmen are saying they will have to work hard just to maintain the commitment received in the OECD agreement.

While all countries have stood behind the intent of the OECD agreement, the federal spokesman said it is clear that as many as two — Japan and West Germany — may not be too enthusiastic about the agreement.

Japan's market is heavily protected, particularly in agriculture where rice production is a political deathtrap, according to a federal official.

The political situation is a little more tricky in Europe, according to the spokesman.

The Common Agricultural Policy, which was initially formed in 1957, is based on three principles — market unity, Community preference and joint financial responsibility.

The spokesman said the program benefited West Germany and France the most.

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Plan hinges on trade talks

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By Peter Morton
(Herald staff writer)

OTTAWA - A federal plan to help diversify the Western Canadian economy hinges on the success of current trade talks with the United States, says Deputy Prime Minister Don Mazankowski.

"It's all tied into trade initiatives," Mazankowski said in an interview Monday after speaking to the annual meeting of the Investment Dealers Association of Canada.

Mazankowski told the meeting that he plans to bring out the federal government's long-promised Western Canadian economic development and diversification package in "30 to 35 days."

Ottawa has been developing a plan to help wean Western Canadian economies away from natural resources by looking at new industries linked to broader trade initiatives, he said.

"Certainly, trade initiatives open up so many new opportunities," he said in a later interview.

But he was reluctant to say exactly what the government has in mind for the West except that successful trade initiatives would allow opportunities for "value-added processing," some "new approaches to agriculture" and in the service industry.

Value-added processing would simply allow producers of raw materials in Western Canada a chance to process the product a little further before exporting it. At the moment, much of the West's exports are shipped out mostly unprocessed, such as the logs sold to the Japanese instead of milled products.

The promised Western Canada economic package is just one of three the federal government has been developing for Canada as part of a drive to move regional develpment programs out of Ottawa and back into the regions of Canada, Mazankowski told the investment dealers.

He also announced that the government plans to put together an economic development package for northern Ontario, not unlike the Atlantic Canada Opportunities Agency that was announced last week.

The Atlantic agency, which starts with a government promise to spend $1.05 billion over the next five years, is to be headquartered in Atlantic Canada.

The spending program is also expected to replace the current grant system under the Department of Regional Industrial Expansion, long a sore point with the Alberta government.

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Faint hopes for Venice

Conditions at the Venice Economic Summit will not be propitious for bold, decisive measures by Canada and its six partners to deal with a world economy afflicted by imbalances in trade and currencies, overhung by gigantic Third World debt and facing a potential recession.

As usual, key countries among the seven are bringing with them exaggerated and unrealistic expectations about what can be achieved in a brief meeting. Others, including Canada and Britain, will have lower expectations and will be unlikely to suffer disappointment.

Canada's request that everyone stop playing the mammoth agricultural subsidies game will get a favorable hearing because it is a fashionable request, although it remains practical politics to keep paying subsidies. For instance, the anti-subsidies rhetoric at the recent meeting of the Organization for Economic Co-operation and Development has not led Japan, the European Economic Community and the United States to stop using taxes to protect their farmers and export sales.

This limits what Prime Minister Brian Mulroney can be expected to achieve in Venice for western Canadian farmers, beyond another denunciation of the crime of big subsidies by those most guilty of the crime.

France, which does very well out of the EEC's Common Agricultural Policy, will not be leading a charge to cut subsidies to its wealthy, over-producing farmers, no matter what President Francois Mitterrand learned during his recent stay on a Saskatchewan farm. Instead, it will resurrect its summit chestnut of the alleged need for "target zones" for exchange rates, to be achieved by co-ordinated intervention on foreign exchange markets. As usual, this irrelevant proposal will receive scant attention but will waste valuable time.

France will also be ganging up with Italy and the United States to lean on the West Germans to open up their markets to more goods by stimulating demand. Although the Federal Republic of Germany has a healthy trade surplus, Chancellor Helmut Kohl is likely to be as unenthusiastic about this idea as about Mr. Mitterrand's idea that West Germany and Japan, but not France, should transfer surpluses to the Third World through enormous new aid programs. Mr. Mitterrand, who pushed the idea during his recent speech in Canada's House of Commons, is mixing compassion with stimulative economics but already knows the West German answer. Having examined the idea of stimulative trade or aid measures, the West Germans have concluded it to be dangerously irresponsible.

Japan had already decided to give more aid to the Third World, as a public relations gesture to take some of the world heat off its excessive protectionism and as a means of creating new markets for its own goods.

British Prime Minister Margaret Thatcher's only requirement of the Venice Summit is that it provide her with election-eve color television unpaid advertising to help her to a third term in next day's vote.

U.S. President Ronald Reagan will be hoping for a great deal more out of the summit than he can put in. He arrives at the table weakened politically by the Iran arms scandal, weakened economically by a huge budget deficit, a large trade deficit and the new status since last year's Tokyo summit of net debtor nation and world's biggest debtor. He will be dealing with countries, notably Japan, that sustain his debt-creating policies by buying most of his country's official debt paper.

Nevertheless, he will be the most important leader there because even his profligacy has been unable to ruin the mightiest economy on earth. Despite the trillion dollars of debt that he has loaded on the backs of future generations, the U.S. economy is in the 53rd month of an economic surge and its $4.4 trillion gross national product, meaning goods and services output, leaves Japan, at $2.4 trillion, far behind.

Mr. Reagan can expect to gain murmurs of support for stability in exchange rates already achieved by early meetings at the finance minister level. He can expect the same when calling for lowering of import barriers, another fashionable cry on an issue in which every participant has dirty hands. His efforts to cut his own trade deficit, asking Japan and West Germany to run down their trade surpluses by buying more U.S. goods, will be less successful.

West Germany's sometimes-comical obsession with inflation is a governing factor in its reluctance to accommodate such requests. Japan, whose Prime Minister Yasuhiro Nakasone arrives bearing the pallor of imminent political death, will hardly be more helpful. Mr. Nakasone, who will probably be out of power in October, will be arguing that enough has been done already. His central bank has lowered interest rates and his government has introduced emergency economic measures to stimulate domestic demand, consisting of $34 billion in new spending and $7 billion in tax cuts.

U.S. non-economic priorities are likely to get mixed responses. Everyone can agree that AIDS is a bad thing against which all must work together harder. Drug abuse also can be universally condemned, as can international terrorism. After a bruising domestic debate, West Germany now is able to join other participants in giving cautious backing to the possibility of a Soviet-U.S. arms control deal that would pull medium-range and short-range nuclear missiles out of Europe.

Much stickier is the issue of U.S. naval protection for oil tankers in the Persian Gulf and whether any summit partners might agree to join that effort. West Germany and Japan cannot do so, for obvious 40-year-old reasons. Other participants share the puzzlement seen in Congress about how well thought out Mr. Reagan's Gulf strategy has been and about how wise it is to create fake U.S. nationality for ships owned by Gulf states that will take all the profits but prefer to share none of the military risks.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

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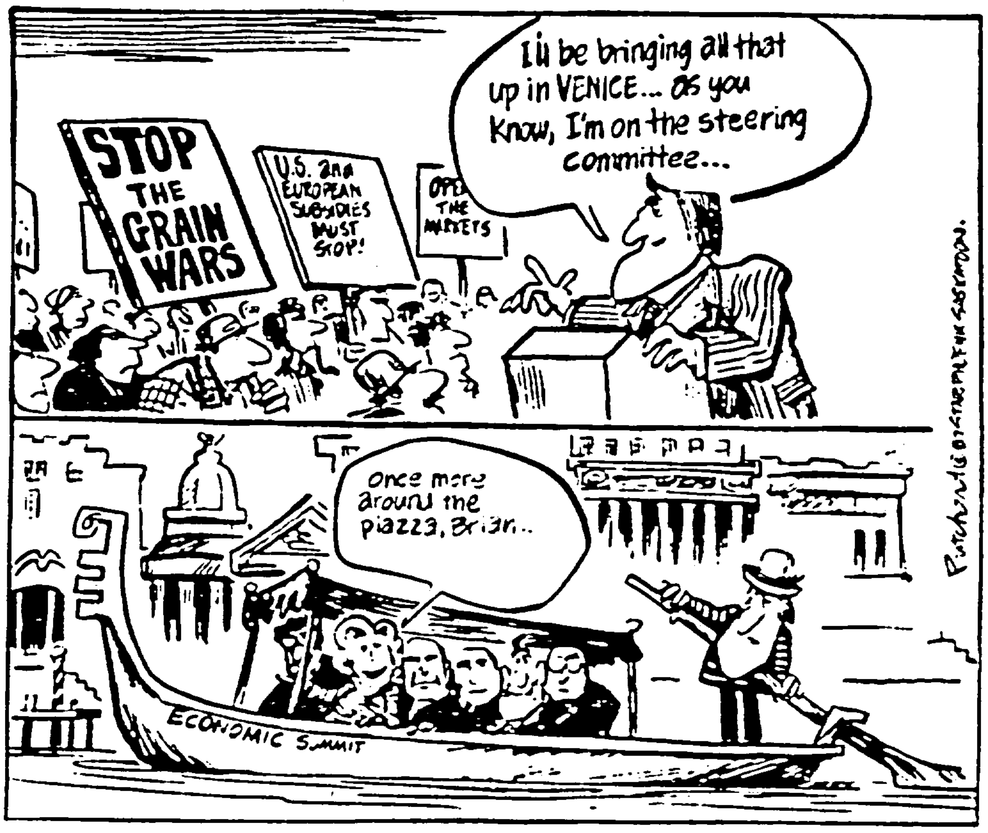

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DEPARTMENT OF EXTERNAL AFFAIRS

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THE SUNDAY STAR, JUNE 7, 1987

Superpowers are easy meat for manipulators in the gulf

By Gwynne Dyer
Special to The Star

LONDON — When U.S. Secretary of Defence Caspar Weinberger was asked the other day why the United States was planning to take a more active naval role in the Persian Gulf, he gave a very revealing reply.

It was, he explained, because there would otherwise be a vacuum of power the Soviets would fill.

He was referring to the fact that the Soviet Union, which supports Iraq in its seven-year war with Iran, has recently been chartering tankers to Kuwait, whose shipping in the Gulf has come under regular Iranian attack because it is the main conduit of supplies to Iraq.

The chartered Soviet tankers have been receiving Soviet naval escort in order to warn the Iranians off.

22 tankers

Monkey see, monkey do. Having got the Soviet Navy more openly involved in supporting them, the Kuwaitis had no trouble at all in getting the United States to do the same.

Washington promptly agreed to Kuwait's request to re-register half of its own fleet of 22 tankers under the American flag so that they will be eligible for U.S. naval escort.

Many U.S. congressmen are nervous about the implications of this decision, but the administration of President Ronald Reagan is determined to go ahead.

"To protect commercial shipping, which we have said that we will do, obviously we would put in the resources that we think are essential to carry out that mission," Weinberger said.

He added that if extra U.S. fighter aircraft were needed to support the naval escorts, he was sure that the Gulf Arab countries would provide bases for them.

No doubt they would for, despite an Iranian warning Friday that it is ready to attack any such bases, it is a significant step down the road to getting the United States (and the Soviet Union) to fight their battles for them.

What is extraordinary is the degree to which both superpowers are allowing themselves to be manipulated and manoeuvred into a dangerous military commitment that neither of them, in their saner moments, would choose to accept.

The danger was illustrated almost immediately. Only hours after the Soviet tanker hit a mine off Kuwait, the U.S. Frigate Stark was struck by an Exocet missile in the same general area and 37 American sailors died.

Washington chose to downplay the event as an "inadvertent incident," since it was an Iraqi plane that launched the missile and the United States, like the Soviet Union, backs Iraq in the war.

But one can readily imagine what would now be happening if it had been an Iranian missile that struck the Stark.

The paranoid Iranians believe both superpowers are jointly preparing a pretext for attacking and destroying the Khomeini regime.

It is certainly true that both governments would like to see the Islamic revolution in Iran disappear, since it is equally threatening to America's conservative Arab allies in the gulf and to the Soviet Union's large and hitherto docile Moslem population along Iran's northern borders.

But like most conspiracy theories, this one credits governments with too much efficiency, foresight and strategic ruthlessness, and makes too little allowance for the role of muddle in international politics.

Both Moscow and Washington have been sucked into this game by adroit Arab diplomacy.

Imminent peril

Most senior officials in both Washington and Moscow, however clever they may be in other respects, are so deeply immersed in the traditional assumptions of great power politics that they are scarcely capable of rational thought on this subject. (I am choosing my words deliberately.)

They are easy meat for manipulation by a third party (like Kuwait) whose senses have been sharpened by vulnerability and imminent peril.

There is no conspiracy, but the Iranians are right in practice: One or both of the superpowers may end up in a shooting confrontation with them. And that would be monumentally stupid.

☐ Gwynne Dyer is a star correspondent based in London.

Venice summit won't solve main problem facing West

RICHARD GWYN

International Affairs

LONDON — Forty years ago this weekend, a single speech, flat and unemotional and lasting less than 10 minutes, created a new international order.

Europe faced "economic, social and political deterioration of a very grave character," said then U.S. secretary of state George Marshall in his commencement address of June 5, 1947 at Harvard University.

Only if the United States did whatever it is able to do to assist" could Europe break the "vicious cycle" whereby it lacked the funds to buy the industrial equipment it needed for economic recovery, Marshall said.

Just three years after the Marshall Plan officially began, Europe was back on its feet.

This was Marshall's immense, personal achievement. But his real achievement was to re-define the post-war world. Henceforth, that world was to be U.S.-led. Instead of retreating into isolationism as it after World War I, the United States would, in Marshall's phrase, "face up to the vast responsibility that history has clearly placed upon our country."

Some would date the beginning of the end of the post-war Pax Americana to the '60s and to the erosion of U.S. moral, political and financial leadership by the Viet Nam War.

Some would date it from the '70s and the Soviet Union's attainment of the nuclear parity.

Some would pick a date in the late '70s when Japan's emergence as a rival economic superpower became unarguable, and irreversible.

Whenever it began, the trend is unmistakable. As happened to the British Empire before it, and to all the others back to the Roman Empire, the end of American international hegemony is in sight.

What isn't in sight, cannot yet even be dimly perceived, is who — now that the United States can no longer "stand tall" by itself alone — will stand up to share world leadership with it.

This is the real agenda of the Western summit that opens tomorrow in Venice.

As they always do, the seven leaders, including Brian Mulroney, will talk about trade and debt and currency exchanges and interest rates. As again they always do, they will avoid either controversy or specific commitments while taking good care to sound as if they are doing something.

Since advance expectations for Venice are so low — two of the seven nations, Britain and Italy are in the midst of elections; two other leaders, Ronald Reagan and Japan's Yasuhiro Nakasone, are near to the end of their political limits — the minimal and the predictable may just be enough.

The agenda item left undealt with would be the only item that matters — how to manage the world now that the United States lacks the means, and the imaginative reach of a contemporary Marshall, to lead it alone?

Economically, Japan and West Germany can provide the means Washington now lacks. In the '50s, the United States accounted for 33 per cent of the world's wealth. Today its share has dropped to 23 per cent. The combined share of the troika, though, amounts to a dominating 37 per cent.

Japan and West Germany, though, are yesterday's societies — impressive externally yet aging, inward-looking, unambitious and essentially uninterested in the world beyond their borders.

The obvious alternate alliance is that of Europe and the United States. The pair are intimately inter-connected culturally and historically let alone militarily, politically, economically.

Yet the Old World is a tired world. Its exhaustion of will and nerve has been dramatically illustrated by Europe's hand-wringing and foot-dragging once it realized that East-West arms' reduction talks might actually mean some arms being reduced.

Europe in essence fears any future other than the one it already has. That's the personality of a follower, not of a leader.

One off-centre combination could be the United States and the Soviet Union. Such a partnership seems implausible. Yet it's not inconceivable.

Reagan seemed to suggest it in a recent speech. The Soviet Union, he commented, had refused to take part in the original Marshall Plan. But if its leaders, "reject the closed, isolated and belligerent policies they inherited, if they wish to be part of the free world economy, we welcome the change."

Reagan may not have meant what he said, nor have understood it. Either way, he's unlikely now to be able to do anything about it.

So the source problem behind all our current problems of unrepayable debt, of yo-yoing currencies and of escalating trade wars, will remain all but certainly the same after Venice as before it: The Pax Americana is unravelling, but no new international order is arising in its place.

Someday soon, Western leaders, and perhaps those of the Soviet Union, are going to have to face up collectively to the "vast responsibility that history has clearly placed upon (them)."

It won't happen in Venice. It may — just — begin to happen there, in talks in the corridors and in strolls along the canals.

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DEPARTMENT OF EXTERNAL AFFAIRS

MINISTÈRE DES AFFAIRES EXTÉRIEURES

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Editorials

A leadership test for the President

U.S. President Ronald Reagan recently said that the message he will take to the other major industrial nations at next week's economic summit in Venice will be to "tell them that I will spend this summer and fall going to cities and towns across America . . . asking the American people to help us keep the deficit spenders in Congress from wrecking America's economic future." The translation of Reagan's rhetoric is clear: He will not increase taxes, and that means the U.S. budgetary deficit is not likely to fall very much, if at all.

Reagan went on to say that he would ask the leaders of the other summit nations to stimulate their economies. But if Reagan doesn't offer his summit partners something more substantial than a pledge to coax the American people to reduce their demands for government spending, his request for stimulus is going to fall on deaf ears. As far as the West Germans, in particular, are concerned, it makes no sense for Reagan to ask them to rechannel their savings into spending unless the U.S. economy stops soaking those very savings up. They believe that, without a cut in the U.S. deficit, stimulus can only lead to higher inflation or higher real interest rates.

Reagan's inflexibility on tax increases has already cost him a lot. He goes to Venice not as the protector of U.S. hegemony but as the spokesman for the nation with the world's largest debt. Says one former U.S. official: "He's the supplicant. He's the guy who's dependent on their continued financing for his economic strategy."

Yet Reagan still doesn't seem to fathom that economic co-ordination is a two-way street. And his continued stubbornness at Venice could cost the world a lot. The risks of recession are growing. The upward drift in U.S. interest rates can only compound the problems of Latin American debt. And although Reagan says he opposes protectionism, his intransigence on fiscal policy has become an invitation for even more.

If Reagan refuses to budge on these economic issues, it's indeed possible that he will not be able to push through his ideas on defence and arms control. Asks Robert Hormats, a former U.S. assistant secretary of state: "Can the world's leading debtor also be its leading power? . . . If you're constantly asking everyone to do things for you economically, can you lead the Free World?" If Reagan doesn't start leading by example, the U.S. may lose its ability to lead at all.

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Computer link in offensive on terrorists

Sunday Times June 7

● Action to counter terrorism will be high on the world leaders' agenda. JAMES ADAMS reports from Bonn

THE Venice summit intends to agree on a series of new measures to combat terrorism. The most important will be an initiative on intelligence-sharing that could be the most significant development in the terrorist war in recent years.

According to senior American sources, the summit will establish a computer system allowing information on suspected terrorists entered by one country to be available to others.

In addition, consuls from the seven nations who process visa applications around the world will be able to gain access to another computer that will show if an applicant has visited any other Western country, if a similar visa application has been refused in the past, and why.

The new measures follow the meeting in Paris last month of European Community justice and interior ministers, under the auspices of the Trevi group, (an acronym standing for Terrorism, Radicalism, Extremism and Violence). The ministers agreed to improve intelligence-sharing and police co-operation.

The Venice summit will endorse these policies; but its pious intentions will rapidly be put to the test.

After the summit, President Reagan will fly from Italy to Berlin, where he will meet Helmut Kohl, the West German chancellor. The two will then fly together to Bonn where Reagan will raise the case of the suspected terrorist, Mohamed Ali Hamadei, who is under arrest in West Germany.

Hamadei is suspected of being responsible for the hijacking of the TWA airliner to Beirut last year, when a US Navy diver, Robert Dean Stetham, was killed. The Americans have asked for Hamadei's extradition to face charges of air piracy and murder.

Shortly after Hamadei was arrested in West Germany in January, two West German businessmen were kidnapped in Beirut. But since then, the Bonn government has blocked the American request for extradition and, despite pretending to be opposed to deals with terrorists, has secretly negotiated for the release of the businessmen.

Since news of the negotiations, which included approaches to the Syrian and Iranian governments, was revealed, the United States has told the Germans that they must extradite Hamadei for trial in America. If the Germans decide to try Hamadei themselves, the Americans insist, there must be no question of giving him a short sentence (if he is found guilty) in exchange for the two kidnapped businessmen.

The United States accepts that Kohl has a difficult decision to make, but they see Hamadei as a symbol of Western determination to stand firm against terrorist blackmail.

The West can claim some success against terrorism in the past year. In 1986, there were almost 800 terrorist incidents which resulted in more than 2,000 casualties. But Paul Bremer, the United States' ambassador-at-large for counter-terrorism, says: "Our preliminary figures show that international terrorist incidents in 1986 were about the same as 1985 — a considerable change from previous years which saw annual increases of 30-40%."

There have also been impressive successes against European terrorist movements. Last week, the French police carried out raids in nine cities and detained 57 people who they believe were planning bomb attacks. Much of the intelligence on the latest raid came from the West German police with whom the French now have a bi-lateral agreement on the sharing of terrorist information.

Also last week, the Italians arrested eight members of the Red Brigades including the head of the Rome cell. Last month, the leader of the Portuguese terrorist organisation FP25 was jailed; in February the four key leaders of the French terrorist group Action Directe were arrested; leaders of Belgium's CCC are awaiting trial, and last September West German police arrested three hard-core members of the Red Army faction.

But, as fast as arrests are made there are willing recruits to fill the ranks and Western security officials are concerned that unless the counter-terrorist momentum is maintained, the terrorists will regain the initiative.

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DEATH IN VENICE

by WILLIAM KEEGAN ■ Venice

SENIOR international financial officials are extremely nervous about how this year's economic summit, which starts here tomorrow, will be received in world foreign exchange stock markets.

The markets have been relatively calm in recent weeks, in the hope that the leaders of the biggest non-Communist industrial economies would follow up their exchange rate agreements with the promised firm action on economic policy. This hope meant that even last week's news of the resignation of Paul Volcker from the chairmanship of the US Federal Reserve produced only a day of nervousness in the exchange markets.

All the signs are, however, that the leaders of the Group of Seven industrial countries have failed to resolve their differences on the major issues of economic policy co-operation, and that the summit is going to be an embarrassingly lame affair.

The heads of government and their officials plan to paper over the cracks with a communique emphasising their areas of agreement on many non-economic topics, varying from terrorism to AIDS and drugs.

On economic issues as such there will be stress on an agreement in principle to reduce agricultural protectionism as part of the general trade negotiations in the so-called Uruguay round of trade talks.

They will also reaffirm their commitment to exchange rate stability, as outlined in the Paris 'move agreements' of February, which was modified slightly at the April meeting of the Group of Five (US, Japan, West Germany, France and the UK) and Seven (the five plus Italy and Canada) in Washington.

Where negotiations have broken down is on the crucial 'backup policies' which were envisaged in Paris as a key element in preserving currency stability.

Although the communique will draw attention to the general aims of 'multilateral surveillance' and closer co-operation in international economic affairs, officials privately admit that the search for 'objective indicators' to guide consultations have become the substitutes for policy action in Washington and Bonn.

They 'all know exactly what should be done, and they are simply not doing it,' one summit official commented.

Lawson: Day trip.

In this connection, the resignation of Paul Volcker from the Federal Reserve (and President Reagan's refusal to press him to stay) is seen as an indication of Volcker's final frustration over Reagan's refusal to contemplate tax increases in the US as a means of righting the country's budget deficit and overseas payments gap.

The major international economic policy organisations believe that, in addition to the dollar devaluation already achieved, the US must undergo a period when domestic demand expands more slowly than output, so that resources can be put into the balance of payments. So far they do not see sufficient evidence of this.

There are increasing fears that the dollar may suffer the long predicted 'hard landing,' and that US interest rates will have to rise sharply.

While the seeming paralysis of US economic policy is seen as a formidable barrier to the success of this summit the Reagan Administration itself is angry with the West German government for its refusal to contemplate major moves to stimulate the West German, and hence West European, economy.

Japan has pre-empted overseas criticism to some extent by unveiling a $42 billion (one and three quarters per cent of GDP) reflationary package in advance of the summit which has won praise from the US. But there is still some scepticism about how the package will be implemented, and Japan is expected to come under further pressure to open up its internal markets.

In spite of the growing seriousness of the international debt crisis, and the recent moves by US banks to adjust their balance sheets to the realities on the Latin American scene, no new initiatives are expected here on the major debtor countries.

The British Chancellor, Nigel Lawson — who, because of his electoral commitments plans to make virtually a day trip on Tuesday to the summit — is hoping to win endorsement for his plan to offer major relief to the hard-pressed debtor countries of sub-Saharan Africa.

The summit itself lasts from Monday until Wednesday. Mrs Thatcher will come here for dinner with the other heads of government tomorrow evening, and one working session on Tuesday before returning to the hustings. Although there have been suggestions that the British Government will claim that the summit 'endorses' UK economic policies, some US officials here, looking at UK unemployment statistics, privately argue that the UK, as well as West Germany, should be taking further policy action.

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SUMMIT GESTURE BY KOHL

By Christopher Smallwood

CHANCELLOR Helmut Kohl of West Germany will tell the six other heads of state attending the world economic summit in Venice tomorrow that the German authorities are planning an early cut in interest rates to help stabilise the dollar.

The American treasury secretary, James Baker, has been demanding expansionary measures by the surplus countries — Germany and Japan — to help reduce the American trade deficit.

But in spite of strong American pressure to cut taxes, the Germans have started to back-pedal on the tax reforms already announced for 1988 and 1990. Lothar Spaeth, deputy-president of the ruling Christian Democrats, said on Friday that "the scope and timing of the tax reform" should be reconsidered.

The Germans have also rejected a recent American proposal for a co-ordinated interest rate move — up in America and down in Germany — to help stabilise the dollar. But following Japan's recent announcement of a substantial package of extra spending, Germany has come under unprecedented American pressure to act too. The only available gesture is a 0.5% cut in the Bundesbank's discount rate.

The seven leaders will also reaffirm February's "Louvre accord" to intervene jointly to keep currency values at "around present levels".

Exchange rates between the major currencies recently returned to February's levels, which, according to the chancellor, Nigel Lawson, shows that the agreement has worked.

American proposals for policy co-ordination beyond this will, however, be dismissed by Britain, as well as by West Germany, as "impracticable".

Modest progress may be made on:

- British proposals to reduce the debt burden of the poorest countries in sub-Saharan Africa.
- Agricultural surpluses, following the recent OECD communique which pointed the way to a general reduction in subsidies.

Some dealers were nervous on Friday that the dollar would weaken following the summit. Such a downturn, if combined with a Conservative election victory, could produce a period of exceptional strength for the pound towards the end of this week.

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SECTION 4 P29

DEPARTMENT OF EXTERNAL AFFAIRS

Beyond Volcker, Beyond Greenspan

By Herbert Stein

WASHINGTON

Paul A. Volcker deserves all the honors a grateful nation can bestow upon him, mainly for his battle against inflation.

It does not belittle Mr. Volcker's achievements to say that they did not include a solution of the problems of inflation and monetary policy.

The country is left with no guidance for *his* successor except that he should be like Mr. Volcker. Presumably, this does not mean that he should be 6 feet 7 inches tall. It means that his policy should be like Mr. Volcker's. But what was Mr. Volcker's policy?

The Federal Reserve's policy throughout its history has been to look at *all* the nation's objectives, *all* facts and forecasts and make decisions that it would be prepared to change in a week or a month. Until he writes a book telling us something different, that was also Mr. Volcker's policy.

There are two problems with the Fed's institutional policy.

First, it leads to great uncertainty. Even in the financial markets, which had so much confidence in Mr. Volcker, there was always enormous uncertainty about what he would do next and what the consequences would be. Such uncertainty infects and injures the economy outside "the markets."

Second, and more important, this policy contains an inflationary bias. When the Federal Reserve considers anew each month relative priorities of employment, economic growth, the dollar's exchange rate, third world debt, the troubled banks and inflation, there is a strong tendency for the control of inflation to sink to the bottom of the list.

The effects of monetary policy on inflation tend to come later than the effects on employment and output. Short-run interests are overwhelmingly in favor of a policy of expansion, even at the risk of inflation — at least until the inflation is upon us in a devastating degree.

This bias is probably stronger in the public and the politicians than in the Federal Reserve, but for all the talk of independence the Fed cannot be indifferent to the opinions of the public and the politicians.

This bias in the Fed's "all-things-considered" policy was a main cause of the inflation of the 1970's. That Mr. Volcker, who was chairman for eight years, resisted it is a tribute to him. His resistance was fortified by his experience with the weak anti-inflationary policies of the 1970's while he was at the Treasury and the Federal Reserve Bank of New York.

But we must remember that he took office after a decade of rising inflation that had made the public and the politicians extraordinarily willing to accept the costs of an anti-inflationary policy.

Alan Greenspan, whom President Reagan has nominated as the new chairman, is probably as much "against" inflation as Mr. Volcker. Like Mr. Volcker, he has had experience with the difficulties of checking inflation once it has gathered steam. But he is to enter office in an environment quite different from the one that surrounded Mr. Volcker's entrance.

Six years have passed since America last suffered double-digit inflation. The public no longer thinks of inflation as its No. 1 problem. The chairman will soon be working with a President who will not be elected on a promise to make control of inflation a top priority.

Sometime in his term, Mr. Greenspan will almost certainly encounter a recession accompanied by rising unemployment. Can we be confident that in this new environment he will be as resistant as Mr. Volcker was to the advocates of expansionary and inflationary policy as a way out of recession? And if we are confident about Mr. Greenspan, can we be confident of *his* successor?

The country needs greater assurance of price stability than the prospect that the Fed chairman will be against inflation. Before Mr. Volcker, the chairmen under whom we got the inflation were also against inflation. We need assurances that control of inflation will continue to be the first and dominant priority of the Federal Reserve.

This proposition implies, of course, that unemployment, growth, levels of particular prices and the solvency of particular financial institutions are at most subordinate objectives of monetary policy, except insofar as they are promoted by price level stability.

This proposition needs to be clearly stated, publicly debated and endorsed by the political leadership, possibly in the form of an act of Congress declaring it to be the primary mission of the Federal Reserve to stabilize the price level.

A test of the Fed's priorities awaits Mr. Greenspan. We hear a great deal about two goals of monetary policy — to fight inflation and to "defend the dollar" — that is, to stabilize the dollar's exchange rate at the existing level.

These two goals are talked about as if they are twins, but in fact they are consistent with each other only on occasion and by coincidence. For example, to have tried to stabilize the dollar from 1981 to 1985 — to keep it from rising — would have defeated the effort to get inflation down.

The Federal Reserve would have had to buy foreign currencies, which would have increased the supply of dollars and raised the level of prices in the United States. Preventing inflation and stabilizing the dollar may be consistent objectives [illegible].

But it is at least highly possible that defending the dollar by monetary means will require an otherwise unnecessary deflation here. The Fed should keep its eye on the main thing — inflation — and make clear that it is not committed to stabilizing the prices of foreign currencies. Those prices are no more the proper objects of American monetary policy than are the prices of I.B.M. stock and soybeans. □

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HOBART ROWEN

Fresh Ideas For Debt Crisis

VENICE

Allen Wallis, undersecretary of State who does the advance work for President Reagan on the economic summits, emphasizes that these meetings aren't designed for negotiations or decision-making. Rather, they bring the heads of government directly into discussion of economic issues that normally they shun.

Nonetheless, these summits can get new initiatives started. And right now, the leaders have a chance to take a bold step on the Third World debt problem. When Citicorp decided to put $3 billion in reserves against future losses, it served up a golden opportunity for a new approach to the debt issue.

Citicorp's action—followed by Chase Manhattan and other banks—demonstrated that the banking system is in a much better position now to take systematically planned losses than it was in 1982.

To a considerable extent, credit should go to Treasury Secretary James A. Baker III and his famous debt initiative, which introduced the first major break from conventional attitudes about debt by stressing the need for economic growth instead of austerity among the big debtors in Latin America.

The time has come to take the next strategic steps that are critical not only for the Third World borrowers, but also to maintain the viability of the banking system—especially the U.S. part of that structure. The communique to be issued Wednesday is expected only to endorse the idea of a wide "menu" of options for help to debtor nations, apart from conventional loans. This is a good idea, but more will have to be done.

A forthcoming study by William S. Cline of the Institute for International Economics outlines in detail how broad this menu might be. Cline concludes that widespread debt forgiveness, especially among the four biggest Latin American borrowers, is not warranted.

His relatively optimistic assessment—based on a hope for continued rich-nation expansion—would continue to build on the Baker plan, while tidying up the process of bank lending to include such things as debt/equity swaps and allowing banks to convert existing loans to "exit bonds," which allow smaller banks to withdraw from the debt negotiation process by trading their loans for low-interest bonds.

Many experts, however, are convinced of the need to go well beyond what this summit seems poised to do—preserve and expand the Baker plan, possibly through increased official lending that takes up the slack in commercial banks' willingness to move new money into the Third World.

Percy S. Mistry, for one, is an economist who has just quit the World Bank as senior financial adviser to teach at Oxford, after presenting a detailed plan for a Debt Restructuring Facility to World Bank President Barber B. Conable Jr.

Conable, so far, has rejected Mistry's proposal, which builds on ideas that have been advanced by Princeton University's Peter B. Kenen, Rep. John LaFalce (D-N.Y.), Sen. Paul Sarbanes (D-Md.), New York banker Felix Rohatyn and others. It would set up a new international entity to buy up debt at a discount from the debtor nations, then pass along the benefit of the discount to the borrower.

"It is imperative to seize the moment, and take actions which the [banking] system can absorb in a gradual manner, instead of running the risk of a sudden shock which may yet crack it," Mistry told Conable.

As John Makin of the American Enterprise Institute recently wrote, "no magic plan exists to solve the problem." But that doesn't mean that nothing can be done, or that the effort to take major strides past the Baker plan or the Bradley plan—which calls for interest-rate relief or debt forgiveness in some circumstances—should be abandoned. Several American legislators are at least trying.

Robin Broad and John Cavanagh of the Carnegie Endowment for International Peace suggest that the Third World countries must generate more growth from within, relying less on being pulled along by the richer nations. But this will require basic land and other reforms that won't be offered voluntarily by dictators, or instigated by the status-quo managers of the World Bank and International Monetary Fund, Broad and Cavanagh say.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

P. 2

Subject
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Mistry may not have a "magic plan," but he's got a logical scenario that seems to hang together. He points out that while developing country debt now accounts for less than 7 percent of the total assets of American banks, against more than 10 percent in 1981, the debtors are in worse shape. Third World debt has grown by 62 percent and—worse—debt service has grown from $88 billion a year to $141 billion, a 60 percent increase. This has created the intolerable situation under which there are enormous net transfers from the less-developed countries (LDCs) to the richer nations.

Mistry contends that the time has come to restore a better balance between the deterioration of the debtor countries and the improved position of the creditor banks.

The banks haven't been making the additional loans anticipated in the Baker plan, but are prudently reducing their exposure—a trend that will increase in the wake of the Citicorp and Chase Manhattan reserve actions.

The dwindling of new bank money—recognized by Baker in his call for a new "menu of options"—puts more pressure than ever on the World Bank and the InterAmerican Development Bank to plug the gap.

According to Mistry, these institutions are now "rapidly approaching the limits" of their lending capacity. In the absence of new capital, he warns they are being placed "in a position of increasing financial jeopardy."

What is needed is Baker plan Phase II that will reverse the outflow of money from the Third World to a positive inflow once more, and to do it in a way in which the debtors as well as the banks benefit from writing down the inflated debt totals.

"Debt 'relief' must be achieved through market mechanisms rather than by fiat or political negotiations between debtor and creditor countries," Mistry suggests.

He offers a "Baker II" plan modeled along the lines of the Municipal Assistance Corp., engineered by Rohatyn, that pulled New York City off the ash heap. As suggested by LaFalce (but funded in a much different way), a Debt Restructuring Facility (DRF) would buy up, at a discount, the debt of Third World countries whose performance would be monitored by the World Bank.

The DRF would be capitalized by the United States, Japan and other industrial countries at $30 billion—of which 10 percent would be cash, the rest callable, spread over three or four years. It could borrow at a 10-1 gearing ratio (conservative compared with commercial banks), which would allow it to issue up to about $300 billion in its own securities in exchange for loans now held by commercial banks.

Assuming an average discount of 25 percent to 30 percent, this new facility could acquire $400 billion to $450 billion of LDC debt—while wiping out $100 billion to $150 billion.

If this writeoff were concentrated in the 17 countries in the Baker plan, Mistry says, it would wipe out about one-fourth of their outstanding debt, and cut their debt servicing cost by around $10 billion to $12 billion.

The costs of such a plan seem tiny against the potential benefits and the prospect that it might avoid a financial crash that could ensue if we wait too long. Sure, there may be bugs in this and other variations of the financial intermediary idea. But it would be dangerous to sit back and wait for the Baker plan to take off, as Cline seems to expect. Rather, it is a time for new ideas to be generated, examined carefully, and put into effect.

DEPARTMENT OF EXTERNAL AFFAIRS
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SOVIET AIDE SAYS NAVY WON'T ADD WARSHIPS IN GULF

KREMLIN FEELING UNEASY

Vorontsov, in an Interview, Discloses Moscow Seeks Talks to Avert a Clash

By FLORA LEWIS
Special to The New York Times

MOSCOW, June 6 — The Soviet Union has no intention of augmenting its force of three small warships in the Persian Gulf despite its apprehension about United States plans to build up its fleet there, according to First Deputy Foreign Minister Yuli M. Vorontsov.

He said in an interview yesterday that the Soviet Union was engaged in discussions with Iran, Iraq, India and other countries on ways to assure freedom of shipping in the gulf and the Indian Ocean. He added that the Kremlin had proposed such talks with the United States but had not yet received an answer.

In the wide-ranging interview, Mr. Vorontsov also said the Soviet Union was aiming for a summit meeting in Washington in October. He also expressed optimism that Soviet-American differences on a treaty to eliminate intermediate and shorter-range nuclear missiles in Europe would soon be overcome.

Mr. Vorontsov, who declined to be quoted directly but authorized use of his remarks, indicated strong Soviet interest in reaching agreements with Washington.

Soviet Consults on Shipping

Moscow has had hints that there have been talks between the warring nations of Iran and Iraq on assuring freedom of shipping in the region, he said, but apparently they have not reached anything definitive.

Mr. Vorontsov said the Soviet Union would like to advance consultations with the United States on stopping the gulf war, providing safety of shipping and assuring that the presence of Soviet and American warships in the waterway would not lead to incidents. Little has been done so far, he said.

It would be bad all around, the official declared, if there were to be retaliation for attacks in the gulf.

Other officials here have expressed concern at the possibility that Soviet and United States armed presence in the gulf might turn the local war there into a critical Soviet-American issue.

Iranian Foreign Minister Ali Akbar Velayati was in Moscow a few months ago. Mr. Velayati has recently visited Bonn and Rome, where he is known to have expressed concern about growing superpower presence in the gulf.

Mr. Vorontsov seems to take this as a good sign, but he did not have any indication of results.

Confident on Arms Treaty

On the prospect of a treaty on intermediate-range missiles, Mr. Vorontsov said that a joint draft just completed still contained many disputed points but that he felt they could be resolved. He expects a meeting between the Soviet Foreign Minister, Eduard A. Shevardnadze, and Secretary of State George P. Shultz in Washington late this summer and, if it is successful, a summit meeting in the fall.

Among the outstanding points are

Continued on Page 6, Column 1

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where the United States will deploy the 100 intermediate-range warheads to be allowed each side under a new treaty. It has been agreed in principle that Soviet missiles will not be deployed within range of the United States or its allies, meaning Japan.

But Washington has not yet renounced basing rights in Alaska, which would be within range of Soviet territory. This is considered a bargaining point, not a real obstacle.

Both sides are now working on proposals for verifying destruction of weapons to be removed from Europe and have agreed to technical talks in the near future.

There are problems about where and how near to the point of destruction each side's observers would be allowed, because when the warheads are open they can reveal engineering secrets.

Mr. Vorontsov said the United States was also holding out against factory inspections, having agreed to inspection in principle but insisting that monitors should stay outside factory gates because going inside could violate commercial rights of secrecy. The Soviet Union wants both sides to have the right to go inside.

The details of both destruction of missiles and verification are a new exercise, he pointed out, an historic precedent that could facilitate later agreements on reduction of strategic missiles and chemical weapons. He said both sides were aware of this and were doing their homework and then would discuss the technical problems together.

One serious issue is the destruction of solid fuel missiles, which are very dangerous to dismantle. There are proposals to put dummy warheads on them and shoot them into the ocean, or to send them into space as launchers of commercial satellites.

On Afghanistan, Mr. Vorontsov said the Soviet Union believed a solution was possible by establishing a patchwork coalition, leaving chiefs in full control of the territory they now command.

King Mohammad Zahir Shah, deposed in 1973 and now in exile in Italy, could return as a leader bringing peace, he said, but he could not again become the ruler.

The attitude of Mr. Vorontsov seemed to confirm American official views that the Soviet Union was not yet prepared to withdraw from Afghanistan without being assured of leaving behind a viable central government that would be friendly to the Soviet Union, even if it had only limited power in the rest of the country.

He answered questions about the United States space defense program in a conciliatory tone, saying the Russians had proposed drawing up a list of allowable experiments. The Russians would then say which ones they considered compatible with the antiballistic missile treaty and which ones they considered objectionable.

When he offered this interim solution to unblock further negotiations on reduction of strategic missiles to the chief United States negotiator in Geneva, Max Kampelman, Mr. Vorontsov said the American delegate replied by suggesting that the Russians wanted to control which tests the United States could can make.

Mr. Vorontsov said he answered that the United States could do what it wanted under such an exchange, but that the Russians would answer with their [illegible].

Mr. Shevardnadze made the same proposal to Secretary of State Shultz, he said, who replied that he would discuss it with President Reagan.

The Russians are awaiting an answer on this and on the recent proposal for Warsaw Pact-NATO talks on restructuring conventional forces on both sides to reduce the capability of surprise attack.

Mr. Vorontsov said the Russians wanted direct discussion between military commanders on both sides, but the United States had not yet answered. He expressed hope that after the coming NATO meeting in Reykjavik, there would be a response.

He made it clear that the Russians took very seriously their offer to discuss revising military doctrines to assure that both sides had only defensive and not offensive capacity.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date June 7 ..... Publication New York Times P-14

For Security Forces in Venice, the Canals Are Not So Grand

By JOHN TAGLIABUE
Special to The New York Times

VENICE, June 6 — In recent days, aboard a lumbering armored launch that flew the Stars and Stripes, a Venetian pilot instructed an American Navy helmsman in the art of maneuvering in the choppy Venetian waters.

The point of the lesson was to avoid the kind of incident that occurred at the economic summit meeting in Venice in 1980, when a jolt to the yacht on which President Jimmy Carter was riding nearly tossed him into the murky waters.

The city of canals is a unique conference site. Also unique are the security problems faced by the organizers of the talks that begin here Monday.

Venice has a lot of water. So an Italian security force of about 8,000 people will include a detachment of frogmen, reinforced by hundreds of security men from Western Europe, the United States and Japan, to make sure that President Reagan and other Western leaders will be safe.

Unhappy Gondoliers

The leaders of the United States, Japan, West Germany, France, Britain, Italy and Canada will hold their three-day conference on the Isola di San Giorgio Maggiore, a small private island across the lagoon from St. Mark's Square. Helicopters can land on the island, but the leaders will be brought to the site in motor launches.

To insure their safety, gondolas and other unauthorized craft will be banned from the stretch of water between St. Mark's and the island and its approaches. But this is vital turf for the gondolieri, who have threatened to slap the city with a bill for $150,000, money they say they're losing through forced inactivity.

"What's this supposed to mean?" one of them asked, pacing in front of the Hotel Danieli, "That to keep my vessel from being crushed between a navy launch and a wall, I'm supposed to take it to bed with me?"

The gondolieri have been losing ground to the motorboat taxis that increasingly attracting all but the most sentimental tourists. But the taxi operators are not happy either.

'This Is a Safe Place'

The entire fleet of some 220 vessels have been pressed into service by summit organizers at a rate the operators say is far below the market price. "I cost 98,000 lire an hour" — about $75 — one disgruntled taxi pilot said, steering a visitor in from Marco Polo Airport. "They're paying a lump sum, and then you have to see whether they pay you, and when.

"Reagan could walk around here by foot, and nothing would happen to him," he added, waving down a dark alley of a canal. "This is a safe place."

The participating nations did not hesitate to send their leaders to Italy. Though the country has been rocked by political violence and Arab terrorist actions in recent years, there have been few violent crimes recently.

In March, however, terrorists gunned down an Italian Air Force general on a Rome street. This week, as if to display their control of events, the police announced the roundup of several terrorist leaders, including two accused in the Rome shooting.

Despite the successes against terrorists, no one was taking chances. On Friday evening, Venice's airport was closed for one week to unauthorized traffic; and the lagoon, two days before the conference, vaguely evoked the Brooklyn Navy Yard. Italian and American Navy launches plied the waters, and two Italian warships lay at anchor near an American vessel.

Police helicopters circled the city, and armed vessels of the Guardia di Finanza, or Treasury Guard, a paramilitary force specializing in smugglers, circled Isola di San Giorgio Maggiore.

The greatest concern appeared to focus on the safety of President Reagan. Today, as the President traveled to Rome to confer with Pope John Paul II and to have lunch with President Francesco Cossiga, Italian officials mobilized 5,000 men to protect him.

A helicopter landing pad was built at Castel Porziano to enable Mr. Reagan to fly directly to the luncheon site.

Circuitous Route

A motorcade that included members of Mr. Reagan's staff took a circuitous route to avoid highway underpasses that Italian officials said were the preferred ambush sites of terrorists.

Meanwhile, in sunny Venice, tourists paraded through the narrow streets and lolled in the open-air restaurants. The crowds will likely melt on Sunday, when delegates to the conference move into the major hotels and large areas are declared off-limits to all but residents.

That day, President Reagan and his delegation will move down from a villa north of here to the Hotel Cipriani, the best place in Venice for security.

Last year in Tokyo, the President was lodged in a high-rise hotel; the area had to be cordoned off for blocks around. The Cipriani is on the water's edge facing the conference site, but opposite. St. Mark's, where most of the people are. And it is next to the Guardia di Finanza barracks.

Pope, With Reagan, Asks End to Arms Race

By GERALD M. BOYD
Special to The New York Times

ROME, June 6 — Pope John Paul II made a new appeal for an end to the arms race today, telling President Reagan in a Vatican meeting that that would liberate "immense resources that can be used to alleviate misery and feed millions of hungry human beings."

In turn, Mr. Reagan told the Pope it was time wealthier nations took up his challenge to share with those less fortune.

But the President said the obligation was not just to provide economic aid, but to promote "the moral causes of prosperity," among which he listed hard work, honesty, initative and thrift.

The two leaders made their public comments after a private meeting that last nearly an hour. Vatican and American officials said the meeting had focused on disarmament, East-West relations, the Middle East, Central America and North-South cooperation.

Mr. Reagan, who spoke first, did not respond directly to John Paul's remarks on the arms race. The White House spokesman, Marlin Fitzwater, said the President had addressed the issue in the private audience, informing the Pope that he was "optimistic" about an arms control agreement with Moscow. But Mr. Fitzwater said what Mr. Reagan said precisely was uncertain since the two leaders were the only ones present.

The President also commented on East-West relations later at a lunch with Italy's President, Francesco Cossiga, and the caretaker Prime Minister, Amintore Fanfani, held at Castel Porziano southwest of Rome.

"The President indicated our interests with the Soviets will continue to conflict, but we will continue to work for arms reductions," Mr. Fitzwater said.

After the meeting, the Pope said he was confident that Mr. Reagan shared his concern about world peace and the allocation of resources.

But he added that "absence of trust" and "an unwillingness to work together for the good of all" breed division and have become a stumbling block to the "pursuit of true justice and peace."

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THE NEW YORK TIMES, SUNDAY, JUNE 7, 1987

Once a World Power, Now Host to World Powers

By R. W. APPLE Jr.

Special to The New York Times

VENICE, June 6 — This city of almost hallucinatory beauty, nestled in its protective lagoon, is one of those places that belongs to all the world.

Napoleon called the city's main square, St. Mark's, the "drawing room of Europe." In the jet age, it is the drawing room of the five continents.

In hundreds of thousands, Europeans, Asians and Americans visit Venice each year, vowing to return. Captivated by its canals and its palaces, by the risotto and the scampi of its restaurants, by its gondolas and gondoliers, by the glistening white churches of Palladio and the glowing virgins of Bellini, the tourists invest the "Serenissima" — the most serene, as the residents call their city — with a romanticism that seems far removed from the crude world of power politics.

Yet Venice was once a world power, commanding a maritime empire that reached its zenith in the 15th century. And long before that, it was the hostess for a world summit meeting not unlike the one that will open here on Monday and the similar conference here seven years ago. It took place in 1177, when St. Mark's Cathedral was just 100 years old, and it produced an accord between Pope Alexander III and Frederick Barbarossa ending centuries of strife between the Roman Catholic Church and the Holy Roman Empire.

No Such Grandiose Hopes

President Reagan and his counterparts from the six other leading industrial democracies entertain no such grandiose hopes for their three-day meeting. But their presence will once again focus world attention on a city beloved by millions and known to generations of Americans.

Venice is, in fact, an American favorite. Like such European writers as Thomas Mann, Hemingway loved it and used it as the setting for one of his books, "Across the River and Into the Trees." Hundreds of American painters have followed Turner to the lagoon city to be bewitched by its magical light.

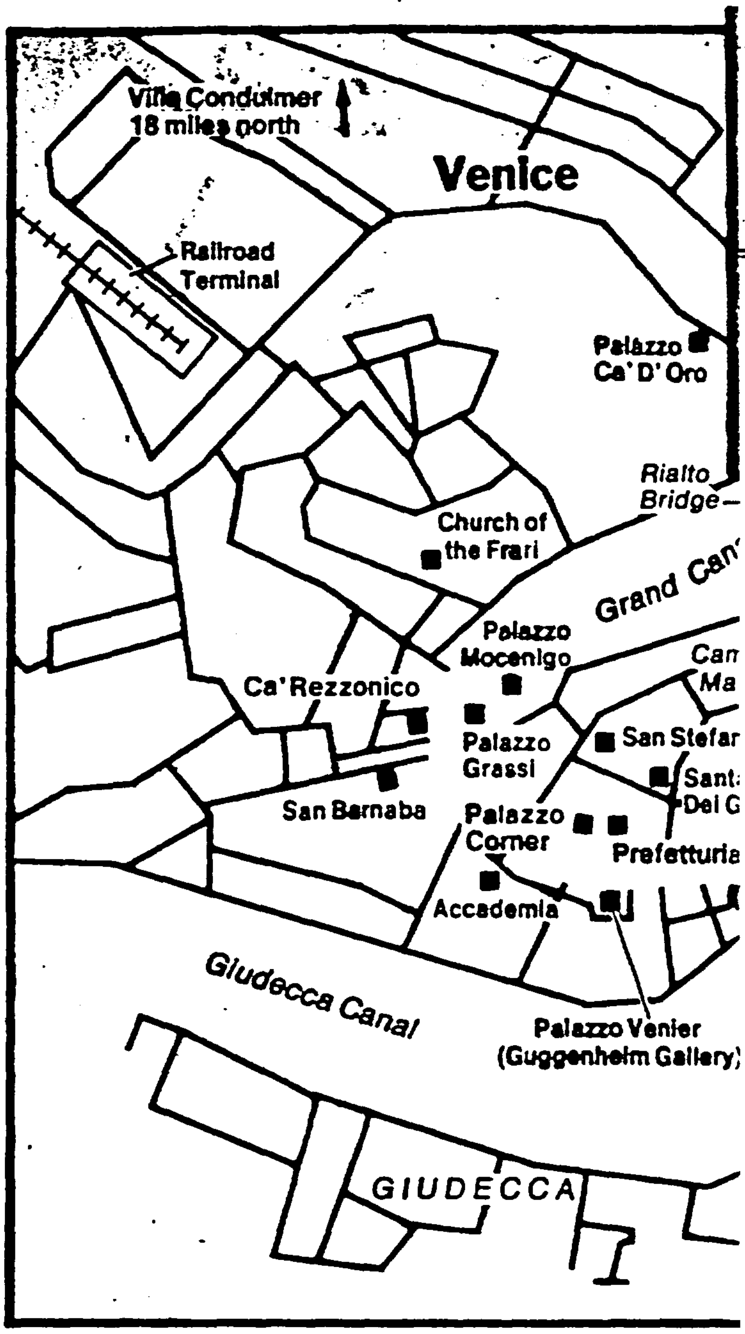
Peggy Guggenheim, the unconventional New York copper heiress, installed her enormous collection of modern art in the curious Palazzo Venier dei Leoni, which has only one story because the rich and powerful Corner family, whose own palace sits just across the Grand Canal, did not want their seaward view blocked.

It is to the Palazzo Corner that the chiefs of state and government will travel Monday evening, immediately after the arrival ceremonies at the pink and white marble Doge's Palace, whose Gothic tracery gives it a fairyland aspect. The ceremonies will take place in the Grand Council Chamber, an aptly named room that measures 170 by 75 feet. It is dominated by Tintoretto's huge masterpiece, "Paradise," which Mark Twain called "the monster picture."

The Palazzo Corner, also known as the Ca' Grande because of its size, is the seat of Venice's governing prefect. A landmark for visitors cruising up and down the Grand Canal, it was built in 1537 by Jacopo Sansovino, a leading late-Renaissance architect.

Working Site on Island

Most of the work of the conference will be done, however, on the island of San Giorgio, which is a few hundred yards across the harbor from the Doge's Palace and is dominated by Palladio's icily majestic Church of San Giorgio Maggiore. The governmental leaders will pose for pictures in the cloisters of the church, also designed by Palladio, and confer in the library of the adjacent monestary, now owned by the Cini Foundation, that was designed by Baldassare Longhena, the greatest architect of the Venetian baroque.



President Reagan's three-day schedule in Venice for the economic summit conference includes these activities: TOMORROW: President Reagan will go from his residence at Villa Condulmer, north of Venice, to the Hotel Cipriani for a working lunch with aides and briefings. The President will travel by boat from the Cipriani to the Palazzo Ducale on St. Mark's Square for the official opening reception. The Palazzo Ducale was the residence of the Doges, rulers of the Venetian state and seat of the Venetian government for almost 1,000 years. Later, Mr. Reagan is to take a short boat ride down the Grand Canal to the Prefetturia for dinner with heads of state and government and will be greeted at the dock by the caretaker Prime Minister, Amintore Fanfani. After dinner, the President is to return by boat to the Hotel Cipriani, where he and his wife, Nancy, will stay in Venice. TUESDAY: A private

The working dinner Tuesday night, given by Italy's caretaker Prime Minister, Amintore Fanfani, will take place in the Palazzo Grassi, a handsome 18th-century building also on the Grand Canal. Until recently, it was, like many of Venice's buildings, in a sorry state of disrepair, but it has been opulently restored by the Milanense architect and designer Gae Aulenti with money from the Fiat automobile company. It reopened late last year with the widely applauded exhibition of Italian Futurist painting.

To and from each event, the leaders will, of course, travel by boat, using the sleek, mahogany-hulled motoscafi, or speed boats, that function as taxis and limousines on the canals. The delegations will be housed in the city's grand hotels, which have been cleared of tourists for the occasion — the costly, elegant palaces like the Gritti, the Danielli and the Bauer Gruenwald, which are patronized by the rich and the prominent.

Mr. Reagan will be at the Cipriani, which is situated on the island of Giudecca, on Monday and Tuesday nights. A very luxurious but relatively small establishment, with only 98 rooms, it is just a stone's throw from San Giorgio, across a narrow channel. The Cipriani, which boasts Venice's only. swimming pool, is owned by an American shipping magnate, James Sherwood.

The man ultimately responsible for the President's comfort will be the hotel's longtime director, Natale Rusconi, who is considered one of the premier hoteliers of Europe and whose wife, Connie, is an American.

If the 1980 meeting is any guide, many of the high-ranking visitors will

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Subject
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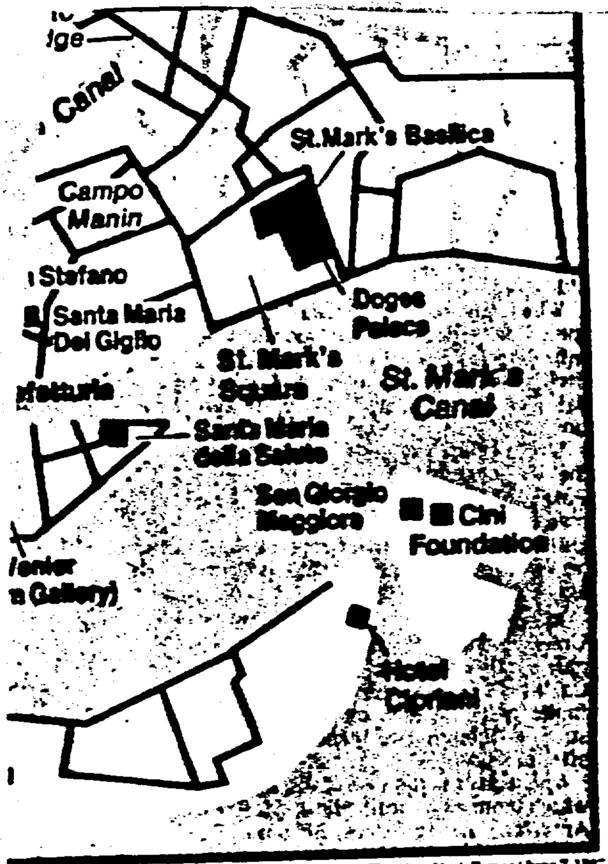

The New York Times/June 7, 1987

working breakfast at the Cipriani is to be followed by a short boat ride to San Giorgio Maggiore, known in Roman times as "the island of cypresses" and the site of a Benedictine monastery, now owned by the Giorgio Cini Foundation. There will be a working lunch and an afternoon session, after which Mr. Reagan is to return to the Cipriani. Tuesday evening, the President will go by boat to the Palazzo Grassi, an art gallery on the Grand Canal, for dinner with the other Government leaders and foreign ministers. After dinner, he will return to the Cipriani. WEDNESDAY: On the final day of the meeting, the President will again take a morning boat trip from the Cipriani to San Giorgio. The final working meeting is to take place in the library of the monastery. That afternoon, summit leaders are scheduled to issue a joint statement in the Hall of Tapestries.

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swarm to Harry's Bar, the city's best-known and, most critics think, its best restaurant. But its proprietor, Arrigo Cipriani, will not be there to greet them, one of the waiters said the other day; he will be in New York, where he already has a chic spot called Harry Cipriani, attending the opening of a new Manhattan venture called Bellini.

For the proprietors of many of the smaller hotels, restaurants and pensions, who have already suffered a drop in American tourism, the economic summit meeting is bad news. Americans stayed away in 1986, one hotel manager said, because of terrorism, and they have come in only limited numbers so far this year because of the dollar's weakness.

"This week, they stay away because they're afraid the city is full,' he said. "It isn't."

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Volcker Leaves a Legacy of Low Inflation

It's Greenspan's Turn at the Helm of the Fed

By LEONARD SILK

SUDDENLY last week, shortly before his departure for the economic summit conference in Venice, President Reagan announced that Paul A. Volcker had resigned as chairman of the Federal Reserve Board. His successor, Mr. Reagan said, would be Alan Greenspan, a business consultant who served as chairman of the Council of Economic Advisers under Presidents Nixon and Ford.

Mr. Volcker was widely regarded as the Hercules who slew the Hydra of inflation and as an intrepid defender of the dollar, so as soon as the news of his departure broke Tuesday morning, the bond market, the stock market and the dollar plummeted. Within hours, however, all recovered as the markets decided that Mr. Greenspan would take up the fight against inflation where Mr. Volcker had left off: Pragmatist had replaced pragmatist, conservative had replaced conservative.

But the arrival of Greenspan and the departure of Volcker, as the smart money sees it, is no simple case of Tweedledum replacing Tweedledee. Banking deregulator has replaced banking regulator. Free-market true believer has replaced intervener. And Republican has replaced Democrat, and a ferociously independent-minded Democrat at that.

By all accounts, the Reagan camp believed that Republicans and their candidate for the White House might face a serious problem in 1988 if Mr. Volcker stayed. Even at the risk of a recession on the eve of the election, he was fully capable of deciding that an increase in interest rates was needed to block inflation. This was not just an academic possibility. The Reagan Administration, while taking credit for killing inflation, blamed Mr. Volcker's inflation-killing policies for the severity of the recession of 1981-82. And it remembered that Mr. Volcker's tough monetary policy of 1979 had choked off economic growth in 1980 and helped drive Jimmy Carter from the White House. Mr. Reagan hesitated to reappoint him, without some evidence that Mr. Volcker would be willing to bend the knee to White House and Treasury guidance.

But since his toughness and stubborn independence were the very qualities that had made Mr. Volcker a hero to the financial markets and to foreign governments, the Administration also hesitated to dump him.

For his part, Mr. Volcker did not want to stay without stronger support from the Administration and from his own Board of Governors, all Reagan appointees. He regarded that as crucial to his effective management of monetary policy in any future crises.

Finally, with his term scheduled to run out Aug. 6, Mr. Volcker wrote a letter to President Reagan, saying, "A natural time has now come for me to return to private life as soon as reasonably convenient and consistent with an orderly transition." Mr. Reagan said he accepted his resignation "with great reluctance and regret."

In Mr. Greenspan, Mr. Reagan has chosen an astute political talent as well as a professionally competent economist. When he became chairman of the Council of Economic Advisers late in the Nixon Administration, for example, he said his first task would be to rebuild the council's credibility. He thought that the Nixon council had been seen as "too political," too willing to bend its analyses and recommendations to suit the interests of the President.

Associated Press

Alan Greenspan

However, some economists ask whether Mr. Greenspan would oppose a President as Mr. Volcker has done. Henry Kaufman, chief economist of Salomon Brothers, says Mr. Greenspan has always been an adviser and has yet to prove his political independence as a decision-maker. Mr. Greenspan, sensitive to such questions, immediately sought to dispel them. Praising Mr. Volcker's inflation-fighting abilities at a news conference, he said: "It will be up to those of us who follow him to be certain that those very hard-won gains are not lost." Checking inflation, he said, would be "one of my primary goals."

Presumably, his other top goals will include keeping the economy growing, reducing the United States trade deficit and its dependence on the inflow of foreign capital, preventing defaults by third world debtors and keeping the dollar stable.

Those will also be the major goals of President Reagan at Venice. In the lofty bureaucratese that characterizes such pronouncements, the briefing book for the summit declares: "We will stress the importance of actively pursuing the strategies for dealing with the interrelated problems of growth, debt, trade and finance. . . . We will emphasize the need for other summit countries to support global growth and the reduction of excessive trade imbalances through strengthened domestic-led growth."

But the problem facing Mr. Reagan and the six other heads of government in Venice is not in finding the goals but the means, especially when national interests or ideologies clash, as they often do.

For instance, Mr. Reagan has adamantly opposed raising taxes, even to reduce the budget deficit. But the other nations' leaders have insisted, as has Mr. Volcker, that reducing the huge budget deficit — by raising taxes if necessary — is vital if the Government is to cure the trade deficit, the overdependence on foreign capital and the ills of the dollar. This dilemma means that the United States will be bringing little bargaining material to the table in Venice that will enable it to get the growth-supporting policies it wants from its partners.

In an interview late last week, Chairman Volcker — he will stay chairman until Mr. Greenspan is confirmed by the Senate — said central-bank intervention to support the dollar "can't do much more than we've been doing." To prevent a further plunge of the dollar, he added, fiscal policy changes are essential: "We should be doing more — we're not very credible on the deficit."

The most important question for President Reagan at the summit, he thought, would be: "Is he able to convey the impression that he will reach agreement with Congress on a plan to reduce the deficit?" Sorrowfully, he concluded, "There is no reason to believe it."

It sounded like his parting shot. Little wonder that Mr. Reagan finally seemed to be asking, "Who will rid me of this unruly central banker?"

The answer came from Mr. Volcker himself, who wearily decided that, after eight years at the helm of the Fed, he had done his bit and, in the circumstances, could effectively do no more.

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New York Times June 7. Section 4 Page 1

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

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Subject
Sujet

Date June 7 Publication New York Times P-1

Treasury Now Favors Creation of Huge Banks

By NATHANIEL C. NASH

Special to The New York Times

WASHINGTON, June 6 — Top officials at the Treasury Department have concluded that the Government should encourage creation of very large banks that could better compete with financial institutions in Japan and Europe.

The Treasury plan, which would permit the acquisition of banks by large industrial companies, was also endorsed by Alan Greenspan, in an interview before President Reagan nominated him last week to be chairman of the Federal Reserve Board. Mr. Greenspan said the plan would provide multibillion-dollar pools of investment capital for a banking industry that was "severely undercapitalized." Mr. Greenspan has declined to be interviewed while he awaits confirmation by the Senate.

No formal policy or legislative agenda has been adopted by the Administration, but George D. Gould, Under Secretary of the Treasury, said in interviews that he favored creating 5 to 10 giant banks that would rival in size the largest banks in Japan, West Germany, Britain and France.

Associated Press

George D. Gould

The formation of such large banks has been hampered by two of the nation's principal banking laws: the Glass-Steagall Act of 1934, which separates underwriting and commercial banking, and the Bank Holding Company Act of 1956, which prohibits nonbanking companies from owning banks.

Banking Industry Is Divided

The only avenue left open to banks has been to merge among themselves. But state laws have historically prohibited interstate banking, and only recently have state legislatures begun to open their borders to out-of-state banks. These deals have usually involved a large out-of-state bank's buying a smaller institution. Mergers, interstate or otherwise, among the giant banks could raise antitrust questions and none of the few such deals attempted ever progressed very far.

In the Administration, the hope is that Congress can be persuaded to loosen the regulations. The banking industry, which has considerable political influence, is divided: The largest banks strongly support the changes while smaller banks fear they would be put out of business.

Thirty years ago the United States had 15 of the world's largest banking institutions, but global dominance by American banks has slipped dramatically. Only two United States banking companies, Citicorp and BankAmerica, are now ranked in the world's 25 largest. Japan has 14, including the world's four largest banks. Two Ger-

Continued on Page 28, Column 1

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DEPARTMENT OF EXTERNAL AFFAIRS
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Subject
Sujet

Date JUNE 7 Publication NEW YORK TIMES -P-28

Treasury Pushing 'Superbanks' That

Continued From Page 1

three British and four French banks complete the list.

"If we are going to be competitive in a globalized financial-services world, we are going to have to change our views on the size of American institutions," Mr. Gould said. "People are going to have to accept that some big American financial institutions will need more capital to be competitive."

Mr. Gould acknowledged that any policy promoting the creation of very large financial institutions encounters deep-seated sentiments that date to the founding of the Republic. But he thinks the nomination of Mr. Greenspan could provide an important stimulus for change. Mr. Greenspan contends that many of the laws restricting commercial banks severely limit their ability to adapt to a changing marketplace.

Frequent Frustration For Deregulation Efforts

The Reagan Administration has met frustration in its efforts to lessen regulation of banking, largely because Paul A. Volcker, the current Federal Reserve chairman, has firmly opposed any move that would begin to break down the barriers that prohibit large nonbanking companies from owning banks. Mr. Volcker has also been rather grudging in his support of changes that would allow interstate banking and the underwriting of securities by banks.

Mr. Volcker has strong ties to prominent legislators, particularly Senator William Proxmire, Democrat of Wisconsin, chairman of the Senate Banking Committee, who believes that a decentralized system with 14,000 commercial banks helps assure competitiveness within the United States.

But after Mr. Volcker departs in August, the Federal Government's major regulators will be speaking with a nearly unified voice. Both Robert L. Clarke, Comptroller of the Currency, and L. William Seidman, chairman of the Federal Deposit Insurance Corporation, support in principle the Gould approach, as do several Fed governors.

Industrial Sector Could Supply Capital

In the interview, Mr. Greenspan said "the separation of commerce and banking at this stage is simply not helpful" because it cuts off one important source of new capital. He added that the declining profits of the leading American banks had hampered their ability to raise capital in stock offerings. That leaves them only one practical source for large injections of funds: the industrial sector of the economy.

Given the current banking environment, Mr. Greenspan said, "I do not have a fear of undue concentration of banking powers."

He added, however, that he was not convinced that the largest American banks would improve their competitiveness simply by becoming larger. Mr. Greenspan said any increase in the size of banks would have to be accompanied by changes that would allow them to compete directly in the underwriting of securities and other financial products.

Associated Press

Alan Greenspan

Mr. Greenspan and banking experts note that market forces are compelling the banks to try to exploit loopholes in the regulations that keep them out of the securities business. For example, all the banks in major financial centers have set up securities operations overseas.

On the other hand, large nonbanking concerns, such as Sears, Roebuck & Company, are also testing the current limits by using limited-service banks to gain a foothold in banking.

Career on Wall Street Influenced Attitudes

The views of Mr. Gould, who is the Treasury Department's top official in charge of banking, have their roots in his experience in investment banking as chairman of the Donaldson, Lufkin & Jenrette Securities Corporation.

In recent years, practically all the major Wall Street firms have pursued mergers or public stock offerings to raise billions of dollars in capital. For example, in 1986, Kidder, Peabody & Company was bought by the General Electric Company for $600 million; Morgan Stanley & Company issued a public stock offering, and Goldman, Sachs & Company agreed to sell a minority interest to the Sumitomo Bank of Japan for $500 million.

Establishing ties to much larger companies gives investment firms the ability to offer a full range of financial products, set up international offices, and take on huge merger deals in which they must commit hundreds of millions of dollars of their own funds.

"We are seeing that capital has become a major competitive tool in banking, and without it banks will have a very hard time competing in the international arena," Mr. Gould said.

The Gould plan for superbanks comes in response to a significant loss of market share by the nation's banks and a general decline in the quality of their assets. It also is an attempt to deal with what bankers say are the disadvantages they face in competing with foreign institutions that operate in a less-regulated environment.

Higher Profits Reported At Foreign Banks

According to a study by the First Manhattan Consulting Group, foreign banks are more than twice as profitable in their lending operations than the largest United States banks.

The consulting concern calculated that for a big United States bank to earn a profit equal to a 15 percent return on equity, its spread on a typical corporate loan would have to be 2.8 percentage points. That means that the interest rate the bank pays to obtain the money would have to be 2.8 percentage points lower than what it charges its corporate client. For foreign banks, the spread would have to be only 1.2 points.

Moreover, the consulting concern says that commercial banks have lost considerable market share in both corporate and consumer loans. From 1981 through 1986, the industry's share of consumer debt fell from 47 percent to 44 percent, while its share of outstanding corporate debt fell from 36 percent to 31 percent.

The situation is causing banks generally to take greater risks to maintain profits, said James M. McCormick, president of First Manhattan Consulting. "They are not doing it deliberately, but the regulation has set in place forces that draw them to the flames," he said.

For regulators, that trend is a worry. "I'm afraid that if the structural barriers are not modified, our banks will become institutions that nobody particularly will need to do business with," Comptroller Clarke said, adding that bank profitability, as measured by return on assets, has fallen [illegible] percent since 1981.

Plan's Backer Expects Change to Come Slowly

Mr. Gould admits that changes in Glass-Steagall and the Bank Holding Company Act are likely to come only after long debate or after a significant threat to the financial system forces Congress to re-examine the bank regulatory structure.

While acknowledging that concentration of economic power touches a sensitive nerve, Mr. Gould contends that a more competitive American banking system would lower the price of bank services to consumers. He and bankers also maintain that superbanks will not replace small local institutions.

A key element of the Gould plan would permit banking institutions to have a nationwide network of subsidiary banks and branches. That would provide a more diversified and stable base of depositors as well as a broader base of consumer and corporate borrowers. That might help prevent situations, like the current one in Texas, in which a wounded regional economy inflicts severe pain on the region's banks.

Robert Heller, a governor of the Federal Reserve, thinks nationwide banking could also help enhance the international competitiveness of the nation's small and medium-size companies.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

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Subject
Sujet

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SUNDAY, JUNE 7, 1987

Could Compete Better Internationally

"The First National Bank of Keokuk, Iowa, cannot offer its clients letters of credit, foreign exchange trading or the kind of information about foreign markets he might need," Mr. Heller said. "What you need to make these companies competitive internationally is a banker who can supply information about markets all over the world."

Chemical Bank Embraces Parts of Plan

The growth strategy pursued in recent years by the Chemical New York Corporation, the fourth-largest American banking institution, embraces some of the concepts in the Treasury plan.

"Looking 10 years down the road," said Richard S. Simmons, vice chairman of Chemical, "there are going to be very few world-class bank players, and to be one of them, you are going to have to have a very large base in the United States."

Mr. Simmons said Chemical plans to grow primarily through acquiring banks in major markets throughout the country, thereby diversifying its deposit and lending base. Just last month, Chemical, which has $61 billion in assets, completed a merger with the $19 billion Texas Commerce Bankshares of Houston. In addition, Chemical has agreed to acquire the Horizon Bancorp of Morristown, N.J., and the Florida National Banks in Jacksonville.

Mr. Simmons said he continued to look for acquisitions in Massachusetts and the West Coast. He did not rule out the possibility of merging with a very large West Coast bank, such as Security Pacific, the nation's eighth largest bank.

The Chemical executive predicts that by the mid-1990's there will be five major United States banks with assets of about $500 billion each. Assets of Citicorp, the nation's largest bank, now total $193 billion.

"It's hard to grapple with the concept of a very big bank," he said. "But when we wake up and realize that financing is being controlled by a cartel of foreign banks, the American people are going to be very unhappy."

Mr. Gould and others stress that technology has linked the world's financial markets and that the United States must deal with the competitive edge that most foreign banks get from the more lenient regulatory policies of their governments.

German banks, for example, are allowed to offer a full range of banking and underwriting services. They also can collect consumer deposits throughout the country. While American banks have to maintain capital equal to 6 percent of their total assets, Japanese capital requirements are essentially half that.

"We have been the beneficiaries of living in a relatively insulated big economy and only recently have we found out that the Japanese can make automobiles better than we do," said Hans Angermueller, vice chairman of Citicorp. "We are discovering that the same thing may apply in the financial services area, and to meet that challenge, we need to get leaner, meaner and stronger. We don't do this by preserving the heartwarming idea that 14,000 banks are wonderful for our country."

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VENICE SUMMIT

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Reagan urges end to farm subsidies

By Mike McNamee
Staff Writer of The News

VENICE, Italy — President Reagan called Friday for thorough reform of agricultural policies, saying he hopes to set a goal of "a subsidy-free world for the year 2000."

In a speech broadcast from Venice throughout Europe, the Middle East, Latin America and Asia, Reagan said farm subsidies "have been some of the worst culprits behind our growing trade frictions."


Ronald Reagan

During the same speech, Reagan criticized the Soviet Union as "an example to the world of how not to run a country."

Expressing skepticism at the sincerity of Soviet leader Mikhail Gorbachev's much-publicized social and economic reforms, Reagan urged the Soviet Union to open its political and economic systems and participate in international economic organizations.

"The choice is theirs: They can either participate in the advance of history, or fall farther and farther behind into economic irrelevance," the president said.

U.S. officials hope to win a strong endorsement for agricultural reforms at next week's seven-nation economic summit here. Reagan and his counterparts won't discuss specifics, but will try to throw their support behind trade talks to clear away the maze of subsidies, quotas and production controls that ensnare world farm trade.

Reagan's goal of ending farm subsidies by the year 2000, however, could create domestic political problems. U.S. farm subsidies have soared during the Reagan presidency, to $26 billion a year. Last fall, Reagan campaigned for farm-state senatorial candidates by pointing out that his administration has spent more for farmers than any other in history.

White House spokesman Marlin Fitzwater said Reagan's speech laid out "a general goal" that is "certainly in line with U.S. policy." The administration has long championed a more market-oriented farm policy, but with little success. The sharp increase of subsidies during the worst farm crisis in 50 years "is proof that subsidies don't work," Fitzwater said.

U.S. officials single out the European Economic Community and Japan as the most protectionist nations on farm products. The U.S. Department of Agriculture estimates that European farm exports will fall by $6 billion or more without extensive support programs. Japanese barriers keep an estimated $680 million in U.S. products out of the country — not counting the potential market for U.S. rice if Japan deregulated its rice market.

He said the Soviet Union became a superpower by "simply amassing huge stockpiles of nuclear weapons." But he said that his "Star Wars" space-based defense system would make nuclear missiles obsolete.

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SUBJECT/SUJET VENICE SUMMIT

Third World watching economic summit

By Mark August
OF THE TIMES HERALD STAFF

BEYOND THE ringing proclamations expected from the leaders of Western industrialized nations, there's little hope that pressing Third World economic problems will be dealt with effectively at the Venice economic summit this week.

The best the developing countries can hope for is a communique favorable to their economic concerns. The Third World will expect the West to set aside its strident protectionist rhetoric and move to open markets and establish fair pricing of Third World primary export products.

Its message to the West will emphasize how inextricably linked their common economic fortunes are. Since 40 percent of U.S. exports go to developing countries, Third World governments want to impress on the West the importance of improved trade relations.

The growth of Western economies, with their increasing exports to the Third World, is linked to positive trends within those economies. Exporting countries, after all, are frequently importing nations as well.

For example, increased incomes for people in developing countries will provide them with more disposable income, which invariably leads to improved diets — to the obvious benefit of a major feed grain producer, such as the United States. Korea, the largest importer of American food, is one classic example where the improvement in the people's standard of living has boosted that country's economic fortunes.

It's likely to be on the issue of debt repayment that the Venice summit may take its most effective step. Western leaders may consider endorsing a moratorium on debt repayment, swapping debt for equity and a range of multiyear debt rescheduling arrangements that amount to a grace period.

The first stage in the search for a solution to Third World debt will center primarily on the debts of low-income African countries, most of whose extenal debt is owed to official agencies of foreign governments. The debts of South American middle-income nations, mostly owed to foreign commercial banks, will require greater attention and participation of those banks, which won't be attending the Venice summit.

Most African countries do not qualify for loans from foreign commercial banks. They have, instead, relied on multilateral and bilateral loans. By 1985, these sub-Saharan, black-ruled African states had incurred about $86 billion in total debt.

Members of the European Economic Community, and in particular France, which is owed much of that bilateral debt by their former colonies, are in a position to do something about this. Writing off such debt is among the options said to be under the active consideration of West European governments.

This and a whole range of monetary issues may be affected by the decision of Paul Volcker to step down as chairman of the Federal Reserve Board. The outgoing chairman, who has gained the respect and confidence of the banking world, supported bringing the external debt into line and opening the markets of the industrialized countries to developing nations. Experts will watch Volcker's successor, Alan Greenspan, with caution to see his monetary plans and how he will deal with Third World debt.

Third World nations will also watch the Venice summit for the possible adoption of a consistent policy on trade relations. It's ironic that while the West has not shied away from demanding that Third World countries develop their agricultural sectors, the industrialized countries resisted the implementation of policies that would encourage economic growth in those sectors.

While the policy reforms and the restructuring of Third World economies have tended to emphasize the increased production of primary goods, the agricultural sectors have not been diversified toward other export products that would generate added foreign exchange.

Diversifying the economy would work well in Zambia, which is heavily dependent on the revenues from copper exports, and Ghana, which relies on cocoa. The two countries have the resources and terrain to diversify to other commodities — a move that would bring in needed revenue even when there's a worldwide surplus in their primary export products.

Developing countries, to their detriment, have placed large subsidies on urban food prices. Most of them are reluctant to remove those subsidies for fear of precipitating riots, as happened in Egypt. Such subsidies, together with the insistence of Third World governments that food crops be sold through state marketing boards, make it impossible for farmers to get fair prices.

Third World countries are critical of the West's double standards and point to its agricultural policies and the widespread protectionism that runs through them. Moreover, industrialized nations have been subsidizing agriculture. The subsidies on Western agricultural farming are in part responsible for the large food surplus which has helped depress the world prices of some Third World primary products.

In fact, Third World economic adjustments are no different from those being made by Texas. This reality of the choices facing developing countries is of more than passing interest for Texans as the state considers adjusting its economy from dependence on oil and natural gas, the Houston-based space business and that generated from defense contractors.

Third World nations have accused the United States, the EEC and Japan of making it impossible for them to compete in the markets of developed nations. The wave of agricultural subsidies and protectionist measures now in vogue results from a series of failed agricultural policies that have tended to address one aspect while creating new problems.

But don't look for much movement in this area. With record numbers of American farmers facing bankruptcy and a presidential election in 1988, there is little chance the United States will act to reform its agricultural policies soon.

Mark August writes for the Outlook section.

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GATHERING IN VENICE

This summit could rally West from its lethargy

"The leaders of the Free World, or at least the most economically productive part of it, will gather in Venice for a summit meeting tomorrow. It is an appropriate location. Venice is sinking, and so are most of the politicians about to gather there. And so too, if they are not careful, may be the West.

President Reagan, in the final two years of his term, is damaged by Iranamok. It is difficult to tell who speaks for France, Socialist President Francois Mitterrand or conservative Prime Minister Jacques Chirac. West German Chancellor Helmut Kohl is crippled by a national debate on Euromissiles. Prime Minister Brian Mulroney is currently the most unpopular Canadian leader ever. Japan's Yasuhiro Nakasone has only months left in office, and is damaged by a failure to enact sweeping tax reforms. Italy has no government. Only Britain's Margaret Thatcher seems to be riding high, and she faces an election this week.

The West, this Venice afternoon, is in the doldrums. The democracy's economies together will likely grow no more than 2 percent next year; the world as a whole, not at all. The world banking system is still struggling under the developing nation's debt burden. U.S. efforts to cut its trade deficit threaten a world recession. And acquired immune deficiency syndrome gnaws on the border of consciousness as a threat to human existence.

Unfortunately, these summits are usually little more than photo opportunities, with a few hours available for Western leaders to tell each other why they cannot do what they need to. Yet, the moment cries out for boldness. President Reagan should seize this moment to energize his dissipating presidency, and rally the West from its dangerous lethargy. The Reagan agenda should include:

■ COORDINATED FISCAL AND MONETARY POLICIES: The democracies must coordinate their fiscal and monetary policies in a way that will allow a cut in the U.S. trade deficit that can avoid toppling the world into a deep recession.

Reagan should offer a straight deal: If Japan and West Germany will agree to specifics to pump up their economies, he should make a dramatic offer to ask Congress to cut the budget by an amount equal to a tax increase on petroleum products he will agree to. How could Japan or West Germany or the Democrats in Congress say no?

■ THE DEBT CRISIS AND WORLD GROWTH: The debt burden of less-developed countries must be eased through the creation of an international agency able to buy up loans at a discount and secure those loans for sale to spec 'ators.

Citicorp's r   move to set aside $3 billion to cover   ted losses on Third World debt ha   the private sector's ability to g   of tortoise governments. Still, if new markets cannot be generated to soak up the world's glut of goods and commodities, then economic stagnation, deflation and maybe recession are the future. People using their foreign exchange to pay debt service can't buy imports.

■ AGRICULTURAL SUBSIDIES: This is one area where some progress actually is expected. Not long ago, most of the world was supposed to be starving by now. Instead, the world as a whole is awash with food. But the food is absurdly expensive because most governments subsidize their farmers lavishly. This must end. It is not only a massive waste of money, it is the most likely trigger for a trade war.

Agriculture is one area where Adam Smith's law of "comparative advantage" still holds. Some nations can produce certain foods much more cheaply than others. But instead of taking a consumer view and taking advantage of cheaper food, a romantic view of farmers has created constituencies for massive support programs. What the world needs is fewer farmers, and the way to achieve that is to jettison subsidies.

■ PROTECTION OF FREE WORLD OIL SUPPLIES: Reagan is being Reagan; and Europe is being Europe. Reagan understands that a sustained blockade of the Persian Gulf would mean an economic catastrophe for the West. But the Europeans are unwilling or unable to protect their own interests. Reagan should ask for specific commitments of naval power from those able to provide it and specific subsidies from those who cannot. If they say no, he should announce a withdrawal of all U.S. forces from that volatile area, before Congress forces him to do so.

■ COORDINATE AIDS RESEARCH AND INFORMATION EXCHANGE: Here there should be broad agreement. AIDS threatens the very existence of the human race, and it is essential the financial and scientific resources of the West be brought to bear.

The West is again afflicted with schizophrenia: common political concerns, divergent economic concerns. Too, Western leaders must go home and ask parliaments if what they agreed to is right. But their people and their parliaments will be more likely to support their initiatives if the summit leaders act boldly instead of taking a leisurely cruise in a Venetian gondola dreaming of yesterday's glory.

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Political issues expected to top leaders' summit agendas

By Cheryl Arvidson

TIMES HERALD WASHINGTON BUREAU

VENICE, Italy — With the world economy dangerously out of balance, tensions high in the Persian Gulf and the leaders of the seven richest democracies all facing political trouble at home, this year's economic summit should be a perfect setting for definitive agreements.

Barring unforeseen developments, however, economic issues again will take the back seat to political discussions in Venice, and even in that context prospects are slim for any breakthroughs.

In some ways, this is a failure of the summit system. Bringing together the leaders of the United States, Britain, Canada, France, Italy, Japan and West Germany for such a short period of time inevitably results in more diplomatic niceties than substantive talks. This year, the United States has come to the summit without a fixed agenda and seems prepared to leave with very little.

In previous summits, it has been the U.S. agenda, clearly outlined and pressed vigorously from the outset, that has dominated the sessions. The difference this year is that the Reagan administration would not articulate an agenda before leaving Washington and, once in Venice, seemed willing to let current events define the discussions.

For example, the summit is likely to produce a communique supporting a proposed superpower deal on European-based nuclear weapons, not because the United States was pushing for it but rather because West German Chancellor Helmut Kohl suffered an election setback in mid-May and was forced to soften his stance on the issue. Although the Reagan administration is embracing this communique as a high priority, it was not by U.S. design.

Another area the summit leaders likely will address is the Persian Gulf situation, which also was brought to the bargaining table by the rush of events. The United States ensured that the need for free flow of oil from the Mideast would be discussed by agreeing in late May to provide naval protection for Kuwaiti tankers.

In many ways, the administration seemed too preoccupied with the Iran-contra developments to pay much attention to the summit. For instance, Treasury Secretary James Baker said he was prepared to have only general discussions about most economic issues in Venice and acknowledged, almost without dispute, that this would be more a political meeting than anything else.

Another area that will be all but ignored is Third World debt. Although the financial condition of developing countries has worsened in the past year, the only real hope for a solution would be increased purchases from countries such as Japan and West Germany. And that sort of agreement is off limits since neither country is willing to commit to specific domestic stimulus programs that would make them better markets for Third World products.

An issue that may get more serious treatment is agriculture subsidies, which Baker has called "the most significant trade problem the world is seeing today."

In a speech Friday on the Worldnet television system, President Reagan said the summit countries should commit to a "goal of a subsidy-free world" by the year 2000. His use of a specific timetable was new and the closest thing thus far to a specific U.S. strategy for the summit talks.

There have been reports recently that France, the country that historically has blocked serious discussion of farm programs in the summit setting, is beginning to realize that its politically inspired subsidy program is too expensive to continue. If true, this could clear the way for the industrial allies to embrace an accelerated negotiating schedule on farm subsidies at the global trade talks under way in Geneva.

Agriculture is probably the only economic issue that can be raised successfully at this summit. Any U.S. effort to prod West Germany or Japan to agree to specific commitments to pump up their economies and help ease the U.S. trade deficit and balance of payments problems just won't work.

The problem is that no serious discussion of world trade imbalances can ignore the U.S. budget deficit. And Reagan, as has been apparent in the dealings thus far with Congress, is willing to discuss the budget deficit only in terms of lofty goals, not the sort of specific solutions that would make other countries give a little in return.

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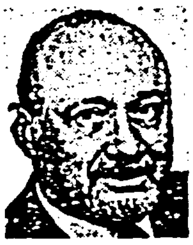
A startling critique of Soviet economy



Christopher Young

Southam News

MOSCOW — Peering through the glasnost darkly, some westerners are suggesting that Mikhail Gorbachev's policy of openness is suffering heavy setbacks.

Certainly it is being challenged, but that in itself may be an aspect of its reality.

While traditionalists express alarm about the dangers of free speech, an important magazine has published a criticism of Gorbachev's economic policies so sweeping that it would cause a major row in any society.

"Everybody's talking about it," said a Russian friend.

In the past, one of the absurdities of the Soviet system was that when the leader changed the party line, everybody had to change with him. Last year's conventional wisdom was this year's heresy.

Even at the 27th party congress in 1986, thousands of delegates voted unanimously for everything Gorbachev proposed, having voted unanimously for Leonid Brezhnev's different policies at the previous congress in 1981.

In western democracies, whatever the leader is saying, somebody else says the opposite. If the leader changes his policies, he can expect to be condemned by opposing politicians, columnists, and editorial writers either for deserting his principles or for not doing it soon enough.

Why should we expect the Russians to be different, if they are trying to move to a greater degree of free speech?

If everyone was saluting and saying, "Yes, sir, here's your morning glasnost, sir," that would be reason to wonder whether any such freedom existed. It would be obvious that people were expressing agreement only because of fear.

Some are, out of old habit. But many Russians write and talk about the opposition to Gorbachev's reconstruction policies, and complain about the absence of concrete results.

For cheeky, free-wheeling criticism it would be hard to beat a 17-page article in the heavyweight monthly magazine *Novy Mir* (New World).

Writer Nikolai Shmelev not only criticizes Soviet policies, old and new; he attacks the whole system, ridicules some of its time-honored principles, contradicts accepted versions of Soviet history, and shatters two taboos at once by quoting the sainted Lenin as using a naughty word rarely printed here.

Anyone who has to deal with the vastly overstuffed, overlapping, obstructionist Soviet bureaucracy can only cheer Shmelev's attack:

"The new economic policy of the '80s cannot remain calm in the face of our industrial ministries. There are a disgracefully large number of them, and they are so puffed up that they often need to look for work for themselves and often only hinder enterprises."

The founding father is quoted as having said: "departmentality (the myopia of a bureaucrat who can't see beyond his own department) is shit. Decrees are shit."

Shmelev announces that "it is time for us to lose our ideological virginity."

In seeking "equal poverty" for all, the country cannot feed itself. Industry, trade and public services operate in cosy conditions that "encourage lethargy."

Shmelev calls for a measure of deliberate unemployment to put some discipline into the sluggish work force. Eventually he wants to make the rouble freely convertible with western currencies — which could cut its value to a quarter or a third of its official rate today.

He not only condemns the destruction of the kulaks (independent farmers) in the 1920s, but is not afraid to attack the present government's crackdown last summer on owners of greenhouses and market gardens, which he calls "a veritable pogrom."

27th Congress: the script changes

In effect, he warns Gorbachev's foot-dragging colleagues, perhaps aiming at the number two man, Yegor Ligachev, that they are not going far enough with the reconstruction program:

"Just as we did in 1953 and 1965 we are again dooming ourselves to half-hearted measures. And half-heartedness, as we all know, is often worse than inactivity."

If Shmelev and the editors of *Novy Mir* are not silenced, glasnost is not dead.

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Gulf tensions hit summit

Iran warned against deploying missiles

Citizen news services

VENICE — An exchange of threats between the United States and Iran grabbed centre-stage here during the weekend as leaders of the seven major western nations gathered for today's start of their annual summit meeting.

White House Chief of Staff Howard Baker told reporters Sunday Iran faces possible U.S. military retaliation if it deploys Chinese-made "Silkworm" missiles along the Strait of Hormuz at the entrance to the Persian Gulf."

But Iranian deputy foreign minister Hossein Sheikholeslam, speaking in Vienna, warned, "If the Americans make the mistake of attacking us, we will definitely strike back."

Baker's remarks were the closest any administration official has come to confirming published reports the U.S. is considering preemptive strikes against the missile bases if Iran proceeds with deployment.

"As far as the speculation on preemptive strikes for the United States, I really think that the United States ought to keep all its options open," Baker said.

"It's my hope that the Iranians will decide that it's not worth it to deploy those missiles and run the risk of retaliation."

The president's national security adviser, Frank Carlucci, said the U.S. has warned the Iranians through various channels it would be "very unhelpful" for them to deploy the anti-ship missiles. He said the Iranians have not responded.

"We certainly think it would be inadvisable for any nation to interfere with our shipping and with our naval vessels, who are fully prepared to defend themselves," added Carlucci, who, like Baker, is among the U.S. officials accompanying Reagan in Venice.

Carlucci said Iran is continuing to prepare sites for the Silkworm missiles but none of the missiles is yet in a position to be fired.

The Persian Gulf crisis is expected to be an important topic of discussion at the three-day summit, which involves leaders of the United States, Japan, West Germany, Britain, France, Italy and Canada.

U.S. officials recently have been backing away from earlier suggestions they intended to ask the

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Summit

**From page A1 story:
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allies to take on a bigger military role in protecting shipping in the Persian Gulf.

But Carlucci said they will call on all nations to embargo arms shipments to Iran or Iraq if either nation defies an expected United Nations resolution calling for a cease-fire in their nearly seven-year-old war.

Administration sources said Reagan also will press the allies to back economic sanctions against Iran or Iraq if they do not agree to negotiate to end their war.

The Persian Gulf crisis has worsened as its shipping lanes become more crucial to the Iran-Iraq war. After 37 American seamen were killed in an accidental Iraqi missile attack on the U.S. frigate *Stark* last month, Reagan decided to beef up American presence in the area.

The U.S. recently agreed to put 11 Kuwaiti oil tankers under the American flag and to provide protection to them from Iranian attacks in the gulf, a move that has provoked controversy in Congress.

Carlucci said the first Kuwaiti convoys under American protection should be ready to sail sometime this month. Earlier, U.S. officials had said some of the tankers might be ready this week.

Both Baker and Carlucci stressed the U.S. has no intention of provoking Iran but would retaliate if attacked.

Baker said the U.S. and the Soviet Union, which has made some of its tankers available to Kuwait under Soviet naval escort, are "on the same side in this case." He said he believes it unlikely the Iranian leadership would decide to attack either an American or a Soviet vessel.

In an interview in Venice Sunday, External Affairs Minister Joe Clark repeated Canada's call for a United Nations ceasefire in the conflict, which he said is causing "a radiation of tension throughout the region of the Middle East."

Clark told CBC-TV he believes other countries at the summit may agree to seek a U.N. ceasefire in the "tragic, dangerous" Iran-Iraq war and said there should be an arms embargo applied to both sides.

As the summit approached, the spectre of violence hung over everything in Venice.

A U.S. naval vessel with its deck patrolled by sharp-eyed Marines bobbed in the water not far from the tiny island of San Giorgio, where the seven leaders will meet.

Across the lagoon from San Giorgio, police boats sporting machine guns slipped through the canals of the ancient city, while helicopters droned overhead and security forces vied with tourists for the best views.

Prime Minister Brian Mulroney, Clark and Finance Minister Michael Wilson arrived for the talks Sunday.

Despite the attention being paid to the Persian Gulf situation, the three-day agenda is full of other urgent topics, such as Canada's concerns about farm problems and about apartheid in South Africa.

On agriculture, Clark cautiously expressed hope the summit will give momentum to the movement by Canada, the U.S. and other countries to curb farm support programs.

In a breakthrough agreement last month, ministers of 24 industrial nations said they would try to reduce expensive grain subsidies that are driving farmers in Canada and elsewhere out of business.

"We want to be able to move that progress forward, not fall back," Clark said.

Mulroney spent the day quietly in meetings. Today, he has one-on-one sessions with Japanese Prime Minister Yasuhiro Nakasone and West German Chancellor Helmut Kohl.

With Nakasone, Mulroney will discuss economic and trade issues, including Japan's recently-announced plan to help stimulate the world economy and the U.S.-Canada free trade talks, which are of major interest to the Japanese.

The main topic with Kohl is expected to be agriculture. European reluctance to alter current support programs for farmers has frustrated the campaign for reform.

Other issues to be discussed over the next three days include the international debt problem, shoring up world economic growth, the threat of AIDS and East-West relations.

India's aggression cause for concern .

Ilya Gerol
Citizen staff

Peaceful, non-violent and almost romantic India — as we have seen her in all the movies, and emotional reports in the media — sent without the slightest hesitation its military-cargo planes into the air space of a small independent country to parachute supplies to the guerillas who fight for separation of the state of Sri Lanka.

Such a move shocked many of those who believed the 40-year-long myth about a peaceful neutral giant, abused by neighbors and underestimated by the West.

To criticize India's internal and foreign policies has become one of the few taboos in the western media.

The nuclear program of Pakistan has been scrutinized and condemned in western Europe and North America. The nuclear build-up of India who exploded her first nuclear device years ago and has continued to refuse to sign the treaty of nuclear non-proliferation has been politely ignored by the political circles and media all around the world.

It remains a mystery why the government in New Delhi has successfully avoided the sharp reaction of the international community.

The very fact that India has become the main purchaser of the Soviet military equipment and weapons (the recent deal signed in Moscow was of 4½ billion U.S. dollars) should raise some legitimate questions concerning what this non-aligned country is going to do with all this armament. Among India's neighbors, no one can match New Delhi in military might.

The answer of the growing imperialistic tendencies of India's foreign and military policy lays not in the external sphere.

The only serious reason for the growing use of the military might is the failure in the painful process of building a modern nation in the conglomerate of ethnic groups and castes in a country which, at the end of this century, will consist of almost a billion people.

Prime Minister Rajiv Gandhi's grandfather Jawaharlal Nehru, a leader with a global vision and pragmatical approach to the most difficult problems was the first and last Indian prime minister who used his immense popularity and political power to find the most harmonious and conciliatory ways to keep the country together. It was he who in 1948 offered the Sikh minority the opportunity to create their own autonomous entity in Punjab — proposal that the Sikhs rejected in the hope that they will find the decent and prosperous place in the newly created state of India.

Nehru's daughter, Indira, who preferred rather a dictatorial way to run the country, sent troops to the Holy Temple of the Sikh religion in Amritsar. This fatal move has resurrected the separatist tendencies in Punjab and created a problem which most probably will have no solution in the foreseeable future.

The separatists are gaining strength in the states of Assam and Nagaland. The clashes between the Hindu and the Moslem minority have become so intense that it reminds one of the dark days of 1947-48 when hundreds of thousands of Moslems were slaughtered during religious wars.

When India decided to take sides in the war between East and West Pakistan in the beginning of the seventies, Indira Gandhi and her supporters hoped that the remaining part of Pakistan would be isolated and consequently reduced to almost non-existence. Ten years later, it appeared that the relations between Bangladesh and Pakistan are closer than between Bangladesh and India. The leaders of Bangladesh have every reason now to complain that the expected harmony with their mighty neighbor has never materialized.

India has one of the largest armies in the world. Equipped mostly with Soviet weapons, it has become the frequently-used instrument for conducting foreign policy and for solving the internal problems by exaggerating the external threat. These days, such a policy can still serve the purpose of the ruling family's third generation. But in the long run, it will be India who will pay the high price for bringing the artificial heat in her relations with her neighbors.

The stubborn and surprisingly cynical support for the Tamil separatists in Sri Lanka, the total disregard for the sovereignty of the small neighboring state and the threats to use the military force will soon or later result in the increasing problems with the millions of Tamils in the south of India. If Rajiv Gandhi succeeded in creating an independent Tamil entity in Sri Lanka, he will face in future the mighty separatist movements of Indian Tamils.

Such a situation shouldn't be ignored by the international community. With the United States supporting Pakistan and the Soviet Union deeply involved in the political and military machines of India ,the growing political adventurism of New Delhi might bring about a new international crisis. Considering the hundreds of millions of people involved, such a crisis could have far more dangerous consequences than one can now predict.

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Canada's automotive trade deficit with Japan soars

By Bill Shields
Star Business Editor

While there was an improvement in Canada's automotive trade with the United States during the first quarter, there was a whopping hike in the automotive trade deficit with Japan during the same period.

According to statistics compiled by DesRosiers Automotive Reports, a Toronto-based industry consulting firm, Canada's auto trade surplus with the U.S. in the first quarter rose from $1.279 billion in the January-March period last year to $1.632 billion in the first quarter of 1987.

But strong growth in imports of both assembled vehicles and automotive parts from Japan in the first quarter has resulted in an increase of more than $300 million in Canada's automotive trade deficit with Japan.

VEHICLE EXPORTS from Japan to Canada were up 34.3 per cent during the first quarter to $720.2 million. This is a result of both higher quotes and an appreciated yen which has increased the value of vehicle imports.

The most significant increase, however, was in auto parts imports from Japan which rose 137.7 per cent to $171.6 million during the first quarter of this year.

Because of the growth in Japanese parts coming into the country, Canada's parts deficit with Japan increased to $238.4 million during the January-March period, up from $107.1 million in the same period a year ago.

THE INCREASE in parts imports from Japan is attribited to the start up of car production at Honda's assembly plant in Alliston, Ont.

Exports of Canadian automotive parts to the U.S. during the first quarter this year increased by 6.9 per cent from the 1986 level of $3.033 billion, while imports declined 7.3 per cent to $8.318 billion.

The DesRosiers firm said this resulted in a significant improvement in Canada's traditional deficit in auto parts with the U.S. In fact, the parts deficit with the U.S. dropped from $1.480 billion in the first quarter of 1986 to $969 million in the same period this year.

THE FIRST QUARTER also saw a six-per-cent drop in imports and exports of assembled vehicles between Canada and the U.S., resulting in a small decline in Canada's assembly surplus with the U.S.

But the net result of the changes was an improvement in Canada's overall trade surplus with the U.S. which rose to $1.632 billion in the first quarter this year from $1.279 billion a year ago.

The first quarter also saw an improvement in Canada's auto trade with other nations, primarily Europe and South Korea. But despite the improvement Canada still has a substantial deficit.

VEHICLE IMPORTS from other countries fell by 26.2 per cent to $293.8 million during the first quarter. Imports of automotive parts remained nearly the same as a year ago at $279.3 million.

Canadian exports of vehicles were off by 44.1 per cent to only $42.8 million and exports of parts were up by 9.4 per cent to $100.8 million.

The net result was that Canada's automotive trade deficit with other countries dropped to $444.5 million in the first quarter of this year from $522.2 million during the same period in 1986.

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Bit player on the Venice stage

CLAIRE HOY

In Venice

VENICE — The media itinerary for reporters covering Brian Mulroney's activities at the Economic Summit has seven items listed today.

Every one is a photo opportunity.

The leaders of the seven major industrialized nations don't come to this annual summit to make major decisions.

Instead, they gather each year to discuss what is called macro-economics and simply to exchange ideas about current numbers on the international issue parade.

Mulroney arrived in this ancient, water-bound city yesterday after an all-night flight from Newfoundland, where he went to announce yet another plan to save Atlantic Canada from its chronic economic morass.

He was greeted in a brief ceremony by the mayor of Venice and the Italian merchant marine minister before being whisked off in a long, low, wooden boat called *Elsa* for the city core.

Mulroney, his wife Mila, along with Joe Clark and Michael Wilson and a plethora of aides are ensconced in the pink-stone Danieli Hotel, right beside a large Gucci shop and directly across the bustling Grand Canal from historic San Giorgio Maggiore Island, where the actual summit will take place.

His only "working" meeting today is a scheduled half-hour chat with Japanese Prime Minister Yasuhiro Nakasone. Before he leaves Thursday, he'll also meet briefly with U.S. President Ronald Reagan and West German Chancellor Helmut Kohl.

Fred Doucet, Mulroney's newly-elevated summit ambassador, says it was an "important win" for Canada to get the South African question on the summit agenda, even though he concedes nothing new will come of it.

"It's all another step along the way in sensitizing people to the issue," he said. "The prime minister feels very strongly about it and discussing it in this forum certainly isn't a step backwards."

Doucet said it was "particularly important for us" to get the question on the agenda as part of Mulroney's strategy of applying international pressure. Mulroney, of course, visited several African states earlier this year and will host both the Commonwealth Conference and the Francophone Summit in Canada this fall. The apartheid issue will likely dominate both meetings, certainly the Commowealth conflab.

The other major issues on the agenda here concern mostly the escalating trade war over agriculture subsidies, the mammoth problems created by Third World debt, and, of course, Reagan's proposals to garner at least moral support from the summit leaders to keep the Persian Gulf open for oil shipments to the west.

The leaders also expect to discuss east-west issues, specifically whether Soviet leader Mikhail Gorbachev's much-heralded *glasnost* means substantial softening of Soviet oppression or whether Gorbachev is simply more skilled at Madison Ave. public relations *technique* than his predecessors.

Here again, the discussions won't lead anywhere, or conclude anything, other than generating a few headlines.

The same is true of the annual hand-wringing over terrorism, expected to be on the agenda again this year.

The leaders will also decry the spread of the deadly AIDS disease, a discussion which Canadian officials hope might convince the other countries to work more closely together in scientific and medical research to combat the disease, rather than competing to see who can be the first one to find a cure.

Given the economic and political clout of the other players, Mulroney is at best a bit actor on the stage.

But it shouldn't be a complete waste for him.

Not with the Gucci store right beside his hotel.

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U.S. favors formation of super banks

BY MARTIN MITTELSTAEDT
Globe and Mail Correspondent

NEW YORK

Senior officials at the U.S. Treasury Department have concluded that the Government should encourage the creation of massive banks to enable U.S. financial institutions to compete more effectively with their rivals in Europe and Japan.

The department also wants to abandon a major pillar of financial regulation: the rule preventing industrial companies from owning banks.

The new thinking by Government regulators was reported yesterday in The New York Times, and is sure to intensify the debate in the United States and elsewhere on the evolution of the global financial system.

George Gould, undersecretary of the Treasury, said he favors allowing five to 10 U.S. banks to attain the huge size of the leading financial institutions in Japan, West Germany, France and Britain. The ideas have also been endorsed by Alan Greenspan, who was nominated last week to head the Federal Reserve Board, a bank regulatory body.

Currently, only two U.S. large banks, Citicorp of New York and BankAmerica Corp. of San Francisco, rank among the 25 largest in the world.

This is in marked contrast to the situation in the 1950s, when all 15 of the largest banks were American. Now 14 are Japanese, two are West German, three are British, and four are French. The major Canadian banks cluster in the second size tier, and are typically found between the 25th in size and the 75th.

The largest Canadian bank, the Royal Bank of Canada, has $100-billion in assets and is about half the size of Citicorp.

No legislation is on the agenda that would allow the banking behemoths advocated by the Treasury Department. The creation of super banks is prevented by two laws — the Glass-Steagall Act of 1934, which separates underwriting and commercial banking, and the Bank Holding Company Act of 1956, which prevents non-banking firms from buying banks.

But these regulations are rapidly becoming obsolete as the financial system evolves. For example, many large companies that are not banks, such as Merrill Lynch & Co. Inc. and Sears Roebuck & Co., have expanded into traditional areas of consumer banking. And overseas, most large U.S. banks have established underwriting affiliates to market securities, even though they are prohibited from this activity in their home market.

Many other countries, particularly West Germany and Japan, also encourage tacit alliances between major industrial and financial companies.

In the United States, these industrial-bank alliances have been outlawed because of fears that financial companies under the sway of commercial firms would restrict the allocation of credit to competitors.

Deregulation along the lines now being discussed has been opposed by Paul Volcker, chairman of the Federal Reserve Board, who fears it would destabilize the financial system. But with his decision to leave the job and the nomination of Mr. Greenspan, noted as a free-market advocate, the scheme to allow super banks has better chances of becoming law.

The new thinking by U.S. financial planners may have a fallout in Canada, which is also undergoing a period of rapid banking rule changes.

In some respects, Canadian deregulation is far ahead of the United States. The new rule allowing banks to own investment dealers, scheduled to become law at the end of this month, would be prevented under the Glass-Steagall Act. And Canadian banks have always been allowed to have nationwide branch networks, unlike their U.S. counterparts, who have been restricted

The World's Biggest Banks

1. **Sumitomo Bank (Japan)**
2. **Nomura Securities (Japan)**
3. **Industrial Bank of Japan**
4. **Dai-Ichi Kangyo Bank (Japan)**
5. **Fuji Bank (Japan)**
6. **Mitsubishi Bank (Japan)**
7. **Sanwa Bank (Japan)**
8. **Sumitomo Trust (Japan)**
9. **Mitsubishi Trust (Japan)**
10. **Union Bank of Switzerland**

to compete offshore

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Leaders unlikely to grandstand at talks

From Page One

will be formally welcomed to the summit at 3:30 p.m. It promises to be a colorful affair at the Ducal Palace, presided over by Italian Prime Minister Amintore Fanfani, who is to meet his own electorate in 10 days.

Real work does not begin until tomorrow morning in the sumptuous Longhena Library on St. Giorgio. This is the Year of the Sherpa, unofficially named in honor of those high bureaucrats who guide their leaders through intricate position papers and prior agreements that are the grist of any summit.

This year, with the help of Olivetti of Italy, the sherpas of seven lands will each have a computer "command central" to oversee all the minutiae that are the source of their power. "Those who mastered the details," observed Edward Gibbon of the Roman Empire, "ruled the emperor."

Press centres for the thousands of journalists and television technicians have been activated, although there has been thin gruel so far for the tribe of hacks who fought to cover this media beanfest.

Well, nearly every press centre. At the U.S. centre there were hardly half a dozen scribes at work on the "spec of the day." This was a cloudy and unconfirmed tale of winning summit support for a U.S.-Soviet initiative via the United Nations Security Council that would demand a ceasefire in the Iran-Iraq war. The sting, allegedly, would be the banning of arms sales to the combatants by the Security Council and summit nations.

Asked where their hundreds of colleagues were, two journalists from the Los Angeles Times reported that their main centre of action was with the U.S. delegation at the Excelsior Hotel, at far-away Lido on another island.

"Our guess is that the Administration doesn't want the American media contaminated by contact with the other delegations and all of you lot," one said. "It makes it easier to keep the company line straight."

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Don't expect much from economic summit

By Robert E. Hunter A13-7

The seven-nation summit meeting of Western industrial powers is an opportunity for heads of state to air, in genteel tones, their grievances against one another. This year there are many such grievances, centring mostly on foreign trade and the efforts that each nation is making to export its troubles. But, like most of its 12 predecessors, this week's summit in Venice is unlikely to produce much of merit. With the state that the world is in, this is a pity.

When these annual summits began, at Rambouillet in 1975, there were hopes of turning them gradually into means for co-ordinating the domestic economic policies of the key Western countries. The idea was both sensible and ambitious. Only if each nation will accept some discipline over its fiscal and monetary policies can there be any effective joint planning for the global economy, try as finance ministers might to tinker with the system.

As has become all too clear, unless the major industrial nations can develop the political courage to pull together, they will surely pull apart. In theory, each of the seven leaders should take difficult decisions, sharing the pain, and justify them at home by reference to the need for accommodating his and her economic partners.

The summits have rarely worked this way, for foreign and domestic reasons. In the late 1970s the second oil shock, plus hyper-inflation and high interest rates radiating outward from the United States, led leaders to look to their own economic defences instead of a broader effort that might have been more effective in cushioning the effect of turmoil. And letting any key economic decisions be defined by an international grouping would require great political courage at home.

Nevertheless, the economic summits could be effective if they had leadership. That of the United States has been on a steady decline, and the Reagan administration's attitude hasn't helped with its pursuit of domestic economic policies, come what may, and its low priority on co-operating with other countries. Japan and West Germany, which have grown apace in economic power, have not yet developed the political stomach for a major role in global economic management. Nor is it clear that the United States, which has enjoyed the psychological benefits of leadership, would be pleased if Tokyo and Bonn moved to take over.

☐ **Robert E. Hunter is director of European studies at Georgetown University's Center for Strategic and International Studies.**

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Don't expect (con't)

It may now be too late for this administration, and difficult even for a successor that is international-minded, to restore U.S. leadership and thus to inject new life into the economic summits. Power has shifted dramatically in this decade, and the Reagan administration has done little to check the tilt. What is characterized as the administration's "unilateralism" may help deal with frustrations about obdurate allies — a "we'll show 'em" attitude — but it cuts no ice in gaining their co-operation.

The United States has tried to broaden the scope of the economic summits to include political and security subjects, while France and Japan have been reluctant to see themselves entangled in such issues in this forum. In the Carter administration, this broadening of scope was designed to organize support in foreign policy areas where allied help was needed. To the Reagan administration, the foreign policy aspect is an opportunity to exercise summit leadership — which it won't provide in painful economic decision-making.

In Venice, the shifts in power will be apparent in both economic and security issues. The West German government has just given the United States what it wants on a Euro-missile agreement with the Soviet Union. That was predictable. No West German government can take a nuclear decision or oppose the United States on strategic matters. But on the question of West Germany's reflating its economy to help with the U.S. trade deficit, a far more important U.S. goal, Reagan will gain little more than pieties masking West Germany's silent scorn for U.S. unwillingness to face economic realities.

Nor will the President gain much allied support on the country's new security project of defending neutral shipping in the Persian Gulf. Just as he got mostly lip service from his summit partners last year on the issue of Middle East terrorism, he will get less than he demands this year. The reasoning is the same. Almost without exception, the allies believe that the threat is not that significant, that the United States is overreacting, and that the remedy could be worse than the disease. In both cases — terrorism and the threat to Persian Gulf shipping — the allies are right, but they will be made whipping boys in the United States if they do not accede to the "Washington knows best" attitude.

If the Venice gathering isn't very promising, its successors could be made more effective. What is needed is a return to the original vision of a group that can strengthen the political spines of each leader by their all taking difficult economic decisions for mutual benefit. Also needed is U.S. leadership that sees the summit meetings as tools of policy on common concerns more than public relations.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

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Sujet ....

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Greenspan, like Volcker, will battle inflation

WALL STREET TALK

Michael Geczi

NEW YORK — The Paul Volcker era is ending after his eight years at the helm of the Federal Reserve Board. His shoes will be difficult to fill . . . and not just because he is six-foot seven.

The immediate response to last Tuesday's news that Volcker had declined a third term at the Fed, and that President Ronald Reagan had nominated Alan Greenspan to replace him, was uniform throughout Wall Street.

Basically, it went like this: "Sure, we know him (Greenspan), and his reputation is good. But he isn't Volcker."

And while this was being said — on that first day, at least — bond prices plunged and the U.S. dollar sank. The Dow Jones industrial average reacted sharply, dropping 22 points in response to Volcker's resignation before rebounding slightly as news that Greenspan would replace him reverberated among the jittery equity markets.

Greenspan, an economist of great note, was being characterized last week as somewhat of an unknown — especially outside of the U.S.

Such a reaction, however, isn't justified. Greenspan, after all, served as head of the Council of Economic Advisors between 1974 and 1977 for president Gerald Ford. In addition, he is a regular witness before Congress, and can be seen and heard as a featured speaker at high-level business conventions around the U.S.

Quite possibly, he is characterized as a bit of a mystery because he, and his economic thinking, has never fit into any of the "camps" in which most economists reside. To the Reagan White House, such a lack of label probably is perceived as a more co-operative attitude than that exhibited by Volcker, whose independence was legendary.

Most observers believe Greenspan will be more willing to go along with financial-services deregulation than was Volcker.

While Volcker was known as someone who believed that the economy required constant intervention, Greenspan is expected to let the free market forces take care of themselves.

Already, there is speculation that Greenspan would be less likely than Volcker to disrupt the economy during the presidential elections than Volcker.

Wall Streeters, however, seem to agree that Greenspan, like Volcker before him, will decide to be a battler against inflation. He will need to also go to war against the U.S.'s huge budget deficits, demons which Volcker attempted to control but was never able to halt.

Volcker's years in Washington have been characterized by his rising stature. Although the Fed job always has been described as second only in difficulty to the presidency, Volcker's toughness and "stick-to-it-ness" only served to enhance his reputation.

So too, did his outspokenness, his confidence and his ever-present cigar.

Those, however, were part of the Volcker image that was for "public consumption." The more basic, and more important, Volcker was a man who will be remembered as the person who guided the U.S. economy from deep recession to resounding buoyancy during his term in office. And he will be remembered as a tough battler who did well managing the dollar and inflation; dealing with crises in the agricultural and financial-services industries; and in mixing it up with the real politicians

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WALL STREET

Canadian firm will miss Greenspan

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in Washington.

Volcker, says William Niskanen, a former member of Reagan's Council of Economic Advisers, was the most qualified man ever to head the Fed. Senator William Proxmire of Wisconsin, chairman of the Senate banking committee, called the resignation "a serious loss for the country."

While the departure of Volcker was generating sadness in some quarters, the choice of Greenspan was being applauded elsewhere. Senate minority leader Robert Dole, for instance, called the U.S. "very fortunate" to be able to turn to someone of Greenspan's stature.

• • •

Amid the market jitters over Volcker's abrupt departure, one Canadian investment executive had good reason to believe Greenspan is more than capable of holding the Federal Reserve chairman's seat.

"I think Alan would have been the first to say Volcker should have stayed, but he'd also be the first one to say, 'Well if Volcker's not going to stay, then I'm probably the best man for the job'," says Fred Whittall, an executive vice-president with Brault Guy O'Brien Inc., a Montreal-based investment house.

Whittall has worked closely with Greenspan for the past eight years and has become a close friend of the newly appointed Federal Reserve chairman.

"I don't think he'll do anything to rock the boat," says Whittall. "As far as I'm concerned, he's not going to make any major changes in the thinking. He's going to be pushed around by the politicans. He's a conservative economist. He's a free thinker. He's very concerned with inflation and also with the U.S. government debt."

Whittall's firm has been associated with Greenspan's New York-based economic consulting company Gownsend-Greenspan and Co. Inc. since 1979.

Whittall adds Greenspan is probably the most qualified man to replace the feisty outspoken Volcker. Greenspan is very much "his own man" and will not allow his economic beliefs to be swayed by politicans who may be more concerned with the upcoming presidential elections rather than correcting the burgeoning trade deficit, Whittall says.

"He's a political animal and obviously he's a Republican. He's not a Democrat. On the other hand, he's a completely honest and straightforward individual and he's not going to do anything in order to get some party elected over another.

Contributing Editor Michael Geczi is a New York-based journalist specializing in business and finance. With files from Caroline Meinbardis.

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Summit must solve falling U.S. dollar

MARKET INSIGHTS

Seymour Friedland

Venice has an aura of romance, intrigue and decadence. But it has been centuries since this gracious, decaying beldam has been a serious player in the world of finance.

This week, however, the financial spotlight will be focused once more on Venice, as the leaders of the major western countries conduct the affairs of an economic summit, perhaps the most significant in recent years, to the backdrop of gondolas gliding along picturesque, but often polluted, canals.

The major issue facing the summiteers is the wayward ways of the American dollar. This is not the first time that the dollar has had the place of honor but, except for the past year or so, the problem has been that its value was too high.

In the past few meetings, the problem has been the reverse. And, though the United States often did not share the concerns of its trading partners about a high dollar, everyone is worried about the falling dollar.

Despite the drop in the U.S. dollar's value, about 50% over the past year in terms of the Japanese yen and 24% in terms of the West German mark, the U.S. trade deficit has not improved substantially.

On the other hand, the impact has been severe in the European Community, where projected real economic growth has been cut to 2% for this year and next, and in Japan, where growth has also been reduced.

But the concerns about the dropping dollar go beyond the admittedly serious trade consequences. If the dollar's decline is not halted, next year is likely to be less than a year of slow growth; it could be a recession year.

Over the past several years, the U.S. has been able to finance its fiscal deficit without raising interest rates because of an influx of billions of dollars of foreign investment. However, as the dollar has dropped, the value of these foreign investments in terms of domestic currencies has also dropped. These large losses and the fear of further losses have caused a flight of foreign capital out of the U.S. The flight from the U.S. dollar has been a major factor in the dollar's precipitous decline.

In a pattern painfully familiar to Canadians, the U.S. Federal Reserve Board has been trying to slow the dollar's decline by pushing American interest rates above those available elsewhere.

U.S. long-term government bonds now yield close to 9%, compared with about 7.5% in March. That has created a large spread of 5.4 percentage points over Japanese bond yields, close to being a 20-year high. The spread over West German bonds is not as large but still substantial: 2.9 percentage points, up from 2.1 a few months ago.

As Canadians know, large interest rate spreads are effective only temporarily. But high U.S. interest rates can still set off an international recession.

And if the dollar continues to fall, U.S. interest rates will have to rise unless the U.S. cuts its fiscal deficit.

The real solution is a multinational approach with the major players being Japan and West Germany as well as the U.S. Working that out will be the No. 1 agenda item in Venice.

The game plan should be that the Japanese and West Germans stimulate their economies, with interest rate cuts, tax cuts and spending increases, while the U.S. undertakes meaningful reductions in its fiscal deficit.

The expanding Japanese and West German economies should provide improved markets for U.S. exports, reducing the U.S. trade deficit and dulling the congressional impetus for raising further trade barriers. The U.S. fiscal deficit cut will reduce its need for foreign funds.

A substantial tax increase matched by spending cuts will have to be offered by the Americans. Given the Reagan antipathy to tax hikes, that is not too likely.

Don't count on economic stimulation by West Germany and Japan. The West Germans fear inflation more than recession and the Japanese government seems to lack the domestic political power to make good on such promises.

However, the market is unlikely to be impressed by anything much less than this kind of package. Certainly, the kind of vague declarations of the past will mean nothing more than that the Venice summit will have failed in its most important task.

That, in turn, means that, unless the dollar decline runs out of steam because of market forces, we are all heading for water a lot rougher than that in the canals of Venice.

Contributing Editor Seymour Friedland is a professor of business and finance at York University, Toronto.

DEPARTMENT OF EXTERNAL AFFAIRS
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Hands-off in Venice

There's something a little dangerous about a ship with seven captains and no compass.

But that's how the world economy appears this week as Prime Minister Brian Mulroney and the leaders of the other six large industrial democracies hold their annual summit meeting in Venice.

Probably the best advice for the summiteers would be: "If you can't do good, don't do harm."

One of the favorite policy prescriptions, for example, is that Japan and West Germany should stimulate their economies and act as the "locomotives" to pull the world economy out of the path of an anticipated recession.

The Germans have very sensibly said that they're doing all they can without re-awaking the [illegible] of inflation. The Japanese, as usual, have offered a "package" of reflation measures. Past packages done up in Tokyo have usually turned out to be more impressive in wrapping than in contents.

It's significant, though, that the United States is foremost in urging the German and Japanese locomotives to start hauling the world economy out of the predicted slump but isn't offering to join them as it would have a few years ago.

This is a measure of the change in the position of the U.S. in the world. A debtor nation cannot afford the expansionist policies a creditor nation might manage.

But it also casts doubt on the clout the Americans can exercise at the summit. The U.S. budget deficit, still running at about $175 billion a year despite the long recovery and expansion, has made the Americans part of the problem rather than part of the solution.

This isn't the moment, either, for the U.S. to talk about risking inflation in a bid for growth. Alan Greenspan, who has just been nominated as chairman of the Federal Reserve Board, will need to establish his credentials as the successor to Paul Volcker.

One credible theory has it that Greenspan will have to "out-Volcker Volcker" with a tough anti-inflation policy leaning toward higher rather than lower interest rates.

On the whole, it would be better for the summit nations to wait and see before trying any co-ordinated expansion policy. The International Monetary Fund has forecast that five of the seven — Canada, France, Germany, Japan and the U.S. — will have higher growth rates in 1988 without additional stimulus. Slightly lower growth rates are forecast only for Italy and Britain.

The hands-off approach should also be used in regard to building protectionist barricades to impede world trade in an ill-advised attempt to export unemployment.

Every summit declares itself against protectionism. Last year in Tokyo, for example, the seven reaffirmed "our commitment to halting and reversing protectionism and to reducing and dismantling trade restrictions." Even before the heads of government went to Venice, similar words had been written for the final communique by the "sherpas" who act for the leaders in preparing the summit. The problem is to make the words effective. One way would be for each of the leaders to hold off when tempted to reach for a countervailing tariff or other "trade remedy."

If the U.S. has lost some of its former clout, Canada never had much. Mulroney proposes to use what he has to get action on what he calls the "agricultural crisis." This is the buildup of farm surpluses in response to subsidies, especially in the U.S. and the European Common Market.

The other summit countries tend to regard this as a matter better handled in the latest round of talks under the General Agreement on Tariffs and Trade. It's important to Mulroney mainly because it bears directly on his loss of support in the West. The others may consider it somewhat parochial.

There will be room for Mulroney's subject in the final communique from Venice. But there is considerable doubt that the long-winded and overblown communiques produced by the annual summits are worth the considerable paper they are printed on.

It would be better for the seven to adopt a simpler, shorter collection of words they intend to keep. And it would be good to have those words reflect mostly a refusal of the seven governments to take action except where action is obviously required.

There's an old sports adage which says, "Never neglect a chance to keep your mouth shut." There should be a parallel saying for summiteers: "Never neglect an opportunity to avoid intervention in things you don't understand and can't foresee."

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What will float and what won't in the canals of Venice

PETER COOK

VENICE

When the leaders of the seven wealthiest industrial democracies get down to business tomorrow in the panelled Longhena Library of the Benedictine monastery on Isola di San Giorgio — a location that might be described as offshore Venice kitty corner to Piazza San Marco — they will have an Italian-style menu to put away.

The main courses ought to be on economic and trade issues; after all, the occasion is an Economic Summit. But there is also a large tray of antipasti to be consumed, on protecting the Persian Gulf, on arms control and relations with the Soviet Union, on combating drugs, the AIDS virus and terrorism. All sombre and serious topics to be sure. But also, one suspects, subjects on which the seven can find unanimity more easily than on economic matters.

Officials travelling with the leaders agree that this 13th summit may well be the least economic of the lot.

To the extent that this is true, and the baroque surroundings lull the leaders into a sense of comfort and camaraderie, their Italian hosts led by a caretaker prime minister (who has already twitted Prime Minister Brian Mulroney on his desire to talk about agriculture) will be well pleased.

In a summit where complacency looks like being the order of the day and where several leaders are either lame ducks or honking election-bound geese, claims of great accomplishments, even of "a spirit of Venice," will probably be with us come Wednesday. Hopefully, they will be believable. More probably they will not.

Here, for the interested observer, is a guide to deciding whether, at summit's end, the participants have finished their main course or, after gorging on so much antipasti, left most of it on the side of their plates.

● Tough issue one: Economic policy co-ordination. President Ronald Reagan has stated that he will press Japan and West Germany to play a larger role in stimulating the world economy and averting recession. From the Japanese, he will get chapter and verse on their latest reflationary package. From the West Germans, he is likely to get a dusty answer.

The Americans had been talking up a Venetian pact that would shore up the dollar, but gave up on it. Treasury Secretary James Baker is also after a more formal framework for co-ordinating economic policies.

Indicators of whether the major economies are on or off course have been developed by the International Monetary Fund. They cover such things as exchange rates, growth, inflation and trade balances.

From its position of weakness as the world's major debtor, the United States wants these indicators to be made part of a binding arrangement that would trigger automatic policy responses by the surplus nations. If their performance was lagging, they would be obliged to provide a corrective stimulus.

No way, say the Germans. No way, says Margaret Thatcher, who may not want to arrive back in Britain on election day to charges that the sovereignty of Parliament to make economic policy has been sold down the Grand Canal. Watch for American progress on this. Or, more probably, a lack of it.

● Tough issue two: Trade including farm trade. It is a time for catcalls over trade. Treasury Secretary Baker was rude about the European Community's protectionist oil and fats tax the other day; the Europeans have been equally rude about the trade bill that is wending its way through Congress; and everyone is, most of the time, being rude to Japan.

Faced with so much incivility, the leaders are being told by their officials that it is time to gather "an early harvest" from the multilateral free trade talks by agreeing to a package of measures in advance.

A grand statement of principle may get made: to the effect that everyone thinks free trade is terrific and gives unwavering support to the GATT talks in Geneva. But, in the interim, back to the catcalls because the other guy is cheating and be just has to be told that he cannot get away with it.

On farm trade, the Europeans were reluctant to put it on the GATT agenda in the first place and the Italians and Germans do not want the United States and Canada making a big fuss in Venice. Again, there will be ringing endorsements of the need for the GATT talks to do something to disarm the rich nations' farm subsidies; meanwhile, no one will disarm.

● Tough issue three: Third World debt. The world has a trillion-dollar debt problem that is focused on Latin America; the summiteers have a $20-billion solution that will focus on the poorest nations of Africa. The idea is to give countries such as Mali and Mauritania and Zambia and Zaire relief from payments on officially financed trade credits and turn these into outright grants (as Canada is pledged to do) or soft loans.

Britain, France, Canada and Italy want a generous deal. The United States and West Germany are less keen about the precedent of too much generosity.

Aside from this small initiative on Africa, the seven are likely to regard Latin American debt as too large and explosive an issue to tackle. Instead, they will tell the largest debtors to adopt free-market policies and economic reforms.

Reform your economies, fellas. Free up your markets. Do as we do; make tough decisions.

Globe and Mail
June 8

Summit headline hunters find dearth in Venice

BY JOHN FRASER
Globe and Mail Correspondent

VENICE

The "lame-duck summit" in the "photo-op" city begins here today, and already the cynics are making puns about a Dearth in Venice.

As these annual conferences between the leaders of the West's seven leading industrial nations go, the Venice summit already shows signs of realism and restraint. There is a refreshing lack of talk about "breakthrough initiatives." The majority of the leaders present are nearing the end of their electoral term.

The heightened Italian police and army presence seems efficient, but not oppressive, partly because the proceedings are being held on the security-tight little island of San Giorgio, directly opposite St. Mark's Square. As a result, most of Venice has been spared the sight of the sort of firepower that so disfigures most summits.

"Perhaps because so little is expected of this summit," a British official said yesterday, "something worthwhile might be achieved."

The British are scheduled to be the most flagrant users of Venice as a photo backdrop for domestic consumption. Prime Minister Margaret Thatcher, four days away from a general election, will arrive shortly before the opening banquet this evening and leave before lunch tomorrow to go back on the hustings.

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Consequently, British officials were not caught up in plans to gang up on West Germany and Japan for their alleged reluctance to open up their borders to wider world trade. Nor were they anxiously rewriting briefing papers on AIDS — a new theme for the summiteers this year. They were not even seen to be firming up positions on the agriculture crisis, Middle East tensions or Soviet economic reform.

Instead, they were trying to determine how they could get around summit protocol to allow Mrs. Thatcher a meeting with the British press that did not look like a press conference before the summit is even a quarter of the way through its two-day proceedings.

There was some troubled speculation among the British yesterday about how the delegations from Canada, France, Japan, West Germany, the United States and especially the host Italians would react to a preemptive Thatcher *tour d'horizon* before the horizon has even been toured.

Prime Minister Brian Mulroney does not have such immediate concerns. He arrived quietly yesterday morning and immediately went into deep retreat. There wasn't much for the Canadian press corps to do but check out the local price of Gucci loafers (they seem to start at $180 Canadian a pair) and ponder the dimensions of their (the reporters') $400-a-night hotel rooms.

Today, Mr. Mulroney and the other leaders

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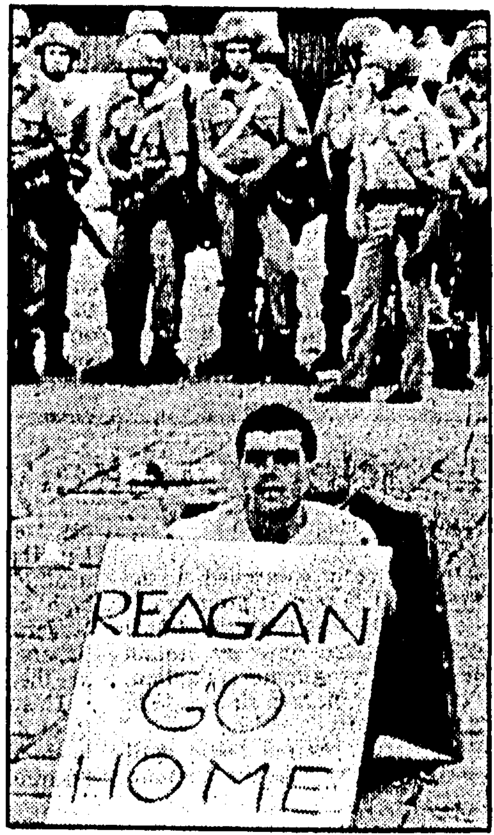

Associated Press

Italian police are keeping a close watch on a demonstrator in Venice.

Leaders unlikely to grandstand at talks

● From Page One

will be formally welcomed to the summit at 3:30 p.m. It promises to be a colorful affair at the Ducal Palace, presided over by Italian Prime Minister Amintore Fanfani, who is to meet his own electorate in 10 days.

Real work does not begin until tomorrow morning in the sumptuous Longhena Library on St. Giorgio. This is the Year of the Sherpa, unofficially named in honor of those high bureaucrats who guide their leaders through intricate position papers and prior agreements that are the grist of any summit.

This year, with the help of Olivetti of Italy, the sherpas of seven lands will each have a computer "command central" to oversee all the minutiae that are the source of their power. "Those who mastered the details," observed Edward Gibbon of the Roman Empire, "ruled the emperor."

Press centres for the thousands of journalists and television technicians have been activated, although there has been thin gruel so far for the tribe of hacks who fought to cover this media beanfest.

well, nearly every press centre. At the U.S. centre there were hardly half a dozen scribes at work on the "spec of the day." This was a cloudy and unconfirmed tale of winning summit support for a U.S.-Soviet initiative via the United Nations Security Council that would demand a ceasefire in the Iran-Iraq war. The sting, allegedly, would be the banning of arms sales to the combatants by the Security Council and summit nations.

Asked where their hundreds of colleagues were, two journalists from the Los Angeles Times reported that their main centre of action was with the U.S. delegation at the Excelsior Hotel, at far-away Lido on another island.

"Our guess is that the Administration doesn't want the American media contaminated by contact with the other delegations and all of you lot," one said. "It makes it easier to keep the company line straight."

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date June 8 Publication Globe and Mail

Gondoliers lament loss of trips during summit

Associated Press
VENICE

While representatives from seven leading industrial countries hold talks this week about ways to boost their economies, Venetian gondolier Franco DeZorzi will lose a sizeable part of his income.

Mr. DeZorzi, 43, is one of 212 gondoliers who have been prohibited by security officials from plying their boats along Venice's canals from five gondola stations near St. Mark's Square, the main tourist attraction in Venice.

"It's like you would chase all the Yellow cabs from the centre of Manhattan for some security reason," Mr. DeZorzi said.

The ban, starting at sunset yesterday and ending on Thursday night, has prompted angry gondoliers to demand the equivalent of about $235,000 in damages from the Italian Government to compensate for lost work during the start of the busy summer tourist season.

During the 1980 economic summit in Venice, the gondoliers were paid the equivalent of $160 for each day they missed for security reasons. This time, they say they have not received any offers of compensation. "The last time, with Jimmy Carter, there wasn't such a fuss," one young gondolier said. "He went jogging and we got paid."

Another gondolier commented: "Why do they have to have the summit here in the middle of a crowded, working city? They should have it somewhere isolated, like an island. Or better yet, on top of Mount [illegible]."

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DEPARTMENT OF EXTERNAL AFFAIRS
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U.S. warns Iran over missiles

euter and Associated Press

The United States hurled new threats at ran yesterday, thrusting tension in the Per- ian Gulf to the fore as the seven leading ıdustrial democracies gathered in Venice ɔr their annual summit meeting.

Meanwhile, Israel Radio reported that the nited States has been airlifting large quanti- es of arms and other military equipment to ahrain to help the U.S. Navy secure the ıfety of gulf shipping.

Top aides of President Ronald Reagan told ran to back off deploying Silkworm missiles fter an Iranian official warned that Tehran would hit back if the United States mounted a pre-emptive strike to knock the weapons out.

"It would be very unhelpful for them to try to use these missiles to interfere with freedom of navigation," U.S. national security adviser Frank Carlucci said.

White House chief of staff Howard Baker said that "the world would be better off and, frankly, Iran would be better off" if the Silkworm missiles were not deployed.

He said the Soviet Union should share the concern of the United States and other countries about the Iranian missiles, and suggest-

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Iran

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ed that a Soviet naval presence in the gulf is helpful.

"It's a unique arrangement that the Kuwaitis chose to invite both the United States and the Soviet Union to share the responsibility for assuring the passage of oil tankers in the Persian Gulf," Mr. Baker said. "I think it is clearly not a bad thing."

Israel radio said the U.S. airlift has been in operation for several days, and is intended "to establish a substructure that will help the U.S. Navy to protect ships in the gulf."

But a Pentagon spokesman in Washington, air force Major Randy Morger, said there has been no large transfer of military equipment in recent days. "There has been nothing extraordinary going on."

Attributing its report to Mickey Gurdus, who monitors aerial radio communications for the station, Israel radio said the U.S. airlift has been conducted by planes of the Military Airlift Command and by planes rented from U.S. companies.

"For the past several days, I have been hearing them going back and forth," Mr. Gurdus told the Associated Press.

"I understood from their communications they were transporting military equipment," he said in a telephone interview from his home in Tel Aviv.

Major Morger said the United States did escort a Kuwaiti freighter to Bahrain late in May to drop off equipment, including tanks and tank-support vehicles, and they were part of a foreign military sales agreement.

But he said the equipment had long been on order and the shipment was widely reported.

Th Pentagon spokesman said the United States has two airlift flights that routinely go into Bahrain each week to supply U.S. Embassy and military personnel.

On a U.S. television show, Mr. Baker said the risk of war is not very great because of the Silkworm missiles, but that it would be "a dangerous thing" if Iran deployed them.

Officials said the increasingly strident war of words between Tehran and Washington ensures that the gulf, where the sea lanes for the passage of oil have become a major issue in the Iran-Iraq war, will be high on the agenda for the Group of Seven summit.

U.S. officials said Mr. Reagan will press his allies for support in his commitment to keeping the sea lanes open, although it appears he will stop short of asking for help in assembling an international naval force to do the job.

The Reagan Administration decided to step up its presence in the gulf and announced plans to place Kuwaiti oil tankers under U.S. protection after 37 seamen were killed in what Iraq said was an accidental missile attack on the U.S. frigate Stark on May 17.

Administration sources said Washington is weighing a possible air strike against the missiles.

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VENICE SUMMIT

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The Dallas Morning News

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June, 8, 1987

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Economic cures for West elusive

By Mike McNamee
Washington Bureau of The News

VENICE, Italy — Given the state of the world economy, this would seem to be the perfect time for the leaders of major Western nations to hold an economic summit.

Economic growth is slowing throughout the industrial world. Bills in Congress raise the threat of trade war. The U.S. dollar has fallen sharply and, despite a recent rally, its position remains precarious.

But the summit meeting of leaders of the seven major industrial nations, scheduled to begin in Venice on Monday, offers little hope for solving or even easing those pressing economic problems.

The reason is simple: Each of the seven nations knows what it needs to do to help bring the world economy back toward balance, but carrying out those steps is another matter.

Treasury Secretary James Baker summed up the allies' plight: "We've agreed, all seven, what needs to be done on macroeconomics ... implementation is the key."

As a result, Baker and other U.S. officials stress that they aren't expecting any breakthroughs from the three-day meeting between President Reagan and his six counterparts.

Financial markets aren't expecting much from the summit, so any progress on improved economic coordination will come as "a pleasant surprise" for interest rates and the dollar, said Donald H. Straszheim, chief economist at Merrill Lynch Economics.

Administration officials do predict strong statements on some economic matters — reducing barriers to agriculture trade, debt relief for the poorest nations of Africa and a new technical mechanism for

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Economic summit holds little hope of fast fixes

Continued from Page 1A.

monitoring how well the allies are working together.

And several non-economic issues — including Persian Gulf shipping and the Iran-Iraq war, nuclear missiles in Europe and AIDS — will be discussed.

The recipe for better economic relations — hashed out at past summits and other international meetings — calls for the United States to cut its budget deficits, while Japan and West Germany stimulate their economies.

The four other summit nations — Canada, Great Britain, France and Italy — can help by tuning up their own economies, lifting trade barriers and supporting, if necessary, the U.S. dollar.

But domestic problems are hampering each of the three key nations:

■ The United States expects some deficit cuts this year and next, but the federal budget will not meet the targets set by the Gramm-Rudman law. The 1988 budget is expected to produce a deficit of roughly $135 billion, exceeding the Gramm-Rudman target of $108 billion. In addition, Congress is leaning toward trade legislation that the Reagan administration says could choke free trade and invite retaliation.

■ Japan has promised a $42 billion budget package to stimulate its economy, coupled with measures to boost imports. But past Japanese stimulus proposals have gone nowhere, making U.S. analysts doubt whether the Japanese can deliver.

Reagan said Friday that "it's time for Japan to let free the pent-up consumer demand in their nation. Allow the Japanese people to enjoy more of the benefits of the remarkable economy they have worked so hard to build."

■ West Germany is working on a three-part tax-reform package with $25 billion in stimulative tax cuts. But West Germany's states, which share in the revenue from national taxes, are balking. West Germany has already cut interest rates, and "I think we have our hands full to implement what we have already committed," said Dietrich von Kyaw, economic minister in West Germany's Washington embassy.

"When you look at the specific economic issues (the leaders) have to address, it won't be easy to get a consensus," said Edward L. Hudgins, an international economist at the Washington-based Heritage Foundation, a public policy research institute. "They all have factors at home which may not make them very conciliatory."

> "When economic waters are troubled, the best approach is a steady hand on the tiller — not a frantic search for a new course."
>
> — W. Allen Wallis, undersecretary of state

Anticipating criticism from the allies, Baker pointed out that the United States has cut its deficit by 18 percent in the last year — "more progress, I venture to say, than some other countries are making in spurring additional growth."

Administration officials stressed that the world's economy is not in a crisis. "Basically, the world economy is healthy, but we can see some booby traps ahead," said W. Allen Wallis, undersecretary of state and Reagan's personal representative for the summit. "But we're not going to pat ourselves on the back for what's going well — we're going to discuss what's out there that can go wrong."

One thing is already going wrong: Growth is slowing down across Europe, North America and Japan. The European Economic Community recently cut its forecast of economic growth for this year and next, from 2.8 percent to 2.3 percent. Private forecasters expect the United States to do only slightly better, and Japan's economy has slowed from 4.7 percent in 1985 to 2.5 percent in 1986.

The slowdown, coupled with the fall in the U.S. dollar, means that the United States no longer is bolstering economic growth elsewhere by buying up imports — and no other country has stepped forward to take over as the "locomotive."

One example of how much the dollar has slipped can be seen in its performance against the Japanese yen. In 1985, the dollar traded at nearly 240 yen. It is now about 143 yen.

The United States wants Japan and West Germany to promote growth by stimulating their economies and buying more goods. But, as von Kyaw warned, "The adaptation from export-oriented demand to domestic is very difficult — it takes time."

The Japanese and West German governments have political problems already — problems they don't want to compound by forcing their economies to restructure.

The seven leaders will have an easier time agreeing on a statement in favor of free and open trade — even in the face of the unresolved U.S.-Japan trade dispute over semiconductor chips.

And there have even been some developments in the trade dispute. White House aides appeared to open the door for a partial lifting of economic sanctions against Japan during Monday's meeting between Reagan and Japanese Prime Minister Yasuhiro Nakasone.

White House Chief of Staff Howard Baker, National Security Adviser Frank Carlucci and Treasury Secretary Baker all stressed that economic data now being reviewed by Reagan would not justify complete removal of the $300 million in sanctions against Japanese electronics, imposed in April.

But Carlucci said the figures on Japanese semiconductor sales show "marked improvement in one particular area:" chips called DRAMs — dynamic random-access memories. Howard Baker said that Reagan hopes the data will justify lifting the sanctions — if only partially.

Texas Democrat Lloyd Bentsen, manager of the Senate's trade bill, and other Senate leaders have urged Reagan not to lift the sanctions unless he has "indisputable evidence" that Japan is complying with its agreement with the United States on semiconductor sales.

"The president has to talk like a free-trader for domestic consumption," to head off protectionist pressure from Congress, "while he's defending a cartel for semiconductors," said Heritage's Hudgins.

But neither harsh words nor sweeping changes in economic plans appear to be on the agenda for the summit.

As Wallis put it: "When economic waters are troubled, the best approach is a steady hand on the tiller — not a frantic search for a new course."

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

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Subject
Sujet

Date June 8 Publication Guardian (U.K)

Thatcher takes break from campaigning to join [illegible]

Reagan confident of autumn summit

From Alex Brummer and Peter Rodgers in Venice

Mrs Thatcher today flies into Venice for a fleeting 18-hour visit in which she will seek to share credit for a breakthrough on arms control, leading to a possible superpower summit in October.

The Prime Minister will also be seeking to avoid embarrassment over the sensitive issue of her South African policy, which the Canadian Prime Minister, Mr Brian Mulroney, is determined to raise.

Iran under US pressure not to deploy missiles: Space Age fools, page 6; Economic fallout, page 20

Mrs Thatcher, who is breaking her election campaign for a cameo appearance as an international statesman, will arrive just in time for the lively political discussions during the heads of government dinner tonight, but will miss much of the economic discussion tomorrow, when the Chancellor, Mr Nigel Lawson, takes over.

The brevity of the Thatcher visit has irritated the Italians and deprives Presiddient Reagan of his most trusted support.

She will be on hand, however, when the leaders hear President Rreagan's optimistic assessment of arms control. Officials here said yesterday that the superpowers were moving rapidly towards an October summit in Washington, at which an agreemt on reducing Euromissiles could be initialled.

Until now, the US has displayed great caution in discussing a summit date, but it now appears confident for the following last week's decision by Chancellor Helmut Kohl of West Germany to join a common Nato position.

The normally tranquil Venice has been turned into an fortified harbour for the visit of the seven leaders. A US helicopter carrier and two Italian warships are moored around the island of San Marco, and the silhouette of a destroyer is constantly visible on the Adriatic horizon. The lagoon is patrolled by frogmen working from inflatables, the islands are guarded by Italian troops and police with machineguns and helicopters buzz overhead.

Mrs Thatcher's cruise through Venice may become more turbulent when Mr Mulroney raises South Africa tonight. He will tell the other six leaders that if they remain silent on South Africa, it will send the wrong signals to Pretoria.

Mr Mulroney is determined to send a message about the importance of opening up an internal dialogue in South Africa and will also propose a special assistance programme for frontline states bordering South Africa. He wants to encourage bilateral direct aid to the Frontline states and channel it through the Southern Africa Development and Cooperation Conference.

The Canadian Prime Minister's emphasis on helping the frontline states arises from his visits to Zimbabwe and Zambia earlier this year and talks with Botswana leaders, as well as his frustration with what he sees as British and American misunderstanding of the situation. He believes that the political and economic situation in Frontline states is fragile.

Given Mrs Thatcher's vehement opposition to meaningful sanctions, Mr Mulroney will leave this issue for the Commonwealth heads of government meeting in Vancouver in October. He does not want to risk a summit split, and on this basis British officials have

Lawson props up his image

Matthew Engel

THE finance ministers of the leading industrial powers were supposed to be spending the weekend en route for Venice, preparing their position on stabilisation of the dollar, inflationary pressure and Bundesbank discount rates.

Her Majesty's Chancellor of the Exchequer was standing in a howling gale outside a Waitrose in the suburbs of Leicester accosting strangers beside a very large pile of dog [illegible]. He would rather have been somewhere else.

Nigel Lawson is not one of the world's great elec-

DEPARTMENT OF EXTERNAL AFFAIRS
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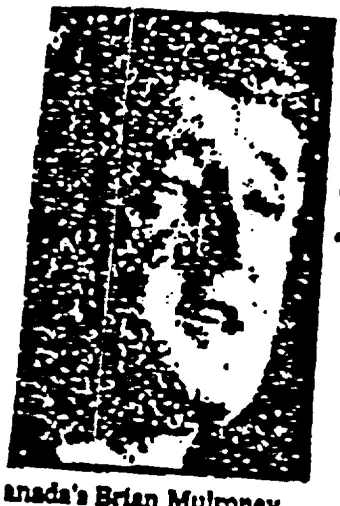
Subject
Sujet

Date .... Publication ....



anada's Brian Mulroney — signal to Pretoria

agreed to have it on the agenda.

The rough ride on South Africa will be matched by what could be some bitter exchanges over Washington's Gulf policy. In the last 48 hours, the US has stepped up its anti-Iranian rhetoric, making it plain that it will strike at Iran's silkworm missiles at the Strait of Hormuz, should they become operational.

Mrs Thatcher, who has sought to calm fears about a wider British role in the Gulf, could be confronted with having to declare Britain's support for a policy which could easily be construed as ending its neutrality in the seven-year Gulf war.

Voters will remember how twice before, in Lebanon and Libya, President Reagan has drawn Mrs Thatcher into controversial military operations which have cost the lives of British hostages.

Last night, President Reagan's National Security Adviser, Mr Frank Carlucci, said here: "We have send warnings to Iran through various channels that it would be unhelpful to them to deploy these missiles and to take any action that would interfere with freedom of action in the Gulf."

The seven leaders, from the US, Japan, West Germany, France, Italy, Britain and Canada, are also expected to sign a statement noting the progress made in defeating terrorism, but vowing to continue the fight and underlining the role of the "rule of international law." This could, however, be a point of contention between the US and Bonn.

tion campaigners. Who is? Well, Shirley Williams is. Mr Lawson is about to be re-elected to the Commons with a majority the size of a Treasury statistic and Mrs Williams is apparently about to lose for the third general election running. It must prove something or other.

For a start, it proves that Mr Lawson has a gem of a constituency. Blaby is tucked under Leicester, full of lusciously Tory commuter villages. All round there are immigrants, miners, the dispossessed; they are in other seats. Here the Labour voters cluster in ones and twos. It might have been designed by Central Office for a chap who did not want to try too hard.

Mr Lawson would have made an effort outside Waitrose had it been necessary; but it was not. People queued to shake his hand deferentially or consult him about some little financial ache and pain ("I'm feeling a bit stiff round the middle income bracket") as if he were a doctor at a cocktail party.

He has coached himself to cope with that aspect of the game, rather as an unathletic but determined batsman can force himself into becoming a reasonable fielder. On the television Mr Lawson looks like the sort of man who waters the workers' beer. In Blaby, wearing yachting blazer and grey slacks, chubby face with midday shadow, he is hardly Robert Redford, but he gets by.

At least he does with the adults. The only baby he tried to kiss turned away in horror; an eight-year-old told by his father who Mr Lawson was — "he's in charge of all the money" — immediately began grizzling which may not be untypical.

The Chancellor thus sensibly campaigns with his props: Mrs Lawson, who is a charmer, and Tigger, the King Charles spaniel, who is ditto. Tigger represents the Chancellor's human side, if you get my drift. He is impetuous but

Turn to back page col. 8.

essentially well behaved. "That wasn't Tigger," Mrs Lawson hurriedly explained as her husband just avoided the unmentionable pile. "He couldn't do that much if he tried."

After lunch, the Lawsons went along to the annual Fancy Dress and Carnival in Stoney Stanton, the village where Mr Lawson has sort-of lived for the past 15 years. The Chancellor was trying to disguise himself as an ordinary villager, a pose that did not quite win him a prize.

The carnival was a heaven-sent photo-opportunity. Unfortunately there were no photographers so there was no chance of persuading the Chancellor on to stilts to join Ben the clown or go on the bounceabout magic castle.

Instead, he skirted round the WI's Rice Krispie cakes, bought a busy lizzie

from the flower stall, nodded at all comers and accepted their good wishes: he was courteous and pleasant but just a little distant and stiff. There was no one within miles who understood a thing about the Bundesbank.

"I shall be glad when the election's over," he said to a well wisher. "All those bloody politicians on TV, ha ha."

Mr Lawson, some suspects, said it because he means it. Venice is so lovely at this time of year. Running the country and juggling with figures is so much easier than standing outside Waitrose. That is what Mr Lawson does best. At no point in any of these conversations did it seem to have crossed the mind of either candidate or constituent that Thursday offered the opportunity to stop him doing it.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date June 8 *Publication* International Herald

White House Cites 'Range' Of '87 Dates

By Lou Cannon
and Hobart Rowen
Washington Post Service

VENICE — Howard H. Baker Jr., the White House chief of staff, said Sunday that U.S. and Soviet officials had discussed "a range of dates" for a prospective summit meeting in Washington between President Ronald Reagan and Mikhail S. Gorbachev later this year.

U.S. officials continued to warn Iran against interfering with navigation in the Gulf and particularly on using the Silkworm missile against U.S. ships or any oil tankers they escort.

Mr. Baker said "I think there's a good chance there will be a summit yet this year" if U.S. and Soviet negotiators reach an agreement on eliminating medium-range nuclear missiles from Europe.

Meanwhile, three high-ranking Reagan administration officials strongly implied that the United States may be ready to lift some of the tariffs imposed on $300 million worth of Japanese electronics exports to the United States because Japan is showing signs of abiding by an agreement barring the "dumping," or selling at unfairly low cost, of semiconductors.

Although the issue is not expected to be fully resolved in Venice, President Reagan could reveal U.S. intentions to relax sanctions after a meeting Monday with Prime Minister Yasuhiro Nakasone of Japan.

Frank Carlucci, President Reagan's national security adviser, said it would be "inadvisable" for Iran to try to prevent U.S. ships from escorting tankers through the Strait of Hormuz.

"U.S. ships are prepared to defend themselves," Mr. Carlucci said. "They are prepared to defend the ships they are escorting, and it would not bode well if they were to interfere."

Mr. Carlucci refused to speculate on the military options. The Washington Post reported last week that one of the options being debated was a pre-emptive strike. Senior officials did not contradict the report but said that Mr. Reagan had not decided on any option yet and that a pre-emptive strike was unlikely.

On a CBS television program, Mr. Baker said that U.S. ships were operating in the Gulf to protect shipping "and the Iranians have nothing to fear from us."

"We have a great deal to fear from them, if they deploy those missiles," he said. "And it's my hope that the Iranians will decide that it's not worth it to deploy those missiles and run the risk of retaliation."

Mr. Baker said the U.S. decision to have a U.S. Navy convoy escort 11 Kuwaiti tankers was not "irreversible" but that "my own feeling is that it should not be terminated as long as the Kuwaitis want it and as long as the Soviets are still playing in this game."

In an interview with Cable News Network, Mr. Carlucci also dis-

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VENICE: U.S, Moscow Discussed Summit, Baker Says

(Continued from Page 1)

cussed the possibility of a summit meeting between Mr. Reagan and Mr. Gorbachev. He refused to speculate on a summit conference in October, which officials have mentioned as a possibility, but said that if there were an accord on the medium-range missiles "something in the fall sounds reasonable."

He said there were still "some difficult questions such as verification" to be resolved on the draft treaty, but added, "We've gotten far enough on substance so there is some general discussion on dates."

Their comments were made on the eve of the 13th annual economic summit meeting of seven industrialized nations.

Diplomatic sources said the United States and Canada were resisting West German efforts to hedge an earlier agreement to reduce global agricultural subsidies.

These sources said that since the Paris meeting last month of financial ministers at the Organization of Economic Cooperation and Development, the West Germans have backed away from language aimed at reducing "excessive" farm supports.

Hints about relaxing the sanctions on Japanese products were made in another television interview with Treasury Secretary James A. Baker 3d, as well as the interviews with Howard Baker and Mr. Carlucci.

The three officials said that the data on semiconductor dumping did not justify the complete lifting of sanctions.

But James Baker said on ABC that there had been "marked improvement" in the Japanese perfor mance in one area, D-RAM chip: the mass-produced basic memor chip.

On CBS, Howard Baker said th president "has already indicated he would like to lift the sanction "as soon as the data justifies it." H added: "It's possible that an ar nouncement on semiconductor will come out. I would not be su prised. But I expect the issue wi not be finally determined at th conference."

The "marked improvement" r ferred to by James Baker reflecte what he described as a gain from (percent to 80 percent in the U. market share for the D-RA chips.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date June 8· Publication International Herald

INTERNATIONAL Herald Tribune.
Published With The New York Times and The Washington Post

The Summit Charade

The leaders of the industrial world trooped to Venice over the weekend for the announced purpose of holding an economic conference. They face a crowded agenda but need to make room for one more topic: Restore the idea of serious annual exchanges on economic policy, or end the charade. What began as a chance for Western leaders to have freewheeling talks beyond the reach of their bureaucracies has become a choreographed bull session and photo opportunity.

This will be the 13th meeting, and it looks to be the most disappointing. World economic conditions are precarious and the road to resolution unclear, with growth slowing to a crawl, protectionism threatening trade, financial markets jittery and Latin America still floundering in debt. The need for coordinated action is critical; failure would thus be the more irresponsible.

Barring a well-concealed surprise, the conference in Venice will produce little more than solemn reaffirmation of old, empty pledges from all seven participants: the United States, Japan, West Germany, France, Britain, Italy and Canada. Most are immobilized by domestic politics. But the real problem is that the three principal powers — the United States, Japan and West Germany — stubbornly refuse to make adjustments to improve the global economy.

Washington should be making credible reductions in the budget deficit, and should not be raising new barriers to trade. Tokyo should be tearing down its trade barriers, not merely promising to do so; and only now does Japan appear to be serious about stimulating its economy. The West German economy also needs pumping up; yet despite mounting evidence of slack, Bonn insists that no more juice is necessary, and has done next to nothing. And all three should be coordinating efforts to pull the world back from the brink of recession, ease the Latin debt burden and stabilize currency exchange rates.

The responsible economic and financial officials of all three countries meet frequently and have made these points, endlessly. Their bosses will be no more flexible, or persuasive. In two days together they will not even spend much time on these issues. In recent years, largely at the insistence of the Reagan administration, more and more noneconomic subjects have been jammed into the allotted 48 hours. This year the agenda will include arms control, terrorism, international drug trafficking, the spread of AIDS and, as a last-minute addition, the Gulf.

When Valéry Giscard d'Estaing was president of France in 1975, he had a good idea. He invited President Gerald Ford and the leaders of Japan, West Germany, Britain and Italy to a palace in Rambouillet for a weekend of unstructured talk about economic issues. He saw the world becoming more interdependent, and a need for its leaders to meet face to face and speak frankly.

Structure, panoply, noneconomic issues and posing for group photographs have overwhelmed that worthy concept. Watch it this week, slipping into the sea like Venice itself.

— THE NEW YORK TIMES.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date June 8 **Publication** International Herald

In Venice, Pressure on Reagan

Europeans to Push for a More Consistent Foreign Policy

By Jim Hoagland
Washington Post Service

VENICE — European leaders, concerned by rapid shifts in U.S. foreign policy goals and methods in recent months, are likely to use the seven-nation summit meeting here to press President Ronald Reagan to show more caution and consistency in world affairs.

The meeting could end up being a "damage control" mission by European leaders who see Washington's recent handling of U.S.-Soviet relations and the Gulf as erratic and risky, aides to several of the key European participants suggested.

The growing likelihood of a new meeting between Mr. Reagan and the Soviet leader, Mikhail S. Gorbachev, will contribute to political issues dominating the private dinner for the leaders that formally begins the Venice gathering Monday night, according to these aides.

The dinner will provide the leaders with an opportunity to seek an informal joint assessment of Mr. Gorbachev and the changes he is bringing to Soviet foreign and domestic policies, one of the leaders who will be at the dinner has suggested to aides.

Mr. Reagan will be pressing the leaders of Britain, Canada, France, Italy, Japan and West Germany at this summit meeting for an endorsement of his tentative agreement with Mr. Gorbachev to remove medium-range missiles from Europe. They will be asking him for clearer definitions of what the agreement will lead to, and what they could expect from a U.S.-Soviet summit meeting later this year.

Mr. Reagan's unexpected near-agreement with Mr. Gorbachev at the Reykjavik summit meeting last October, which would have eliminated all U.S. and Soviet nuclear ballistic missiles, unsettled European leaders accustomed to a steady stream of anti-Soviet rhetoric and a strong buildup of America's nuclear arsenal under Mr. Reagan.

Reykjavik ended without any agreements being struck, but Mr. Gorbachev surprised Washington in February by agreeing to accept the elimination of medium-range missiles in Europe. The Reagan administration has since had to push hard to obtain European acceptance of the deal.

NEWS ANALYSIS

Mr. Reagan inadvertently revived concern about his commitment to the Western alliance's standard deterrence policies on Friday in a speech that was televised in Europe.

He suggested in the speech that he was as opposed to nuclear weapons as were the hundreds of thousands of Europeans who marched against the deployment of U.S. Pershing-2 and ground-launched cruise missiles in 1983.

"How I wanted to let them know that my heart was with them, that I too yearned for a day when mankind could live free of the terror of nuclear annihilation," Mr. Reagan said.

The largest marches were staged against the governments of Prime Minister Margaret Thatcher of Britain and West Germany's chancellor, Helmut Kohl, who will be attending this summit meeting, as will President François Mitterrand of France, whose support for deployment was vital to Mr. Kohl in overcoming the West German protests.

Mrs. Thatcher, who will spend

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SUMMIT: *Reagan Faces Pressure*

(Continued from Page 1)

less than 24 hours at the three-day summit meeting here, will be meeting with Mr. Reagan for the first time since she held extended conversations with Mr. Gorbachev in Moscow at the end of March.

She returns to London on Tuesday to resume campaigning for Britain's parliamentary elections, which will be held Thursday.

Having agreed to put aside their reservations about the "double zero" option proposals for eliminating U.S. and Soviet land-based nuclear missiles in Europe with a range of more than 300 miles (about 500 kilometers), Mr. Kohl, Mr. Mitterrand and Mrs. Thatcher will want to hear from Mr. Reagan about U.S. plans for dealing with the remaining Soviet numerical superiority in conventional forces in Europe.

Prime Minister Yasuhiro Nakasone of Japan also has a strong direct interest in the medium-range accord, which leaves Moscow with the right to station 100 such warheads in Asia while eliminating them in Europe.

The Europeans and Mr. Nakasone are also certain to try to use the meeting to try to cool the increasingly belligerent exchanges between Iran and the United States over the Gulf.

Once again, the swiftness with [illegible] Reagan has replaced one [illegible] its opposite has raised questions in the minds of policy makers abroad about the quality and character of the analysis on which the president is making foreign policy decisions.

After attempting to influence [illegible] in Tehran with arms [illegible] and then defending that decision as recently as March by saying that Iran had stopped terrorist actions, Mr. Reagan is now regularly denouncing Iran in the kind of terms that he used about Libya before an American air strike was staged against that North Africa country in April 1986.

An administration campaign to call attention to threatening Iranian statements and actions has increased concern in European capitals that Washington might welcome a chance to shift attention away from Mr. Reagan's domestic troubles with an air strike against targets in southern Iran.

France has quietly begun to tell its citizens to leave Iran unless their presence there is absolutely essential. The warnings are said to have been related to a roundup French police conducted last week of suspected members of Iranian-supported terrorist groups in France.

But sources say that concern over mob reaction against Westerners if American raids were staged against Iran was also taken into account in the decision to pass quiet advisories to French businesses working in Iran.

Both France and Britain come to the summit meeting prepared not to take up U.S. requests to increase their military presence in the Gulf, according to diplomatic sources.

Both nations turned down requests from Kuwait to get more directly involved in protecting civilian shipping in the Gulf while the Reagan administration ultimately agreed to do so.

France has already rebuffed Washington on this request, while Mrs. Thatcher has only said that she would consider it. Any renewed effort by Mr. Reagan to get greater French and British involvement would succeed only if he was able to convey a better sense of where such actions were likely to lead, allied diplomats say.

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DEPARTMENT OF EXTERNAL AFFAIRS

MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date June 8 Publication International Herald


The Associated Press

Divers, members of Italy's paramilitary police, patrolling around Isola di San Giorgio Maggiore in Venice on Sunday.

Canals Complicate Security Problems at Venice

By John Tagliabue
New York Times Service

VENICE — In recent days, aboard a lumbering armored launch that flew the Stars and Stripes, a Venetian pilot instructed an American Navy helmsman in the art of maneuvering in the choppy Venetian waters.

The point of the lesson was to avoid the kind of incident that occurred at the economic summit meeting in Venice in 1980, when a jolt to the yacht on which President Jimmy Carter was riding nearly tossed him into the murky waters.

The city of canals is a unique conference site. Also unique are the security problems faced by the organizers of the talks beginning here Monday.

An Italian security force of about 8,000 people will include a detachment of frogmen, reinforced by hundreds of security men from western Europe, the United States and Japan.

The leaders of the United States, Japan, West Germany, France, Britain, Italy and Canada will hold their three-day conference on the Isola di San Giorgio Maggiore, a small private island across the lagoon from St. Mark's Square.

Helicopters can land on the island, but the leaders will be brought to the site in motor launches.

To insure safety, gondolas and other unauthorized craft will be banned from waters between St. Mark's and the island and its approaches. But this is vital turf for the *gondolieri*, the gondola operators, who have threatened to bill the city for $150,000, money they say they are losing through forced inactivity.

The gondolieri have been losing ground to the motorboat taxis that are increasingly attracting all but the most sentimental tourists. But taxi operators are not happy either.

The entire fleet of about 220 vessels has been pressed into service by summit organizers at a rate the operators say is far below the market price.

The participating nations did not hesitate to send their leaders to Italy. Though the country has been rocked by political violence and Arab terrorist actions in recent years, there have been few violent crimes recently.

In March, however, terrorists gunned down an Italian Air Force general on a Rome street. Last week, as if to display their control of events, the police announced the roundup of several terrorist leaders.

On Friday evening, the Venice airport was closed for one week to unauthorized traffic. And the lagoon, two days before the conference, vaguely evoked New York's Brooklyn Navy Yard. Italian and American Navy launches plied the waters, and two Italian warships lay at anchor near an American vessel.

Police helicopters circled the city, and armed vessels of the Guardia di Finanza, or Treasury Guard, a paramilitary force specializing in smugglers, circled Isola di San Giorgio Maggiore.

The greatest concern appeared to focus on the safety of President Ronald Reagan. Saturday, as the president traveled to Rome, Italian officials mobilized 5,000 men to protect him.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date June 8 Publication International Herald

Costs, Threat of AIDS Will Be a Major Topic At the Venice Summit

By Barry James
International Herald Tribune

When the heads of state and government of the seven industrial powers sit down Monday in Venice for the 13th such summit meeting, AIDS will be a major item on the agenda as potentially one of the biggest social, political and economic — as well as health — problems of the end of the century.

Apart from discussions about terrorism, past summit meetings have rarely strayed so far from a strictly economic and political agenda.

"Two years ago, it would have been difficult to imagine the summit discussing AIDS," said Jonathan Mann, the director of the Geneva-based World Health Organization's Special Program on AIDS.

Acquired immune deficiency syndrome, which breaks down the body's immune system and leaves the victim helpless against infections, began appearing in the United States in the early 1980s after a probable incubation period of at least five years. It first afflicted mainly homosexuals, intravenous drug users and people who received transfusions of blood tainted with the virus.

Now the fear is that it will spread as rapidly among heterosexuals as it has among homosexual men. If that happens, says the U.S. surgeon general, Dr. C. Everett Koop, "then we are in for unbelievable trouble."

According to officials involved in the preparation of the three-day Venice summit meeting, the leaders of the United States, Canada, Japan, Britain, France, Italy and West Germany are likely to declare AIDS a major world health problem, throw their support behind the World Heath Organization and back a meeting of health ministers to improve public education about the problem.

"We'd like to see out of that summit a reaffirmation of the global nature of the problem," said Dr. Mann. "And we'd like to see funds. We'd like to see resources."

As of June 1, WHO had registered a worldwide total of 51,535 officially reported cases of AIDS, including 36,000 in the United States.

WHO says the actual number of cases worldwide is probably more than 100,000 now, and that even in the unlikely event that a vaccine were developed immediately, up to 3 million new cases are likely to emerge in the next few years.

The organization estimates that up to 10 million people were infected with the virus that causes AIDS by the end of last year. Several million of them are in Africa, where the disease, more frequently than elsewhere, is passed through sexual relations between men and women.

Estimates differ as to what percentage of infected persons eventually develops the disease, but all can potentially pass the infection to other people.

By 1991, the number of cases in the United States alone is expected to hit 270,000; in Europe, 100,000. In Africa, because of incomplete reporting, no one knows.

Figures such as these put the problem firmly within the purview of an economic summit meeting, because the disease is likely to have a major impact on the world economy and demographic patterns.

The disease strikes hardest at the most productive sectors of society. In the United States, 90 percent of the victims are between the ages of 20 and 49. In Africa, WHO officials say, a fifth of professional people could succumb to AIDS.

This raises questions such as, will AIDS strip certain professions of young people in the United States and other countries? Will banks be willing to invest in African enterprises knowing them to contain a high proportion of infected people? How will it be possible to pay the cost of treating the disease on a massive scale?

It costs up to $150,000 to treat each patient in the United States. In Africa, where the average per capita annual health budget is only about $1.75, adequate treatment of AIDS already is impossible

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject / Sujet

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Publication Journal of Commerce

US Could Triumph at Venice

By JOHN J. LAFALCE

The annual economic summit now under way in Venice provides a chance for the United States to take the leadership role that only we can play in the re-creation of a stable worldwide economic climate. The world debt crisis poses great problems today, but it also provides the United States with a great opportunity to make Venice a political triumph.

The international economy is suffering from major strains that put its future at risk. World commodity prices remain flat. Industrial countries refuse to stimulate their economies. Exchange rate instability among the industrial countries leads to a pessimistic expectation of economic growth in 1987 — and perhaps for a year or two beyond. The risk of recession next year is real.

The Latin American debtor countries are in desperate economic shape, with inflation over 100% a year in Brazil, Mexico and Peru, and with hopes for economic recovery fading. The debt crisis has forced commercial creditors to accept some piecemeal restructuring of debt. But no permanent arrangements have been made on future financing, and the net drain of capital from Latin America last year was $29 billion. This is not sustainable in the long run. The debtor countries in Sub-Saharan Africa are in even more desperate straits. Meanwhile, the failure to resolve the U.S. trade deficit means that there are limits to our ability to continue absorbing imports from the Third World.

Perhaps the debtors could have coped with the instabilities of the world economy if the Baker proposal had succeeded. It has not. The historic significance of Citicorp's decision to provide for up to $3 billion in Third World credit losses is that it undermines the position of Treasury Secretary James A. Baker III that any restructuring of international debt must impose no costs or losses on the banks. It also indicates that commercial banks are reluctant to provide new loans to most debtor countries in the near future.

The administration response to these pressures has been weak because of its unwillingness to face the realities of U.S. budget policy and global debt management. With regard to the latter, the administration seems to be far more concerned with maintaining U.S. bank profits than with restoring growth in Latin America, the kind of growth that could reduce our own trade deficit and put the debt crisis behind us.

Given the likely stalemate over U.S. fiscal policy for the next year — large budget deficits will continue to limit improvements in our trade deficit — the key goals at Venice should be to avoid a slowdown in economic growth, to push for more open market access in the industrialized countries, and to prevent the debt crisis from further damaging debtor economies, with the inevitable repercussions on the U.S. and world economies.

The Japanese government's proposal to channel $20 billion in new lending to the Third World can help to achieve these aims. The recycling of Japanese savings to Latin America would provide a stronger stimulus to the U.S. economy than would an equal increase in Japanese government spending. But at least one additional action is needed for increased Japanese lending to significantly benefit the world economy. It is important that the new loans represent a net increase in funds for investment in Latin America, not simply a mechanism for additional repayments to the private banks. To ensure that the new credits actually increase the net flow of resources, the Japanese proposal should be combined with a mechanism for restructuring and reducing the existing debts.

We should consider the creation of an International Debt Management Facility that could acquire the banks' credits at a discount and pass along the savings to the debtor nations in the form of reduced interest rates, subject to appropriate adjustment policies by the debtor governments. Private banks voluntarily selling their loans to the facility would improve their balance sheets. This proposal, now part of both the House and Senate trade bills, is a natural complement to the Japanese initiative. It provides a way of avoiding the problem of new loans going simply to bail out old loans. Debtors would receive a double dose of relief, and our trade and economic growth would improve.

The administration should embrace the Japanese initiative as an opportunity to develop a new debt management strategy and encourage the World Bank to work with Japan on the disbursement of this added capital. The tools to meet the debt challenge are at hand. All this is lacking is the will to use them.

John J. LaFalce is a Democratic congressman from New York.

Value of Summit Can't Be Discounted

VENICE SUMMIT: AN ANALYSIS

By JANET PORTER
Journal of Commerce Staff

VENICE, Italy — World leaders meeting here this week have a tough juggling act to perform as they try to ensure the long-term prosperity of the international economy while satisfying short-term domestic pressures and the expectations of the marketplace.

If no major initiative of some sort is announced in the final communique, then the outcome of the economic summit will probably be dubbed a failure.

If nothing sensational happens, then the several thousand reporters crammed into this small Adriatic city will return home disappointed.

And yet the chances of either occuring are faint. The most likely excitement — and even that is improbable — would be a public fall-out between Germany and the other six nations represented at the summit who want to see faster expansion of the German economy.

But if the thrust of the final communique is already fairly certain, that is no reason to write off these annual gatherings as a waste of time.

Despite demands for immediate solutions, no one seriously expects some magic wand-waving to instantly dispel all the ills of the world. Indeed, it may be several years before the real achievements of such a meeting can be properly assessed.

But on the other hand, would the Japanese government have announced its 6 trillion yen package of public spending increases and tax cuts last month, and revealed further plans to liberalize its financial markets just last week, if the Venice summit had not been imminent?

When leaders from the United States, Canada, Japan, France, Germany, Italy, and the United Kingdom (together with the European Community) last met in Venice in 1980, their prime concerns were energy costs and spiraling inflation.

How to decouple economic growth from oil consumption and stop soaring prices seemed a massive task at the time, and yet both objectives have been accomplished.

The major economies have enjoyed five

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Value of Summit Can't Be Discounted

CONTINUED FROM PAGE 1A

years of low-inflationary growth, while oil consumption in the non-communist world has shrunk from nearly 53 million barrels a day at the time of the last Venice summit to around 47 million b/d this year.

Heads of state and government have had to face up to some very different problems since — most notably the world debt crisis which erupted in 1982 and, more recently, growing protectionist pressures.

The financial plight of developing countries is far from resolved but the international financial system remains intact, calming earlier fears that some of the world's largest banks could collapse because of their Third World debt exposure.

Likewise, huge trade imbalances have increased domestic demands in the United States and elsewhere for import controls, and yet a full-scale trade war has so far been avoided and a new multilateral trade round aimed at liberalizing world trade is under way.

The seven leaders here in Venice cannot take full credit for any of this, but neither should the importance of their yearly get-togethers be discounted. The chance to meet face to face, and perhaps even forge personal friendships, must help to diffuse potentially serious rifts and assure greater understanding of each others positions and domestic policy considerations.

Even if the end-of-summit communiques are invariably bland and predictable, the fact that leaders of the world's seven most powerful Western economies are (invariably) in agreement on what the problems are, if not necessarily in full accord on the remedies, should be regarded positively.

Over the past few years, significant progress has been made toward improving the process of coordinating economic strategies, largely through directives sent down from government leaders to their finance and economic ministers ordering them to work together on some specific matter or other.

This year, the key issues to be addressed are clear-cut, and effectively concern just three players — the United States, Japan and West Germany.

The huge trade surpluses of Japan and West Germany, and the United States' equally massive budget and trade deficits, must be redressed if trade wars and an economic downturn are to be avoided.

As growth rates start to falter in a number of countries, most particularly in Japan and Germany, the crucial question is how to maintain the momentum of expansion and prevent the world economy from sliding back into recession after five years of upturn.

The United States is fed up with being the principle engine of world growth, and has been pressing other countries to share the responsibility. President Reagan will be arguing that if the United States is to reduce its deficits, then other countries must step up their imports.

Japanese Prime Minister Yasuhiro Nakasone has neatly avoided being made the public whipping boy with his pre-Venice concessions (although his summit colleagues are suspending their final verdicts until they have assessed the package in detail), leaving Chancellor Helmut Kohl in the hot seat to explain why West Germany is reluctant to do more to stimulate its economy.

A major breakthrough in Venice would be a formal commitment by the seven to agricultural reform.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

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Subject
Sujet

Date June 8 Publication New York Times

Reporter's Notebook: High and Dry in Venice

By R. W. APPLE Jr.
Special to The New York Times

VENICE, June 7 — The first peole to suffer at every summit conerence are the poor souls who find hemselves washed up by circumtance, like so much flotsam, in the nidst of a gathering of world leadrs.

They soon discover that their novements are restricted by seurity measures, that the offices or he museums they want to visit are losed, and that all the tables in the est restaurants are taken by the ig shots. So it was in Tokyo last ummer, when the summit meetg caused some of the worst trafic jams ever seen in a city that roduces splendid ones twice very day.

And so it is in Venice this week, o the consternation of people who lanned their vacations months go in blissful ignorance of the nachinations in the chanceries of he world.

A shop owner from Leeds in 'orkshire and his wife, for examle, took a plane from Rome to 'enice this morning and discovred in midair that it was not going o Venice at all. For reasons that re not clear to anyone (they did ot do it for the summit meeting ere in 1980) the Italian authorities ave closed Marco Polo Airport ere for a week and diverted all ommercial flights to Treviso, bout 25 miles to the north. The est of the trip has to be made by us.

3 Hours Added to Trip

Well, most of the rest of the trip. he bus stops at Piazzale Roma, on ne edge of town. From there, one as the choice of traveling to one's otel by vaporetto (water bus) or otoscafo (water taxi). But today ne nearest vaporetto stop was losed, and there were no motosafi because the big shots — the talian newspapers are calling nem "i grandi" — have commaneered them all. So the nonofficial isitors had to walk half a mile to ne bus, carrying or dragging their uitcases onto boats already ammed to the gunwales with pasengers.

For many, the trip from Rome to neir hotels here took six hours intead of three. And when they fially reached the goal of every ed-blooded visitor to Venice, St. Iark's Square, they found themselves standing shoulder to shoulder with other tourists. With travel to other parts of the city all but impossible, everyone was in the same place — right outside the Doge's Palace, where the big exhibition of the summer was closed, naturally, because the building will be used as the setting for a photo opportunity when all the leaders are assembled Monday night.

Noise and confusion usually do not much bother Italians. But this afternoon, in the great piazza, where the people for once outnumbered the pigeons, they were muttering "abismo."

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Talks Amid the Tomes

The business sessions of the conference will take place in the library of the one-time monastery attached to the church of San Giorgio Maggiore just across the mouth of the inner harbor from St. Mark's Square.

In theory, the room is off limits to reporters, but infiltrators report that its bookshelves are lined with tomes on art and on Venetian history in several languages. There is said to be nothing whatever on the problems afflicting world trade or on the Persian Gulf.

A long oval table covered with beige felt has been set up in the center of the room, and the plan is to put President Reagan near one end, with Prime Minister Amintore Fanfani of Italy on his left and Prime Minister Brian Mulroney of Canada on his right. Opposite Mr. Reagan will be Prime Minister Yasuhiro Nakasone of Japan, the President's only rival for the role of superstar here.

The library, which was designed by Baldassare Longhena, is considered one of the splendid creations of the Baroque era in Venice. But for three days this week it will also be a testing ground for 21st-century communications gear developed by Olivetti of Italy.

Ranged at either end of the table, behind the participants, are eight gray consoles — one for each country and one for the European Community. They will enable the aides to the conferees, who are known as sherpas, to send to staff members in distant workrooms either television pictures or printed facsimiles of documents or notes. By using a kind of electronic wand, they will be able to write or doodle on a screen and have that reproduced.

After a tryout, the chief American sherpa, Allen Wallis, Under Secretary of State for Economic Affairs, seemed suitably impressed. "You can even do it in color," he said.

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The City of Lights

CBS News isn't playing; its anchorman, Dan Rather, isn't even in Venice. But the two other big American television networks are competing to see which one can best light up the town.

ABC News is using the 11th-century basilica of St. Mark's, no less, as the set for its nightly newscast. Using hundreds of lights, ranging from big Hollywood spots for the facades to little bulbs up amid the pinnacles, th network is turning night into day in way that the organizers of the annu pre-Lenten carnival here might envy.

The network's great coup, accoring to Mike Duffy, a senior producer was to place a light inside the bel atop the 320-foot campanile near th basilica.

Not to be outdone, NBC News is illuminating a whole section of th Grand Canal that includes Longhena's masterpiece, the domed church of Santa Maria della Salute, which Bernard Berenson once called "the building which occupies the center of the picture that Venice leaves in the mind."

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Subject
Sujet

Date June 8 Publication New York Times

Uneven Summit Record

Leaders Can (and Sometimes Do) Achieve Tangible Results, but Change Is Often Slow

By PETER T. KILBORN
Special to The New York Times

VENICE, June 7 — The heads of seven governments, accompanied by 2,300 journalists and entourages of ministers and aides, are assembling here to attend the 13th annual economic summit conference Monday through Wednesday. This one, more than most, will start with unusually modest prospects, and raises the question of why anyone bothers.

News Analysis

One reason heads of government bother, and even glory in them, is that the conferences (held previously in such places as Versailles, Tokyo's celebrated gardens and Williamsburg, Va.) are good theater.

But another reason — one not so shallow — is that boldly on rare occasions, vaguely and barely perceptibly on others, governments use the conferences to tackle periodic crises, such as oil-price explosions and Latin American debt problems, and to try to nudge their collective economies toward faster and longer-lasting growth.

The conferences also permit discussion of political issues. This time they will include AIDS, defense of the Persian Gulf and arms control.

Economists complain that political issues are a convenient distraction for leaders who find economic matters too tough to confront. But many non-economists see nothing wrong with the leaders using the one occasion a year when they all get together to discuss whatever they want.

Seven Leaders, One Table

Even on economic matters, partisans of the summit conferences say they are useful. The discussions at the conferences and the planning meetings that precede them force the leaders' attention on matters some of them would otherwise ignore. This, the partisans say, also helps force the attention of everyone else, government bureaucracies and voters, on economic issues.

Just getting the heads of government to talk and eat around a single table for three days has some value.

"You get those seven people together," said W. Allen Wallis, Under Secretary of State for Economic Affairs and

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Uneven Summit Record: Sometimes the Results Are Tangible

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the President's chief summit planner. "That's dramatic right there."

Some prominent political economists belittle such views. Herbert Stein, who was President Nixon's chief economist and is now a scholar at the American Enterprise Institute, says such meetings might be useful every five years.

"I don't think discussion at this level is routinely, regularly necessary," he said. "Mr. Nixon could get himself well-informed on economic matters when they got serious enough with briefings at Camp David. He didn't have to go to Venice for that."

Few economists, in fact, are real fans of these affairs, but most seem to think they are inescapable in one form or another. They explain that differences among the leaders reflect the interests of the people who elect them, and agreements that leaders make often require support by national legislatures. So summit meeting commitments can be hard to hash and deliver.

Yet with the spreading economic interdependence of countries, the governments find that parochial policies of any one of them can boomerang.

Critics of American policy, for example, attribute the pronounced ups and downs of the dollar to the domestic American budget deficits and say the latest fall of the dollar has begun to hurt some parts of the American economy. A mutual fear of boomerangs, the critics say, is the real reason for summit conferences.

"The summits do move issues along," said Richard N. Cooper, now a professor at Harvard who was one of President Carter's summit conference planners. They do some tangible good on occasion and usually some intangible good, he said, "so why not?"

"The record is very irregular," said Anthony M. Solomon, retired president of the Federal Reserve Bank of New York and before that a senior Treasury official. "There have been some that reached specific decisions and were useful. There have been others that reached no specific agreements but that influenced thinking. And there have also been summits that accomplished absolutely nothing, not even influencing heads of government."

In Venice the prospects of accomplishing much seem slim. The seven countries — the United States, Japan, West Germany, France, Britain, Italy and Canada — appear committed to beginning what would be a long, probably 10-year, process of reducing their costly aid to agriculture.

They also will consider reviving Treasury Secretary James A. Baker 3d's debt plan for developing countries, coordinating their economies in order to maintain growth and stabilize currencies, encouraging Japan and Germany to grow faster, discouraging American deficit spending and urging along negotiations in Geneva to reduce barriers to trade. But none of the issues is new, and some seem intractable.

Although the leaders at this conference, with the exception of President François Mitterrand of France, may be philosophical conservatives with more in common ideologically than ever, they are still widely divided on specific issues.

One conference is singled out as the kind that produced immediate and tangible results and that many economists want to see more of. At that meeting, held nine years ago in Bonn, there were agreements by Japan and Germany to help pull the United States out of a slump by speeding up their own economies, by the United States to reduce the size of a scheduled tax cut to slow inflation and by various other countries to make domestic policy changes.

Germany blames that accord for a subsequent rise of inflation, a conclusion other countries question, but Germany still invokes the experiment in rebuffing American appeals that it take similar action again.

More often the summit process has produced less immediate but still tangible results over years of nursing an issue from one stage to the next — imperceptibly, it often appears, from the platitudinous phrasing of the conference communiqués.

One of this year's livelier issues, the search for a way to stabilize the world's currencies, had its start four years ago at the Williamsburg meeting when the nations made a token bow to Mr. Mitterrand's insistence on calling a world monetary conference like the one held at Bretton Woods, N.H., in 1944, which set up a system of fixed exchange rates. The other conferees agreed only to "consider" Mr. Mitterrand's proposition.

But following the unsettling rise of the dollar until early 1985 and its similarly unsettling decline this year, the countries have moved closer to the Mitterrand view. They have rejected the rigid system he first sought, but last year in Tokyo they signed on to a Baker proposal to develop a process to stabilize currencies as part of a system to stabilize economies.

In Venice the leaders are expected to announce that they have worked out the details of such a process, although West Germany's Chancellor, Helmut Kohl, has doubts about it.

"We have a procedure," Secretary Baker said in an interview.

"They've got the machinery," Mr. Wallis said. "They haven't turned it on."

"But the state of the world economy," Mr. Solomon said, "is such that the only meaningful development would be fiscal, including a U.S. commitment to raising taxes."

Subject
Sujet

Date June 8 Publication Wall Street Journal

U.S. Warns Iran Against Deploying Missiles in Gulf

By Ellen Hume

Staff Reporter of The Wall Street Journal

VENICE, Italy – Administration officials sent out strong warnings in television interviews yesterday that Iran shouldn't deploy Silkworm missiles purchased from China. They refused to rule out a preemptive U.S. strike.

"I really think that the United States ought to keep all its options open. The first option ought to be that the Iranians will decide not to roll those missiles out and put them on their sites," said White House Chief of Staff Howard Baker on CBS-TV's "Face the Nation."

Mr. Baker said that as the U.S. continues a commitment first made by President Carter and reiterated by President Reagan to protect free transit of international commerce, "we ought to have the military might to make it go. And we ought to retain the ability to do whatever we need to do make sure that happens. And the Iranians ought to wonder about that."

National Security Adviser Frank Carlucci, interviewed on Cable News Network, said that the U.S. doesn't want to "provoke Iran" but said "they should know we will respond, that our ships are prepared to defend themselves" militarily if the Iranians attack the U.S.-protected ships in the Persian Gulf.

Privately, White House officials expressed optimism that both the Soviet Union and China might go along with a United Nations resolution urging a cease-fire and a return to original borders to end the Iran-Iraq war.

They emphasized, however, that hurdles still remain before either the Soviets or the Chinese agree to a tough sanctions section of the resolution, which would approve an arms embargo with sanctions against the arms suppliers. The Chinese have refused to acknowledge that they sup-

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U.S. Sends Warning To Iran Not to Deploy Missiles in Persian Gulf

Continued From Page 3

plied the Silkworm missiles to Iran, Mr. Carlucci said Saturday.

Senior administration officials participated in five broadcast or taped television interviews here yesterday to establish the U.S. agenda as the seven-nation economic summit gets under way with a formal dinner tonight. Mr. Reagan is expected at the dinner to press the allies for more support in the Persian Gulf and in East-West arms-reduction efforts.

Mr. Carlucci said yesterday that the U.S. and Soviet Union are talking about a possible Reagan-Gorbachev summit this fall. "Assuming progress, something in the fall sounds reasonable," he said. "We've gotten far enough on substance so there have been some general discussions on dates."

He said that while the U.S. supports the principle of on-site inspections to assure that any arms agreement is being observed, he didn't rule out possible "selective exemptions" to those on-site inspections in both countries.

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Date June 8 Publication Wall Street Journal

Reagan, at Summit, Leans Toward End To Sanctions on Some Japanese Imports

By WALTER S. MOSSBERG
And PHILIP REVZIN
Staff Reporters of THE WALL STREET JOURNAL

VENICE, Italy—President Reagan is leaning toward lifting penalties on between 15% and 20% of the $300 million in Japanese imports currently subject to tariffs he imposed April 17 to retaliate for Japanese dumping of semiconductors.

A reduction in the amount of goods covered by the 100% tariffs, administration officials said, could come as early as today, when Mr. Reagan meets with Japanese Prime Minister Yasuhiro Nakasone. An easing of the sanctions would follow Japan's decision May 29 to accede to U.S. pressure and announce a major domestic stimulus package. It would allow the prime minister to be seen as having extracted a concession in return from the U.S.

Treasury Secretary James Baker and White House Chief of Staff Howard Baker both hinted publicly yesterday that Mr. Reagan might ease the sanctions before or during the seven-nation economic summit meeting, which starts here tonight after the president holds private sessions with Mr. Nakasone and West German Chancellor Helmut Kohl.

The chief of staff said that, while the president was studying data on Japanese semiconductor sales, "he is going to make a decision based on the totality of the relationship between the U.S. and Japan."

Performance Short of Expectations

The Treasury secretary, speaking in an interview on the Wall Street Journal/NBC television program "Before Hours," which was taped for airing this morning, said that "it's possible" Mr. Reagan will ease the sanctions even though the overall trade data don't justify removing them entirely. He said third-country dumping of one type of semiconductor, called dynamic random access memory chips, had been curbed by Japan. He conceded that overall Japanese performance on semiconductor sales still isn't up to U.S. expectations. But he added, "I'm not sure you could characterize it as a gift" to reward Mr. Nakasone for the stimulus package.

Privately, administration officials said that, if the president decides to reduce the size of the sanctions, a move that Mr. Nakasone has sought, the figures on Japanese dumping would justify a cut of about 15% to 20% in the value of the goods covered, which are mainly Japanese electronic products. While Japanese dumping of the one type of chip has been curbed, other dumping continues in violation of the two countries' pact on semiconductors, and U.S. chip makers' access to the Japanese market remains poor. And even the D-ram chips are still being sold at 85% of fair-market value, the Treasury secretary said, up from 60% before the sanctions were imposed.

Controversial Move

A move to ease the sanctions would be politically controversial. Congressional leaders have urged the president to hold firm on the issue, and his own legislative and trade advisers considered it a mistake to back off while protectionist trade legislation was moving through Congress. They feared that such a step would only encourage protectionists in Congress by making the executive branch seem unwilling to stand up to Japan.

But sources said the Treasury and State departments favored easing the tariffs as much as possible to reward Mr. Nakasone for the stimulus package. They argued that Mr. Reagan can tie a limited easing of the sanctions directly to Japan's limited improvement in complying with the agreement, thus satisfying Congress. Because the administration was split, the complicated raw trade figures were forwarded to the president for his own review.

While Mr. Nakasone may collect a prize from the president, Chancellor Kohl is likely to encounter further urging that his government stimulate the German economy, which is estimated to have contracted about 1% in the first quarter from the prior three months.

Public Praise

Publicly, U.S. officials have been praising Bonn's economic performance. They said repeatedly yesterday that Germany has lived up to its promises to modestly stimulate its economy. But privately, the U.S. officials are anxious to get Mr. Kohl to endorse a pledge made in Paris during May by his economics minister, Martin Bangemann, to reevaluate the level of stimulus if German forecasts for 1987 growth were falling below 2% by this month.

However, German officials in Venice are steeling themselves to resist such pressure. "We have fulfilled every commitment we made . . . and will continue to keep our commitments, nothing more, nothing less," said one German official. Chancellor Kohl will remind Mr. Reagan that the U.S. still hasn't made great gains in cutting its budget deficit and that Bonn has recently overcome political opposition to side with Washington on the plan for eliminating medium-range missiles from Europe.

"We agreed at the Louvre that a further fall in the dollar would be harmful, and that to avoid a recession the world needs stability around present exchange-rate levels. That's still true, and we need to adjust our interest rates and deficit-reduction policies accordingly," the official added. He was referring to the U.S., which some German officials think hasn't kept its Paris commitments on cutting the budget deficit.

French Are Worried

Perhaps the most worried of the European participants are the French. The French economy has stagnated in recent months, with growth-rate forecasts steadily being revised downward and inflation forecasts revised upward. With growth unlikely to reach 2% this year, unemployment appears likely to rise from an already-high 11% of the labor force. A senior French official said that a recession in France late this year or early next was possible, and that there could be a general world recession if five main "worries" weren't adequately addressed in Venice. These are: unacceptably high interest rates in many countries; too great a disequilibrium between the U.S., a debtor nation, and Japan and Germany, which are creditors; the prospect of less or no new commercial bank lending to Third World countries; the return of protectionist sentiment and actions; and the return of inflation in some countries, including France, even without stronger growth.

French President Francois Mitterrand will push for action on all of these problems, the official said. "We want Germany and Japan to stimulate their economies, we want more action by the U.S. in reducing its deficit, an increase in the resources of international organizations to help developing countries, real progress on calming exchange-rate disorder and the recycling of trade surpluses to the Third World," he said.

Mr. Mitterrand last month proposed a still-vague plan whereby parts of the current-account surpluses of Japan, West Germany and other surplus countries would be funneled through the International Monetary Fund and other organizations to the poorest countries, especially those in sub-Saharan Africa. Japan already has suggested that as much as $30 billion of its surplus funds could be recycled to indebted Third World nations.

There may be little agreement here on any but the most obvious issues. "We [the seven countries] will certainly issue a ringing declaration opposing terrorism and AIDS," said a French summit planner.

DEPARTMENT OF EXTERNAL AFFAIRS
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Date June 8 *Publication* Wall Street Journal

Beyond Venice

For all the vacuities of international gatherings, the economic summits of leading free-market nations are a sound recognition that the world economy defies sovereign borders, and can be run only through international cooperation. As a new summit opens in Venice, it's an apt moment to review what has been learned about managing interdependence.

While it's easy enough to stress the tensions and dangers, in a larger perspective the world has done tolerably well in facing the challenge of the 1980s. The inflation of the 1970s has been conquered, without the collapse that many would have expected. But stability has not been consolidated yet. In particular, highly volatile exchange rates still cast a shadow of crisis and danger.

Even here though, there has been real progress over the past two years, if not in solving the problem at least in defining it. At the Plaza Hotel meeting in 1985, the G-7 nations agreed the dollar was too high; at the Louvre meeting in February they agreed it had fallen at least enough. After the Louvre meeting the central banks tried to stabilize the dollar through sterilized interventions—foreign-exchange interventions offset by domestic monetary policy. Predictibly, these did not work, since money supplies affect currency values. After the Reagan-Nakasone summit the banks abandoned sterilization, setting monetary policies to create more yen and fewer dollars; this stabilized the dollar-yen value.

This is a set of important lessons: The system generates pain for all if the dollar is either too high or too low. Sterilization does not work. Exchange rates reflect monetary policies; the pain can be avoided only by coordinating monetary policies.

We would add two further lessons. First, coordinating monetary policies requires some outside reference point, to decide for example whether the problem is too many dollars or too few yen. In the accompanying chart we use the price of gold. Perhaps something better could be devised, for gold is not a perfect constant: its price was affected by turmoil over South Africa, the major supplier. But gold is linked to the general price level, is the only commodity held in central-bank reserves and is the historical reference for currencies.

The second lesson—we would hope a less controversial one—is that if the dollar was too high at the Plaza and too low at the Louvre, somewhere in between it was about right.

We nominate mid-January 1986. After the Plaza meeting, the dollar was brought down not by creating more dollars but by creating fewer marks and yen. This, it seemed to us, left the world economy gasping for liquidity. In January, gold rose to the $350 level it held through 1986. It rose in yen and marks as well, yet both Japan and Germany tightened through the year, producing flat economies and falling wholesale prices.

In early 1986 and late 1985, the exchange rates also reflected purchasing power parity, according to the studies of Stanford economist Ronald McKinnon. That is, dollars, marks and yen could be swapped about at then-current exchange rates and still buy a given basket of goods. If currencies are at PPP, they cause no pain: the world functions as if it had one money called by different names. Deviations from purchasing power parity, though, call forth wrenching adjustments. A free-market economy works on finely calibrated prices and comparative advantages, and the whole deck is reshuffled if exchange rates swing by 35% in 18 months.

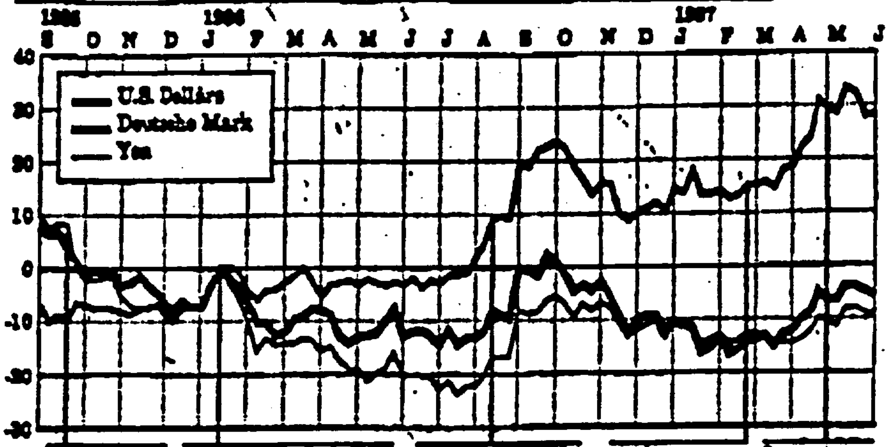
Among those who advise the leaders gathering in Venice, it is not fashionable to talk of a return to a system of fixed exchange rates like Bretton Woods. The more usual notion is that if you get economic policy right in every nation—a lower deficit in the U.S., tax cuts in Germany, freer imports into Japan—then exchange rate stability will result. But an alternative is to stabilize exchange rates through monetary policy; in striving for this, the U.S. will find it needs a lower deficit, Germany that it needs tax cuts and Japan that it needs freer imports.

Ah yes, the Venice conveners would say, but that means everyone has to surrender sovereignty. Sovereignty to do what? We've learned that a socialist government cannot get away with nationalizing France, that a U.S. government cannot get away with talking down the dollar; we're learning that Japan and Germany cannot get away with mercantilism. That is what interdependence means. We need to find a way to accommodate that fact with a little more finesse—without the arguments, shocks and volatility that now mark international economic management. That is the task, if not for one summit in Venice, then for the next few years.

Subject
Sujet

Date June 8 Publication Wall Street Journal

PRICE OF GOLD IN DOLLARS, DEUTSCHE MARKS AND YEN



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VENICE SUMMIT

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NEW YORK TIMES JUN JUIN 8 1987

DIVERSE ISSUES FACING 7 NATIONS WHO MEET TODAY

U.S. WARNS IRAN ON GULF

Retaliation Is Called Possible — Easing of Trade Curbs on Japan Is Hoped For

By JAMES M. MARKHAM

Special to The New York Times

VENICE, June 7 — The 13th summit gathering of the major industrial democracies will convene here Monday under the shadow of considerable political and economic uncertainty in the seven participating nations.

While the summit meeting's mandate is formally an economic one, the leaders of the United States, Britain, Canada, France, Italy, Japan and West Germany are expected to make informal soundings and take public positions on the AIDS epidemic, terrorism, the taut military confrontation in the Persian Gulf and the strategic repercussions of a discernible superpower disarmament accord.

In a gesture toward improving the political climate here, Treasury Secretary James A. Baker 3d told reporters that he was hopeful that, "in the near future," there would be "a partial lifting of sanctions" imposed by the Reagan Administration on Japan for its purported abuses of a semiconductor trade agreement.

Meeting With Nakasone

Mr. Reagan will meet Monday with Prime Minister Yasuhiro Nakasone.

Anticipating criticism here of its giant trade surpluses, Japan late last month announced a series of measures to encourage growth in its domestic economy, but Mr. Nakasone comes to Venice a lame duck, committed to step down in October.

In another development today, Howard H. Baker Jr., the White House chief of staff, warned Iran that the United States viewed deployment of land-based missiles in the Persian Gulf as a "hostile act" that could bring "retaliation." [Page A8.]

For all the pomp and the trappings of power on display here — helicopters clattering above the canals and Italian navy frigates docked off the Riva degli Schiavoni — the leaders who will assemble in the afternoon at the Doge's Palace all face domestic difficulties or uncertainties that could drain credibility from the summit meeting's final declarations.

'Something Solid' Wanted

"We don't want just an AIDS and terrorism summit — we want something solid on the economy," commented a senior adviser to Chancellor Helmut Kohl of West Germany. "But I don't know what we'll get."

Italy's 79-year-old caretaker Prime Minister, Amintore Fanfani, said Saturday that the United Nations, not the summit meeting, was the appropriate forum for discussing security in the Persian Gulf, an issue that the American side is keen to raise here. "We are not the Marines," said the Prime Minister, when asked if Italy might participate in assuring the flow of oil through the war zone.

Italy is in the midst of a desultory campaign for parliamentary elections that will be held on June 14. That has created a limbo for President Reagan, who is eager to exploit Venice to help restore his leadership credibility at home. The President has spent the last five days on what has come across as little more than a leisurely vacation punctuated by a visit to see Pope John Paul II in Rome.

But the Iran-contra affair that has weakened Mr. Reagan's stature at home has also raised skepticism among America's allies about the wisdom of Washington's thinly disguised intervention on the side of Iraq in its war with Iran, according to senior European officials.

The American side is now reported content to obtain at Venice vague language reaffirming the importance of freedom of navigation in the Gulf, without seeking commitments from France or Britain to join it in escorting Kuwaiti ships in the waterway.

The British Prime Minister, Margaret Thatcher, usually a vigorous participant at these annual gatherings, will make only an 18-hour appearance at the three-day meeting because of the British election on Thursday. "It's always nice just before an election to appear at the top table among the leaders of the world," commented a senior adviser to Mrs. Thatcher, underlining the essentially political nature of her appearance here.

Staunch Reagan Ally Lost

Mrs. Thatcher has miffed the Italians by not even finding time to pay a courtesy call on Prime Minister Fanfani. In more substantive terms, her short stay will virtually deprive Mr. Reagan of one his staunchest allies on a range of issues.

The divisions at the heart of the French Government are reflected by Prime Minister Jacques Chirac's decision to stay at the Gritti Palace Hotel with his delegation, leaving President François Mitterand in splendid isolation at a private palazzo on the island of Giudecca.

The Socialist President and the Gaullist Prime Minister are busy jockeying for position for next year's presidential elections in France. Yet French officials predict that the two men will try to give the impression here that, on foreign affairs, France speaks with one voice.

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uied tax cut to slow inflation and by various other countries to make domestic policy changes.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
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Date June 8 Publication Wall Street Journal

The Grand Canal

Economic summiteers will be plying the Grand Canal of Venice this week but thoughts of the seven heads of state will focus on a more important grand canal some 2,000 miles to the southeast, the Persian Gulf. A French-made Exocet missile fired by an Iraqi pilot to snuff out the lives of 37 American seamen aboard the USS Stark on May 17 was a timely pre-summit reminder of the dangers of the gulf.

President Reagan will ask other leaders for more concerted support for his policy of expanded protection of gulf shipping. The administration reportedly has debated destruction of any missiles Iran deploys to threaten the Strait of Hormuz and plans to send at least three more warships into the Persian Gulf. A carrier may be moved up the Gulf of Oman to provide air cover over the strait.

Iran alleges that weapons are shipped to Iraq through Kuwaiti ports. A majority of the 200 or so attacks on shipping since the war began have been conducted by Iran. Ships serving Kuwaiti ports are the main target.

The attack on the Stark was unexpected, and maybe a fluke, because the U.S. had assumed Iraq was friendly toward its efforts to protect shipping. But even before that event, the tactical and strategic equation in the gulf had become complex. The U.S. had felt it necessary to counter Soviet moves to carry Kuwaiti oil under the Soviet flag, which gives the Kremlin greater power over the oil lifelines of Western Europe and Japan. Iran raised the ante by ordering 20 Chinese "silkworm" anti-ship missiles to threaten shipping in the strait.

So you have two superpowers vying to protect Kuwait's shipping, which could mean indirectly helping Iraq. There are legitimate fears that the Soviets are stage-managing the war, which requires a degree of ruthlessness the Soviets easily manage. The Israelis, for their part, are urging the U.S. not to get too involved on the side of Iraq, thus risking an Iranian defeat that could put Iran at the mercy of the Soviets. Mr. Reagan, of course, has been under heavy political attack from amateur strategists in Congress for trying to maintain some influence in Iran.

At Venice, Mr. Reagan will have to explain the U.S. Persian Gulf policy to U.S. allies. They will want to know if there is some carefully thought-out U.S. strategy or a set of improvisations made necessary by the fact that 535 legislators in Washington are trying to make U.S. foreign policy. Certainly, Europe and Japan should give more support since it is mainly their interests the U.S. is defending. But they are entitled to ask what exactly the U.S. has in mind. Anyone wondering why a president must run foreign policy should think for a moment about the task Mr. Reagan faces as he tries to coordinate a crucial set of policies with U.S. allies against the background noise of "Irangate" on Capitol Hill.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date June 8 Publication Washington Post

U.S., Soviets Discuss Dates for 1987 Summit

By Lou Cannon and Hobart Rowen
Washington Post Staff Writers

VENICE, June 7—White House hief of staff Howard H. Baker Jr. ald today that U.S. and Soviet officials have discussed "a range of dates" for a prospective meeting in Washington between President Reagan and Soviet leader Mikhail Gorbachev later this year.

Answering questions from reporters, Baker said "I think there's a good chance there will be a summit yet this year" if U.S. and Soviet negotiators reach an expected agreement on an accord to eliminate medium-range nuclear missiles in Europe.

Also, three high-ranking Reagan administration officials strongly implied that the United States may be ready to lift some of the sanctions imposed on $300 million worth of Japanese electronics exports to the United States because Japan is now showing signs of abiding by an agreement barring the "dumping" of semiconductors.

Although the issue is not expected to be fully resolved during the 13th annual economic summit of seven industrialized nations, which is to open here Monday, Reagan could reveal U.S. intentions to relax sanctions after a meeting on Monday with Japanese Prime Minister Yasuhiro Nakasone.

Meanwhile, U.S. officials continued to warn Iran not to interfere with navigation in the Persian Gulf and particularly not to use Chinese Silkworm missiles against U.S. ships or any oil tankers they escort.

National security adviser Frank C. Carlucci said it would be "inadvisable" for Iran to try to prevent U.S. ships from escorting tankers through the Strait of Hormuz. "U.S. ships are prepared to defend themselves," Carlucci said. "They are prepared to defend the ships they are escorting and it would not bode well if they were to interfere."

Carlucci refused to speculate on the military options. The Washington Post reported last week that one of the military options being de-

See SUMMIT, A16, Col. 1

Dates for Summit Discussed

SUMMIT, From A1

bated was a preemptive strike against the missiles. Senior officials did not contradict the report but said Reagan had not approved any option yet and that a preemptive strike was unlikely.

[In Washington, officials said Adm. William J. Crowe, chairman of the Joint Chiefs of Staff, told a closed session of the Senate Armed Services Committee Friday that he opposes a preemptive strike against the Silkworms and doubts that Iran would fire them against ships flying the U.S. flag. Story, Page A5]

On the CBS program "Face the Nation," Baker said that U.S. ships are operating in the gulf to protect shipping "and the Iranians have nothing to fear from us."

"We have a great deal to fear from them, if they deploy those [Silkworm] missiles," Baker added. "And it's my hope that the Iranians will decide that it's not worth it to deploy those missiles and run the risk of retaliation."

Baker said the U.S. decision to put U.S. flags on 11 Kuwaiti tankers and protect them with an American convoy was not "irreversible" but that "my own feeling is that it should not be terminated as long as the Kuwaitis want it and as long as the Soviets are still playing in this game."

In an interview with Cable News Network, Carlucci also discussed the possibility of a Reagan-Gorbachev summit. He refused to speculate on a summit in October, which officials have mentioned as a possible target, but said that if there is an accord on the medium-range missiles "something in the fall sounds reasonable."

Carlucci said there are still "some difficult questions such as verification" to be resolved on the draft treaty but said, "We've gotten far enough on substance so there is some general discussion on dates."

In the economic field, diplomatic sources said, the United States and Canada are resisting West German efforts to hedge an earlier agreement to reduce global agricultural subsidies. These sources said that since the Paris meeting last month of key financial ministers at the Organization for Economic Cooperation and Development, the West Germans have backed away from language aimed at reducing "excessive" farm supports.

Hints of relaxing the sanctions imposed on Japanese trade came in separate television interviews by Treasury Secretary James A. Baker III, Howard Baker and Carlucci. The three officials said that the data on semiconductor dumping did not justify the complete lifting of sanctions.

But James Baker said on ABC television that there has been "marked improvement" in the Japanese performance in one area, D-RAM chips, the mass-produced basic memory chip. The treasury secretary said the improvement is reflected by what he called a rise in the U.S. share of world sales of such chips to about 80 percent from 60 percent.

On CBS, Howard Baker said that Reagan "has already indicated" he favors lifting the sanctions "as soon as the data justifies it." "I would not be surprised" by an announcement on semiconductors, Baker said. "But I expect the issue will not be finally determined at this conference."

Interviewed later on CNN's "Evans and Novak," Baker said he did not want to prejudge what the president might do but added, "I feel confident that he won't lift the sanctions except as and when there is marked improvement. There is marked improvement in this one area."

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date June 8

Publication Washington Post

In Venice, the First Couple's 'Second Honeymoon'

By Donnie Radcliffe
Washington Post Staff Writer

VENICE, June 7 — President and Mrs. Reagan wound up today what the Italian press has been suggesting is a "second honeymoon" in a 17th-century villa near here and prepared to go their separate ways starting tomorrow.

The Reagans have behaved like honeymooners in at least one respect. The White House today released photos taken by the Reagans of each other with the Olympus camera the White House News Photographers Association gave Mrs. Reagan last month. Mrs. Reagan's picture of the president showed him standing in a garden beside a bronze and stone sculpture by American sculptor George D. O'Neill. In it Reagan is wearing brown slacks and a beige knit sports shirt.

The president's picture of Mrs. Reagan shows her standing in front of a carriage used by Giuseppe Verdi when he visited Villa Condulmer in the 1850s. She is wearing red pants and matching blouse with white collar and cuffs, red belt and pumps and a red sweater.

The White House said Verdi was invited by the villa's owners, the Tornellis, to visit Condulmer following the premiere of his opera "La Traviata." When the carriage arrived, a wheel fell off and Verdi stayed on for four months.

Both photos bore an official credit line, proving the White House PR people know a real photo opportunity

See REAGANS, C11, Col. 3

In Venice

REAGANS, From C1

when it falls in their laps. In Mrs. Reagan's case, "The White House—Nancy Reagan"; in the president's, "The White House—President Reagan."

While Reagan spends Monday through Wednesday at the economic summit with six foreign leaders, Mrs. Reagan will be in Stockholm taking a look at two Swedish projects to curb drug abuse. One is a treatment center for pregnant women; the other involves Swedish entertainers who have organized against drugs.

"She always likes to learn what other countries are doing and share with them what we've done in the United States," Elaine Crispen, the first lady's press secretary, said today.

The first lady's host will be Gertrude Sigurdsen, Sweden's minister of health and social affairs. She will also attend an antidrug forum with Queen Silvia.

In addition, she is scheduled to meet with Ingrid Carlsson, the wife of Sweden's Prime Minister Ingvar Carlsson, and with Lisbet Palme, the widow of his predecessor Olof Palme.

Here in Italy, the pace has been considerably more relaxed as the Reagans took it easy at Villa Condulmer, interrupting their stay only to visit Pope John Paul II yesterday.

Italian newspapers have had a field day describing the Reagans' activities as reported by their correspondents, including one identified only as "Angelo the gardener."

According to these reports, the Reagans have been sleeping late, smiling a lot at each other, holding hands during strolls in the garden and sipping consommé before going to bed at night.

The mass-circulation Rome daily Il Messaggero said the Reagans started their day with long showers and massages, and beauty treatments for the first lady.

The conservative Bologna daily Il Resto del Carlino and its sister paper in Florence, La Nazione, both reported that the first lady phoned shoemaker Rene Caovilla in Venice, where she had ordered a pair of high-heeled shoes last year on the advice of Anna Craxi, wife of former prime minister Bettino Craxi.

Asked about the reports, Crispen said Mrs. Reagan said the stay has seemed like a second honeymoon.

"Parts of [the stories] are very romantic and interesting, like the Italians, but I don't think there is any way to confirm all the facts," Crispen said.

DEPARTMENT OF EXTERNAL AFFAIRS
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Subject
Sujet

Date June 8 Publication Washington Post

Europeans To Counsel Caution

By Jim Hoagland
Washington Post Foreign Service

NEWS ANALYSIS

VENICE, June 7—Concerned by rapid shifts in U.S. foreign policy goals and methods in recent months, European leaders are likely to use the seven-nation summit here to press President Reagan to show more caution and consistency in world affairs.

The summit, which begins Monday night, could end up being a "damage control" mission by European leaders who see Washington's recent handling of Soviet-U.S. relations and events in the Persian Gulf as erratic and risky, aides to several of the key European participants suggest.

The growing likelihood of a new meeting between Reagan and Soviet leader Mikhail Gorbachev will contribute to political issues dominating the private dinner for the leaders that formally begins the Venice gathering, according to these aides.

The dinner will provide the leaders with an opportunity to seek an informal joint assessment of Gorbachev and the changes he is bringing to Soviet foreign and domestic policies, one of the leaders who will be at the dinner has suggested to aides.

While Reagan will be pressing the leaders of Britain, Canada, France, Italy, Japan and West Germany at this summit for an endorsement of his tentative agreement with

See VENICE, A17, Col. 1

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DEPARTMENT OF EXTERNAL AFFAIRS
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Subject
Sujet

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Europeans to Press for Caution by Reagan

VENICE, From A1

Gorbachev to remove medium and shorter-range missiles from Europe, they will be asking him for clearer definitions of what the agreement will lead to, and what they could expect from a U.S.-Soviet summit later this year.

Reagan's unexpected near-agreement with Gorbachev at their meeting in Reykjavik, Iceland, last October to eliminate all nuclear-armed ballistic missiles, including the ocean-spanning variety, unsettled European leaders accustomed to a steady stream of anti-Soviet rhetoric and a strong buildup of America's nuclear arsenal under Reagan. The prospect of a sudden end to a 40-year-old policy of nuclear deterrence also stunned Europeans and many American strategists.

Reykjavik ended without any agreements being struck, but Gorbachev surprised Washington in February by agreeing to accept the elimination of medium-range missiles in Europe. The Reagan administration then had to push hard to obtain European acceptance of such a deal.

Reagan inadvertently revived concern about his commitment to the Western Alliance's standard deterrence policies on Friday in a speech that was televised in Europe.

He suggested that he is as opposed to nuclear weapons as the hundreds of thousands of Europeans who marched against the deployment of U.S. Pershing II and ground-launched cruise missiles in 1983.

"How I wanted to let them know that my heart was with them, that I too yearned for a day when mankind could live free of the terror of nuclear annihilation," Reagan said.

The largest marches were staged against the governments of British Prime Minister Margaret Thatcher and West German Chancellor Helmut Kohl, who will be attending this summit, as will French President Francois Mitterrand, whose support for deployment was vital to Kohl in overcoming the West German protests.

Thatcher, who will spend less than 24 hours at the three-day summit, will be meeting with Reagan for the first time since she held extended conversations with Gorbachev in Moscow at the end of March. She returns to London on Tuesday to resume campaigning for Thursday's parliamentary elections.

Having agreed to put aside their reservations about the "double-zero" option for eliminating U.S. and Soviet land-based nuclear missiles in Europe with a range of more than 300 miles, Kohl, Mitterrand and Thatcher will want to hear from Reagan about U.S. plans for dealing with the remaining Soviet superiority in conventional forces in Europe.

Japan's Prime Minister Yasuhiro Nakasone also has a strong direct interest in the medium-range accord, which would maintain the Soviets' right to station 100 such missiles in Asia while eliminating them in Europe.

The Europeans and Nakasone are also certain to use the summit to try to cool the increasingly belligerent exchanges between Iran and the United States over the Persian Gulf.

Here again, the swiftness with which Reagan has replaced one policy with its opposite has raised questions in the minds of policy makers abroad about the quality and character of the analysis on which the president is making foreign policy decisions.

After attempting to influence moderates in Tehran with arms shipments and then defending that decision as recently as March by saying that Iran had stopped terrorist actions, Reagan is now regularly denouncing Iran in the kind of terms that he used about Libya before an American air strike was staged against it in April 1986.

An administration campaign to call attention to threatening Iranian statements and actions has increased concern in European capitals that Washington might welcome a chance to shift attention away from Reagan's domestic troubles with an air strike against targets in southern Iran.

France has quietly begun to tell its citizens to leave Iran unless their presence there is essential. The warnings are said to have been related to a sweeping roundup by French police last week of Iranian-supported terrorist groups.

But informed sources say that concern over mob reaction against westerners if American raids were staged against Iran was also taken into account in the decision to pass quiet advisories to French businesses working in Iran.

Both France and Britain come to the summit prepared not to take up U.S. requests to increase their military presence in the gulf, according to diplomatic sources in both nations. Both turned down requests from Kuwait to get more directly involved in protecting civilian shipping in the gulf, while the Reagan administration ultimately agreed to do so.

France has rebuffed Washington on this request, while Thatcher has only said that she would consider it. Any renewed effort by Reagan to get greater French and British involvement would succeed only if he is able to convey a better sense of where such actions are likely to lead, allied diplomats say.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

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A Nice Place to Visit

VENICE IS A MAGICAL city, but perhaps not the best place in the world to discuss the somber subject of economics and finance. There are too many distractions, a thought that has probably already occurred to the seven governments that gather there today. It is supposed to be their annual summit meeting on economic policy, but most of the seven people who lead those governments have other and more pressing things on their minds at the moment.

President Reagan is focused, first of all, on the Persian Gulf and his efforts to get the Europeans to provide more active help in guarding sea lanes. His second concern is arms control, and the intricate diplomacy to maintain agreement among his European allies on the negotiations with the Russians. As frequently happens in this administration, the economic agenda ranks at best third in its considerations.

The British and Italians are preoccupied with their elections. The British vote Thursday, the day after the Venice meeting ends, and Prime Minister Margaret Thatcher greatly upset the Italians by announcing her intention to arrive late and leave early. Italy's election is next Sunday, and one of the few certainties is that the next prime minister won't be the present caretaker. As for the Germans, they are interested in economic coordination only in the negative sense that they wish to avoid the subject as much as possible. They fear it will mean—as, of course, it should—an attempt by everyone else to press West Germany to speed up its own growth.

The conference may not choose to deal with that directly, but that's the main issue before it. The world's economy has been growing more or less steadily for nearly five years since the last recession, and that's, rather a long cycle. Without careful management, it will shortly slide into another recession. The Americans waited far too long to start reducing their budget deficit, but this year it's going to drop sharply. The other industrial democracies, accustomed to depending on soaring exports to the United States, are going to see the American market suddenly weaken. The Japanese government has noted this danger and is beginning to strengthen its domestic demand to compensate. But the Germans, fixed on their fears of inflation, refuse to move, and West Germany will determine the pace for all of Western Europe.

Recessions can't be prevented. But they can be mitigated and deferred. That's the job that the seven eminent politicians at Venice have before them. They have many other preoccupations at the moment, most of them more immediately compelling than the tedious business of economic fire prevention. But this year's economics is next year's politics.

External Affairs Canada
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SUBJECT/SUJET

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PUBLICATION U.S. News and World Report

DATE June 8

It's a meeting on economics, but arms control will hold the spotlight

Playing the summit game

■ The six men and one woman who guide the world's seven richest democracies, divided over trade, taxes and other issues, share at least one aim at next week's economic summit meeting in Venice. Uppermost in their minds—as always—will be the effect on folks back home. But what plays in Peoria, Paderborn or Paris does not necessarily encourage consensus about the global economy and what it needs.

In fact, as the heads of government converge amid the architectural splendors of San Giorgio Maggiore island, it is not economic issues but arms control that promises greater unity. It is also the most promising subject for concrete results. Members of the North Atlantic Treaty Organization (NATO) have been edging closer toward a common position for eliminating intermediate-range nuclear forces (INF) from Europe. Agreement is so near, senior White House aides say, that it could be announced in Venice. That, in turn, could lead to another meeting of President Reagan and Soviet leader Mikhail Gorbachev, this time in Washington next fall.

"The summit offers a chance for the leaders to get together, face to face, and resolve differences," says a White House official, "and it will be a unique opportunity to show solidarity on INF. It's a natural place to reach an agreement." Reagan raised expectations further last week when he told foreign journalists that "great progress has been made" toward removing medium-range missiles from Europe. As a result, he said, there is now "the best opportunity in history [for] reducing nuclear weapons."

Gorbachev, responding to Reagan's zero-option proposal first made in November, 1981, has agreed to eliminate missiles in Europe that can hit targets between 600 and 3,000 miles away. He also has offered to ban shorter-range missiles with a range of 300 to 600 miles—completing a so-called double-zero option. Under Gorbachev's proposal, Moscow could keep 100 warheads in Soviet Asia, and the United States 100 inside its continental borders. Some European leaders, and many Americans, seek removal of these 200 as well.

West Germany remains the principal holdout against an INF agreement that already has been accepted in broad terms by Washington and Moscow. Chancellor Helmut Kohl worries that removal of these weapons could leave West Germany as the sole battleground in anything short of an all-out nuclear exchange. His objections appear to be fading, however. White House Chief of Staff Howard Baker now believes that there is an "increased likelihood" that the shorter-range missiles will be part of any U.S.-Soviet agreement. Says a French analyst: "Everyone will put a little water in his wine to arrive at a coherent compromise."

White House officials caution that any joint statement from Venice might not represent an allied consensus, since some NATO countries won't be present. Even so, a final position could come later in the week at a separate meeting of NATO foreign ministers in Reykjavik.

The Venice summit also will give Reagan an opportunity for a side trip to West Germany, intended to reassure European and U.S. critics who fear that he is too bellicose toward the Soviets. Focal point of the visit will be a carefully choreographed speech late next week at Berlin's historic Brandenburg Gate. A White House official told *U.S. News* that Reagan will urge removal of the Berlin Wall as a way of "lowering East-West barriers and reducing tensions."

The Gulf tinderbox

Despite the intended focus on peace and conciliation, Reagan can hardly ignore the increasingly volatile situation in the Persian Gulf. Disruption of tanker traffic because of the Iran-Iraq War would be a grave blow to Japan and other allies present in Venice who import much of their oil from the Gulf. In addition, the President wants to impress congressional Democrats with support from allies for U.S. pledges to keep the oil routes open and to protect Kuwaiti tankers from Iranian attack. To that end, administration officials will seek—and probably get—a general declaration of support for U.S. policies in the Gulf. But the Venice summit is not expected to produce promises of military or financial help with Gulf defenses, which some members of Congress would like to hear.

The economic summit will in fact deal with economics. It will generate, among other things, "serious talk about the collapse of the dollar and the Latin American debt crisis," says Harvard economist Jeffrey Sachs. There is little expectation of hard decisions, however. Leaders of the seven probably will be satisfied with repeating their previously stated intent to stabilize exchange rates for the dollar. Similar declarations in the past have had little impact on world markets, and no formal agreements are expected that would set a floor or target range for exchange rates.

West Germany, Japan and other participants probably will declare their intention to buy more from Latin American and perhaps African debtor nations. But such declarations, like statements concerning the dollar, often amount to little more than general expressions of good will. The United States plans to offer changes to expand and strengthen a Third World debt-

President Reagan, jellybean jar at ready, prepares for Venice. His arguments will reflect counsel of Trade Representative Yeutter, Secretary of State Shultz and Secretary of Commerce Baldrige

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PUBLICATION U.S News and World Report

DATE June 8

relief proposal that it first put forward in 1985.

On trade, brisk exchanges are seen on barriers to agricultural sales, a sore point between the U.S. and the European Community. Reagan and Japan's Prime Minister Yasuhiro Nakasone will spar over Japanese protectionism. But public disputes are unlikely because no one wants open embarrassment at a conclave designed to demonstrate harmony.

On the home fronts

All this fuzziness will enable the seven to use Venice for political advantage at home. Several need help. Britain's Margaret Thatcher faces an election, which she is expected so far to win, right after the summit. Prime Minister Amintore Fanfani heads a caretaker government. Nakasone's term may not be extended beyond next fall. Reagan, buffeted at home by the Iran-Contra affair, hopes for a statement of principle criticizing deficit spending, one of his prime rhetorical targets. "And we're going to push for everyone to adopt policies that encourage growth," says a White House official, referring to a pattern of economic stagnation in much of the industrial world. Some of this is already in the works. Japan will present a $42 billion emergency economic-stimulation and tax-reduction plan aimed at increasing domestic demand and reducing its huge trade surplus. The plan, announced May 29, includes moves Reagan has long been seeking. West Germany adopted a $24 billion tax-cut package in February. Both countries, however, will be asked to do still more. In turn, the U.S. will be urged, though politely, to cut its deficit.

> **'The best opportunity in history for reducing nuclear weapons'**
>
> President Reagan

Eager to show a back-in-charge image, Reagan will use the summit as a springboard from which to pressure Congress after he returns home. Besides arguing for "fair trade" and attacking protectionist legislation, which the Senate is expected to consider this month, he will challenge Congress to cut the deficit by accepting his budget proposals.

For all the calculated posturing at annual summits, some analysts consider the meetings valuable if only because they give world leaders firsthand exposure to each other's views.

But beyond an agreement on INF, which is proceeding independently of the Venice sessions, no one is expecting much progress beyond cordiality encouraged by fine Italian wines and a long series of photo opportunities. This has been the pattern since leaders of the seven democracies began their meetings at Rambouillet, France, 12 years ago.

"Not much will come out aside from the usual declarations," predicts Herbert Stein, economic adviser to Presidents Richard Nixon and Gerald Ford. Even a top White House aide concedes that, the INF debate aside, substance will take a back seat to appearance. "It won't be very dramatic," he says. "In terms of pressing economic issues, you won't see anything stunning." ■

by Kenneth T. Walsh with Robert J. Shapiro

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SUBJECT/SUJET 3

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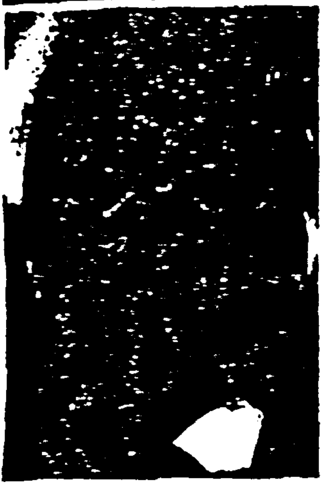
DATE June 8

What the seven want-and may get

The seven leaders of the uneasy partnership that charts the course of the Western World's industrial economies arrive in Venice with widely differing personal agendas. For most of them, the summit is a golden opportunity to burnish their images as movers and shakers on the international stage and, thus, to shore up their political fortunes at home. Although the group in the past has proved more adept at identifying problems than at coordinating solutions, here is a rundown of the issues that the leaders consider of overriding importance—for their nations and for themselves:

UNITED STATES



Reagan: Finding relief abroad

A foreign interlude

American Presidents, like other prophets, have traditionally sought honor in foreign lands in time of trouble at home. Ronald Reagan looks to the summit as a possible mini-triumph. He could come home with allied support for a deal to get medium and short-range missiles out of Europe, a clear path to a meeting with Soviet leader Mikhail Gorbachev and ammunition for battles with Congress this fall. That, at least, is his game plan. On the economic front, Reagan seeks declarations opposing trade protectionism and supporting reductions in budget deficits. Both would help him and the Republican Party make a case that a Democrat-controlled Congress is taking the nation down the wrong road if it approves tough trade restrictions and refuses to accept his budget proposals. Reagan is expected to stick to his guns on taxes. European leaders say he should increase them to cut the U.S. deficit. The President sees no such need. Instead, he will argue that U.S. trade and budget shortfalls could be overcome by economic stimulation in Japan and Germany and Capitol Hill acceptance of his spending plans. Whatever else happens, the Venice summit will give Reagan a welcome respite from seemingly endless revelations in congressional hearings on secret arms sales to Iran and illegal aid to the Contras. ☐

WEST GERMANY

How about missiles?

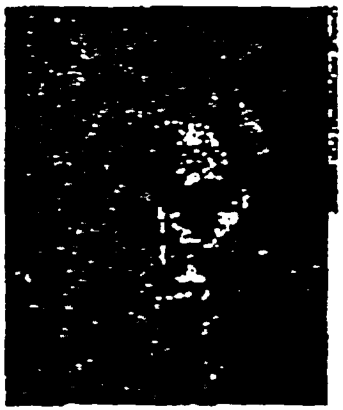
Chancellor Helmut Kohl hopes the leaders spend more time on arms control than on who should be doing what to stimulate whose economy. The summit comes just two days after Kohl—torn between moderate coalition partners and the right wing of his own Christian Democratic Party, and badgered by Washington—finally gives the word on whether Germany can live with the zero-zero option: Complete withdrawal of short and medium-range nuclear missiles. Germany could be the battlefield in an East-West war, and Kohl wants his country's shorter-range Pershing missiles exempted from any cutback. Should the summit turn up the heat on Germany to stimulate the economy, Kohl's ace in the hole is Finance Minister Gerhard Stoltenberg, who has elevated foot dragging to a fine art. Stoltenberg has already declared that his nation can go no further in revving the economy—and that Germany bravely swallowed the harmful effects of a weaker U.S. dollar on its exports. But Kohl doesn't expect sharp words from the Americans. After all, he and Reagan fly to Berlin after the meeting to display a unified front on the Warsaw Pact's doorstep. ☐

West Germany's Kohl: Arm twisted on missile cutbacks

GREAT BRITAIN

A campaign timeout

British Prime Minister Margaret Thatcher will be looking over her shoulder during a very brief stop at the summit. Her one-day appearance in Venice is intended to reinforce her recently cultivated stature as an international figure. Then she hurries back to the campaign at home for the June 11 election that will either give her an unprecedented third consecutive term in office or turn her and the Conservatives out. Thatcher is taking bows at home—and will happily do so again in Venice—for a buoyant British economy, which is expected to grow by 3.25 percent this year. Thatcher also takes heart from the fact that her nation's 3.5 percent average annual increase in productivity since 1980 is the best in the industrial West.



Thatcher: An eye on voters

Despite a surge in Labor support, her Conservatives are doing well in recent polls. Her warmest personal relations among the group at Venice are with Reagan. But since the U.S.-Soviet summit at Reykjavik, where Reagan adopted arms-control positions without consulting allies, Thatcher has taken pains to strengthen ties with the Continent. She maintains a good working relationship with West Germany's Chancellor Kohl. Britain's prospects are tied to continued growth in the world economy, and Thatcher will throw her weight behind initiatives that are aimed at reducing trade conflicts and stabilizing key currencies. ☐

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External Affairs Canada
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SUBJECT/SUJET

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DATE June 8


Canada's Mulroney: A junior partner in trouble at home

CANADA

Looking for an issue

Canada's Prime Minister Brian Mulroney, like most others at the table in Venice, will be playing to a distant gallery. With his Progressive Conservative Party running a dismal third in the public-opinion polls at home, Mulroney needs all the stature he can muster. As a junior player, Canada has limited influence in attacking the world economic problems on the meeting's agenda. The nation's economy is in good shape, with a stable dollar, growth forecast above 2.5 percent and inflation low. Mulroney, with the interest of Canada's wheat growers in mind, will prod others at the summit for enforcement of a new truce in the international grain-subsidy war. Looking for an issue he can stamp as his own, the Canadian has tried, with limited success, to arouse support for joint summit initiatives on racial reform in South Africa. He wants and may get an allied statement on AIDS. But, in light of his problems at home, Mulroney's main mission may be to look statesmanlike when the television cameras are rolling. □

ITALY

Who's in charge here?

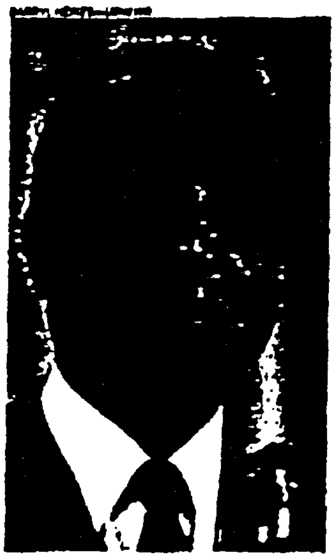

Fanfani: A caretaker host

Italian Premier Bettino Craxi was architect of the summit in Venice. He saw it as a celebration because Italy, its economy booming under the most stable government since World War II, had finally arrived as a power. Instead, the summit has arrived and the Craxi government, Italy's 45th since World War II, has departed. Amintore Fanfani, 79, will greet dignitaries as a caretaker Premier standing in until the June 14 elections. The one thing Italy wants from this summit—a little respect—remains elusive. Craxi boasts that under his regime Italy overtook Britain as the world's fifth-largest industrial power. But to get there, the nation's huge "black" economy had to be added to official figures. As the summit grinds on, Italians will be too busy politicking to pay a great deal of attention. □

JAPAN

A Kabuki drama

Last year in Tokyo, the seven leaders spent much of the summit talking about world terrorism and the disaster at the Chernobyl nuclear power plant. Prime Minister Yasuhiro Nakasone and Japan, Inc., can be forgiven for hoping that something similarly diverting preempts the finger wagging and Japan bashing in Venice. The free fall of the dollar and the yen's new muscle have only marginally trimmed Japan's trade volume. Nakasone hopes to slide past ritual unpleasantries, sound the alarm against trade protectionism and gain global exposure to bolster his sagging political fortunes at home.


Nakasone: Looking for a lift

His popularity rating in recent months has sunk as low as 25 percent, and, unless he can claw his way back into favor, the ruling Liberal Democratic Party will choose a successor in October. Some of his opponents worry only that Nakasone, if pressured in Venice, might be willing to barter costly trade concessions for a bath in the healing pool of television lights. With most of the other leaders at the summit looking for the same political benefits as Nakasone, it is hardly likely to come to that. □


Mitterrand: A Gallic agenda

FRANCE

Present but distant

French President François Mitterrand and Prime Minister Jacques Chirac come to the summit mostly aloof from the two main topics: Global economic revival and nuclear disarmament. The French economy is stubbornly comatose—some would say beyond resuscitation—and the nation, with its own independent nuclear deterrent, has none of the short or medium-range missiles under debate within the Western Alliance. The two agenda items that interest Mitterrand are on a different economic tangent: Recycling financial surpluses of industrial nations to benefit Third World countries and stabilizing the monetary system. Mitterrand seeks a framework of multilateral organizations to pipe capital to developing countries. France is also willing to talk about—but not do much to solve—a complaint the Americans will raise: Agricultural subsidies. A firm French "No" will greet any U.S. request to speed negotiations on the farm issue. Chirac, who is to Mitterrand's right, feels it would be poor public relations for a business-as-usual summit of industrial powers to bicker over narrow commercial interests while across the East-West divide a new team radiates renewal and reform as well as a fresh appeal to developing nations. □

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Summit to tackle trade imbalances

Japan's delegation, led by Prime Minister Yasuhiro Nakasone (second left) heads for Venice.

From Steve Levinson in Venice

THE seven industrial countries taking part in this week's Venice summit are likely to paper over their differences and produce an economic declaration with its centre-piece being a three-pronged agreement by West Germany, Japan and the US for further moves to bring their economics into balance.

Yashuhiro Nakosone, Japan's prime minister, warned yesterday that the international economy and trade system "which we have constructed with difficulty over all these years" could be threatened by the imbalance in the international balance of payments, protectionism, instability of interest rates and the heavier external debts of developing nations.

The economic declaration, due at the end of the summit on Wednesday, is expected to call on Japan and Germany to expand domestic demand as part of an international attempt to stimulate the world economy, at a time when there are growing fears that the pace of expansion is slowing.

The third element will be a reaffirmation by the US that it will cut its $220bn federal budget deficit. The declaration is expected to be couched in terms which make it clear that any slowdown in economic activity poses dangers for both the industrial nations and the developing world.

Although the summit does not get under way until tonight, all the major delegations have been downing hopes of big developments.

The meeting, the 13th since the annual gatherings began in Rambouillet in 1975, has already been dubbed the "lame duck" summit as Mrs Thatcher and Italy face elections this week, while domestic political difficulties abound for President Reagan, Yashuhiro Nakasone, and German Chancellor Helmut Kohl.

Despite the virtual certainty of a unified declaration at the end of the talks, there is no disguising that big differences divide the leaders. The most obvious is the apparent unwillingness of Germany to move fast enough in expanding its domestic economy to satisfy the US administration.

In the past the summit meetings have been marked by a tendency for the Japanese to be cast in the role of international scapegoats, but this time Tokyo has succeeded in taking some of the steam out of any likely criticism by its recent announcement of a £26bn expansion package of public spending and tax measures.

The economic declaration will also stress the importance of policy co-ordination among the summit nations, and underline the importance of rectifying trade imbalances which mean that while the US is running a trade deficit of about $170bn a year, Japan is in surplus by $90bn and Germany by $60bn.

It is also clear that the seven will reaffirm the currency stabilisation accord reached in Paris in February, commend its success so far, and agree to carry it forward.

But other subjects likely to be covered in the declaration will only mask underlying differences. While all seven will commit themselves to fighting protectionism, they are also aware of the protectionist pressures building up in the US and the danger of a tit-for-tat tariff war between the US and the EC over levies on oils and fats. Similarly, while there will be a joint commitment to phase out agricultural subsidies, and give backing to the new round of Gatt negotiations, there are strong domestic farm lobbies to be placated. Japan will be reluctant to see moves that threaten their highly protected rice farmers.

The most difficult financial question facing the seven is how to put in place a system of economic guidelines against which each country would agree to measure its performance in terms of growth, inflation, trade and exchange rates. Britain, Germany and Japan are reluctant to commit themselves to anything resembling targets, and it is likely that a form of words will be found which satisfies the US desire for a more formalised international approach, and yet does not tie the hands of the other nations. If there is to be a surprise in the summit talks it may well be the appearance of an agreement for a tighter co-ordination of policies with so-called "objective indicators" as measuring tools. But it is likely to be a long time before it will be possible to judge the effectiveness of any such accord.

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DATE June 8

HEADING: SABRE-RATTLING OVERSHADOWS ECONOMY ON EVE OF SUMMIT

US THREAT TO STRIKE BACK AT TEHRAN

From Michael Sheridan and Steve Levinson in Venice

THE UNITED STATES yesterday stepped up its pre-summit rhetoric against Iran when Howard Baker, the White House Chief of Staff, said here that Tehran faced the prospect of retaliation if it deployed Chinese-made Silkworm missiles in the Gulf.

If the missiles were installed, "the world community, not just the United States", should consider them a danger to transport on the high seas. Mr Baker's remarks made it certain that the Administration's latest crusade against Iran will overshadow the seven-nation economic summit which opens later today.

Mrs Thatcher, who arrives in Venice this evening, has timed her schedule to coincide almost perfectly with that of President Reagan. The two will breakfast together at the Cipriani hotel tomorrow and will then sail across the Venetian lagoon on Mr Reagan's boat to the first session of the summit. Her image-makers clearly have no qualms in publicly identifying her closely with the personality and policies of Mr Reagan just before the election.

Mr Reagan, however, may find himself besieged with questions from the press and doubts from his fellow summiteers about the wisdom of confronting Tehran over the new missiles.

The issue has prompted an open dispute between Washington and China, with the Reagan Administration refusing to accept Peking's assertion that it has not sold Silkworm missiles to Iran. In a rare disclosure of high-level diplomatic exchanges, the National Security Adviser, Frank Carlucci, said in Washington that at least 20 of the Silkworm missiles were already in Iran and that twice that number had been purchased from China.

"The Chinese say they are not doing it, but the missiles are coming from China," he said. The missiles were in the "process of getting operational", but Mr Carlucci did not say when they would be in a position to fire on US patrols planned for Kuwaiti tankers in the Gulf.

Mr Baker freely admitted that his remarks were meant to keep Iran guessing about American intentions. "The acquisition of Silkworm missiles by Iran and, certainly, preparations for their deployment in the Gulf is an escalation of the weapons system and it is a dangerous thing for Iran to do. Iran will have to think very hard before deploying those missiles," Mr Baker said.

The Silkworms are of concern to the United States because they have a reported range of between 50 and 70 miles, and can span the Strait of Hormuz at the entrance to the Gulf.

The Iranian Deputy Foreign Minister, Javad Larijani, said that US intervention in the Gulf was unwise and that western European countries wanted no part of it. The Islamic Republic News Agency quoted him as saying: "How can Mr Reagan, who has even taken his own bed to the Venice summit, dispatch American troops to fight in the Persian Gulf, whose waters are full of sharks?"

Kuwait is likely to seek more help from Moscow to protect its shipping against Iranian attacks if Congress opposes a deal to put half its tanker fleet under the American flag, diplomatic sources say. Plans to reflag 11 Kuwaiti tankers to give them US naval protection in the Gulf have led to fears in Washington that the United States could become embroiled in the Iran-Iraq war.

Iran, retaliating for Iraqi strikes against its vessels and oil installations, has stepped up attacks against shipping associated with Kuwait because of its support for Baghdad. Kuwait has chartered three Soviet oil tankers and has agreed to lease more if the reflagging deal falls through, sources said.

The acting chairman of the six-nation Gulf Cooperation Council, speaking at the opening of a meeting in Jeddah, Saudi Arabia, said that Gulf states preferred to stay out of international conflicts and interventions by foreign powers. Rashid Abdallah, Foreign Minister of the United Arab Emirates, said the meeting came at a crucial and very dangerous moment because of the Iran-Iraq war and the threat to the freedom of navigation in the Gulf.

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Economic plans, page 20

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date June 8 *Publication* Financial Times of London

THE VENICE SUMMIT

Tug of war over Bonn's tax plans

David Marsh on pressures to stimulate West Germany's economy

MR GERHARD STOLTENBERG, the West German Finance Minister, has an incongruous habit of beaming when answering awkward questions, although his eyes remain hard.

At the Venice summit, which begins today, both eyes and lips are unlikely to be smiling

Mr Stoltenberg is facing intense pressure from several directions to carry out two contradictory courses of action—both to speed up and to postpone West Germany's package of DM 44bn (£15bn) of tax cuts planned for 1990.

The country's trading partners want more German tax cuts to boost the domestic economy — which has stagnated since last autumn — and to foster world growth.

But regional political leaders, who are commanding ever-growing weight in West Germany's federal power structure, have launched an all-out drive to scale down the tax cuts in order to reduce the drain on local revenues.

The tax reductions, hammered out in February by the centre-right coalition government, are viewed by Bonn as West Germany's contribution to putting the international economy on to a sounder track.

Mr Stoltenberg can be expected to spell out in Venice that the tax cuts — expected to lead to a sharp increase in overall budget deficits by 1990 — represent the "maximum possible."

The excessive delay before the 1990 tax cuts — which will add up to a net stimulus of DM 25bn as DM 19bn of the reduction is due to be financed by cuts in subsidies — has already attracted criticism from abroad.

"All my US friends say what we are doing is right — but why don't we do it now," says Mr Otto Lambsdorff, the former Economics Minister, now economics spokesman for the Free Democratic Party.

In the last few weeks, the Finance Ministry has been advised by the Economics Ministry, under the control of the FDP, to consider bringing forward to 1989 at least half the tax cuts planned for 1990.

Although Bonn plans DM 14bn of tax cuts next year, the Economics Ministry argues that to postpone the next batch until 1990 makes no sense at a time when the medium-term outlook for West German growth and unemployment remains highly subdued.

However, the forces of German federalism are pushing in the opposite direction. The *laender*, or federal states, together with the roughly 60,000 local communities, or *gemeinden*, are playing an increasingly important role in public spending—and receive close to 50 per cent of taxes collected throughout the economy.

Mr Stoltenberg has already faced criticism from the *laender* over falling revenues stemming from next year's DM 14bn planned cuts in taxes. Protests have been led by the more hard-up states under the control of the opposition Social Democratic Party.

But still larger opposition is building up to the 1990 tax proposals. Mr Lothar Spaeth, Prime Minister of Baden-Wuerttemberg and one of the main regional barons in Chancellor Helmut Kohl's Christian Democratic Union, called at the weekend for the 1990 reform to be watered down to avoid undue strains on the finances of the *laender* and *gemeinedn*.

Mr Kohl and Mr Stoltenberg cannot ignore the federal pressure because the upper house of parliament, the Bundesrat, composed of Laender representatives, has a veto over West German tax legislation.

A combination of sluggish growth and low inflation, which automatically dampen tax revenues, together with Mr Stoltenberg's already-decided tax decreases, has had a sharp impact on public finances.

The central government deficit this year will total DM 26bn, against DM 22bn planned in the 1987 budget, with the overall public sector deficit projected to rise to DM 55.5bn in 1988 and DM 65bn in 1990.

The deficits—and the federal fracas they generate—will grow further if, as expected, Mr Stoltenberg this autumn finds it impossible to reach the necessary coalition accord on cutting subsidies sufficiently to finance the 1990 tax reform.

That could put Mr Stoltenberg in a position where he would have little choice but to shelve completely the 1990 tax package — a prospect which would knock a disastrous hole in the credibility both of the Finance Minister and of the entire West German Government.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date June 8 *Publication* Financial Times of London

Edward Mortimer assesses US-European efforts against terrorism

The hidden defenders make progress

AS IN TOKYO last year, terrorism and the struggle against it will be high on the agenda of the seven-nation Western summit which opens in Venice today, but will be discussed in a much improved atmosphere.

Governments on both sides of the Atlantic believe that international solidarity and effective co-operation against terrorism have made significant strides in the last 12 months—symbolised by the meeting of Interior Justice ministers in Paris on May 28.

This was the first such meeting held by the seven summit countries, who were joined by the current and incoming presidents of the European Community—Belgium and Denmark.

The Americans, who were represented by Mr Edwin Meese, the Attorney-General, are particularly pleased about rt because they have hitherto been kept on the fringes of European co-operation in this matter, which , has been conducted mainly through the "Trevi group", whose membership is co-extensive with that of the EC although technically unrelated to it.

They are especially pleased that the initiative was taken by the French, who not long ago were opposed even to discussing terrorism at what are still nominally "economic" summits.

The meeting was convened by Mr Charles Pasqua, the French Interior Minister, with less than 10 days' notice. Despite this all nine participants, except Denmark, were represented by cabinet ministers — including Mr Douglas Hurd, the British Home Secretary.

The Americans would dearly like to see such meeting become regular events. Indeed, most of the time the latest one is said to have been devoted to the organisation of future meetings.

What exactly was decided has been kept a close secret. In the words of Mr Gerhard Siegele, head of the anti-terrorism division of the West German Interior Ministry, "The parties decided not to publish a communique, but to inform only their heads of state and of government, so that they can discuss the results next week in Venice."

He added, however, that he would be satisfied if the summit simply confirmed the results of the Paris meeting.

Mr Francois Mitterrand, the French head of state, is said to have been privately displeased at being bounced in this way by Mr Pasqua and to be opposed to any changes in the statement on terrorism already drafted for the sumit by the "sherpas" the officials reputed to prepare the agenda.

But it is hardly possible for him openly to oppose an initiative taken by his own Interior Minister and thus expose to France's allies the awkwardness of the bicephalous "cohabitation" of opposing parties on which its present government is based.

Since Mr Pasqua is known to be keen to hold further meetings, it is quite possible that a decision to do so will be approved at the summit, though it will probably stop short of instituting them as a regular or permanent forum.

On the practical level the intensification of bilateral co-operation between European countries has been more important, so far, than the multilateral meetings. It has been particularly intense between France, West Germany, Italy and Spain.

The French and West Germans, who signed a bilateral treaty on the subject two months ago, are especially pleased with the results of their joint investigation of pro-Iranian Islamic groups, following the arrest in January at Frankfurt Airport of Mr Mohammed Ali Hamadei, who was caught trying to smuggle explosives into Germany but is also suspected of involvement in the 1985 TWA hijacking.

Mr Hamadei's brother, Abbas, was also arrested, and a large cache of explosives was found near his home in the Saarland, near the Franco-German border.

Subsequent investigations led to the arrest of a large network of pro-Iranian activists in France, who are suspected of involvement in th ewave of bombings which swept Paris last September—and which explains, at least in part, the new seriousness of France's approach to international terrorism.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date June 8 Publication Financial Times of London

The lessons of Marshall

THE fortieth anniversary of the Marshall Plan last week served as a rather nostalgic reminder of the benefits of international economic co-operation. It came on the eve of an economic summit in Venice which evokes universally low expectations. Yet the world confronts a dismal and challenging economic prospect, in the shape of sluggish growth, huge trade imbalances, growing pressure for protection and an overhang of debt. These are precisely the things the summit process is designed to address. So why is it that the aspirations of General George Marshall and of subsequent proponents of international economic co-operation find so little echo in policy today?

The short answer is that the world was a less complex place 40 years ago. The United States presided over the strongest economy in the world; sterling's eclipse in favour of the dollar in the international monetary system accurately reflected political reality. With trade accounting for a relatively small proportion of gross national product, the US could afford to promote a liberal international economic order without alienating powerful lobbies at home. Above all, there was a measure of consensus on the ends and means of economic management. Politicians and bureaucrats were held in thrall by Keynes.

None of this holds true today. While the US remains a superpower, West Germany and Japan have the economic muscle to demand a wider say in the global debate. There has been a shift to a multi-currency system; and economic interdependence exerts greater influence on the US, even if its policy makers have not always acknowledged the fact.

Fiscal expansion

Meanwhile, the theoretical framework in which policy evolves is no better than a muddle. The US, under the guise of supply side economics, has been conducting an experiment in global Keynesianism without consulting its partners around the globe. By spending more than they earn, the Americans have pulled the world out of a severe recession at the cost of running up unmanageable budget and trade deficits.

The Japanese are reluctant converts to fiscal expansion, while retaining a thoroughly mercantilist attitude to trade. And the West Germans risk some harsh treatment in Venice because of their obsessive desire to wear a fiscal and monetary hair shirt, as they fight the anti-inflationary battles of the 1930s.

Summits can only work when heads of government share common perceptions about the nature of the problems and the means of resolving them. No doubt Venice will produce some reassuring statements on the political situation because the summit countries are closer to each other on arms control than they are on economic policy. But whatever the communique declares in the way of commitments to co-operative economic management, objective indicators and the rest, the fact remains that the political obstacles which lie behind the present stalemate are formidable.

Trade deficit

It is not simply that President Reagan is reluctant to address his budget deficit by raising taxes, or that Mr Kohl is a died-in-the-wool financial conservative. There are profound problems of political structure, most notably in Japan, where landed and agricultural interests are so entrenched in the ruling Liberal Democratic Party as to preclude those reforms that most Japanese officials now concede are necessary.

If there is any lesson to be learned from the Marshall Plan in present circumstances, it is surely that too much of the burden of adjustment in the global system should not be allowed to fall on countries that are in trade deficit and overburdened with debt. And it should also be remembered that the US readiness to maintain open markets was quite as important as the capital outflow promoted by General Marshall.

Admittedly there is now more than a glimmering of acceptance on the part of the Japanese that they owe wider responsibilities to the indebted Third World, which has largely been neutered as a source of demand in the world economy. But in the absence of a far greater commitment on the part of surplus countries to expand their imports and shift the emphasis of demand away from exports, it will be left to the financial markets to impose increasingly heavy shocks on the system in order to break the policy gridlock.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date June 8 Publication Washington Post

LETTER FROM THE SUMMIT

Hold the Espresso, It's Instant to Go

VENICE

Before leaving Washington for this elegant and ancient city, White House chief of staff Howard H. Baker Jr. called ahead and asked his deputy, Kenneth M. Duberstein, if he needed anything from home.

Duberstein, who grew up in Brooklyn and is fond of hot pastrami sandwiches as well as other such American delicacies, said there was just one thing: could Baker bring some "American" coffee? Duberstein said he and Communications Director Tom Griscom couldn't drink the strong, viscous espresso they found here.

Baker didn't let them down. On his way to Andrews Air Force Base to fly in the president's back-up plane to Venice, the chief of staff stopped his White House car at the 7-Eleven store in Morningside, just outside the base. As the story is being told here, Baker then prowled the shelves for a few jars of instant coffee to satisfy his top deputies.

He was also eyeing the Twinkies on the pastry shelf when his assistant, John Tuck, tugged him away. Duberstein and Griscom, who had accompanied the president on the first leg of his trip here, were glad to see Baker arrive—and get their precious cargo.

* * *

EACH NATION participating in the economic summit sends an official representative known as a "sherpa," who makes preparations for the summit. On her arrival the other day, the Canadian staffer, Silvia Ostry, suffered the kind of misfortune that sure-footed sherpas are supposed to avoid whether they find themselves in the Himalayas or Venice—she accidentally fell into a canal at the airport.

* * *

AT A TIME when they are incurring sharp budget cutbacks because of takeover threats and harsh competition from cable outlets, the American television networks have made elaborate preparations to cover the summit. Network officials say the Venice coverage will cost their organizations more than $1 million each.

Dozens of camera crews have been scouring the city for scenic shots of famous landmarks and tourists to leaven the serious news of the summit. A whole armada of speedy water taxis have been hired by the networks to ferry tapes and employes around the city.

* * *

THE NETWORKS HAVE also gone to great lengths to provide interesting backdrops for their evening news broadcasts, which occur after midnight Venice time. NBC, for example, installed klieg lights to illuminate a church directly across the Grand Canal from the Bauer Grunwald Hotel, where a makeshift set for anchorman Tom Brokaw and others has been placed on the roof.

Cable News Network has also made its mark. In the press centers and even in the White House offices last week, the monitors were tuned to CNN, which was carrying live coverage of the Iran-contra hearings.

Even as the White House sought to showcase President Reagan as a statesman on the world stage, the Iran-contra affair reverberated in Venice. Some White House officials were not all that happy with the demands by Secretary of State George P. Shultz that Assistant Secretary Elliot Abrams remain on the job despite his admissions of misleading Congress about the secret contra resupply missions.

Said one official: "We'd gladly trade Elliot for $75 million in contra aid."

Baker was asked today in an interview on "Face Nation" if the president would still keep Abrams on board should Congress balk at renewing contra aid.

"Well, you don't authorize human sacrifice lightly Baker said. "And, you know, that's sort of what you talking about."

Reagan, he said, "is not mad about throwing peo to the wolves" and still supports Abrams. The president, he added, "has not been told by Congress that you've got to build a bonfire and burn Elliot Abrams in exchange for $300 million for Central America, and I hope it doesn't come to that."

—David Hoff

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date June 8 Publication Financial Times of London

Leading industrial nations will focus efforts on closer currency co-operation

Venice summit to stand by pledge on stable markets

BY STEWART FLEMING, PHILIP STEPHENS AND JOHN WYLES IN VENICE

LEADERS of the seven leading industrial nations will this week reaffirm their governments' commitment to promote stability on foreign exchange markets and to strengthen economic co-operation.

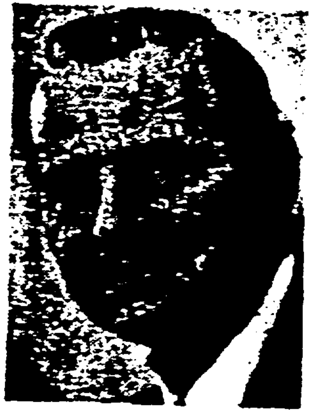
The three-day annual economic summit which starts later today is not expected, however, to bring any major new policy initiative to underpin that commitment.

Instead, the leaders of the US, Japan, West Germany, France, Britain, Italy and Canada will receive a report from their finance ministers detailing the progress made in enhancing co-operation since last year's summit in Tokyo.

Officials involved in preparations for the talks said the report endorsed February's Paris accord between finance ministers, in which they pledged to seek currency stability by closely co-ordinating their economic policies.

The heads of state and government are expected to approve that report and to call on the finance ministers to refine the use of economic performance indicators. The indicators are aimed at ensuring that national policies remain compatible with more balanced growth in the world economy.

The officials said the US appeared to have dropped its previous insistence that the indicators be given added force as targets rather than forecasts in the face of opposition from Britain and West Germany.



Mr James Baker

ON OTHER PAGES

Tug of war over Bonn tax plans; US-Iran threats over the Gulf; Venice's sharks wait for the Summit-goers, Page 3

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Mr Nigel Lawson, Britain's Chancellor of the Exchequer, said last week that the indicators, which cover a range of variables from growth rates to trade balance and exchange and interest rates, "had not been fully thought through."

Mr James Baker, the US Treasury Secretary, however, will be able to cite the commitment to develop them further as evidence that the US is winning its battle to establish a more formal framework for economic co-operation.

Despite the recent slowdown in world economic growth, the summit's final communique is likely to be relatively upbeat in its assessment of economic prospects. Governments believe that it is crucial to restore confidence in the outlook to prevent the slowdown turning into a recession.

West Germany, however, is likely to face strong, if discreet, pressure from several of its allies to do more to stimulate its economy. Japan's recently announced package of sti-

Continued on Page 18

Summit stands by pledge

Continued from Page 1

mulatory measures will also come under close scrutiny.

For Mrs Margaret Thatcher the UK Prime Minister, the summit will provide an opportunity to project her chosen image as one of the world's senior leaders prior to Thursday's general election.

Mrs Thatcher will arrive in Venice after the other summit leaders tonight, but in time for the opening dinner for heads of state and government. She will also be present for the formal session on Tuesday before returning to London at lunchtime on that day.

President Reagan will see Mrs Thatcher for bilateral talks on Tuesday morning, a meeting which she is expected to use to its full advantage in the pre-election television coverage.

Some of the gloss has been taken off her visit, however, by an apparent snub to the Italian hosts. The caretaker Italian Government hosting the summit is irritated that Mrs Thatcher has not found time even to pay a courtesy visit during the summit to Mr Amintore Fanfani, the Prime Minister.

Although Mr Fanfani has only been prime minister for a little over six weeks and he is expected to step down after the Italian general election next Sunday, his preparation for the summit has included visits to all heads of government in their national capitals except Mrs Thatcher, who was unable to receive him.

Because of the Italian domestic political crisis which broke at the beginning of March, senior officials have carried a heavier burden than usual in organising the summit agenda.

Mr Renato Ruggiero, the director general of the Italian Foreign Ministry, has at times enjoyed almost ministerial status, particularly during a visit to South America in the spring when he was received by President Raul Alfonsin of Argentina and President Jose Sarney of Brazil.

The Italian Government is hoping that the summit can bring some clarity to governments' future handling of the debt problem after Brazil's decision to halt interest payments and Citibank made provision for a large proportion of its non-performing debt.

An innovation Italian officials brought to the preparations was the use of a single document which, from the beginning of discussions between officials, was the base of the summit's draft conclusions. This was constantly updated and amended in the light of external events and discussions between the summit sherpas, the heads of government's personal representatives.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

1

Subject
Sujet

Date June 8

Financial Times of London

Stewart Fleming, Philip Stephens and John Wyles at the opening of the Venice summit

Many leaders, but a lack of leadership

POLITICAL HYPE and extravagant media attention have traditionally focused unreasonable expectations on world economic summits. Perhaps, however, the disappointments of past years are now beginning to weigh more heavily.

Certainly, this year's two-and-a-half day gathering in Venice, which opens this evening with discussions over dinner in the sixteenth century Ca' Grande, seems to carry fewer hopes than most of its predecessors.

Partly this is because the political authority of all seven leading participants has been muted for one reason or another. Partly it is because governments of the Western world's seven leading industrialised countries have barely begun to develop a collective strategy for dealing with growing economic and political problems.

President Ronald Reagan, by his office the natural leader of the West, arrives in Venice the most seriously handicapped. His domestic credibility is gravely diminished by the Iran-Contra scandal and national attention is increasingly focusing on finding a new president and electing a new Congress in 1988.

Neither Japan's Prime Minister, Mr Yasuhiro Nakasone, nor Mr Amintore Fanfani, Italy's caretaker Prime Minister, who is hosting the gathering, are expected to see out the year in their present positions. But both are deeply concerned about Mr Reagan's ability to contain protectionist fires in the US Congress and provide confident Western leadership in his dealings with Mr Mikhail Gorbachev. As storm clouds gather increasingly over the gulf, the President's abilities have come further into question.

This crucial sense of fading leadership — Chancellor Kohl has lost regional West German elections, Mrs Thatcher is sacrificing less than a day of her re-election bid to be at the summit and Mr Brain Mulroney of Canada is sinking in the opinion polls — does not encourage optimism over the summit's prospects.

The challenge is clear: the seven leaders must take at least a small step towards more collaborative economic and political relationships which would compensate for the relative weakness of the US economy.

In the arena of economic policy, evidence of forward momentum towards more co-operative leadership is urgently needed.

Enormous current account imbalances among the industrial countries are posing the most serious threat to world economic growth since the acceleration in US inflation and the second oil shock at the end of the last decade. The Organisation for Economic Co-operation and Development expects world growth of little more than 2 per cent this year and sees scarcely better prospects next year.

The foreign exchange markets are watching the outcome of the summit with anxiety. They fear that unless there is a major shift in policy—involving the US making substantial cuts in the budget deficit and Japan and West Germany significantly boosting growth rates — the dollar may fall much further.

The credibility problem is all the more acute because each participant recognises that Venice cannot yield substantive new initiatives beyond what was agreed in the Louvre accord in Paris last February, the first joint commitment by the major industrialised countries to currency stability. It was backed up by promises of co-ordinated economic policy initiatives and understandings about acceptable exchange rate fluctuations.

Current account imbalances pose the most serious threat since the last oil shock

The extent to which these commitments have helped to stabilise the currency markets is a moot point. Stepped up intervention by central banks has undoubtedly been a factor working towards currency stability. The fact that the industrial countries have provided the markets with some official leadership has also been a stabilising factor. So too has the Federal Reserve Board's demonstration that it is willing to raise interest rates to defend the dollar.

But follow through on domestic economic policy changes by the US, Japan and West Germany has lagged behind.

Japan has moved some way with its pre-summit announcement of a Y6,000bn ($40bn) package of expansionary measures.

The move has been cautiously welcomed by the other summit participants who can be expected, therefore, to refrain from "Japan bashing." But the likely impact on Japanese growth, and Mr Nakasone's ability to push the package through an obstructive parliament, remain crucially uncertain.

West Germany has not even gone that far. Although its economic growth rate is expected to slow to perhaps only 1.5 per cent this year, the Bonn Government has resolutely refused to adopt expansionary measures ahead of a tax-cutting package planned for next January.

Mr Baker had been using the threat of dollar devaluation to pressure Japan and West Germany into adopting the macro-economic policies the US favours. Now, however, with the industrial countries including the US publicly committing themselves to currency stability, Mr Baker's leverage is diminished.

Even the Reagan Administration itself has had to resort simply to promising that the US budget deficit wil decline by enough for it to claim that it is living up to its side of the bargain. The real confrontation on budget priorities between the administration and the Democratic Congress will not begin until next month. Were the White House to signal in Venice that it is ready to concede a significant increase in taxes to achieve a credible deficit reduction package, it would be undercutting its own negotiating position with its political adversaries in Washington.

Many suspect that some top advisers surrounding President Reagan including Mr James Baker, the Treasury Secretary, do indeed want to strike a deal. Whether the President can be convinced is a question which is subject to intense, but not well informed, speculation.

The summit's final communique will undoubtedly endorse the co-ordinated strategy to stabilise the dollar agreed in Paris.

But serious reconsideration of underlying economic policies will have to wait until the annual meeting of the International Monetary Fund in September. It will not be the first time summiteers will have reached for such an escape hatuhc.

In the meantime, maintaining confidence in the dollar could prove even more difficult. President Reagan's decision last week to replace Mr Paul Volcker as chairman of the Federal Reserve Board, the US central hank, by Dr Alan Greenspan is a major factor. Dr Greenspan is a man of solid reputation but limited international experience. H efaces

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

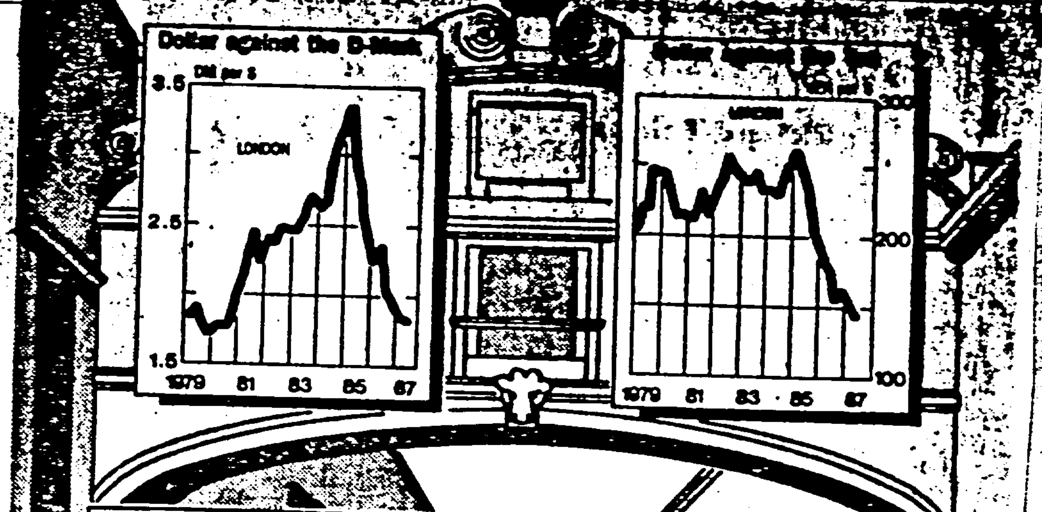
2

Subject
Sujet

Date June 8

Financial Times of London

THE ECONOMIC BACKGROUND



GDP growth (%)

	Average 1969-78	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
World	4 3	3.4	2 1	1 8	0 6	2 6	4 4	3 1	2 9	2 7	3.1
Industrial countries	3 4	3 4	1.3	1.4	-0 4	2 7	4 7	3.0	2 4	2.3	2.8
Canada	4 8	3.9	1.5	3.7	-3 3	3.1	5.5	4 0	3.1	2 0	3.0
US	2.8	2.5	-0 2	1 9	-2 5	3 6	6 4	2.7	2.5	2 3	3.1
Japan	5 8	5 3	4.3	3 7	3 1	3.2	5.1	4.7	2.5	2 7	3.3
France	4.5	3 3	1 1	0 5	1 8	0 7	1 5	1 4	2.2	1 8	2.1
W. Germany	3 5	4 0	1 5	—	-1 0	1 8	3 0	2 5	2 4	1.9	2.0
Italy	3 4	4 9	3 9	0 2	-0 5	-0 2	2 8	2 3	2 8	2 9	2.3
UK	2 2	2 7	-2.5	-1.4	1 5	3 5	2 9	3 4	2 5	3 0	2.3

Source IMF

Current Account

($bn)

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
US	-1.0	1.9	6 3	-9 1	-46 6	-106 5	-117 7	-140 6	-138 9	-129 4
Japan	-8 8	-10 7	4 8	6.9	20 8	35 0	49 2	86 0	83 0	82.0
W Germany	-6 0	-15 7	-5.2	4 1	4.2	7 0	13 3	36 0	34 9	28 7

Source IMF

the task of building his credibility against a background of nervousness over Congressional moves to pass a protectionist trade bill, concern about inflationary pressures in the US economy and fears that recent increases in interest rates to defend the dollar could undermine US economic expansion.

Where the seven are going on policy co-ordination may seem obscure; but plans for handling Third World debt are even more uncertain. Their basic strategy, built around negotiating separate solutions for individual countries seeking to reschedule debts, will be reaffirmed and new initiatives promised to give special relief for the poorest debtors, mainly in sub-Saharan Africa. These would involve, among other things, a move towards concessional interest rates.

Japan has stirred considerable interest by its talk of launching a special $20bn fund for debtor countries, but Mr Nakasone will be pressed hard for details as to how the money woul dbe distributed, and what proportion would represent additional funds.

Citibank's decision last month to take a $3bn loss on its Third World loans by increasing its loan loss reserves has thrown a shadow over the way forward. While raising the prospect of greater flexibility in dealing with the debt crisis, it leaves unanswered the problem of how to increase financial resources to debtor countries when commercial banks are loans envisaged under the so-called Baker plan for Third World growth.

Non-economic issues seem, in prospect, even more troublesome. More often than not a "joker" emerges in the two or three weeks before a summit. This year, President Reagan's desire for an allied contribution to Washington's attempt to defend shipping through the Gulf has caused the allies some consternation.

Some, like Britain, question the Reagan Administration's wisdom in proposing to allow Kuwaiti oil tankers to fly the American flag.

Some kind of common front will be necessary in Venice however. Here the escape hatch may be the United Nations. Instead of pressing for an Allied military contribution in the Gulf, the US is now focusing upon a possible UN resolution calling for a cease-fire backed with an embargo on the sale of arms.

On the other major foreign policy issue — the summit will tackle — arms control — the discussion may be smoother. The West German government's success last week in overcoming its internal divisions to endorse the "double zero option" should enable Nato foreign ministers to give broad backing to the US negotiating position at their meeting this week in Reykjavik.

Relative Allied unity on arms control, however, cannot conceal anxiety about President Reagan's leadership of the Alliance, which was so badly bruised by javik summit with Mr Gorbachev and has been further harmed by revelation in the Iran/Contras hearings and by the disarray that has emerged in Washington over policy in the Gulf.

Aware of his weakening public image, Mr Reagan has begun to try and counter the propaganda campaign Mr Gorbachev has mounted in Europe.

So far, however, Mr Reagan has failed to get his message across. He is seen by European officials, as well as large segments of the general public, as lacking dynamism and competence and being out of tune with European preoccupations.

This European perception is, however, understood in Washington. A recent Congressional report on US-European relations concluded that over the past decade, "judging from West European reactions to US policies and measured against the goal of enhancing consensus in Nato the US has not been a very effective Alliance leader." To be so, it added, the US "needs to take into account European perspectives."

With Washington so preoccupied with its own economic problems, so intent on blaming its trading partners for its difficuties and with a weakened presidency, the summit will be hard-pressed to find convincing responses to the problems at hand. But since everyone involved needs a political success,

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date June 8 **Publication** Financial Times of London

Wave of prosperity eludes gondolieri

By John Wyles in Venice

AS A "tide in the affairs of men" of the kind to which Shakespeare once alluded, the world summit opening in Venice this evening is certainly as technically demanding and physically dislocating as any of the aquatic variety which have swept over the Serenissima during its long history.

It does, however, bring profit and international publicity in its wake which is why most Venetians have been prepared to put up with the inconveniences posed by the presence of 7,000 police and army, "no go" areas on land and water and a general raising of the level of officiousness.

Only the gondolieri have been seriously alienated: they cannot ply their trade around St Mark's square and the lagoon and, to judge by their complaints, their entire seasonal earnings could be wiped out by the loss of four day's freedom of navigation.

Venice is already a veteran in the summit business, having hosted the 1980 version. Since then, however, the quest for total security for the heads of state and government involved has become ever more desperate.

Naturally the most illustrious hotels have had to be commandeered: the Gritti which houses Mrs Margaret Thatcher and Mr Jacques Chirac, her French counterpart, the Da[illegible]elli hosting Mr Helmut Kohl, the West German Chancellor, Mr Yasuhiro Nakasone, Prime Minister of Japan, and Mr Brian Mulroney, the Canadian Premier.

Above all there is the Cipriani, President Ronald Reagan's quarters, where hour-glass blondes in designer swimsuits have made way for less picturesque and rather more burly presidential guards.

Prosperity eludes gondolieri

Continued from Page 1

followed by lunch with President Francesco Cossiga.

No sighting has yet been made in Rome, Venice or anywhere else of the electronically-controlled "pigeon bombs" which, according to one Italian newspaper, soldiers and police have been told to look out for.

Their instructions, it is reported, are to keep an eye out for odd flying trajectories, but it is not known whether they are being encouraged to shoot suspects out of the skies.

A more easily verified and immensely more constructive application of electronics will be found, anachronistically, in the 17th century library of the cloisters on the island of San Giorgio Maggiore, a six minute vaporetti ride away from St Mark's square.

While the heads of government will be seated at the library's oval table, each one's adviser will be a small distance away at an Olivetti designed electronic marvel.

In the distant 1970s, these advisers used to battle between the summit room and their delegation offices carrying messages, requests for information or scribbled screams of alarm from their political masters.

Thanks to Olivetti, all exchanges in Venice will be electronic. The adviser has a choice of optical pen and electronics note pad, a desk top television camera or a silent facsimile unit for communicating with his delegation.

The "back office" communications to the summit room are received on a message screen.

Olivetti is not saying how much it has cost to develop this summiteer's delight, which also incorporates special linguistic facilities for the Japanese

External Affairs Canada
Affaires extérieures Canada

SUBJECT/SUJET

PUBLICATION Independent (U.K)

DATE June 8

Shadow of Gulf conflict hangs over summit seven

From Michael Sheridan in Venice

WITH A mixture of splendid form and vapid substance that seems peculiarly Venetian, the seven most powerful leaders of the Western world congregate here today for a summit that appears unlikely to resolve any of the most pressing problems on its agenda.

Indeed, its proceedings on the island of San Giorgio Maggiore may well be overshadowed by a matter that hardly figured in anybody's plans, the threat of a conflict between the US and Iran in the Gulf.

This kind of immediate issue is likely to divert attention from the economic and budgetary problems that the gathering was chiefly intended to address but which are liable to elude solution.

The chief figures were supposed to be President Reagan, Chancellor Helmut Kohl of West Germany and Yasuhiro Nakasone, the Prime Minister of Japan. But instead, like the shadow of the Moors over the Doge's domain, the autocracy in Tehran hovers, a spectre in the wings.

Mr Reagan, hoping for allied support for a policy of freedom of navigation in the Gulf, will very likely hear polite expressions of support for the idea but strong warnings against any pre-emptive action against Iran and almost certainly no offers of help.

It is a changed world since the seven *Grandi* last held their deliberations here in 1979 and only Mrs Thatcher can remember what things were like in office then. But although she is the summit doyenne, she also symbolises a key reason why few pundits think it will accomplish much.

Most of the participants are either lame ducks in office coming to the end of their terms or facing possible extinction through that bugbear of summiteers, the democratic process.

For President Reagan, occupying an £800-a-night suite in the Cipriani hotel, Venice could provide a coherent riposte to Mr Gorbachev's arms proposals, a reaffirmation of American leadership and a fresh impetus to the remaining Reagan years. His host, Amintore Fanfani, the Prime Minister of Italy, is a caretaker of almost octogenarian vintage wheeled out by the Christian Democratic party to oversee the run-up to elections next weekend.

Mr Nakasone leaves office in October, his popularity already on the slide. The twin-headed beast that speaks for France in the name of "cohabitation" cannot even bring itself to cohabit in the same hotel: the Prime Minister, Jacques Chirac, is slumming it at the Gritti Palace with Mrs Thatcher while President Mitterrand, an Italophile of renown, is a guest at the private villa of a local aristocrat.

As Mr Reagan contemplates the vista from his bright, sunny salon, the last thing he may wish to hear about is the federal deficit.

But that is the real meat and drink of what may, or may not, be possible here. Agreement between the US, West Germany and Japan on orderly growth in the industrialised West — which means the Germans and Japanese stimulating their domestic economies — is the chief benefit which might flow from the summit.

But in an agenda clogged with subjects such as Aids and terrorism, it may be more tempting to avoid unrewarding economics in favour of a political flourish.

When the leaders last met, the US Treasury Secretary, James Baker, thought he had secured an agreement to stabilise the dollar by drawing national economic policies closer together.

The financial markets, however, kept on trading the dollar downwards despite endless rounds of follow-up meetings. Action, not words, is what the markets sought and action may be hard to obtain.

West Germany and Japan may argue that they are already fulfilling their promises. Japan's interest rates are at their lowest levels in the country's recent history and, as in West Germany, a modest tax cut is expected. Some economists argue that these measures could be more energetic. But no real compromise seems to have emerged from the pre-summit discussions where much of what will be formally pronounced is decided in advance.

An agreement to ease the burden of Third World debt will probably be given support but although an eminently worthy cause this is not the stuff of which public-relations minded summiteers dream.

Thus, the leaders are all the more likely to search for a political gesture: an international war on Aids, tough action on terrorism, or even President Reagan's long-sought arms agreement.

Whatever the outcome, the summit brings a hint of glory back to the Venetian lagoon: 6,000 security men, 2,200 journalists and armies of advisers and retinues make this a 20th century Field of the Cloth of Gold, a celebration of wealth and power, conducted in a wood-panelled 17th century library and electronically united by Olivetti computers.

American and Italian naval craft patrol the lagoon while frogmen scour its depths. Any suicidally-minded Iranian, however, would enter paradise within a few minutes of entering the water, such is its filth. The summit will help the hoteliers, whores and waiters of Venice, but whether it will mark any significant change in the way the Western world does business is open to doubt.

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SUBJECT/SUJET

Tug of war over Bonn's tax plans

David Marsh on pressures to stimulate West Germany's economy

MR GERHARD STOLTENBERG, the West German Finance Minister, has an incongruous habit of beaming when answering awkward questions, although his eyes remain hard.

At the Venice summit, which begins today, both eyes and lips are unlikely to be smiling

Mr Stoltenberg is facing intense pressure from several directions to carry out two contradictory courses of action—both to speed up and to postpone West Germany's package of DM 44bn (£15bn) of tax cuts planned for 1990.

The country's trading partners want more German tax cuts to boost the domestic economy — which has stagnated since last autumn. — and to foster world growth.

But regional political leaders, who are commanding ever-growing weight in West Germany's federal power structure, have launched an all-out drive to scale down the tax cuts in order to reduce the drain on local revenues.

The tax reductions, hammered out in February by the centre-right coalition government, are viewed by Bonn as West Germany's contribution to putting the international economy on to a sounder track.

Mr Stoltenberg can be expected to spell *out* in Venice that the tax cuts — expected to lead to a sharp increase in overall budget deficits by 1990 — represent the "maximum possible."

The excessive delay before the 1990 tax cuts — which will add up to a net stimulus of DM 25bn as DM 19bn of the reduction is due to be financed by cuts in subsidies — has already attracted criticism from abroad.

"All my US friends say what we are doing is right — but why don't we do it now," says Mr Otto Lambsdorff, the former Economics Minister, now economics spokesman for the Free Democratic Party.

In the last few weeks, the Finance Ministry has been advised by the Economics Ministry, under the control of the FDP, to consider bringing forward to 1989 at least half the tax cuts planned for 1990.

Although Bonn plans DM 14bn of tax cuts next year, the Economics Ministry argues that to postpone the next batch until 1990 makes no sense at a time when the medium-term outlook for West German growth and unemployment remains highly subdued.

However, the forces of German federalism are pushing in the opposite direction. The *laender*, or federal states, together with the roughly 60,000 local communities, or *gemeinden*, are playing an increasingly important role in public spending—and receive close to 50 per cent of taxes collected throughout the economy.

Mr Stoltenberg has already faced criticism from the *laender* over falling revenues stemming from next year's DM 14bn planned cuts in taxes. Protests have been led by the more hard-up states under the control of the opposition Social Democratic Party.

But still larger opposition is building up to the 1990 tax proposals. Mr Lothar Spaeth, Prime Minister of Baden-Wuerttemberg and one of the main regional barons in Chancellor Helmut Kohl's Christian Democratic Union, called at the weekend for the 1990 reform to be watered down to avoid undue strains on the finances of the *laender* and *gemeinden*.

Like the Reagan administration, Mr Spaeth is worried about low-growth prospects. He believes West German growth in coming years is likely to be more like 1.5 to 2 per cent rather than the 2.5 per cent assumed in planning documents.

Mr Spaeth draws the opposite conclusion from supply-side economists in Washington. To prevent yawning deficits in notoriously thrifty Baden-Wuertemberg, taxes must be maintained, not trimmed, he says.

Mr Kohl and Mr Stoltenberg cannot ignore the federal pressure because the upper house of parliament, the Bundesrat, composed of Laender representatives, has a veto over West German tax legislation.

A combination of sluggish growth and low inflation, which automatically dampen tax revenues, together with Mr Stoltenberg's already-decided tax decreases, has had a sharp impact on public finances.

The central government deficit this year will total DM 28bn, against DM 22bn planned in the 1987 budget, with the overall public sector deficit projected to rise to DM 55.5bn in 1988 and DM 65bn in 1990.

The deficits—and the federal fracas they generate—will grow further if, as expected, Mr Stoltenberg this autumn finds it impossible to reach the necessary coalition accord on cutting subsidies sufficiently to finance the 1990 tax reform.

That could put Mr Stoltenberg in a position where he would have little choice but to shelve completely the 1990 tax package — a prospect which would knock a disastrous hole in the credibility both of the Finance Minister and of the entire West German Government.

EXT 936 (82/8)

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

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UK GILTS

Prospects hinge on election and summit

THIS WEEK sees two of the major events which could have the most fundamental bearing on what happens to the UK Government bond market in the months ahead—one is the Venice summit and the other is the general election on Thursday.

The summit is important in so far as it sets a trend in world currencies. A further period of pronounced dollar weakness if Venice fails to inspire confidence in currency markets should hit US bonds and work in favour of gilts.

Opinion is divided on how much more money can pour into gilts from overseas after the largely foreign-led rally this year. However, if more Japanese billions were to be disinvested from the US, fund managers would look closely at Britain. One primary dealer reports interest in gilts, for example, at several central banks which have not invested in this market for years.

Whatever the comparative attractions of different bond markets, prospects for gilts hinge crucially on the election.

Holding yields below 7 per cent has been a core belief, rarely seriously shaken, in a Conservative win. If there is no outright majority, we enter an entirely different ball game.

Assuming a Conservative victory, the question of sterling holds the key in a market which is already feeling queasy about the burden placed on it by the recent policy of capping the pound through intervention which has radically changed the funding outlook since Budget time when talk was of supply shortages.

Reserves have been built up by just under £6bn in March, April and May. Strictly, the effect of this on broad money growth can only be neutralised through the sale of debt on a one-for-one basis.

The authorities have made it clear that the bulk of the intervention will be sterilised over the course of the fiscal year and the market is now plainly concerned about the funding burden. Given no further intervention and no substantial reversal in the build up in reserves over the year, this seems to lie somewhere between £1bn and £1.5bn a month, somewhat higher than the average of past years.

In itself, this should not be too frightening. The gilt market is vastly more liquid and therefore easier to trade in than before Big Bang

Secondly, any further surge in sterling after the election would reflect extra demand for British assets. In this climate more intervention could relatively comfortably be neutralised by higher debt sales.

The authorities appear to be betting on only a short-lived period of overwhelming sterling strength post-election, followed by healthy two-way trade. Only if there were a period of sustained sterling strength would a policy of substantial intervention become untenable, not least because of the burden it would place on the gilt market. In this case it seems likely interest rates would have to be cut.

On the monetary implications of the intervention, the authorities appear to be fairly relaxed thus far.

Firstly, intervention should be largely sterilised. Secondly, some of the build-up in sterling deposits has been by foreigners which does not impact most measures of broad money supply. Although this cannot be completely ignored, it does not impinge so directly on domestic monetary conditions.

Thirdly, there is evidence to suggest that a proportion of the sterling bought in recent months has been to hedge against the perceived currency risk in holding dollar assets. Used as a portfolio balance, this sterling should be willingly held for the duration of the hedge and not leak into inflation.

The latter points suggest some flexibility at the margin of the full fund rule involving an element of judgment about the excess of liquidity over demand for money. Although the ground rule that the public ector should not contribute either negatively or positively to broad money growth remains, it is conceivable that there could be some modest underfunding if this was seen to be non-inflationary and intervention was placing too great a burden on the gilt market.

As one market maker put it: "Is the Bank really going to wreck the gilt market because of an unnecessarily rigid funding rule?"

Janet Bush

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PROGRAM: **EMISSION:**	PRESS BRIEFING	**DATE:** **DATE:**	JUNE 9, 1987
NETWORK / STATION: **RESEAU / STATION:**	(VENICE)	**TIME:** **HEURE:**	

PRESS BRIEFING IN VENICE

MODERATOR: --heads of government are going into their lunch momentarily. We realize we're going to have a relatively brief occasion(?) this afternoon. I'd like to limit questions, please, without supplementals. And when you do ask questions, if you would move to the microphones that are available to you, please identify yourself. This is therefore on the record. I would ask the Secretary of State Mr. Clark to make a few remarks.

CLARK: Thanks very much, Paul. You will have received some of the communiques that have been issued this morning. I suppose three things I want to say from a Canadian perspective about discussions last night and this morning, having to do with matters of particular interest to Canada, we are still involved in discussions with regard to agricultural matters. The prime minister raised, as he had indicated he would and as he did in Tokyo last year, the very great importance to Canada of at the very least maintaining the momentum that had been found at the OECD meeting on agriculture. Those discussions, as other trade-related discussions, will occur...will continue later this afternoon. Prior to coming to Venice, as you will know, Canada hosted a meeting of the so-called Cairns Group of agricultural affair traders, who are all interested because they suffer so much, interested in ending the trade war, the subsidy war, between the European Community and the United States.

Secondly, there was discussion beginning today of questions relating to economic development in Africa, particularly the debt problem in Africa. The prime minister took the occasion yesterday as preparation for the points he wanted to make today to telephone President Kenneth Kaunda of Zambia, and to bring to the table of discussions today the impact of the debt situation upon a country like Zambia, where something like 60% of the annual income is now being spent simply to service the debt. There had been an extensive discussion, as is reflected in the document on East-West relations on democratic values. And the point was made that democratic values are easier to pursue and to honour in a situation that is not as deeply burdened by debt as are several of the countries of Africa. Again, those discussions are continuing, but we are hopeful that they may continue towards some action to relieve the debt burden of particularly African countries. Both the prime minister and I, on a third subject, raised vigorously the importance in our view of this summit reaffirming our profound opposition to the system of apartheid. There was support for the position that was annunciated by Canada in that regard by the United States, by France, by Japan, with particular strength. Those discussion occurred both in the meeting of the

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heads of government and in the foreign ministers meeting.

Je peux répéter ce que je viens de dire en français si vous avez besoin mais peut-être, étant donné la limition de temps, la répétition bien pour en français.

Il y a trois questions d'importance primordiale pour le Canada qui étaient discutées hier soir. Et ce matin, la première touche la question de commerce international et en particulier l'impact sur l'agriculture; l'impact de la guerre des subsides entre la communauté européenne et les États-Unis; l'impact sur les cultivateurs canadiens; mais aussi l'impact sur les cultivateurs des pays du groupe Cairns qui viennent d'avoir une réunion au Canada.

Cette discussion va continuer aujourd'hui, mais le Premier ministre a souligné cette question fortement aujourd'hui. Deuxièmement, nous avons... Il a suggéré; le Premier ministre a suggéré dans le contexte de la dette du Tiers-Monde une question particulière du fardeau pour les pays africains pour (inaudible) son intervention. Il a téléphoné hier le président de Zambie, monsieur Kenneth Kaunda et il a introduit aujourd'hui les chiffres zambiens qui indiquent 60 % de produit national brut du Zambie et il a désigné aujourd'hui vers le paiement d'intérêts sur la dette nationale du Zambie.

On a parlé hier soir des questions défensives de démocratie. Le Premier ministre a souligné le point aujourd'hui que c'est bien difficile à célébrer la démocratie dans une situation où le fardeau de dette est si profond qu'en Afrique. Et nous espérons qu'il y aura un certain progrès à réaliser en ce qui

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concerne la réduction de dette; en particulier en ce qui concerne l'Afrique.

Le Premier ministre et moi-même, en deux réunions différentes, ont soulevé les questions d'Afrique du Sud et les nécessités dans notre perspective d'avoir le Sommet réaffirmé, notre opposition au régime d'apartheid. Il y a un appui pour notre position venant des conseils des Américains, des Japonais.

MODERATOR: Merci beaucoup Monsieur Clark. Pour commencer, Francine Bastien, Radio Canada -- s'il-vous-plaît.

Q: Bonjour Monsieur Clark. On a vu une première version des éléments du Communiqué qui sont de façon générale sur des relations Est-Ouest très vagues. Sur la question Iran/Iraq, c'est une cause qui est très chère au Canada. Vous vouliez mettre de l'avant une proposition qui ira au Conseil de sécurité et le Communiqué a l'air très vague sur cette question là. Est-ce que vous êtes satisfait du libellé de ces dispositions là? On demande rien de spécial. On impose aucun embargo. Est-ce que vous êtes satisfait de ça?

CLARK: Oui, je suis satisfait parce que, comme vous le savez, il y a une certaine... Dans le contexte des Nations-Unies, il y a certains mots qui posaient une signification qui en posaient pendant le monde, si je peux dire --- Nomades, Tenda(?) et de certains que vous aviez pas les sanctions; la référence,

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je n'ai pas le document ici, mais la référence dans les documents indique qu'il y aura une possibilité pour le Conseil de sécurité, établir certaines frontières et si les frontières ne sont pas respectées, puis il y a les actions qui peuvent inclure les sanctions qui peuvent toucher les armes contre les pays qui ne respectent pas les frontières.

Q: Est-ce que c'est parce que vous ne pouviez pas finir le consensus sur la nature des sanctions que le Canada souhaitait à l'origine?

CLARK: Non, c'est-à-dire il faut que les questions de la nature des sanctions n'étaient pas discutées. C'est pour plus tard. Je crois que c'est important d'avoir l'étape préliminaire, c'est aujourd'hui. Ça a été fait aujourd'hui.

MODERATOR: Richard Gwin(?), Toronto Star.

Q: Mr. Clark, the declaration on East-West relations is quite hawkish(?) in its tone. Can you explain to us how that mood developed (inaudible) that mood developed among the seven leaders? Are you yourself disappointed that there is no new momentum to arms control here, other than the usual kind of generalities?

CLARK: No, I'm not disappointed by that, Richard. I think in fact that there is a momentum towards

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towards arms control and that there is a consensus among the countries of the west with regard to the need to proceed into negotiations. There has been, as you know, over the last couple of weeks, extensive debate, internal in some countries, most importantly in Germany, because that's where the divisions were most important. I think that there is now a possibility to proceed in a united way towards some of those discussions. Questions remain, obviously, one of the important ones having to do with the manner in which we approach conventional arms, the discussion of conventional arms. But I think that some significant progress has been made. You say a hawkish tone. It would be my view that a tone of firmness has helped lead us to negotiations. And it will be important if we are to succeed in them.

Q: Mr. Clark, (inaudible) Defence Magazine. In the discussion on the East-West relations, some attention was focused on the conventional balance of forces. Did any of the summit partners ask Canada about its decision to end the commitment to reinforce northern Norway and to strengthen its position in central Europe? And are you certain that NATO partners here at the summit understand what Canada has done in this white paper?

CLARK: I can't answer that, because I was not present at those particular discussions; but I can say with certainty that our discussions regarding the redeployment of Canada's increased forces in Europe has been discussed extensively

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within NATO, and I think that all of the NATO nations who have concerns have had an opportunity to express them. There is a process in place to give a threat to that element of a major reform in Canadian defence policy, which is, I believe, by and large, very much welcomed.

Q: Mr. Clark, Pat Codin(?) from Australian Broadcasting Corporation. At a briefing here yesterday, it was suggested that some of the Europeans were jittery about agriculture, and specifically that they might want to go back on what was said at the OECD declaration in Paris. Is that still your impression? And what does Canada plan to do about it?

CLARK: We've, in joining that discussion today here, made it very clear that from our point of view, important progress was made at the OECD in Paris and that we do not want to slip back from it. I think that I will hold any prognostication until the end of the summit, that that remains our view. We know what is the view of Australia. We know it is the view of other countries that were present in the Cairns Group. And I am generally pleased by the discussions we have had so far.

Q: (inaudible) a part of my question has already been asked. Let me just follow up. Did you table any concrete data on what reduction in the agriculture sector the Canadian government would consider desireable?

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CLARK: No. We're not at that stage yet.

Q: Frank Carlucci said yesterday, Mr. Clark, that in the phone conversation between Prime Minister Mulroney and President Reagan Canada had expressed support for the American position vis-à-vis the situation in the Persian Gulf. Either before the summit or during the summit, either informally or formally have we said that we support the U.S. position of potential intervention in the Persian Gulf?

CLARK: We have-- We are both party to a declaration that was issued today that is now in your hands. On Friday in the House of Commons, I had a question put to me with respect to a related topic, and had the occasion to indicate a view which is shared by the United States and is part of the document which was circulated to you today. I don't want to sound unusually-- Let me be absolutely straight-forward. There is...there was no evidence of disagreement between Canada and the United States as what we see to be their policy in the Gulf.

Q: Howard Baker says that if Iran appears to threaten commercial shipping by use or through the use of missiles, that the U.S. will protect that waterway, will protect ships that bear American flags. Will we condemn that move? Should the Americans take military action against the Iranians?

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CLARK: As you know, I have learned in my long experience in the House of Commons not to deal with questions which begin with if, as yours just did.

Q: Mr. Baker made it quite clear yesterday, Mr. Clark, that they're contemplating that.

CLARK: That's your third supplementary, and second supplementary in a form in which-- Look, that question hasn't come up. That's-- You're asking me to prejudge an event that may occur. I'm not going to do that.

MODERATOR: Thank you, next question.

Q: Jacques Ouvrard, le Magazine Économique à Radio Canada. Monsieur Clark, monsieur Gorbachev dans ses propositions vers l'Occident a une dimension économique en tête. Il veut, je pense, ils veulent que l'URSS ait moins de charge militaire. Est-ce que dans les discussions sur les relations Est-Ouest, la dimension économique est importante?

CLARK: Bien sûr la dimension économique est très importante. Par exemple, c'est relativement facile pour l'Union soviétique de faire les gestes dans les domaines des droits humains. Par exemple, c'est bien important pour nous, mais c'est relativement facile. La vraie étape sera si l'Union soviétique est prête à changer à un système économique qui est

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moins facile à changer. Et un des moyens à juger une telle indication sera par leur réaction ou par exemple: «joint ventures» est possible entre certains de l'Ouest et l'Union soviétique. Mais la question est bien importante.

MODERATOR: Thank you. We're coming to the end of our time. We have time for those who are still in the room. Mr. Fraser?

Q: John Fraser, Globe and Mail. Mr. Clark, you mentioned three countries which supported Canada's views on South Africa. Can you give us some description of whether there was a debate and alternative views in dealing with South Africa? I'm thinking, obviously, of the British.

CLARK: The countries I mentioned were those that were particularly outspoken in support of the Canadian position. There were a couple of people who I think supported our view who for various reasons, including being in the chair, did not become involved in the debate. There has been some disagreement as to how far and in what form this summit should express itself on South Africa. We worked very hard, and in the end successfully, to get the matter on the agenda. There has been some progress in the discussions. I don't think that I will fill in more blanks than that.

Q: Monsieur Clark, Yves Bellavance - Télémédia.

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J'aimerais vous ramener à une question plus canadienne. En fait, c'est à la lumière du briefing que nous avons eu hier. On nous a dit que le Canada conservait de grandes réticences pour discuter en profondeur des questions relativement au libre-échange sur la demande des Américains pour investir au Canada tant qu'on n'aurait pas une réponse satisfaisante en matière du mécanisme de règlement des différends commerciaux. Est-ce qu'on peut présumer que jeudi, à leur rencontre, le président Reagan et le Premier ministre vont tenter d'aplanir la difficulté qui semble être le dernier obstacle à ces négociations là?

CLARK: Je ne peux pas adopter vos mots. Il y aura une discussion du président et le Premier ministre jeudi. Bien sûr les questions qui touchent les négociations bilatérales et commerciales entre nos deux pays, je veux dire, seront suggérées. Mais ni monsieur Reagan, ni monsieur Mulroney sont très négociateurs. Nous avons les négociateurs qui sont engagés avec la négociation. Il y a les questions difficiles pour les deux côtés qui existent. Ce sont les questions difficiles. Ça ne sera pas nécessaire d'avoir une négociation.

Q: Mais est-ce qu'ils vont convenir de changements de mandat aux négociateurs sur ces deux questions là puisque monsieur Murphy a déjà indiqué que c'était aux politiciens maintenant de décider?

CLARK: Le mandat des négociateurs ne sera pas changé

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ici à Venise. Le mandat du négociateur canadien sera changé ou non au Canada. Comme d'habitude, c'est un mandat en évolution. C'était toujours un mandat en évolution et je crois que ça sera valable pour les deux chefs du gouvernement riche d'avoir un échange de leurs perspectives en ce qui concerne les contenus bien sûr et les possibilités de la négociation.

MODERATOR: Merci beaucoup. News Day(?), and then last question.

Q: Hi. I'm Pat West(?) with News Day. I was wondering on the Persian Gulf, it seems last night the British gave the indication that they would support mandatory arms sanctions and arms embargo in the Persian Gulf, and there was some indication that that might be included in the communique. It wasn't, and I'm wondering if you can give us a sense of what that discussion that went on this morning on the Persian Gulf was like, and what countries were opting against arms embargos.

CLARK: There is in effect a capacity to trigger arms embargos in the language that is in the communique, with regard to the reference to the United Nations Security Council. There is a reference there to effective measures. Effective measures is a phrase which has a particular significance in the context of the security council. It involves first of all the establishment of, in effect, accepted boundaries, and then measures which will be taken with respect to those countries who (inaudible)

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the boundaries. And one of those measures is an arms embargo. A question was asked earlier today as to whether or not there was discussion in detail as to what that might entail. There wasn't, because that's the next step. But I think that there was an agreement in principal today to follow a route that could have the consequence of trying to put in place an arms embargo.

Q: But that's in much more of a-- I realize. I just have to get a clarification. That puts it much more in the lurch. I mean, had you specifically called for an arms embargo, obviously you might have had a better chance with the security council, right?

CLARK: I think that the action that we took is more likely if it is needed to lead to an arms embargo that will be comprehensive and effective.

MODERATOR: Thank you. Last question, please.

Q: Thank you. Shelly Carabel(?) PBS Nightly Business Report. Mr. Clark, I am just wondering. Secretary of the Treasury Baker has arrived in Venice, hoping to get some numbers on paper as to economic growth expansion and some commitment for macro-economic policies. As the United States' largest trading partner, how would Canada see that? Are you prepared to commit yourself to some figures?

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CLARK: You better wait until my colleague Michael Wilson shows up here. I asked him not to declare himself too fulsomely on questions that are more clearly foreign policy than economic policy. And I owe him a reciprocity. Besides, I don't know.

MODERATOR: Thank you very much. Merci beaucoup.

(FAST FORWARD)

UNIDENTIFIED: Well, there was no discussion of it by the leaders, none whatsoever about the Gulf, nothing. I mean, can I read you what our Foreign minister said on Friday? We will be raising the question of arms expenditures, both generally and specifically, specifically with relation to the Gulf at the Venice Summit. If I may take the opportunity to respond to what is perhaps one of the most combustible crises now facing the world in the Gulf, Canada has supported and applauds the efforts by the UN secretary general to mediate. We think that it would now be appropriate for the Security Council of the UN to mandate a cease-fire and a withdrawl with binding enforcement measures, including an arms embargo. With that in mind, during my conversations earlier this week with Vice Chairman Yong(?)...I think it was Yong, of China, I raised the question of the allegations of exports by the PR seado(?) of Iran of (inaudible) missiles.

MODERATOR: Ric Gibbons(?)?

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Q: You said at one point in the discussions on South Africa that there was some discussion on the possible need for an ongoing monitoring process by the summit on South Africa. Was the prime minister proposing any kind of summit version of the Commonwealth EPG?

UNIDENTIFIED: I can't be more specific than what I've said. I mean, as I understand it, he was talking of some form of continuing review by the summit. Now, whether it was defined more precisely than that, I'm not at liberty to say.

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NETWORK / STATION: RESEAU / STATION:	CBC/CBO	TIME: HEURE:	8:00 AM

VENICE SUMMIT, DAY 2

CBC: Good morning. In Venice the leaders of the world's leading industrial democracies are calling for an end to the Iran-Iraq war. They've also issued a statement proclaiming their support for a deal to control arms. And they're taking a tougher stand than ever on terrorism. Our national affairs reporter Brian Kelleher is covering the Venice summit. This morning he attended a briefing with Joe Clark, the Minister for External Affairs. A few moments ago I asked Brian how Canada is reacting to the statements coming out today.

KELLEHER: It means essentially that in dealing with Mikail Gorbachev first of all, that these summit partners have agreed that they must and can present a united front, that they should approach Gorbachev carefully, but they should welcome any moves that in fact he is making toward a more open society in the Soviet Union. On the Gulf War they've headed off, in effect, any attempts by President Reagan to start shooting, in effect, in the Gulf, and they've made it clear that they favour the UN

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route. Canada, I think, is generally pleased with those two directions. It still has other items that it wants, including the declaration, strong declaration to end the agricultural subsidy war. It expects to get that, but it does not look as if Mulroney is going to get any kind of significant declaration against apartheid from this meeting, because mainly Prime Minister Thatcher of England just isn't interested.

CBC: Our national affairs reporter Brian Kelleher speaking to us from Venice.

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NETWORK / STATION: CBC/CBOT
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TIME: 12:00 PM
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VENICE SUMMIT--DAY 2

CBC: Good afternoon. Security surrounding the Venice summit was made even tighter this morning after a number of bombing incidents in Rome. Italian police believe four bombs that went off at the American and British embassies have a Canadian connection. More from David Halton in Venice.

REPORTER: The formal summit sessions began this morning on St. Georgio(?) Island, the leaders arriving in a flotilla of motor launches, seemingly unconcerned by the extraordinary security blanket around them. Security precautions on the ground, in the air, and on the water, were tighter than usual. This because of bomb attacks near the British and American embassies in Rome this morning. Italian police say the bombs which damaged at least five cars, but caused no injuries were linked to the Venice summit. And they say they're looking for a man carrying a Canadian passport in connection with the bombing. But back in Venice the summit unfolded as planned today, beginning with the traditional family photo of the world leaders, as they posed for the huge swarm

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of media here. Officials say Prime Minister Brian Mulroney is pleased with the results of the summit so far, including joint statements today on east/west relations and the Iraq-Iran war. The summit countries have agreed to back President Reagan's efforts to get a nuclear arms control agreement with the Soviet Union, and they also pledge support for UN mediation in the Iran-Iraq war, an American move to maintain the free flow of oil through the Persian Gulf. The focus of today's session though was on world economic problems; Mulroney pushing for an end to the trade war in agriculture and defending the interests of debtridden poor countries. External Affairs Minister Joe Clark said Mulroney argued that the prospects for democracy in this countries are bleak, unless they can overcome their huge debts.

CLARK: The point was made that democratic values are easier to pursue and to honour in a situation that is not as deeply burdened by debt as are several of the countries of Africa.

REPORTER: The summit leaders also expressed concern today over the slowdown of economic growth among western countries, a slowdown that economists are warning could lead to another world recession. And while leaders agree on the problem they are unlikely to agree on concrete measures to tackle it. David Halton, CBC News, Venice.

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Summit officials ease differences on subsidies

By Brian Cole
Winnipeg Free Press

VENICE — Economic summit leaders were to discuss the need to reduce agricultural subsidies today as conflicting signals emerged on whether they would issue a strongly worded statement on the issue by the end of the meeting.

At one point yesterday, Canadian officials expressed concern that West Germany may balk at Canadian and American efforts to give new impetus to agricultural trade talks under the General Agreement on Tariffs and Trade set to begin in Geneva next month.

But the situation changed early this morning when officials said they were encouraged by the prospects of a commitment from all leaders to deal with the subsidy issue.

The groundwork for a statement that could speed up discussions on agricultural reform under the GATT was laid down last night during separate meetings between finance ministers and officials, according to a Canadian spokesman.

Although the ministers stopped short of discussing the possibility of an "early harvest" on agricultural reform under the GATT, the spokesman said all agreed the summit countries should reaffirm an Organization for Economic Co-operation and Development agreement to calling for a reduction in agricultural subsidies.

During a parallel meeting of officials, the spokesman said, Canada, the United States and the United Kingdom pushed their colleagues to agree to wording that would take the OECD proposal one step further.

"We are pleased that the finance ministers have agreed that the OECD commitments should be reaffirmed," the spokesman said.

"We understand that in a separate meeting held by finance officials a similar consensus emerged, but went a few steps further in that the officials were pressing to go beyond the OECD commitment."

Canada and the United States have been pressuring leaders from Europe and Japan to commit themselves to serious negotiations on agriculture under the GATT.

Last month, the OECD, which includes the summit countries, endorsed a statement calling for a truce in the agricultural trade wars and a negotiated subsidy rollback.

But Canada and the United States, joined here by the United Kingdom, would like to see summit leaders go one step further by calling for a review of GATT negotiations by the fall of 1988 and the possible implementation of interim reform measures by early 1989.

A Canadian official said earlier the West Germans indicated during preliminary talks that they didn't want to issue a strong statement on the issue at the summit.

Another Canadian official said some countries have signalled a desire to back away from the language contained in the OECD agreement.

"There seems to be some hesitancy in and around the points that were

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Reagan pushes Kohl on agricultural reform

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confirmed in Paris in the OECD communique," the official said.

However, it now appears West Germany may be buckling under to pressure from other countries, particularly the United States.

The arm-twisting began in earnest yesterday with President Reagan taking time out to impress upon West German Chancellor Helmut Kohl the need for agricultural reform.

Reagan also raised concern about the possibility the European Community would impose a consumer tax on oil and fats, a move which could jeopardize GATT negotiations on agriculture and prompt American retaliation.

Kohl said West Germany was opposed to an oil and fats tax and said he was aware of the need for agricultural reform, according to a West German official.

Kohl also hinted that his government was prepared to take action in order to prepare his country's agricultural community for the eventual reduction of subsidies.

However, there was no clear indication as to how quickly the West German government was prepared to move on agricultural reform in general.

Prime Minister Mulroney was to meet Kohl later today to discuss agriculture, among other things.

Meanwhile, Mulroney appeared to obtain the general support of Japanese Prime Minister Yasuhiro Nakasone for a strong statement on the issue.

"He agreed there should be no retreat from the OECD communique," the spokesman said, adding Nakasone also supported the notion of early action in the GATT.

Mulroney also discussed a number of other issues with Nakasone and Reagan yesterday.

During a telephone conversation with Reagan earlier in the day, Mulroney emphasized the need for the summit leaders to issue a strong statement condemning South Africa's apartheid policy.

Mulroney also told Reagan that Canada shared American concern over the explosive nature of the situation in the Persian Gulf.

Later, Mulroney told Nakasone that Canada supported measures his government took a few weeks ago to stimulate the Japanese economy, but suggested that more needed to be done.

Mulroney said it was up to Japan and West Germany to provide the "economic muscle for global economic recovery."

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THE TORONTO STAR, TUESDAY, JUNE 9, 1987

Worried world finally begins talks on thorny issue of agriculture trade

JACK McARTHUR

The very idea is wildly radical: Can you imagine world trade in farm products being approached in the same way as that for other products?

Who knows what society-wrenching changes that might cause!

Past differences of approach can be seen in one startling fact:

Taxpayers and consumers in the developed Western nations pay an estimated $140 billion (Canadian) annually in extra costs for food because of national farm programs. The money goes not only to farmers but — heavily — to food manufacturing and distribution networks.

These vast costs, networks and farm economies could not exist as they do if the products — and national agricultural programs — weren't largely exempt from traditional ways of looking at how international trade should function.

That's why the mere presence of the topic at the summit meeting of seven economic powers in Venice stirs deep misgiving in most nations.

It suggests a step toward treating farm products much like others, rather than omitting them from general trade talks as being "special."

Economic disruptions

That would be revolutionary. There's flat opposition from many otherwise diverse interests in many nations — and sheer fright concerning possible social and economic disruptions hard to foresee and control.

It could start a movement not just toward freer and fairer trade of what's now traded but to a drastic realigning of the varied and conflicting national policies on farm subsidies and other supports.

You'd see — and already are seeing in a limited way — a tendency to apply to farm goods the fair-trading principles felt appropriate, if not always applied, to other commerce.

These include rules against dumping at prices below those in the home market — a common practice for all and a way of life for the European Common Market.

It could mean wide use of countervailing tariffs against subsidized exports; far more pressure to stop such exports from competing with those of other producing nations; far more pressure to reduce import barriers and agree not to change them — as they're now changed constantly.

In the past, no one has ever wanted to talk about the farm trade except in special gatherings that implicitly recognize the right not to play by rules otherwise accepted as right.

Now, Canada, the U.S. and some others are pressing for change. This creates real resentment and worry reflecting the following factors:

☐ Nations are embarrassed by their gross interferences with market forces. Finding them difficult to defend, they prefer to talk of other things.

Huge quantities of many products are produced year after year, often at subsidized costs several hundred per cent above the expenses of the more efficient.

The thing has gotten 'way out of hand. It's estimated more than half of Western Europe's farm output can't compete head to head — and an even higher percentage of Japan's.

☐ Few countries are happy about these huge costs but each has always wanted to be free to change or not change policy as it sees fit.

There are immense political and social pressures that resist radical change in farming. This touches off constant national manoeuvres to protect farm communities, and industry based upon them, from the changing effects of global market forces.

To be free to deal with these things — and the industry is more

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erratic than most city-dwellers realize or would stand for in their own lives — governments have always wanted to be free of international promises of the kind made about other trade.

This was true of Canada until disastrously lower prices smashed its comparatively low-cost grain-growing business.

Unable to face the cost of full support for its grain economy, Canada aims for world negotiations to lessen the effect of programs that protect massive, high-cost output elsewhere.

Prices plunge

World prices for grain fell by from 30 to 40 per cent last year and now are lower still. One guesstimate — and all such figures are no more than that — is that U.S. and European wheat is two to four times more heavily subsidized than Canadian.

☐ To look at farm trade sensibly means you have to look at another subject that countries tend to avoid: the third-nation effect.

Not only do lower-cost producers want better access to the markets of those with higher costs, they want the latter to stop taking away their sales in third countries by dumping their surpluses.

☐ Despite the heavy cost of subsidies, there's a silver lining in keeping millions on the land.

It keeps down your unemployment rate and reduces the risk of urban unrest when rising numbers of jobless cluster in cities. This is significant for Western Europe and Japan, where a higher percentage of the population is on the land than in North America.

☐ Discussing farm solutions raises another big problem.

Real progress will require moves toward some kind of understanding on acceptable principles for global market stabilization for farm products. You'd need to fill some of the void left by the pulling back of national programs.

In principle, that would be fine. In practice, the differences are so deep that nations have hesitated to go after it.

They've tried for partial stabilization of single products, covering only whatever happens to move internationally, not intruding upon policies that protect home markets. The record is poor. How much tougher it would be to develop even broader programs.

If you're the typical city-dweller thinking of lower food costs, you'll say: Forget stabilization and let the market work!

City-dwellers are good at such sturdy philosophizing — unless it has to do with rent controls, gas prices, car insurance or other things touching their own pocketbooks.

But it's impossible to start with the idea of throwing the whole agricultural bag open to all market forces all the time.

Those forces are too wildly variable — potentially ruinous for the majority in all farm economies. There has to be something to soften the ups and downs. If it's not done internationally, it will be done nation by nation — and chaotically, as it now is.

☐ The existence of an unthinking urban majority, in fact, is a barrier to reform.

Farmers and governments fear that once begun, policy change will be driven by misguided political heat from the cities. So they stall.

Even in comparatively efficient Canada, and even with the subsidies it now gets, agriculture is often in agony at the pace of change. Major efforts at stabilization must be made — as they must everywhere.

The following indicates how erratic the industry is compared with the steady gains that most of the economy records in almost every year:

Canada has only 40 per cent as many farms as it had 45 years ago but their average size is 2½ times as large. And net farm income leaps around madly. It has dropped in four of the past dozen years by amounts of from 8 to 24 per cent and the biggest annual total is twice the smallest.

Other incomes and work patterns simply don't change so broadly and abruptly. Any reform has to accept change but cushion its hard edges in a reasonable way.

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OVERNIGHT CANADA/DU JOUR AU LENDEMAIN

Should Soviets attend Western summits?

ADAM BROMKE

International Scene

☐ Adam Bromke is professor of international politics at McMaster University.

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The annual summit meeting of the seven major Western industrial nations, under way in Venice, reflects the shifting trends in the international sphere. When the first such gathering took place in Rambouillet, France, in 1975 (with Canada excluded, but joining in 1976), it was intended to deal exclusively with economic problems. Yet gradually more and more political questions have crept onto the agendas.

In the 1980s, in addition to trying to promote economic growth, sound fiscal policies and free trade, the summit meetings have addressed themselves to the crises in Afghanistan and Poland, international terrorism, nuclear deterrence and arms control. And at the current meeting, the tense situation in the Persian Gulf and the reduction of medium- and short-range missiles in Europe are being given considerable attention.

This shift in interests from pure economics to politics has been inevitable, for in the modern world the two are closely interlocked. Many political crises stem from economic routes, and many economic problems cannot be overcome without intervention by the concerned government. The evolution of the Group of Seven reflects this fact.

There has been another important change in the nature of the annual summits. Originally they were concerned mainly with Western relations. They were conceived as an instrument to coordinate the economic policies of the major Western industrial powers. Soon, however, they became also involved with both North-South and with East-West relations.

The first stemmed mostly from the fact of economic interdependence between the developed and developing countries. The climax of this activity came when the 1977 United Nations report prepared by a commission headed by Willy Brandt recommended global negotiations to expand substantially relief to the South from the North. At the 1981 Ottawa summit, Pierre Trudeau prevailed upon a reluctant Ronald Reagan to agree to this.

Later that year, a meeting of 22 nations was held in Cancun, Mexico, to review the entire gamut of North-South relations. But little came out of that. The Communist countries simply ignored it, and the United States and some other Western industrial powers had proved reluctant to implement its recommendations.

Since then, this issue has been largely dormant. The new U.N. report this spring by a commission headed by Norwegian Prime Minister Gro Harlem Brundtland, pointing out the continued poverty in the South, is unlikely to receive much attention at the Venice summit. Most likely the only way the developing countries issue will make it to the agenda in Venice is within the context of expanding free trade.

In contrast, the question of reducing the medium- and short-range missiles in Europe is to be

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Should Soviets (cont'd)

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discussed at length, and the zero-zero option is likely to be endorsed. Needless to add, this will require a broad exchange of views about the state of East-West relations.

Merciless as it may appear, the priorities of the Group of Seven are correct here, for on the international scene East-West problems take precedence over the North-South. Both in the short and in the long run the latter cannot be overcome until the former are resolved.

It is the potential conflict in the North that threatens us with imminent nuclear holocaust. Wars in the South, brutal as they are, do not pose the same danger. Their main risk is that they might drag in the two superpowers and escalate into a confrontation between them.

And there is another reason why East-West tensions should be addressed before the North-South divisions: Meaningful assistance to the developing countries by the developed cannot take place without reduction of the horrendous costs of the armaments race between the superpowers and their allies. Arms control, thus, is essential to saving funds for aid to the Third World. To implement these two objectives, however, the Group of Seven itself must first close ranks.

Under Mikhail Gorbachev, the Soviet Union seems to have achieved a greater understanding of the subtle interdependence of East-West and North-South. The U.S.S.R. has been more restrained in the Third World, and it has come out with various arms control proposals. It has also revealed itself ready to participate more actively in the global economic system.

Several Communist countries are already members of the International Monetary Fund and the World Bank, and some of them, including the U.S.S.R., have shown interest in the new round of negotiations sponsored by the General Agreement on Tariffs and Trade.

It would be fanciful at this stage to imagine the U.S.S.R. joining the Group of Seven. But in the efforts to overcome the world problems, it would make a lot of sense.

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Appui à la politique des USA dans le Golfe

d'après AFP

VENISE — Le chancelier ouest-allemand Helmut Kohl et le premier ministre japonais Yasuhiro Nakasone ont apporté leur soutien lundi au président Reagan pour la politique américaine dans le Golfe, a affirmé M. Frank Carlucci, conseiller présidentiel pour les questions de sécurite nationale.

Le premier ministre canadien Brian Mulroney a télephoné pour sa part à M. Reagan pour lui faire état de son appui, a-t-il dit devant la presse à Venise.

Le premier ministre japonais "a pris l'initiative pour aider" Washington dans le Golfe lors d'un entretien avec le président américain, a ajouté M. Carlucci sans préciser la nature de cette aide.

Pour sa part, le chancelier Kohl a "souligné en termes généraux son soutien à la position des Etats-Unis" dans le Golfe, a déclaré M. Howard Baker, secrétaire général de la Maison blanche, lors de la même conférence de presse.

Une "expression générale de soutien a été exprimé par ceux avec lesquels M. Reagan a discuté" de la situation dans le Golfe, a-t-il ajouté. M. Amintore Fanfani, chef du gouvernement italien démissionnaire, a également rencontré M. Reagan.

Le président américain n'a pas présenté "de demande d'assistance spécifique" à MM. Nakasone et Kohl, selon M. Carlucci.

Réaction de l'Iran

Toutefois, certains des pays qui participent au sommet de Venise ont assuré l'Iran qu'ils ne céderaient pas aux exigences des Etats-Unis, préférant que la sécurité du Golfe soit garantie par ses riverains, a affirmé lundi le président iranien Ali Khamenei, cité par l'agence IRNA reçue à Paris.

Les dirigeants des sept pays les plus industrialisés du monde occidental "ne soutiendront pas la politique erronée des Etats-Unis concernant le Golfe", a déclaré le président de la République islamique, qui a précisé que le ministère iranien des Affaires étrangères avait "pris contact récemment avec certains de ces pays, dont la plupart ont indiqué qu'ils ne céderaient pas aux exigences américaines et qu'ils préféraient voir la sécurité du Golfe assurée par ses riverains".

Estimant que les Sept n'ont pas de "position unifiée sur le problème du Golfe dans lequel les Etats-Unis essayent d'impliquer de force leurs alliés", le président Khamenei a souligné en revanche "la fermeté" de la position iranienne à ce sujet.

"Le monde entier a pris conscience de cette fermeté et cette impression prévaudra même lors du sommet de Venise", a conclu M. Khamenei cité par IRNA.

Missiles Silkworm

Par ailleurs, interrogé sur les menaces de Washington contre le déploiement par l'Iran de missiles Silkworm, M. Howard Baker a répondu que les Iraniens ne devraient pas savoir à l'avance ce que les Américains comptaient faire dans le Golfe.

Il a démenti que quiconque au sein du gouvernement ait dit que les Américains allaient détruire les bases de missiles: "Ce que nous avons dit, c'est que leur déploiement créerait un nouveau danger majeur et que les Etats-Unis se sentiraient obligés de protéger leurs intérêts vitaux".

Selon Washington, ces missiles sol-mer de fabrication chinoise menacent la liberté de navigation dans le Golfe. Les Américains ont mis en garde Téhéran à élusieurs reprises à propos de leur éventuel déploiement.

Interrogé sur la préoccupation de certains alliés en raison des avertissements américains à Téhéran, M. Baker a répondu ne pas avoir été informé a ce propos.

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Mulroney talks but no one listens

CLAIRE HOY

At the Summit

VENICE — When Brian Mulroney sat down at the economic summit roundtable last night, he quickly learned something — his main political issue, South Africa, was relegated to an afterthought for the other six leaders.

He may be the cock of the walk in some forums, but he's strictly sitting in on suffrage with this bunch.

Mulroney was hoping for a strong statement of condemnation, but all he got was a few minutes to re-state his views and another blast from Britain's Margaret Thatcher.

Instead of South Africa, the leaders spent nearly all of a three-hour dinner at the opulent 16th century Palazzo Corner discussing East-West relations.

Breaking up about midnight, the group asked officials to prepare the text for a summit statement on arms control and Soviet relations to be finalized later today.

It is supposed to be an economic summit — the 13th annual event — but the bulk of the agenda deals with political items, not economic issues.

Mulroney began the day by telephoning U.S. President Ronald Reagan at his hotel to ask for support to combat apartheid, which he called the greatest human rights concern of our time.

In an early morning briefing by Canadian officials after the dinner last night, it quickly became obvious that Mulroney made no headway in his quest to get the summit leaders to issue a strong statement on the matter.

Thatcher, who interrupted her election campaign to fly here last night and heads back today for Thursday's election, opposed an active summit role in the controversy.

Mulroney, in his brief submission, argued it was appropriate for the summit leaders to take a stand, to begin a dialogue with regional leaders in Africa, to set up a review or monitoring system and to increase assistance to the Front Line States.

It seemed to parallel an idea which also failed to produce results, when the Commonwealth leaders dispatched what was called an Eminent Person's Group to Pretoria to convince them of the evil of their ways.

They weren't convinced. Neither, it seems, were the summit leaders persuaded that this is something an economic group should be dealing with.

Mulroney, who visited some African countries earlier this year, is pushing the issue hard in light of two upcoming summits in Canada — the Commonwealth and Francophone conferences — where several African countries will be in attendance.

At an earlier briefing, Canadian officials had claimed Reagan and Japanese Prime Minister Yasuhiro Naka-

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MEDIASCAN

TORONTO

JUN 9 1987

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Page 4

Mulroney talks (con't)

OVERNIGHT CANADA/DU JOUR AU LENDEMAIN

some were supportive of his initiatives, but there were no signs of that at the dinner last night.

Still, the officials tried to put the best possible light on Mulroney's relatively minor role in the summit, saying he supported a move toward arms control and joined with the U.S. and Britain on another matter in a call, so far unanswered, for a strong statement against terrorism and for closer international co-operation in combating it.

In addition to the leaders' dinner, there were two other gatherings involving the finance ministers and the foreign ministers.

Canadian officials said later they were encouraged that at both meetings the politicians agreed to an earlier call from the OECD (Organization for Economic Co-operation and Development) to cut back on agriculture subsidies and farm surpluses.

Reagan had said he wanted the summit to go beyond that and set a specific timetable, a move Canada and the U.K. both support.

Still, despite the possibility of agreement on agriculture and East-West relations, Mulroney had pumped the South African issue as his baby.

And unless something breaks on it today or tomorrow — which seems unlikely — he's going to come away with little more than the same rhetoric he's been pushing for the past two years.

It will certainly make him a popular guy with African countries.

But it doesn't cut much ice with the world's most powerful countries.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Suje Globe and Mail

Date June 9

Sleep-walking seven ignore clamor from marketplace

PETER COOK

VENICE

Political leaders do not think kindly of the players in financial markets. Dealers in currencies, stocks and bonds are impatient with indecisive, procrastinating politicians.

For all that, they need each other.

Financial markets have been signalling their need ahead of the Venice meeting of the seven major industrial democracies, determinedly waiting on events and new initiatives, even though the politicians demur and say there will not be many forthcoming. They even have been holding off on the U.S. dollar.

For their part, the political crowd in its honest moments admits its need of the markets. "Without them and the discipline they instill, I sometimes wonder whether decisions would ever get reached at this level," a U.S. Treasury delegate says.

Crises may not be welcome, but they do create their own momentum and move things along.

At the moment, in sybaritic Venice, crises seem to be more about safeguarding ships in the Persian Gulf than about the protracted unemployment problem that grips the Western world or about U.S. debt-and-dollar woes. And this is tempting the leaders assembled here — several with other matters such as elections and Iranian missiles on their minds — to think they can get away with less.

A slow-to-start meeting of low expectations is getting, if anything, slower and lower on the totem pole. And why not?

Those markets make a fuss whatever we do, say Messrs. Reagan, Nakasone, Kohl, Mitterrand, Fanfani and Mulroney and Mrs. Thatcher (who will be in Venice a sparse 18 hours).

So, let's send them a nice postcard — "Weather fine. All agree great progress made in co-ordinating economic policy. Next year, we meet in Canada. Yours, the wild bunch." — and go work on our sun tans at the Lido and not haggle over the tough decisons needed to save a flagging world economy.

And, anyway, the politicians say, what more can those tiresome market people expect?

Ahead of the summit, U.S. Trade Representative Clayton Yeutter told a press conference organized by Worldnet that his job makes him the person most worried about sinking world trade, rising protectionism and a low dollar. When a questioner tried to pin him down on the Venice meeting, he added:

"I would hope that people who participate in the markets would think about things a bit and conclude it is unrealistic (for summits to achieve much).

"If that is going to be the prevailing expectation, maybe we ought to have fewer international meetings. We ought to be realistic about what the major nations of the world can do to achieve stability. It is a volatile world in many respects."

Volatile it is. And it is true that international gatherings are so frequent that many finance ministers and foreign ministers see each other so often that they may be able to memorize each other's kids' birthdays and, at any point in time, may forget what great city they are gracing that week.

Still, the markets are right to be demanding. And Mr. Yeutter and the sleep-walking seven of Venice are wrong to insist they are too demanding.

Grand solutions are not on the cards. No one serious (that excludes the French) thinks that a consensus for world monetary reform can be forged out of the instability of the times. But that should not stand in the way of more limited, concrete proposals; for all their conclaves and get-togethers, the West's leaders have not come up with an initiative that has changed anything much since the Plaza Accord helped knock down the U.S. dollar in October, 1985.

Nearly two years is a long time to go without a major decision being made or a new direction given.

In that time, the United States has become the world's leading debtor; its President has been weakened by an arms scandal, even as the U.S. Congress, under the Democrats, has become fiercely protectionist; farm subsidies have created a major distortion of world trade; Third World countries cannot meet their debt payments because of slow global growth; and one think-tank after another (the latest are the Paris-based OECD and Britain's National Institute of Economic Research) has warned that economic expansion will slow further, adding to unemployment, trade and debt problems unless something is done

All that seems to add up to a backdrop for decisions — particularly on the part of the three influential players, the United States, Japan and West Germany.

But, for all the talk of co-operation and co-ordination, there are clear points of resistance. No, the Americans will not raise taxes and cut their budget deficit. No, the West Germans will not stimulate their economy now. No, the Japanese cannot do more at this time to open their markets to the rest of the world. No, nothing major can be attempted on trade or debt.

In the absence of large resolutions on large issues, as opposed to half-decisions on small ones, investors in the market will continue to be apprehensive about prospects for the U.S. dollar, interest rates, stocks and bonds, and much else.

There may not be an immediate sell-off in the aftermath of a disappointing meeting in Venice. But a deteriorating global economy (and one that is indecisively led) is going to add to the unease in financial markets.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Globe and Mail
June 9

Subject
Sujet
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Sleep-walking seven ignore clamor from marketplace

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date .... June 9 .... Publication .... Globe and Mail

Reagan wins allies for farm subsidy cuts

BY ROBERT BURNS
Associated Press

VENICE

U.S. President Ronald Reagan has won limited support among his summit allies for radical reductions in government farm subsidies.

In bilateral talks with heads of state from Japan, West Germany, Italy and Canada, Mr. Reagan said he wanted to focus on agricultural reforms when leaders of seven major industrial democracies begin formal economic talks today. The response was mixed, but the summit opened last night on an optimistic note about the prospects of improving co-operation among the free world's major trading partners.

The upbeat start was reinforced by Mr. Reagan's announcement that the United States was partially lifting trade sanctions against Japan, although Japanese officials said the tariffs against their electronics products should be removed completely.

While Mr. Reagan and the other heads of state, also including Britain and France, focused on political issues at a banquet, their finance ministers were discussing farm policy and trade at a separate dinner.

Mr. Reagan announced he was cutting tariffs by 17 per cent in response to evidence that Japan had stopped selling at least one type of computer chip at illegally low prices.

"As we open this economic summit, one of our primary concerns must be the removal of barriers that seek to maintain trade imbalances and lead to protectionism," Mr. Reagan said after he met Japanese Prime Minister Yasuhiro Nakasone.

In his first meeting of the day, Mr. Reagan told Italian Prime Minister Amintore Fanfani that he wanted a summit consensus on eliminating all government farm subsidies.

Mr. Fanfani told Mr. Reagan he was willing to reaffirm Italy's support for an agreement reached last month by Western trade and finance ministers to accelerate the dismantling of subsidies, said spokesman Giuseppe Panocchia.

Mr. Fanfani stopped short of endorsing Mr. Reagan's recent call for eliminating all subsidies by the end of the century, the spokesman said.

West German Chancellor Helmut Kohl told Mr. Reagan at a separate meeting that he also favored subsidy reductions and steps to reverse overproduction of farm commodities. But spokesman Friedhelm Ost told reporters that Mr. Kohl said his country wants to move gradually.

Mr. Reagan received a more enthusiastic response from

MULRONEY — Page B2

U.S. President Ronald Reagan won limited support from Italian Prime Minister Amintore Fanfani (right).

● From Page B1

Prime Minister Brian Mulroney, who telephoned the President for a brief exchange of views.

Mr. Mulroney said he favored eliminating all farm subsidies, although he did not mention a timetable.

A Canadian Government source, who spoke only on condition that he not be identified, said Canada would like to see real reform on farm subsidies. "We cannot compete with the treasuries of the United States and the European Community," he said.

After meeting Mr. Nakasone, Mr. Mulroney said he was encouraged by the Japanese Government's recent announcement of a $42-billion (U.S.) package of spending measures aimed at increasing Japan's imports and lowering its world trade surplus.

EXT 936/BIL.
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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date June 9 *Publication* Globe and Mail

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

June 9 Globe and Mail

Canadian Prime Minister Brian Mulroney and Italian Prime Minister Amintore Fanfani walk past a [illegible] honor guard during yesterday's opening ceremonies of the seven-nation economic summit being held in Venic

PM plans to raise apartheid issue

Leaders seriously divided on stance

By JOHN FRASER
Globe and Mail Correspondent

VENICE [illegible] Prime Minister Brian Mulroney [illegible] yesterday at the economic summit of the West's seven leading industrial nations that Canada [illegible] to consider racial discrimination in South Africa to be [illegible] of our time.

According to senior Canadian Government officials, Mr. Mulroney stressed Canada's [illegible] to raise the apartheid issue at the summit in conversations [illegible] with President Ronald Reagan and [illegible] Prime Minister [illegible]

[illegible] During the day's opening [illegible], Mr. Mulroney briefly brought up the South African question, despite the fact that none of the summit [illegible]

[illegible] all of the leaders but [illegible] Mr. Mulroney and, at one p[illegible] [illegible] to the strongly [illegible] of British Prime Minister Margaret Thatcher, [illegible]

MULRONEY — Page A2

Progress on farm subsidie[illegible]
Page B1

[illegible]

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date June 9 *Publication* Ottawa Citizen

Agriculture top Venice priority

The Venice Economic Summit is not expected to produce any dramatic decisions or announce any new policies. That doesn't mean it's a waste of time.

The heads of the seven leading industrial nations — Britain, Canada, France, Italy, Japan, the U.S. and West Germany — together with the presidents of the European Commission and the European Council, consider these annual get-togethers to be unique opportunities.

The political significance of the gatherings is diffuse and difficult to assess. Leaders go there to judge each other's policies and promises, to see how much unanimity exists on the macro-economic front, as well as to explore the feasibility of new economic initiatives in their joint interest.

Inevitably, major international political issues are also raised informally. The object is to test the waters, and to seek the commitment of political will to pursue broad co-ordinated policies relating to specific areas and problems of the world.

Venice will feature agriculture, a subject introduced by Canada at last year's Tokyo summit. This will be Prime Minister Mulroney's top priority again. Domestic subsidies and protectionism demand urgent action to redirect national policies. A ringing declaration of intent, with or without a specific timetable, could be the major outcome of this discussion.

Other economic issues, such as debt repayment problems of developing countries, are bound to be considered. So will the state of world trade. The assembled leaders are certain to give an important impulse to the recently-launched Uruguay Round of Multilateral Trade Negotiations.

On the political front, Reagan will discuss the situation in the Persian Gulf. He will seek understanding and support, if not a co-ordinated approach, for his commitment to keep the Gulf sea-lanes open and the flow of oil unimpeded. Ways of ending the Iran-Iraq war are bound to be considered, including a UN ceasefire and possible sanctions against offenders.

East-West relations will be topical, especially Mikhail Gorbachev's more open approach to domestic and foreign affairs. Arms control developments are bound to be debated, as will the prospects for the next superpower summit.

Mulroney is publicly committed to raise the questions of South and southern Africa. But the mood doesn't seem right to pursue a commitment for co-ordinated action at this time.

Cynics who say these summits are mere grandstanding are mistaken. If Canada "is "just along for the ride," we're in company with those who can make all the difference to our future prosperity and stability. What

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date June 9 Publication Ottawa Citizen

Farm subsidies decried at summit

Citizen wire services

VENICE — Finance ministers at the Venice Economic Summit agreed Monday to restate almost verbatim a commitment that they and other industrialized nations made a month ago to cut agricultural subsidies, Canadian officials said.

The senior Canadian officials added that some aides to the ministers from the United States, Canada and Britain still were pushing for a statement in the summit communiqué Wednesday that would commit the governments more than ever to phasing out farm supports.

In another development, Prime Minister Brian Mulroney told U.S. President Ronald Reagan during a 15-minute telephone conversation that "human rights violations" in South Africa deserved the attention of world leaders meeting here. The exchange clinched Canada's months-long effort to ensure that Pretoria's apartheid policy would be addressed at the summit, federal government officials told reporters.

The decision on farm subsidies came during a dinner meeting following a day of discussions in which Reagan and Mulroney pressed their partners from the other five summit nations to stick to commitments they made at a May 13 meeting of the Organization for Economic Co-operation and Development which includes the world's major non-communist industrialized countries.

The OECD nations agreed in that communiqué that government support of farm products distorts the world economy and that all nations should work to make agriculture prices better reflect the value of those goods in world markets.

Until Monday night, Mulroney had appeared to be on the verge of an embarrassing setback on the issue.

(Subsidies, page A2)
(Related stories, A6, B1)

From page A1 story:
Farm subsidies
decried at summit

The prime minister has repeatedly promised to champion the problems of farmers at the world level. But, citing the unwillingness of West Germany and others to push ahead with agricultural reforms, Canadian officials had been cautioning reporters not to expect significant action during the current meetings.

"There seems to be some hesitancy (by some summit nations) over the points confirmed in Paris at the OECD meeting," a senior Canadian government official said during an afternoon briefing to reporters on a talk between Mulroney and Japanese Prime Minister Yasuhiro Nakasone.

But after the finance ministers' dinner meeting the same official said the problem appeared to have been resolved.

"The finance ministers have agreed the OECD commitments should be repeated virtually verbatim," he said.

Reagan told Italy's Prime Minister Amintore Fanfani he wants the participants at the Venice Economic Summit to issue a communiqué Wednesday that at least restates the OECD agreement, said Giuseppe Panocchia, a spokesman for Italy's foreign ministry.

West German officials said Reagan also stressed agriculture during his discussions on trade with Chancellor Helmut Kohl.

The Canadian official, speaking on condition he remain unidentified, said Mulroney also wants confirmation of the May statement and said Nakasone "agreed there should be no backdown from commitments from the OECD communiqué."

"In agriculture, everybody has a problem," a senior Japanese government official told reporters in recapping the Nakasone-Mulroney talk. "Nobody has a clean hand."

Meanwhile, British officials said their government also believes there should be "no backsliding" on the OECD statement.

But while Japan appears to at least be accommodating the U.S.-Canada stand, the European nations at the summit — West Germany, Italy, France and Britain — appear less eager to attack the issue.

Mulroney also asked for Reagan's help in getting the summit to discuss apartheid.

"He thought it important that summit leaders be seen addressing issues of real injustice, and he expressed the hope that Reagan would support him in ensuring active discussion" of apartheid, one official said.

In his meeting with Nakasone, Mulroney "stressed his concern about South Africa and said he hopes the summit will address the greatest human-rights concern of our time," the official said.

Mulroney urged Japan, as the country with the world's largest trade surplus, to take the lead in helping the world's poorest countries.

Many of the countries at the summit have little interest in discussing South Africa, so just getting the topic of apartheid onto the agenda is considered a minor victory. Officials said that Reagan's response in the brief phone call confirmed that the topic would be addressed.

Reagan, who has been reluctant to adopt sanctions against Pretoria, did no more than acknowledge Mulroney's remarks.

The telephone call was in lieu of a one-on-one meeting, which has been scheduled on Thursday after the summit officially ends.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date June 9 Publication Ottawa Citizen

Reagan eases sanctions on Japan

[illegible] Angeles Times and UPI

VENICE, Italy — President Ronald Reagan, moving to ease U.S.-Japan [illegible] tensions, Monday lifted $51 million of the $300 million in sanctions against Japanese imports he imposed [illegible] weeks ago.

The move, announced after a meeting between Reagan and Japanese Prime Minister Yasuhiro Nakasone at the seven-nation economic summit, came in response to Tokyo's efforts to comply with a wide range of U.S. political and economic demands in addition to the concerns over semiconductor trade that triggered the sanctions.

Japanese officials, however, reacted coolly to the U.S. action, and the reaction from U.S. congressional and industry leaders was mixed.

Administration officials in Venice for the summit said the United States would lift the 100 per cent tariff on 20-inch color television sets but retain tariffs on other Japanese products, ranging from televisions sets of other sizes and certain power tools to high-powered personal computers.

However, a Department of Commerce spokeswoman in Washington said the official list of products that would be removed from the sanctions list had not yet been determined. She said that 18- and 19-inch color television sets, as well as power hand tools, might be dropped from the list.

Reagan imposed the tariffs April 17 in retaliation for Japan's failure to enforce a semiconductor trade agreement that sought to end dumping of computer chips and bolster sales of U.S.-made chips in Japan.

On Monday, he cited improved Japanese compliance with the trade accord, but the partial lifting of the sanctions also appeared to be prompted by his desire to smooth over relations with Nakasone. Reagan told Nakasone of the decision during their 40-minute meeting here Monday.

Reagan later said: "We have to recognize that there are people in Japan, like Prime Minister Nakasone, who have worked very hard, and we think that they ought to be rewarded for their effort."

Japanese officials here contended that Reagan should have eliminated all the tariffs.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date June 9 *Publication* Ottawa Citizen

Allied leaders lukewarm to Reagan policy on Gulf

Los Angeles Times

VENICE — U.S. President Ronald Reagan's efforts to unify allied leaders behind his controversial Persian Gulf policy received only mix reactions at the seven-nation economic summit Monday.

The president, adding his own warnings to those already issued by his aides, said he was not bluffing about possible retaliation against Iran if it installed Chinese-made missile batteries overlooking the vital oil shipping lanes of the gulf.

Reagan told reporters that U.S. warnings of retaliatory moves against the Iranian missiles were neither a bluff nor a threat but "a statement of fact."

"I haven't bluffed once since I've been here," the president declared.

Although administration officials said their Persian Gulf policy was gaining support and that they expected the summit partners to eventually support it "in principle," French officials here said the policy was too "confusing" for them to know what they were being asked to support.

And a British Foreign Office spokesman said the British were interested in discussing political and diplomatic moves, not "military options."

"The British government's approach is to relax tensions, not increase them," the spokesman told reporters at a news briefing.

Meanwhile, Howard Baker Jr., the White House chief of staff, said at a separate briefing that Prime Minister Brian Mulroney had indicated his support in a telephone conversation with Reagan. But a Canadian official said later that Mulroney had merely said the issue should be discussed at the summit.

Baker also reported that Reagan won support for his Persian Gulf policy from Japanese Prime Minister Yasuhiro Nakasone and West German Chancellor Helmut Kohl during bilateral sessions earlier Monday, before the summit officially opened with a working dinner.

Nakasone "volunteered to be as helpful as he could," Baker said, and Kohl "expressed, as I recall, in general terms, his support for the U.S. position in the Persian Gulf."

Both Baker and Frank Carlucci, Reagan's national security adviser, have repeatedly described the U.S. policy as resulting from a determination to provide the military force necessary to keep the waterway open for transit, especially for tankers carrying oil destined mostly for Japan and Western Europe. Iran has threatened to close the gulf militarily as part of its strategy in its war with Iraq.

EXT 936/BIL.
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Mrs Thatcher and President Reagan at dinner in Venice last night after the Prime Minister flew in from London too late for the opening ceremony.

The Times 9 June

Prime Minister hopes for boost at summit

From Philip Webster, Chief Political Correspondent, Venice

The Prime Minister aims to return today from the seven-nation economic summit with the electoral boost of world endorsement of her economic policies, and an agreement on measures to counter Aids, drug smuggling and terrorism.

She flew into Venice last night hoping to achieve practical results from the summit to deflect criticism that her visit is an electioneering exercise or what Mr Neil Kinnock, the Labour leader, called yesterday "the most expensive photo opportunity of the general election".

Mrs Thatcher, attending her ninth summit, will today urge other world leaders gathered on the island of San Giorgio Maggiore to continue the policies of tight public spending, low inflation and the promotion of enterprise, which have enabled Britain to enter its seventh year of growth.

They are unlikely to disagree. She will then be able to rejoin the election campaign this afternoon for her final rally speech tonight, claiming that the world has again voiced confidence in her economic strategy.

In planning her 18-hour visit to the summit, however, Mrs Thatcher had to carefully balance the obvious electoral advantage of being seen in her role as the longest-serving international statesman with the disadvantage of being out of the country at a crucial part of the campaign.

It was therefore cut to the limit, even at the risk of upsetting her hosts by disposing of diplomatic niceties.

Although British officials were denying a breach of protocol, Mrs Thatcher arrived last night after Signor Amintore Fanfani, the Italian Prime Minister, had formally welcomed the other leaders. She went straight from Marco Polo Airport to her hotel, the Gritti Palace, on the Grand Canal, where she changed and went on to a working dinner at a 16th-century palace with President Reagan and the leaders of France, Italy, West Germany, Canada and Japan.

After a half-hour breakfast meeting with Mr Reagan at his hotel this morning, followed by a session of about three hours with the other leaders on the world economy, Mrs Thatcher will leave Venice at lunch time.

Sir Geoffrey Howe, the Foreign Secretary, will then be in charge.

Mrs Thatcher was planning at last night's discussions to give strong backing to plans for an internationally co-ordinated effort against Aids, including the possible pooling of research efforts.

She was also supporting a series of new anti-terrorist measures.

Mrs Thatcher will hold important discussions with Mr Reagan on the situation in the Gulf, and the difficulties faced by American tankers there, although he was said yesterday to be satisfied with the amount of British support.

The talks with Mr Reagan will also centre on arms control and Bonn's acceptance of the so-called zero-zero option for the elimination of large numbers of nuclear missiles in Europe, for which the Prime Minister is said to have worked hard behind the scenes with Chancellor Kohl to have achieved.

The apparent willingness of the Soviet Union to negotiate, and the closeness of an agreement on a date for the next Reagan-Gorbachov summit, are other electoral pluses for the Prime Minister, enabling her to argue that the West's strong stance and the deployment of cruise missiles have brought progress.

But British officials are expecting the world's economy to give the greatest impetus to today's discussions. Mrs Thatcher, it is argued, will be speaking from a position of strength, able to

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2 – TUESDAY, 9 JUNE 1987

World leaders back Maggie on defence

NEIL Kinnock's Ban the Bomb defence policy was blown out of the water today by the big seven Western nations.

In a coup for Mrs Thatcher the United States, Germany, France, Italy, Japan and Canada joined with Britain to proclaim that nuclear weapons had played and would continue to play a vital role in keeping the peace.

The agreement was enshrined in an official summit declaration. It unanimously committed the seven to "the continuing importance of nuclear deterrance in preserving peace."

The affirmation, included at Mrs Thatcher's own insistence in a passage on disarmament, was a direct seal of approval for her stance on defence.

Success

It meant that Mr Kinnock, if elected on Thursday, would find himself standing alone among the major Western nations.

The message was rammed home by Mrs Thatcher herself before she hurried back to Britain.

"We all believe that the nuclear deterrent is going to be vital to our peace for many years to come," she declared.

The Prime Minister also stressed that the summit seven had backed her fully over the economy.

"We all want steady growth, non-inflationary and sustained," she said.

Mrs Thatcher welcomed a

from Charles Reiss
in Venice

new deal on tackling terrorism.

Mrs Thatcher, in an impromptu Press conference on the landing-stage, as helicopters buzzed overhead, said the summit had been a great success.

It had been "very successful on East-West matters, very successful on terrorism, very successful on Iran."

The defence deal was only one of a string of successes Mrs Thatcher notched up on her 18-hour visit to the summit.

Mrs Thatcher and Mr Reagan breakfasted together and had 40 minutes of talks at the Cipriani Hotel, where the president is staying, before leaving for the summit.

Mrs Thatcher, asked whether the president had wished her luck, only smiled. "I never reveal private conversations," she replied.

Picture: AUBREY HART

THE TWO OF US . . . The President and Mrs Thatcher before this morning's meeting.

Bomb attack on embassies

BOMBS fired from rocket launchers exploded today at the American and British embassies in Rome.

And a car bomb was set off outside the U.S. Embassy with a second, unexploded car bomb, found nearby. All the explosions came within 80 minutes at the height of Rome's morning rush hour.

Police were investigating possible links between the

Standard Foreign
News Desk

terror attacks and the Venice Summit which opened last night.

Police said the bombs that exploded in the grounds of the British and U.S. embassies appeared to have been fired from crude home-made rocket launchers set up in buildings nearby.

Eyewitnesses said the U.S. embassy bomb was launched about 15 yards over the perimeter fence and exploded at the base of the building.

At the British embassy the terrorist bomb hurled into the grounds landed in a fountain.

Police said the car bomb exploded shortly before 8am in street running along the back of the U.S. Embassy in the Via Veneto.

No one was injured but an elderly woman was taken to hospital suffering from shock.

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DAILY TELEGRAPH
10 JUNE 87

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By Ian Brodie in Venice

LESS THAN forty-eight hours before polling begins in the election, the seven Western leaders at the Venice summit reaffirmed Mrs Thatcher's views on the continuing importance of nuclear deterrence for preserving peace. The statement on East-West relations amounted to a repudiation of Mr Kinnock's policy of unilateral nuclear disarmament.-

And in an implicit endorsement of Mrs Thatcher's economic planning, the seven agreed to develop policies along the lines of Britain's medium term financial strategy using a system of indicators to monitor achievement.

The British and French governments which have independent nuclear deterrents were pleased with the wording of the reaffirmation of nuclear policy which was agreed with leaders of the other countries—Japan, West Germany, Canada, Italy and the United States plus representatives of the European Community.

It was also seen as reminding President Reagan of the West's commitment to nuclear deterrence, a point he seemed to overlook briefly at last October's summit in Reykjavik.

The statement said, "While reaffirming the continuing importance of nuclear deterrence in preserving peace, we note with satisfaction that dialogue on arms control has intensified and that more favourable prospects have emerged for the reduction of nuclear forces.

"We appreciate United States efforts to negotiate balanced, substantial and verifiable reductions in nuclear weapons."

The seven emphasised their determination to enhance conventional stability at a lower level of forces and to achieve the total elimination of chemical weapons, again all goals of Mrs Thatcher.

The Soviet Union was urged to negotiate in a positive and constructive manner, to make progress on human rights and rapidly to withdraw its troops from Afghanistan.

The leaders said they were following Mr Gorbochev's changes in Soviet internal and external policies with close interest.

It is our hope that they will prove to be of great significance for the improvement of political, economic security relations between East and West.

"At the same time, profound differences persist. Each of us must remain vigilantly alert in responding to all aspects of Soviet policy."

The Venice statement was pulled together overnight with unprecedented speed by the staff "sherpas" after a lively and animated dinner of the summit leaders

The statement also announced agreement that new and concerted international efforts were urgently required to end the Iran-Iraq war and to ensure that the free flow of oil through the Persian Gulf remain unimpeded.

The statement urged the adoption of "just and effective" measures by the United Nations Security Council. It stopped short of British and American calls for a UN cease-fire resolution that would impose an embargo on selling arms if fighting continued.

But although the phrase "just and effective" was unspecific, the British took heart that it could still be interpreted as applying to an effective embargo impartially applied.

Although the five permanent members of the Security Council have agreed to the resolution idea in principle, three of them, France, China and the Soviet Union, are sizeable arms suppliers in the Gulf War.

Yesterday's communique reiterated last year's strong statement at the Tokyo summit on terrorism but also committed the seven for the first time to making no concessions to terrorists or their sponsors.

This undertaking could be taken as an oblique chiding of President Reagan who has admitted the mistake of his arms-for-hostages sales to Iran.

The comment about no concessions could also embarrass West Germany which is suspected of negotiating the return to Beirut of an Arab terrorist in exchange for two kidnapped West German businessmen.

The seven agreed to be more effective in observing their 1978 Bonn declaration in dealing with all forms of terrorism affecting civil aviation.

In cases where a country refuses extradition or prosecution of terrorists, the leaders jointly resolved to take immediate action to cease flights to that country, as stated in the Bonn declaration.

Campaign Reports —P6 & P7;
My Election by Vladimir Bukovsky—P17;
Editorial Comment—P16.

Economic targets agreed

By Anne Segall, Economics Correspondent, in Venice

FINANCE Ministers from the seven biggest industrial countries yesterday agreed to coordiate their economic policies, using a system of indicators to monitor their achievements.

The agreement, regarded as an important breakthrough, was reached during a lunch-time meeting shortly after the arrival at the Venice economic summit of Mr Lawson, Chancellor of the Exchequer.

It is seen as something of a triumph for Britain, with all major countries required to develop policies along the lines of Mr Lawson's medium-term financial strategy.

Before retuning to Britain, Mr Lawson described the agreement as "an implicit endorsement of the policies which we in Britain have been pursuing for some time.

Key targets

The seven nations willl be required to establish targets for seven key areas of policy, ranging from inflation to growth and balance of payments. They will meet at the beginning of each year to discuss their plans and ensure they are consistent.

Plans will have to be set looking several years ahead, making it difficult for individual countries to pursue short-term solutions. It will also be difficult to pursue policies which harm the economies of other countries, officials in Venice said.

The agreement on indicators is seen as an attempt to reassure world financial markets that something is being done to deal with the problem of huge trade imbalances and to prevent a slide into world recession.

British officials see it as a way of ensuring that countries cousult one another systematically even though they cannot be forced to act.

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Daily Telegraph

11 June 1987

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Howe defends summit policy on Gulf issue

By Ian Brodie in Venice

THE SEVEN-NATION summit sought to lower rather than increase tension in the Persian Gulf, the Foreign Secretary, Sir Geoffrey Howe, said in Venice yesterday in reaction to widespread press criticism concerning the communique.

The call for an end to the war adopted by the summit leaders a day earlier, was said to be more tepid than hoped for by the Americans and exposed differences among the allies.

To the contrary, remarked Sir Geoffrey, it showed unanimity on the need for the unhindered flow of oil throught the Gulf.

It also expressed support for action in the United Nations Security Council, where Britain and America want a cease fire resolution with the added teeth of an arms embargo against Iran and Iraq if they fail to comply.

Taken together, said Sir Geoffrey: "The thrust of the entire discussion has been to reduce rather than increase teation in the Gulf."

While Presiden Reagan said on Monday that he was not bluffing about military threats if Iran deployed its new Silkworm missiles, he did not mention the question of retaliation or pre-emitive strikes at the summit.

'Add to tensions'

Nor, according to the Americans, did the allies express any concern about the unilateral use of force in the Gulf.

Sir Geoffrey acknowledged that the Silkworms would add to tensions in the region. "That's why we have been seeking to reduce it by concentrating on diplomatic and political action and co-ordination.

The Foreign Secretary said one point widely appreciated by the other summit leaders was the extent of Royal Navy patrols in the Gulf. Three ships have escorted 104 British-flag vessels in the Gulf since January.

The American Secretary of State, Mr Shultz, admitted he had not known the British presence was so large before his arrival in Venice.

Mr Reagan's national Security Adviser, Mr Frank Carlucci, said the effort amounted to 18 per cent fo the Royal Navy with three ships in the Gulf and three on rotation.

"This is a substantial amount of activity," said Mr Carlucci, rebutting suggestions from American reporters that the allies were not doing enough to help the US navy defend Gulf shipping

Short shrift

Canadian concerns about apartheid were given short shrift by the summit, being left to a brief criticism of South Africa in a summary of political issues by the chairman, Italian Prime Minister Signor Fanfani. Sir Geoffrey said now was not the time for any new moves so soon after the whiter-only election.

Sir Geoffrey took over as head of the British delegation after Mrs Thatcher's early departure on Tuesday. He faced a gruelling schedule leaving Venice late yesterday afternoon in time for two eve-of-election meetings in his East Surrey constituency.

Then, at 11 last night, he was taking off for Reykjavik where he will attend today's meeting on arms control of Nato foreign ministers. He will fly back from Iceland in time for tonight's count.

At Reykjavik, the ministers are expected to wrap up an agreed Nato position on Mr Gorbachev's "double zero" proposal for the withdrawal of intermediate-range and short-range nuclear missiles.

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11 June 1987

23/24

Venice call to fight Aids

By Ian Brodie, Venice

THE SEVEN Venice summit nations called for increased international co-operation to fight Aids yesterday and welcomed a British offer to co-sponsor an internaional conference about the disease with the World Health Organisation.

In the absence of a vaccine of a cure, the best hope to combat Aids was education about both its seriousness and practical steps to avoid it, the seven said.

They made no specific mention of Aids testing, but cautioned that any measures against the disease must be "in accordance with the principles of human rights."

This catch-all phrase was included in the text to cover the concerns of those who fear that mandatory Aids test could lead to invasions of privacy and discrimination against victims, the majority of whom homosexuals or intravenous drug users.

Concerted campaigns

Recognising Aids as "one of the biggest potential health problems in the world," the summit nations declared:

"National efforts need to be intensified and made more effective by internaional co-operation and concerted campaigns to prevent Aids from spreading further."

An astute understanding of the politics of Aids was shown by the seven—Britain, France, West Germany, Italy, Japan, Canada and the United States.

Co-operation would not be improved by duplication of effort, they said, meaning there should be an end to competition among scientists to win the race for a cure by not disclosing key discoveries to their rivals.

The leaders hailed the recent agreement between French and American Aids researchers to settle their patent dispute in favour of sharing their work.

Priority would need to be given to strengthening existing organisations by giving them full political support and by providing them with the necessary money and staff, said the Venice communique.

The World Health Organisation was the best forum for drawing together international efforts to combat Aids.

All nations were encouraged to co-operate fully with WHO a reprimand to black African nations which have resisted admitting they need outside help despite Aids outbreaks of epidemic proportions.

Although 51,000 cases have been reported by 112 nations, WHO says the reality is more than twice that number with perhaps as many as 10 million carriers of the sexually contagious virus worldwide.

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Daily Telegraph
11 June 1987

24/24

Venice seven back world growth goal

By Anne Segall, Economics Correspondent

THE VENICE summit ended on a high note yesterday, with a final declaration from the big seven industrial nations promising to fight protectionism and keep up the momentum of world growth.

The summit was a triumph for Britain, with Thatcherite policies forming the basis of a new world economic charter and with the Chancellor, Mr Lawson, winning over American support for his African debt plan.

Plans to reform world agriculture and give special financial help to the poorest of the poor in Africa were given a major boost.

Sir Geoffrey Howe, Foreign Secretary, said the summit was "businesslike and successful." He praised the summit's commitment to "sound and sensible financial policies."

The creation of new jobs was "the paramount task" but he said that the task could not be achieved overnight. To argue the contrary was "to put your faith in fools' gold."

Help for dollar

The summit seven sent out a signal to financial markets that a period of currency stability is now required, with further falls in the dollar ruled out as "counterproductive."

Summit leaders said they would stand by the Louvre accord in February in which finance ministers agreed to prop up the dollar. But there was acceptance of the fact that world trade imbalances "remain too large" and that correcting them will be "a long and drawn out process."

To relieve America of some of the burden of corrective action Japan and Germany, which have huge trade surpluses, were called on to boost domestic demand and open their markets to foreign goods.

But the Americans were also put on notice, with the summit seven calling for measures to close the United States Government's budget deficit, now running at around $200 billion a year.

Sir Geoffrey discribed the plan for greater economic co-ordination between major countries as a kind of "international group therapy." Finance ministers would set themselves high standards and keep them through a system of multilateral surveillance.

The British team are presenting reform of world agriculture as a means of creating extra jobs, with Sir Geoffrey echoing Mrs Thatcher's claim that money spent on subsidies is money wasted.

To appease Britain's farmers, Sir Geoffrey said that attention would be paid to the importance of rural communities, but he indicated that the British Government is now committed to changing the Common Market system of agricultural support.

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P. 1

Subject
Sujet

Date June 9 Publication Journal of Commerce

THE VENICE SUMMIT

Japan Vows Drive to Get All US Sanctions Lifted

By JANET PORTER
Journal of Commerce Staff

VENICE — Japan will do everything it can to make possible the lifting of all U.S. sanctions against Japanese electronic products, Prime Minister Yasuhiro Nakasone said in Venice Monday.

He was commenting on President Reagan's decision to end some of the tariffs imposed six weeks ago in response to alleged Japanese dumping of semiconductors.

During a bilateral meeting between President Reagan and Mr. Nakasone Monday afternoon, Mr. Reagan said there was evidence of some improvement in the situation over the past few weeks.

The price being charged by Japanese companies in third country markets for D-RAM chips has increased from about 59% of the fair market value to around 85% in recent weeks. D-RAMS account for 60% of the $135 million in sanctions related to dumping, Mr. Reagan said.

> President Reagan has directed a sanction release of $51 million, representing a 17% reduction in the total value of sanctions.

The so-called D-RAM chip is a relatively unsophisticated chip used in many modern computers and electronic devices.

Because of the improvement, the president has directed a sanction release of $51 million, representing a 17% reduction in the total value of sanctions. The president described the measure as "strictly proportional to progress to date."

In Washington, Speaker of the House Jim Wright, D-Texas, said, "I hope that is not sending the wrong signal to Japan."

The speaker did not say whether he disagreed with the president's decision to lift some of the tariffs, but told reporters, "He has to be resolute in demanding entry to their market for American goods."

In Silicon Valley, the president of the Semiconductor Industry Association said he regards President Reagan's partial lifting of the sanctions as appropriate.

Andrew Procassini, president

SEE JAPAN, PAGE 14A

No Economies at the Summit

Journal of Commerce Staff

VENICE, Italy — Forget about the economic summit. What about the economics of the summit?

No one is prepared to hazard a public guess about the total cost of the annual get-togethers of the seven world leaders meeting in Venice this week, but the bottom line figure probably rivals the annual budget of some of the world's poorer countries.

Security alone to guard President Reagan and the heads of state and government from Britain, Canada, France, West Germany, Italy and Japan runs into millions of dollars. Several thousand extra police and heavily armed troops have been drafted into Venice. A U.S, warship is moored discreetly just out of sight of Piazza San Marco. Private security firms have also been hired to guard some of the hotels where delegates and the press are staying.

Some 2,300 journalists, photographers, cameramen, sound recorders and technicians — all being wined and dined lavishly at the expense of the Italian taxpayers — are accredited to cover the summit. The White House press corps alone, lodged at the $300-a-night Hotel Excelsior on the Venice Lido, numbers more than 200.

The big television networks have chartered their own launches to whisk staff from the center of Venice to the island of San Giorgio Maggiore — where the summit is being held, and where the press center is located — and to the Lido where the White House has set up a separate press office.

Hundreds of additional telephone, telex and facsimile lines have been installed for the week; brochures, books, maps and background information about previous summits are provided in bulging press kits; and typewriters and photocopiers are available everywhere.

Each government leader, accompanied by senior ministers and a host of officials and advisers, has been provided by the Italians with three boats, but the U.S. delegation is also using three U.S.-built

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Date ....June 9.... Publication ....Journal of Commerce.... P. 2

Japan Vows Push to End Sanctions

CONTINUED FROM PAGE 1A

of the chip makers' group in Cupertino, Calif., said he believes Mr. Reagan properly evaluated the extent to which the Japanese have made progress toward complying with last year's U.S.-Japan agreement on semiconductors.

"The president's action shows that the Japanese are still not in full compliance with the agreement," he said. "The $300 million in sanctions showed the Japanese that the United States was serious and intended the agreement to be kept, and since the sanctions, there has been a great deal more (compliance) activity than there was before.".

The trade group had sought the sanctions, arguing that the Japanese were continuing to sell dynamic random access memory, or DRAM chips at unfair prices and continue to limit U.S. access to their markets.

Mr. Nakasone said he hoped all sanctions would be lifted at the earliest opportunity and promised to continue with efforts to make that possible.

During a forty minute meeting with President Reagan on the eve of the Venice Economic Summit, the Japanese prime minister also promised full support for international efforts to co-ordinate economic policies and maintain stable foreign exchange markets.

The Japanese, who have a reputation for being somewhat uncommunicative at international gatherings such as this, are making every effort to explain the impact of the 6 trillion yen emergency economic package announced on May 29.

Numerous papers and documents are being circulated and English language briefings are being held in a major effort to convince the international community that Japan now accepts the role it should play in maintaining the momentum of economic growth.

While West German chancellor Helmut Kohl insisted during a meeting with President Reagan that there was no more scope for fiscal or monetary relaxation and that any further economic stimulus would be counterproductive, Mr. Nakasone is expected to tell the six countries represented at the summit that Japan recognizes its international responsibilities.

Mr. Nakasone assured President Reagan that exchange rate stability was vitally important for the world economy and that short-term Japanese interest rates would remain at the "lower level." He insisted, though, that no further reduction was appropriate.

The Japanese government hopes the supplementary budget measures will be approved by the Diet during July. Assuming the package, which is designed to boost domestic demand, expand imports and contribute more to the international community, is passed, then 92% of the planned additional expenditure will be effective this year, a government spokesman said.

Mr. Nakasone will be telling the heads of state and government from the United States, Britain, Canada, France, West Germany and Italy today that Japan acknowledges the need for structural adjustment from an export to an import oriented economy and that his country is making every effort to reduce its trade surplus by boosting domestic demand in order to increase imports.

However, the Japanese prime minister also told President Reagan that the United States had a responsibility to cut its budget deficit further.

The West German government, meanwhile, unexpectedly issued latest gross national product figures which show that the German economy grew by 2.4% between the first quarter of 1986 and the first quarter of 1987. The announcement was designed to defuse anticipated criticism from other summit participants about a German economic slowdown. However, the crucial figure showing West Germany's economic performance between the final quarter of 1986 and the first three months of this year has not been published yet. Economists believe this figure will show an overall decline.

At briefings ahead of the summit which gets under way properly this morning, West German government sources said the German economy was not large enough to take on the role of locomotive for the world economy.

During a bilateral meeting with Mr. Kohl, President Reagan expressed the hope that West Germany would continue to improve the level of economic activity. Mr. Kohl responded by pointing out that West Germany is enjoying its fifth successive year of economic growth.

No Economies at the Summit

CONTINUED FROM PAGE 1A

patrol boats in addition to another 60 launches. The Japanese delegation has a total of 30 boats at its disposal. The White House and Japanese delegations have also brought their own cooks, according to the Italian press.

Venice's Marco Polo airport will be closed for much of the time for security reasons. Flights are being diverted to tiny Treviso airport, which is barely able to cope with the increase in international flights as thousands of extra visitors squeeze into this already over-crowded city.

But apart from the numerous helicopters buzzing overhead and the very obvious security presence, most of the 100,000 tourists who pour into Venice each day, and the Venetians themselves, will see little first-hand evidence that seven of the most powerful men and women in the world are meeting here.

President Reagan and his entourage are staying in the luxurious Cipriani Hotel located on a private island in the lagoon. Meanwhile, the island of San Giorgio Maggiore — where just about all the meetings and briefings are taking place — is closed to the public.

The seven leaders are here to review the global economy, but when it comes to assessing the economics of mounting these annual meetings, officials become remarkably coy.

The Italian government, as this year's host, will be footing most of the bill for the 1987 summit. So what will it all cost Italian taxpayers?

"It's impossible to say," Italian government spokesmen say with a shrug. "Who knows?"

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

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Subject
Sujet

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In Venice, Washington's Partners Resist Echoing Tough Talk on the Gulf

By JAMES M. MARKHAM

Special to The New York Times

VENICE, Tuesday, June 9 — Leaders of the major industrial democracies reacted cautiously today to the Reagan Administration's tough comments on the situation in the Persian Gulf, an issue that has threatened the seven-nation summit conference here.

Western European leaders and Prime Minister Yasuhiro Nakasone of Japan appeared reluctant to endorse the Reagan Administration's menacing language aimed at Iran, but they offered carefully circumscribed diplomatic backing for the declared American aim of keeping the gulf oil lanes open for navigation.

• • •

President Reagan had planned a dinner last night for the seven leaders to seek support for an American proposal for a United Nations Security Council resolution that would ban arms sales to any Persian Gulf combatant that refuses to enter peace negotiations. Only Iran refuses to negotiate.

On the Security Council, only China is a major military supplier of Iran.

Gulf Not Discussed at Dinner

The dinner lasted an hour longer than expected, running past midnight, but the Persian Gulf was not discussed.

A senior White House official said the failure to consider the gulf issue matter was not significant. He said the conferees "just ran out of time."

Marlin Fitzwater, the White House spokesman, said the leaders spent most of their time talking about relationships with the Soviet Union and arms control. Officials of the British and Canadian delegations confirmed this and added that there was brief discussion of the battle against terrorism and the Western stance toward South Africa.

Questioned this morning by reporters outside his hotel, Mr. Reagan declined to say what the United States would do if Iran deployed Chinese-made Silkworm anti-ship missiles, which the Administration contends pose a threat to freedom of navigation in the Gulf.

In their public statements here, senior American officials have left the impression that the Administration was entertaining the possibility of destroying the Chinese-made missiles.

'I Haven't Bluffed Once'

Asked if the warnings to Iran were a bluff, the President answered, "I haven't bluffed once since I've been here." As he continued walking, he was asked if the the threats were real, and answered: "No, it's just a statement of fact."

A senior British official described the Silkworm issue as "something that needs careful discussion with the allies and I am not sure the Venice summit is the best place for this to be done."

On a related topic, Howard H. Baker Jr., the White House chief of staff, retreated today from remarks he made Sunday that seemed to suggest that the United States and the Soviet Union might jointly guarantee free passage in the Persian Gulf.

Mr. Baker said today in a news briefing that the Soviet role in the gulf had been "distinctly unhelpful" and defended the Administration's decision to arrange for 11 Kuwaiti tankers to fly the United States flag after Kuwait had first obtained three tankers on loan from the Soviet Union.

Dependence on Oil

The allies' reaction on the gulf question, according to several European officials, is conditioned by an awareness that Japan and Western Europe are heavily dependent on oil supplies from the region while the United States is not. Moreover, in the dynamics of the summit gathering, failure to appear forthcoming on the gulf issue could weaken several governments' positions on vital economic questions, such

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as West Germany's reluctance to stimulate its economy.

President Reagan's national security adviser, Frank C. Carlucci, told journalists that Prime Minister Nakasone "volunteered to be as helpful as he could in the Persian Gulf" during a meeting with the American leader and that Prime Minister Brian Mulroney of Canada had telephoned Mr. Reagan "to indicate his support."

"The sense that I get talking to various of my counterparts is that we certainly can expect some support for the principle of freedom of navigation in the Persian Gulf," Mr. Carlucci added. He said "the major contribution" the allies could make would be to press for passage of a United Nations Security Council resolution "with teeth in it for a cease-fire in the area."

A senior Japanese official said Mr. Nakasone had expressed willingness to contribute to the cost of the United States Navy's escorting of the reflagged Kuwaiti oil tankers in the gulf.

The official added that Foreign Minister Tadashi Kuranaki would visit Iran on June 14. He declined to describe the purpose of the visit, but recalled that Japan has good relations with both Iraq and Iran.

Kohl Under Pressure to Help

Mr. Baker said that Chancellor Helmut Kohl of West Germany, in the course of a 45-minute meeting with Mr. Reagan, expressed "in general terms his support for the U.S. position in the Persian Gulf."

But Friedhelm Ost, the Chancellor's spokesman, said the gulf issue did not arise during the meeting. Mr. Ost noted that the West German Constitution prohibits the dispatch of troops outside national frontiers, but said that the West German Navy might be able to fill in for American warships withdrawn from the North Atlantic for service in the gulf.

With the White House's announcement today that it was partially lifting trade sanctions imposed on Japan in response to measures adopted by Tokyo to stimulate its domestic economy, Mr. Kohl finds himself under increasing American pressure to adopt similar measures.

British and French Reluctance

But Mr. Ost reiterated Bonn's unwillingness to take further stimulative steps, saying: "We can't put any more charcoal on the fires."

Britain has warships in the gulf area and is known to provide what is described as "loose cover" to some British-registry vessels sailing there.

But only three days before national elections in Britain, Prime Minister Margaret Thatcher appeared uneager to become entangled in a military confrontation with Iran. Britain is already embroiled in a dispute with Iran over the case of a British diplomat who was recently arrested by Revolutionary Guards, followed by a tit-for-tat expulsion of diplomats.

French warships enter the gulf periodically, but senior French officials expressed doubts about the military wisdom of providing close support to civilian ships there. "It's technically very difficult," said one official. "Our military people prefer to go in and out, but not remain there permanently."

Hubert Vedrine, a senior foreign policy adviser to President François Mitterrand, today expressed France's support for a 1982 Security Council resolution that endorsed freedom of navigation in the gulf. He also recalled that Secretary of State George P. Shultz had recently praised France for its presence in the region.

"We are dealing with an American position that is in a state of gestation," Mr. Vedrine told a news briefing on San Giorgio Maggiore Island. "I don't think it is possible to talk of an American position yet."

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A Venice Lifeboat for Drowning Debtors

By Bill Bradley

WASHINGTON

Brazil, Argentina and Uruguay have urged the countries attending the summit meeting in Venice to consider the problem of international debt. As debtors — sometimes defaulting debtors — their request may seem self-serving. As leaders in the struggle to consolidate new democracies, they are making a request that we ignore only at risk to our prosperity, security and commitment to democracy.

First, there are one million fewer jobs in our country as a result of Latin America's debt-driven economic collapse. The Latins have flooded our market with imports to earn dollars to pay interest to the banks. Our exports to the region have collapsed. In no-growth economies, money allocated for interest is money not spent on our exports. This only hints at what will come if international debt is not brought under control.

Second, debt management is a test of the West's commitment to democracy. Without relief from debt burdens, newly elected Latin-American and Filipino democratic leaders cannot bring about economic growth and inspire hope for better lives.

Third, the debt issue gives the Soviet Union an opening for influence in Latin America. (We should remember that the first all-Latin debt conference was held in 1985 in Cuba.) Our insistence on exorbitant interest payments reduces domestic investment, cuts real wages and lowers living standards in fragile democracies.

Tough economic times make people listen to a different message. Mikhail S. Gorbachev knows this. In the autumn, before a series of important Latin-American elections, he will be the first Soviet leader to visit the region. His message on debt will seek to drive a wedge between the United States and Latin America.

That is why I hope the summit leaders are talking frankly about debt. Recognizing that governments can play a critical role in debt management, they can inspire and coordinate relief.

They should agree upon which developing countries need and could put to good use interest relief (and, depending on the case, some debt forgiveness). Then they should ask leaders of those countries to propose reforms that embody a clear vision of the economic future and lay a foundation for hope and an end to poverty.

The summit partners should strongly encourage all creditors to offer relief, case by case, to countries that carry out significant reforms. Such relief should help finance and encourage those reforms.

It is imperative to couple relief with debtor reforms. Today, we only couple bridge loans with debtor threats. Relief and reform are better ingredients for true North-South teamwork than bridge loans in crises.

Does this mean that the Administration's proposal to offer banks a menu of debt management options is inadequate? Yes. Banks have been unenthusiastic about making big new loans to cover developing countries' payments on even bigger old loans.

The Administration, which had hoped further lending would get us through the debt crisis, has expressed disappointment with the lenders' lack of enthusiasm. But the proposed options omit real relief. It's like a menu that offers beans with potatoes or potatoes with beans.

Any menu of options that omits interest relief does not really expand banks' alternatives. Interest relief (and possibly debt forgiveness) is the only option that deals with the banks' real problem abroad.

That problem is that most major developing-country debtors borrowed too much and invested too little in their own businesses and workers between 1974 and 1982. Their productive capacity did not keep up with their debt. Adding more debt to finance more interest payments does not reduce the gap between debt and productive capacity. It raises the debt. It creates no new productive capacity. It causes capital flight, which makes the cash problem worse.

The only way to fix the imbalance between debt and productive capacity is to reduce the debt burden and to ask debtor countries to put their houses in order and try to attract new investments if they succeed.

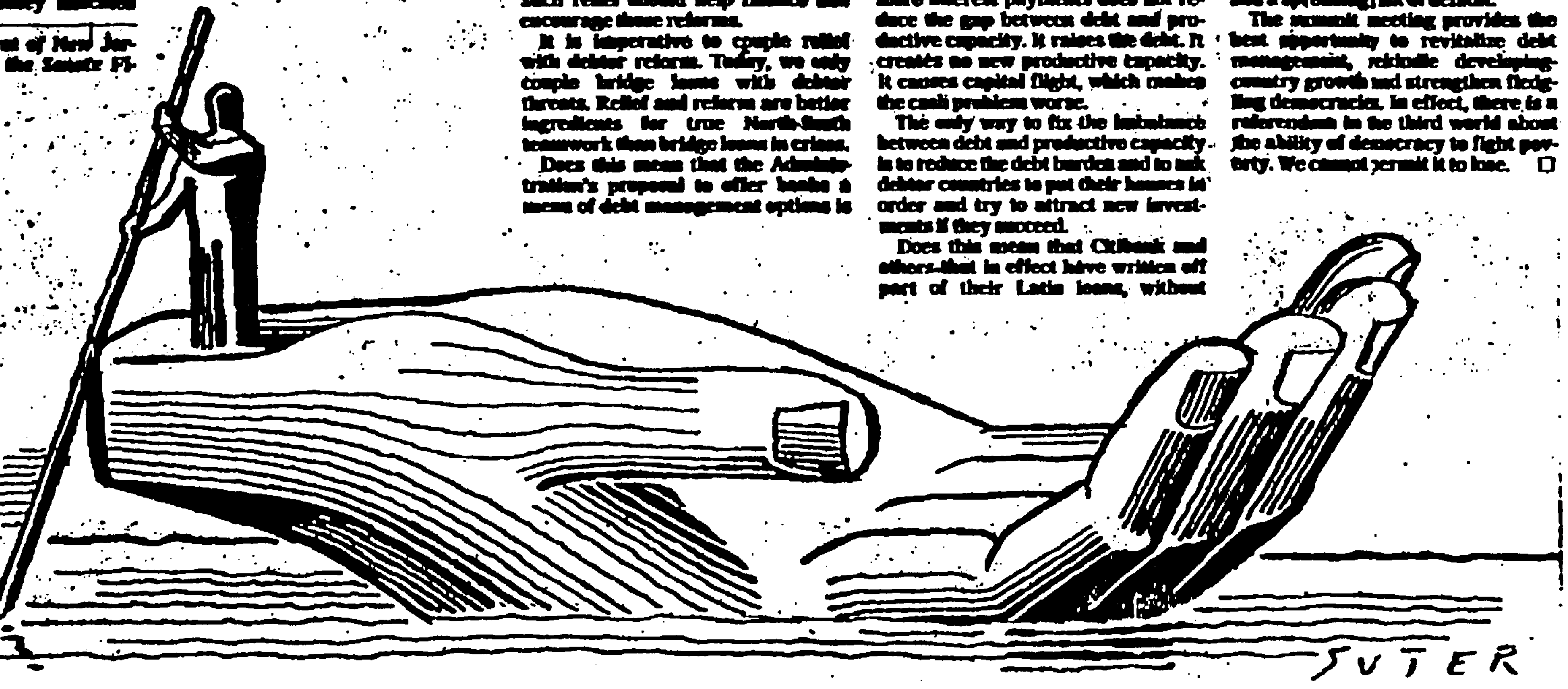
Does this mean that Citibank and others that in effect have written off part of their Latin loans, without providing interest-rate relief, have not wholly solved the problem? Yes. They thus declared that some developing countries cannot sustain current debt burdens. While stopping short of offering relief, they recognized reality. It's a step that could help.

No bank can offer relief by itself. No single country can. Even if every United States bank cut interest rates deeply for some developing country, that country might not benefit. European and Japanese creditors might collect more on their loans than they would have collected without such relief.

That's why governments should coordinate international debt management. Without coordination, there is little hope for effective relief. Without relief, debtors that have fallen behind will fall further behind in the race to meet their obligations. Without relief, there will be little growth and a spreading risk of default.

The summit meeting provides the best opportunity to revitalize debt management, rekindle developing-country growth and strengthen fledgling democracies. In effect, there is a referendum in the third world about the ability of democracy to fight poverty. We cannot permit it to lose. □

Bill Bradley, Democrat of New Jersey, is a member of the Senate Finance Committee.



DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

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June 9 New York Times

Reagan, in Venice, Lifts Part of Tariff on Japan

By GERALD M. BOYD

Special to The New York Times

VENICE, June 8 — President Reagan, after meeting with Prime Minister Yasuhiro Nakasone, announced today that he had lifted part of the tariffs on electronic goods imposed on Japan in April.

Acting as the leaders of the seven largest industrial democracies assembled here, Mr. Reagan said he had removed the additional tariffs imposed 20-inch television sets imported from Japan. That amounted to about 17 percent, or $51 million, of the $300 million in penalties levied on the Japanese.

The move was characterized as "an incentive" by the White House chief of staff, Howard H. Baker Jr. He suggested that Mr. Reagan was rewarding Japan for reducing trade practices to which the United States has objected, including the "dumping" of semiconductors on the world market below cost.

Japanese officials were guarded about the action, which some officials said did not go far enough.

As the American action was announced, officials of the six other countries at the meeting reacted cautiously today to the Administration's tough statements on another issue, Persian Gulf policy. At a dinner with the other leaders tonight, President Reagan reportedly sought support for a proposed

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Reagan Lifts Part of Tariffs on Japan

Continued From Page 1

United Nations Security Council resolution demanding an end to the Iran-Iraq war, but the response of the other leaders was unclear. [Page A16.]

The summit meeting, an annual event since 1975, began with only modest expectations in both the economic and political areas. American officials had dominated the pre-summit stage in recent days by warning of increased dangers in the gulf and voicing optimism on the prospects of an arms-control agreement with the Soviet Union to eliminate medium-range nuclear missiles from Europe.

The decision on the Japanese sanctions and the wide range of political issues discussed today have obscured, at least temporarily, the principal objective of the conference, negotiations on economic issues.

Among the key questions the leaders are to discuss are an American-initiated effort to establish a method for countries to coordinate their economies to assure their growth and avoid problems like the recent volatility of the dollar.

Other issues include possible modifications in Treasury Secretary James A. Baker 3d's plan to deal with the debts of developing countries, proposals to reduce subsidies to agriculture, broadening the goals of worldwide talks on opening trade that have begun in Geneva, and a special aid program for the poorest countries.

Most of the leaders arrived today under gray skies and amid tight security, with Italian security officers openly brandishing automatic weapons.

Symbol of Faded Glory

The leaders gathered in the early evening for a welcoming ceremony at the Doge's Palace, which once symbolized Venetian glory. Later they had dinner in the picturesque Palazzo Corner, the residence of Venice's governing prefect, overlooking the Grand Canal.

White House officials had hinted in recent days that Mr. Reagan might provide some relief to Tokyo regarding the sanctions. They announced Mr. Reagan's decision after the President held talks with Mr. Nakasone this afternoon at the Hotel Cipriani.

"This release is strictly proportional to progress to date," Mr. Reagan, who is to make free trade a key issue here, said in a statement.

A senior Japanese official said the Prime Minister expressed his appreciation, particularly since leading members of Congress support the sanctions, and urged that the rest of the sanctions be removed as soon as possible.

Dumping of Semiconductors

But in an indication of Tokyo's continued resentment at the sanctions the Trade Minister, Hajime Tamura, said there is no longer any ground for "maintaining the measures even if the U.S. logic were adopted."

Mr. Reagan imposed the economic reprisals on Tokyo after asserting that it had failed to comply with an agreement signed last July with Washington. The President charged Japan with not opening its semiconductor market to American companies and selling the chips in foreign markets below costs, known as dumping.

In a statement in which he characterized Japan as a major economic partner and a staunch friend and ally, the President said he was lifting some sanctions that had been applied because of dumping. The Administration has asserted that semiconductor dumping has cost American companies $135 million.

Based on data for the last two months, Mr. Reagan asserted that Tokyo was now charging more of a fair-market price for some chips it sells in third countries, although the price was still below cost. The price of of the chips increased 26 percent during the period, Mr. Reagan said.

Chips Store Data

The chips store information in many products, including personal computers and calculators. They constitute 60 percent of the Japanese chip market.

Administration officials said Mr. Reagan had reached the $51 million figure based on how much the price of the chips had risen toward full market price. Since that figure is roughly the cost of the sanctions on 20-inch Japanese television sets, he removed the 100 percent tariff on the sets. It remains in place on other sets and other Japanese electronic products, they said.

"The Japanese Government has given me assurances that this positive pattern with respect to third-country dumping will continue," Mr. Reagan said. "If this does not prove to be the case, I will not hesitate to re-impose the partial sanctions that have been lifted."

Mr. Reagan had arrived at the summit meeting hoping to persuade Mr. Nakasone and Chancellor Helmut Kohl of West Germany to take specific economic actions that he has said are necessary to help the economies of those nations and the world economic picture.

'Incentive Policy' on Japan

Specifically, he wants Tokyo to do more to help end the trade imbalance in the world economy by opening up its markets; and he wants Bonn to revive its sluggish economy, which he has said is leading to slow growth across Western Europe.

The action by the President appeared to be a swift overture at the start of the summit talks to provide Prime Minister Nakasone with a tangible plus with which to return to Tokyo. But Mr. Baker, the White House chief of staff, denied that Mr. Reagan's gesture had, in effect, been a gift.

"It's an incentive policy and I think it's an appropriate policy," Mr. Baker said.

White House officials said the problems of the West German economy had been raised in a bilateral meeting Mr. Reagan held with Chancellor Kohl on the opening day of the talks. He also met with Prime Minister Amintore Fanfani, the caretaker leader of Italy.

Mr. Baker said the President had mentioned to the West German leader that "he hoped that the German Government would continue to improve the level of economic activity in his country."

"And the Chancellor, I'm sure, heard and understood that," he said.

But a West German spokesman, Friedhelm Ost, provided a different account. He said that Chancellor Kohl had not been asked for any specific measures to increase domestic demand, and reiterated the West German view that sufficient economic growth in recent months had made additonal German action, such as spending programs or cuts in interest rates, unnecessary.

Bonn has already agreed to move up a program of tax cuts, and in March agreed to a cut in its key discount rate.

Mr. Reagan, who arrived here last Wednesday, appeared rested as he began his busiest day in nearly a week.

Prime Minister Brian Mulroney of Canada arrived on Sunday and Prime Minister Jacques Chirac of France is to come Tuesday morning.

Thatcher to Leave Early

Prime Minister Margaret Thatcher, who is in a hotly contested re-election campaign, was the last leader to arrive today and will be the first to leave. She is to head back to Britain on Tuesday before a working lunch of the leaders, but after she meets with Mr. Reagan and and takes part in a morning session of the leaders.

White House officials acknowledged that Mr. Reagan's decision on sanctions could pose problems in Congress, which is considering protectionist legislation that requires American retaliation. Mr. Baker, however, stressed the importance of the commerical and foreign relationship between the United States and Japan, and said Mr. Reagan had taken all factors into account in reaching his decision.

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Reporter's Notebook: Reagan, Bowed to, Bows to Business

By JOHN TAGLIABUE
Special to The New York Times

VENICE, June 8 — Italy is often said to have two governments, one led by politicians and the other by the country's powerful industrialists.

So it was not surprising that the only leader who could lure President Reagan from the Hotel Cipriani, where Mr. Reagan received other leaders in his luxury lodgings, was Gianni Agnelli, the head of the giant Fiat auto concern.

This week Mr. Agnelli appeared to eclipse even Prime Minister Amintore Fanfani, the 79-year-old head of Italy's caretaker Government.

Mr. Reagan reversed protocol when he asked Mr. Fanfani, his host, to go to the Cipriani for a meeting. But Mr. Reagan is scheduled to attend a banquet that Mr. Agnelli is giving Tuesday in the 18th-century Palazzo Grassi, which Fiat restored after buying it in 1984, to bring the President together with Italian business leaders.

On Thursday, Nancy Reagan is booked for lunch with Mr. Agnelli's wife, Marella, Prime Minister Fanfani's wife, Maria Pia, and Ruth Rabb, the wife of the American Ambassador to Italy, at Harry's Bar, just off the lagoon.

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Reagan Enthroned

The quasi-imperial trappings that drape the American presence have been a topic of conversation here.

While six countries brief reporters on the Island of San Giorgio, where the actual discussions take place, the American delegation does so out on the Lido, a glorious island 20 minutes by boat from San Giorgio. If Japanese spokesmen give briefings in a tent, though seated on red velvet Louis XVI armchairs, American officials unfold the intricacies of growth indicators or double zero options from the comfort of the Excelsior Hotel, a Moorish-revival colossus of a building overlooking the Adriatic Sea.

In a quite conscious demonstration of democratic openness, Chancellor Helmut Kohl twice took strolls around St. Mark's Square, shaking hands and signing autographs, after a boat deposited him at the Danieli Hotel in the historic center. But Mr. Reagan, like some Venetian monarch, is installed at the Cipriani, where he receives other leaders in audience.

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Mitterrand Says No

If Mr. Reagan will see little of Venice, beyond the inside of hotel rooms and conference halls, during his stay, President François Mitterrand's enthusiasm for the city forced him to deny reports recently that he intended to buy Palazzo Volpi on Giudecca Island where he is lodged during the summit conference.

The denial became necessary after an Italian politician told reporters that Mr. Mitterrand, who frequently visits the city and is a great admirer of its art treasures, had acquired the property overlooking the Lido.

A spokesman for the President denied the report. But in a message congratulating the local Gazzettino newspaper on the hundredth anniversary of its founding, which appeared on the newspaper's front page today, the French President reiterated words of admiration for the city of canals.

"I am delighted to be a guest of Venice," Mr. Mitterrand said, "a unique city that holds such a large place in the sensibility and the imagination of my people and so many others."

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LETTER FROM ITALY

Summit Security Measures Disrupt Romantic Charm of Venice's Canals

VENICE

The tranquil charms of Venice's romantic canals have been spoiled by a noisy onslaught of security measures that have outraged many of the city's 200 gondoliers.

The gondoliers have been banished from their favorite moorings beside St. Mark's Square to the back canals as part of a security plan that has forced Venetians to take long detours. Even the ornate water hearses have been banned from the main canal routes, prompting a headline in the newspaper Il Messaggero: "Please Don't Die During the Summit."

The gondoliers contend that the three-day summit is costing them $150,000 in tourist income and have demanded compensation from the government. So far their appeals have gone unanswered, even though they were paid for income lost during the 1980 summit.

Security procedures are believed to be much stricter than in 1980, when president Jimmy Carter took an early morning jog along the Grand Canal in the company of a few bodyguards.

An army of 8,000 Italian security police has been deployed, with 5,000 assigned to protect President Reagan. The force includes a detachment of frogmen and a paramilitary unit usually assigned to detect smugglers.

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VENICE HAS long been known as La Serenissima, which means "the most serene." But the Venetian calm has been disturbed by the constant whir of military helicopters overhead. Venetians also complain that their favorite television and radio programs suffer interference from electronic monitoring gear on a U.S. Navy ship moored in the Grand Canal.

Italian police protecting Reagan have given U.S. Secret Service agents the jitters by pointing their weapons in the direction of the president. Some journalists said that weapons also appear to have been aimed toward them on one occasion.

White House reporters would not appear to pose much of a threat. They have been isolated on a separate island, the Lido, where security is so strict that the manager of the hotel was denied entrance because he lacked a summit pass.

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WHEN PRESIDENT Reagan arrived at the Hotel Cipriani this morning for a meeting with Italian Prime Minister Amintore Fanfani, he traveled in an enclosed 30-foot launch, known to the Navy as an admiral's barge. It was accompanied by another launch, two Navy landing craft, eight inflatable dinghies manned by frogmen and numerous police craft.

The president was asked why he would be going in a side entrance Tuesday instead of participating in the formal opening ceremony outside the Cipriani with leaders of other summit nations. Reagan said he did not know.

"I just wait until somebody points me in the direction I'm supposed to go and I don't ask any questions about it," he said.

Administration sources said the Italians expected Reagan to go in the front entrance to the Cipriani, which is on the secluded island of Giudecca. But they said the Secret Service had insisted that the president be taken in by boat through a canopied side entrance and that British Prime Minister Margaret Thatcher had agreed to accompany him.

■

U.S. TELEVISION network celebrities attracted more attention than some summit leaders. Hundreds of Venetians and tourists crowded into St. Mark's Square to observe ABC's Sam Donaldson do a standup on Sunday evening.

Watching the spectacle in apparent anonymity from a nearby table at the famed Florian Cafe was West German Chancellor Helmut Kohl.

At least Kohl recognized Donaldson. Today, Reagan answered a question from CBS correspondent Bill Plante by calling him "Sam." The president afterward apologized and promised to address Donaldson as "Bill" the next time he answered a question.

— Lou Cannon

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Chipping Along in Venice

BY PEELING OFF some of the punitive tariffs that he imposed on Japanese electronic goods in April, President Reagan hopes to give the Venice conference a modest boost. Current evidence, he says, indicates that the Japanese are no longer dumping semiconductor chips—that is, selling them below cost—on the same scale as previously. That enables him to lift some of the tariffs that were the American response. It's a useful gesture toward his embattled friend the prime minister of Japan, and it's an answer to the accusations that the United States is turning protectionist.

But it doesn't go very far. Neither the Reagan administration nor, to be fair, anyone else has a good, quick solution to the troubles of the American semiconductor producers. Their Japanese competitors are very large integrated companies that routinely use the profits of older products to hold down the prices of new ones in order to capture markets. Most of the American companies—with the notable exceptions of IBM and AT&T—are independents, with far fewer financial resources and frequently less exacting standards of manufacturing quality than those of the Japanese. In an effort to prevent the Japanese from dominating the world market for these essential products, the United States pressed Japan last year into an agreement not to sell anywhere below fair market value, and to buy more American chips.

From the beginning it was an unsatisfactory agreement, foggy in concept—what's "fair" market value?—and difficult to police. By this spring it was clear that the Japanese manufacturers were paying little attention to it. That's the point at which Mr. Reagan put prohibitive tariffs on a list of Japanese products worth $300 million coming into this country, of which he has now exempted $51 million worth as conditional acknowledgment of better behavior.

Perhaps that will help the Venice meetings go a little more smoothly. But the United States still has not found an effective way to deal with Japan's trading practices, and to persuade the Japanese that their insistence on inordinate trade surpluses is a threat to everyone else's economic stability. Nor has the United States decided how to deal with its own semiconductor industry. It's essential to the country's future, but, as this episode has demonstrated, important parts of it are less strong than world competition requires either in terms of financing or, more important, of manufacturing ability.

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Reagan Seeks Backing From Allies at Summit

U.S. Presses Stand on A-Arms, Persian Gulf

By David Hoffman
Washington Post Staff Writer

VENICE, June 8—President Reagan sought to forge a unified position among the allies on nuclear arms control tonight as the economic summit opened amid continued allied concern over the risks of U.S. threats against Iran if it deploys the Silkworm antiship missile in the Persian Gulf.

British, French and Canadian officials here, while supporting the principle of free navigation in the gulf, appealed to the United States for a calmer approach to the region to avoid further belligerency by Iran and a wider confrontation involving the superpowers.

A senior British official said, "We favor reducing tension in the gulf, not increasing it." The appeals followed talk of U.S. retaliation or preemptive strikes against Iran if it deploys the Silkworm missiles near the Strait of Hormuz.

The leaders opened the 13th annual summit of the industrial democracies with a 3½-hour dinner meeting at which they primarily discussed arms control, according to White House spokesman Marlin Fitzwater. He released a statement saying Reagan led a review of options in arms control negotiations with the Soviet Union in Geneva, and the leaders examined Soviet policy changes under Soviet leader Mikhail Gorbachev.

Earlier today, Reagan met with Japanese Prime Minister Yasuhiro Nakasone and announced the removal of some trade sanctions imposed against Japan six weeks ago.

PRIME MINISTER NAKASONE
. . . private meeting with president

Reagan said he was releasing from tariffs $51 million in Japanese electronics goods, or 17 percent of those imports that had been penalized, saying this was "strictly proportional" to efforts by Japan to stop dumping semiconductors in Third World markets. [Details on Page A24.]

On another front, Chancellor Helmut Kohl told Reagan in a separate meeting that West Germany supports the proposal now being hammered out by the United States and Soviet Union to eliminate medium-range missiles in Europe. West German spokesman Friedhelm Ost said the two leaders are in "full agreement on arms control."

But White House chief of staff

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SUMMIT, From A1

Howard H. Baker Jr. said that "the Germans are really uptight" about the proposal and "they have a long list of concerns." West German officials said Reagan told Kohl he expects a summit meeting with Gorbachev this autumn, where such an agreement could be signed.

In discussions about the impact of Gorbachev's reforms, "it was agreed that while Soviet policy changes seem significant, it is too early to fully assess the impact on the West," Fitzwater reported in a written statement. "All leaders agreed that they must wait for deeds, not words."

Fitzwater said Reagan outlined the U.S. negotiating position in Geneva and the first dinner meeting went 90 minutes longer than scheduled. Reagan has sought to use the summit to solidify allied support for a treaty limiting intermediate-range missiles.

At the dinner meeting, British Prime Minister Margaret Thatcher asked Reagan to explain whether the removal of some U.S. nuclear weapons from Europe in a possible deal with the Soviet Union would alter the American commitment to protect Europe with nuclear retaliation, diplomats reported. Reagan reassured Thatcher and other allied leaders that the U.S. commitment would not be weakened by the elimination of shorter- and medium-range nuclear missiles from Europe, they said.

Before the dinner, the various delegations were debating behind the scenes the implications of an increased superpower presence in the Persian Gulf following U.S. and Soviet plans to transport Kuwaiti oil under American and Soviet flags through hostile gulf waters. The issue is expected to come up among the leaders Tuesday.

Top U.S. officials continued to warn Iran today against deploying the Chinese-made Silkworm missiles. Baker said the missile "substantially escalates the danger to shipping" and said it would be in the "interests of peace" for Iran to "reconsider that action and to forgo" deployment.

The blunt talk from White House officials about the missile has clearly heightened anxieties among the allies about the risks of inadvertently drawing the superpowers into the Iran-Iraq conflict. French and Canadian spokesmen emphasized the need for the United States to "stay calm." A senior Canadian official warned against a "belligerent attitude" in referring to the stern rhetoric coming from the White House in recent days.

The allied leaders appeared ready to urge the United States to seek diplomatic rather than military solutions to the conflict by working through the U.N. Security Council and resolutions calling for a cease-fire. Canadian Prime Minister Brian Mulroney, who telephoned Reagan to express his general support for U.S. efforts to ensure freedom of navigation in the gulf, said he hoped the allies would support a strong U.N. resolution.

There was still debate over what kind of resolution could be approved by all summit participants and whether it is realistic to seek to impose mandatory sanctions against Iran if it continues to reject a cease-fire.

Chief of staff Baker and national security adviser Frank C. Carlucci said that the president is not seeking military aid but only diplomatic and symbolic support from the allies.

"Certainly for those that have ships in the gulf, we can coordinate our activities," Carlucci said. "But it's really not up to us to tell [Britain] you ought to have four ships instead of three ships." Carlucci said the United States was also seeking from the allies "assistance in dialogue with some of the gulf countries." Since colonial days, Britain has maintained close diplomatic and military contacts in the region.

Reagan was asked today whether he was bluffing Iran with indirect threats of retaliation or a preemptive strike. "I haven't bluffed once since I've been here," Reagan said. U.S. sources have been quoted in recent days as saying such a strike is one option being considered if the land-based missiles are deployed.

Reagan's 40-minute meeting with Kohl today was dominated by West Germany's concerns about an agreement to eliminate the intermediate-range missiles in Europe and set a limit of 100 for each side in Asia and the United States.

Kohl's coalition government officially endorsed the plan last week, on the condition that Bonn retain 72 Pershing IA missiles, which carry nuclear warheads under American control. The United States has supported this condition.

the official Islamic Republic News Agency said today.

President Ali Khamenei, speaking to naval academy graduates today, advised nations at the Venice summit not to "sink ... in the quagmire the United States has made for itself in the Persian Gulf."

United Press International reported from Washington:

An Iranian destroyer challenged a U.S. merchant vessel being escorted by a U.S. warship in the Strait of Hormuz Friday, the first such contact since the Iraqi attack on the USS Stark on May 17, Pentagon officials said today.

The Iranian ship allowed the two American vessels to pass without incident after the U.S. warship identified itself, the officials said.

The U.S. vessels were identified as the guided missile destroyer USS Conyngham and the merchant ship SS Patriot, which was under charter to the Navy's Military Sealift Command. The Patriot was bound for Bahrain, near the Saudi coast.

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President Orders Partial Reduction In Sanctions Against Japanese Exports

By Hobart Rowen
Washington Post Staff Writer

VENICE, June 8—President Reagan, praising Japan's efforts to stop the cut-rate dumping of semiconductors in foreign markets, today ordered a partial reduction of $51 million in sanctions against Japanese electronics exports in the United States.

The president said the 17 percent cut in the $300 million in sanctions imposed six weeks ago "is strictly proportional" to the partial withdrawal by Japan of trade practices that the United States found objectionable and that triggered the punitive measures.

Koji Watanabe, a high-ranking Japanese Foreign Ministry official present at a meeting today between Reagan and Japanese Prime Minister Yasuhiro Nakasone in which the reduction of sanctions was discussed, said Nakasone expressed his "appreciation" for the partial step even though he pressed for the abolition of all sanctions.

"It's much better than nothing and augurs well for the full removal of sanctions," Watanabe said. He added that Reagan's order would provide a psychological lift to Japanese citizens who believed that the imposition of sanctions was unfair.

The Reagan-Nakasone meeting preceded the formal dinner of the seven leaders of industrialized democracies that opened the 13th annual economic summit. During the meeting, Nakasone reiterated a pledge to Reagan that he would make an effort to push Japanese interest rates lower in a bid to stimulate the economy, it was learned.

In another bilateral session with West German Chancellor Helmut Kohl, Reagan pressed for further West German efforts to help global expansion. Kohl listened to Reagan's appeal but made no pledges, according to White House chief of staff Howard H. Baker Jr.

American officials are hoping to get a summit declaration that will commit the seven powers to undertake expansionary steps to sustain economic growth for some years ahead. But there are signs that the Kohl government is strongly resisting the pressure.

Baker later told reporters, "I think there'll be important news coming out of the summit."

In their meeting, Nakasone assured Reagan that Japan would work strenuously to bring about conditions in the semiconductor trade that will permit total elimination of the sanctions "as soon as possible."

In his public announcement today, Reagan expressed regret that the Japanese had not yet taken sufficient action to enable him to scrap the sanctions.

He made clear that the partial lifting of sanctions was undertaken with full knowledge that the conciliatory move may not be well-received on Capitol Hill. Influential Republicans and Democrats have argued that the total amount of sanctions should be retained until Japan has abandoned all dumping.

[Republicans and Democrats on Capitol Hill attacked the president's decision, Washington Post staff writer Stuart Auerbach reported.

[Senate Majority Leader Robert C. Byrd (D-W.Va.) said he "regretted" the president's action.

[Sen. Pete Wilson (R-Calif.) called the partial lifting of sanctions "a serious mistake" that "risks encouraging the Japanese to think that they can again continue in their own way at no cost." Added another Republican, Sen. John C. Danforth of Missouri, "The Japanese will view this as a return to business as usual."

[But Senate Minority Leader Robert J. Dole (R-Kan.), who last week urged the president not to lift sanctions, supported Reagan's position, saying it "is very limited and makes sense."]

Reagan said that while the United States sought to use sanctions to send "a clear message" to Japan to cease unfair trade practices, he intended to lift the measures as soon as possible in order to encourage free-trade policies.

"Japan is a major economic partner as well as a staunch friend and ally," the president said. He also praised Nakasone's personal intervention in seeking to halt the dumping and said, "We think that they ought to be rewarded for their effort."

Sanctions were imposed as the U.S. response to what it saw as Japan's failure to live up to an agreement to stop selling semiconductors below "fair market value."

Damage to U.S. semiconductor companies was judged at $300 million. Retaliation was not directed against semiconductor companies but rather at Japanese products using semiconductors, including personal computers and some television and audio equipment.

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U.S. Lifts Punitive Tariffs on Some Goods From Japan, but Nakasone Isn't Satisfied

VENICE, Italy—President Reagan removed punitive tariffs on some Japanese imports as the economic summit got under way, but Japanese Prime Minister Yasuhiro Nakasone said the action wasn't enough.

As expected, Mr. Reagan told Mr. Nakasone that he is removing the tariffs on 17%, or $51 million, of the $300 million of Japanese imports on which the sanctions were imposed in April to retaliate for Japanese dumping of computer chips. The White House said the Japanese are still dumping chips in third countries, but to a lesser degree.

This article was written by Walter S. Mossberg, Ellen Hume and Philip Revzin.

To achieve the reduction, the administration is removing 20-inch color television sets from the list of products covered. All other Japanese products affected by the sanctions, including other sizes of TV sets, power tools and laptop computers, remain subject to the 100% tariffs.

End to All Sanctions Sought

But Prime Minister Nakasone told President Reagan during their bilateral meeting yesterday that all of the sanctions should have been lifted. He noted that while the U.S. complains about Japanese trade practices, it is still running a large budget deficit, according to a senior White House official.

Indeed, the Japanese delegation quickly issued a statement calling for "an early and total lifting" of the remaining sanctions. In the statement, Hajime Tamura, Japan's minister of international trade and industry, was restrained, saying only that "I appreciate to some extent" the U.S. decision.

In their opening dinner last night, the seven leaders met for 3½ hours in an "animated discussion" about East-West relations and arms control, according to White House spokesman Marlin Fitzwater. He said the leaders, who met without deputies or note-takers for 90 minutes longer than anticipated, discussed changes under Soviet leader Mikhail Gorbachev and the impact they might have on the West. The leaders "decided that they must wait for deeds not words" before judging Mr. Gorbachev, Mr. Fitzwater said.

Canadian officials who briefed reporters after the dinner said that deputies to the seven leaders were expected to work all night drafting language for a joint statement on East-West relations and arms control. They said the leaders were in agreement on arms control. An anticipated discussion on the Persian Gulf was put off, though the leaders touched briefly on the issues of terrorism and South Africa.

France Expresses Reservations

Separately, France expressed reservations about the unified allied stance the U.S. has been seeking on Persian Gulf freedom of transit. And West Germany, as expected, rebuffed U.S. calls for additional actions to stimulate its economy. The president held private meetings with West German Chancellor Helmut Kohl and Italian Prime Minister Amintore Fanfani, as well as with Mr. Nakasone. Britain is the other nation at the meeting.

The partial removal of the sanctions amounts to a political reward to Mr. Nakasone, who has criticized the dumping and whose cabinet recently approved a $43 billion stimulus package intended to boost growth in Japan and thus help improve the market there for U.S. products. The president also tied the move to his general desire to avoid protectionism.

There were, however, no new trade-offs promised by the Japanese for this, a senior White House official said.

Defending the decision under questioning by reporters, the president said, "We have to recognize that there are people in Japan, like Prime Minister Nakasone, who have worked very hard . . . and we think that they ought to be rewarded for their effort."

Assurances Given

Mr. Reagan said the Japanese leader had given assurances that Japanese dumping will be further reduced. The president warned that "if this does not prove to be the case, I will not hesitate to reimpose the partial sanctions." White House Chief of Staff Howard Baker said the decision was "an incentive" to better Japanese behavior.

But in easing the sanctions, the president defied the urgings of congressional leaders and some of his own political and trade advisers. They felt that Japanese trading practices on chips were still violating the U.S.-Japan semiconductor agreement, and that removing some of the sanctions while Congress is debating a trade bill might inflame protectionism by signaling weakness toward Japan.

In Washington, Senate Majority Leader Robert Byrd disparaged the agreement to lift some of the sanctions. "I regret that the president has decided to lift some of the sanctions on the basis of less aggressive

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dumping for a single month," the West Virginia Democrat said. Senate Minority Leader Robert Dole (R., Kan.) said he supported the action, saying it was "very limited, and it makes sense. The sanctions were supposed to be an inducement for compliance, and there's nothing wrong with having a carrot as well as a stick."

Administration Divided

The administration was divided about whether to lift any of the sanctions, a senior White House official said. At the Economic Policy Committee meeting last week, Commerce Secretary Malcolm Baldrige expressed the strongest opposition to lifting them, and U.S. Trade Representative Clayton Yeutter also opposed such a move. But National Security Adviser Frank Carlucci and Secretary of State George Shultz argued the sanctions shouldn't have been imposed and called for a partial lifting.

The White House offered a complex mathematical justification for the partial easing of sanctions, saying the decision was based on a lessening of Japanese dumping of the most common memory chips, called dynamic random access memory, or D-ram, chips. But the figures disclosed to support the move showed that, even in the case of the D-ram chips, Japanese companies are still dumping chips in third countries, although they are charging on average 85% of fair-market value instead of the 59% when the sanctions were imposed.

In the U.S., the Semiconductor Industry Association applauded the decision, saying in a prepared statement that it hopes the "goodwill gesture will lead to a continuing pattern of compliance by Japan."

But in Boise, Idaho, Joseph Parkinson, chairman of Micron Technology Inc., the only U.S. chip maker that still specializes in D-ram chips, said recent increases in Japanese chip prices represented "only a two-month blip over a two-year landscape of severe Japanese dumping." Mr. Parkinson said he thinks the U.S. should wait until the Japanese demonstrate 100% compliance with fair-market values for at least three months before it removes any of the retaliatory sactions.

Baker Hints at Developments

Separately, White House Chief of Staff Baker hinted at some significant economic developments resulting from the summit, despite expectations that the summit would yield little in the way of concrete results. Neither he nor other U.S. officials would specify what those might be.

Mr. Baker told reporters, "It is, after all, an economic summit. I think there will be important news coming out of this summit." Aides said later that, despite the statement, there didn't appear to be any specific surprising developments on tap.

On economic issues, it became clearer that neither Japan nor West Germany are ready to take further actions to stimulate their lagging economies. Japanese officials referred to their stimulus package, and German officials said that despite an estimated 1% reduction in gross national product in the first quarter from the prior three months, retail sales in April rose an inflation-adjusted 7% from a year earlier. Bonn government spokesman Friedhelm Ost said that the West German economy has resumed growth and that any fiscal stimulus would risk "reigniting inflation." He added: "All talk of recession in Germany is wrong."

Exchange-Rates Plan

The meeting is also expected to move forward on, and perhaps approve, a plan to increase the coordinated monitoring of various economic indicators, including exchange rates.

Canadian officials said that the nations' finance ministers agreed at a dinner to ratify "almost verbatim" a strong statement adopted last month in Paris that called for an end to all nations' agricultural subsidies.

The leaders also will probably agree to a recycling plan for capital surpluses, whereby surplus countries such as Japan would greatly increase contributions to the International Monetary Fund, which in turn would direct the money to the poorest nations, especially those in Africa.

White House Chief of Staff Baker said he hoped that the allies could endorse a "general statement in support of the U.S. position" that "freedom of the high seas, freedom of transit in the Persian Gulf, access to Middle Eastern oil will not be interrupted by another nation." White House advisers declined to speculate on whether President Reagan would ask the allies for increased military or financial help in the Gulf. But National Security Adviser Carlucci said he hoped that other countries would offer support at the United Nations and possibly assist in diplomatic areas, with possible port visits, "some symbolic presence, assistance in dialogue with some of the Gulf countries."

Position 'Still Maturing

A French spokesman said France couldn't respond to U.S. requests for help "because the U.S. administration position itself is still maturing, and it is nearly impossible for us to talk about a U.S. position, or to know what they want us to do about various aspects of the issue. Until we know the questions, we can't give an answer."

The spokesman added, however, that the French were likely to agree to share information and increase technical help on such matters as the possible reinforcement and positioning of French ships in the gulf and the continuing escort of tankers through the war zone, but would agree to little else. Other countries also displayed little interest in joining the U.S. in either tougher talk or military action against Iran.

French officials said a major part of the leaders' dinner discussion centered on whether the West needs to revise its flexible response strategy, in which nuclear weapons are used to overcome Soviet conventional superiority. According to the French, Mr. Reagan and British Prime Minister Margaret Thatcher argued that the strategy was sound, while French President Francois Mitterrand pressed for a revision. French officials said Mr. Mitterrand reported that Mr. Reagan assured the others that "Europe remains America's first line of defense."

MEDIASCAN
OVERNIGHT CANADA/DU JOUR AU LENDEMAIN
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Free trade pact could create 400 NatSea jobs — Cummings

By DALE MADILL
South Shore Bureau

BRIDGEWATER — Four hundred new jobs at the Battery Point fish processing plant, near Lunenburg, could be just one benefit for Atlantic Canada if a free trade agreement is signed, says Gordon Cummings, president of National Sea Products.

"The fishery is quite likely to come out of free trade on the up-side of the equation," he said here this week while addressing the annual meeting of the Bridgewater Chamber of Commerce.

Mr. Cummings said a free trade agreement would not result in an immediate "bonanza," but would increase U.S. markets for the company's products, especially processed products.

"As we introduce new products internationally, I would hope to see an expansion of jobs, especially in locations such as National Sea's Lunenburg division, where cooked products are part of the operation," he said.


Gordon Cummings

National Sea produces more than $500 million worth of fish products annually, he said. More than 75 per cent is exported.

A free trade agreement represents the natural evolution of the GATT talks which would probably become a tariff-free trade agreement by the 1990s, said Mr. Cummings.

A member of the Sectorial Advisory Group on International Trade for the fishing industry, Mr. Cummings said lumbering, breweries, and textiles would not fare as well as the fishing industry under a free trade agreement.

"On balance, I don't think there is any doubt that Nova Scotia will win on a free trade agreement," he said, challenging industries on the downside of the agreement to adapt.

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NEW YORK TIMES JUN JUN 9 1987

Reagan, in Venice, Lifts Part of Tariff on Japan

By GERALD M. BOYD
Special to The New York Times

VENICE, June 8 — President Reagan, after meeting with Prime Minister Yasuhiro Nakasone, announced today that he had lifted part of the tariffs on electronic goods imposed on Japan in April.

Acting as the leaders of the seven largest industrial democracies assembled here, Mr. Reagan said he had removed the additional tariffs imposed on 20-inch television sets imported from Japan. That amounted to about 17 percent, or $51 million, of the $300 million in penalties levied on the Japanese.

The move was characterized as "an incentive" by the White House chief of staff, Howard H. Baker Jr. He suggested that Mr. Reagan was rewarding Japan for reducing trade practices to which the United States has objected, including the "dumping" of semiconductors on the world market below cost.

Japanese officials were guarded about the action, which some officials said did not go far enough.

As the American action was announced, officials of the six other countries at the meeting reacted cautiously today to the Administration's tough statements on another issue, Persian Gulf policy. At a dinner with the other leaders tonight, President Reagan reportedly sought support for a proposed United Nations Security Council resolution demanding an end to the Iran-Iraq war, but the response of the other leaders was unclear. [Page A10.]

The summit meeting, an annual event since 1975, began with only modest expectations in both the economic and political areas. American officials had dominated the pre-summit stage in recent days by warning of increased dangers in the gulf and voicing optimism on the prospects of an arms-control agreement with the Soviet Union to eliminate medium-range nuclear missiles from Europe.

The decision on the Japanese sanctions and the wide range of political issues discussed today have obscured, at least temporarily, the principal objective of the conference, negotiations on economic issues.

Among the key questions the leaders are to discuss are an American-initiated effort to establish a method for countries to coordinate their economies to assure their growth and avoid problems like the recent volatility of the dollar.

Other issues include possible modifications in Treasury Secretary James A. Baker 3d's plan to deal with the debts of developing countries, proposals to reduce subsidies to agriculture, broadening the goals of worldwide talks on opening trade that have begun in Geneva, and a special aid program for the poorest countries.

Most of the leaders arrived today under gray skies and amid tight security, with Italian security officers openly brandishing automatic weapons.

Symbol of Faded Glory

The leaders gathered in the early evening for a welcoming ceremony at the Doge's Palace, which once symbolized Venetian glory. Later they had dinner in the picturesque Palazzo Corner, the residence of Venice's governing prefect, overlooking the Grand Canal.

White House officials had hinted in recent days that Mr. Reagan might provide some relief to Tokyo regarding the sanctions. They announced Mr. Reagan's decision after the President held talks with Mr. Nakasone this afternoon at the Hotel Cipriani.

"This release is strictly proportional to progress to date," Mr. Reagan, who is to make free trade a key issue here, said in a statement.

A senior Japanese official said the Prime Minister expressed his appreciation, particularly since leading members of Congress support the sanctions, and urged that the rest of the sanctions be removed as soon as possible.

Dumping of Semiconductors

But in an indication of Tokyo's continued resentment at the sanctions the Trade Minister, Hajime Tamura, said there is no longer any ground for "maintaining the measures even if the U.S. logic were adopted."

Mr. Reagan imposed the economic reprisals on Tokyo after asserting that it had failed to comply with an agreement signed last July with Washington. The President charged Japan with not opening its semiconductor market to American companies and selling the chips in foreign markets below costs, known as dumping.

In a statement in which he characterized Japan as a major economic partner and a staunch friend and ally, the President said he was lifting some sanctions that had been applied because of dumping. The Administration has asserted that semiconductor dumping has cost American companies $135 million.

Based on data for the last two months, Mr. Reagan asserted that Tokyo was now charging more of a fair-market price for some chips it sells in third countries, although the price was still below cost. The price of of the chips increased 28 percent during the period, Mr. Reagan said.

Chips Store Data

The chips store information in many products, including personal computers and calculators. They constitute 60 percent of the Japanese chip market.

Administration officials said Mr. Reagan had reached the $51 million figure based on how much the price of the chips had risen toward full market price. Since that figure is roughly the cost of the sanctions on 20-inch Japanese television sets, he removed the 100 percent tariff on the sets. It remains in place on other sets and other Japanese electronic products, they said.

"The Japanese Government has given me assurances that this positive pattern with respect to third-country dumping will continue," Mr. Reagan said. "If this does not prove to be the case, I will not hesitate to re-impose the partial sanctions that have been lifted."

Mr. Reagan had arrived at the summit meeting hoping to persuade Mr. Nakasone and Chancellor Helmut Kohl of West Germany to take specific economic actions that he has said are necessary to help the economies of those nations and the world economic picture.

'Incentive Policy' on Japan

Specifically, he wants Tokyo to do more to help end the trade imbalance in the world economy by opening up its markets; and he wants Bonn to revive its sluggish economy, which he has said is leading to slow growth across Western Europe.

The action by the President appeared to be a swift overture at the start of the summit talks to provide Prime Minister Nakasone with a tangible plus with which to return to Tokyo. But Mr. Baker, the White House chief of staff, denied that Mr. Reagan's gesture had, in effect, been a gift.

"It's an incentive policy and I think it's an appropriate policy," Mr. Baker said.

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White House officials said the problems of the West German economy had been raised in a bilateral meeting Mr. Reagan held with Chancellor Kohl on the opening day of the talks. He also met with Prime Minister Amintore Fanfani, the caretaker leader of Italy.

Mr. Baker said the President had mentioned to the West German leader that "he hoped that the German Government would continue to improve the level of economic activity in his country."

"And the Chancellor, I'm sure, heard and understood that," he said.

But a West German spokesman, Friedhelm Ost, provided a different account. He said that Chancellor Kohl had not been asked for any specific measures to increase domestic demand, and reiterated the West German view that sufficient economic growth in recent months had made additional German action, such as spending programs or cuts in interest rates, unnecessary.

Bonn has already agreed to move up a program of tax cuts, and in March agreed to a cut in its key discount rate.

Mr. Reagan, who arrived here last Wednesday, appeared rested as he began his busiest day in nearly a week.

Prime Minister Brian Mulroney of Canada arrived on Sunday and Prime Minister Jacques Chirac of France is to come Tuesday morning.

Thatcher to Leave Early

Prime Minister Margaret Thatcher, who is in a hotly contested re-election campaign, was the last leader to arrive today and will be the first to leave. She is to head back to Britain on Tuesday before a working lunch of the leaders, but after she meets with Mr. Reagan and and takes part in a morning session of the leaders.

White House officials acknowledged that Mr. Reagan's decision on sanctions could pose problems in Congress, which is considering protectionist legislation that requires American retaliation. Mr. Baker, however, stressed the importance of the commerical and foreign relationship between the United States and Japan, and said Mr. Reagan had taken all factors into account in reaching his decision.

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NEW YORK TIMES JUN JUIN 9 1987

Industry Backs Easing of Japan Curbs

By ANDREW POLLACK

Special to The New York Times

SAN FRANCISCO, June 8 — Electronics industry executives expressed support today for President Reagan's decision to remove some trade sanctions against Japan, but they said the action would have little effect on American consumers.

President Reagan, in Venice, announced the lifting of 100 percent tariffs on 20-inch color television sets imported from Japan. The tariffs, which were levied on April 17, remain in effect on 18-inch and 19-inch color television sets, some power tools and some desktop and laptop computers.

Trade tensions have steadily risen in Washington, where Government leaders today were quick to warn that pressure on Japan must be kept up.

Commerce Secretary Malcolm Baldrige, the chief architect of the punitive action against Japan, said, "We didn't lift any sanctions except those that the Japanese had earned."

Mr. Baldrige said his technicians had found that the Japanese were selling dynamic random access memory chips at 84 percent of fair value at the end of April and that preliminary figures for May showed the price had risen to 88 percent. This was up from 61 percent in March and 59 percent in February.

Comments From Senators

It was on the basis of this improvement, Mr. Baldrige said, that $51 million of the sanctions were eliminated.

But Senator Robert C. Byrd of West Virginia, the majority leader, said, "I regret that the President has decided to lift some of the sanctions on the basis of less egregious dumping for a single month."

Senator Pete Wilson, Republican of California, said the decison could undermine American credibility.

"Just as retaliation was necessary to convince the Japanese that they could not get away with continued unfair trading practices," he said, "I think it is a serious mistake to relieve the pressure on them."

Industry analysts said the tariffs on color television sets had not raised prices much in general because imports from Japan account for a small part of overall sales. Similarly, they said, lifting sanctions on the 20-inch sets should do little to lower prices.

"I don't think we'll see a major impact in the consumer area," said Peter F. McCloskey, president of the Electronic Industries Association. He said it welcomed the partial tariff lifting.

The tariffs, put into effect in April to force Japan to comply with a semiconductor trade agreement, were designed to affect $300 million a year in annual imports from Japan.

Move Called Proportional

The 20-inch color TV sets accounted for $51 million of it, or 17 percent.

Gary Holmes, a spokesman for the United States trade representative, said the 17 percent reduction was proportional to the progress Japan had made in complying with the accord.

That semiconductor agreement, signed by the United States and Japan last summer, required Japanese companies to cease selling computer chips abroad for unfairly low prices and to buy more American-made chips.

Mr. Holmes said Japanese companies had ended much dumping of 256K dynamic random access memory chips in the so-called third market — countries other than Japan and the United States. Whereas Japanese dynamic RAM chips were selling for 59 percent of fair market value in February, the prices in April were 85 percent of fair market value, he said.

But the United States Government, Mr. Holmes said, has been unable so far to detect any cessation of dumping of another type of chip, known as electrically programmable read-only memories, or Eprom's. Nor has it seen any progress in increasing the roughly 8 to 9 percent American share of Japan's semiconductor market.

The Semiconductor Industry Association, the trade group that fought for the trade agreement and the sanctions, said it agreed with today's action.

Some Signs of Easing Noted

"We believe there has been an indication that dumping has eased," said George Scalise, chairman of the trade group's public policy committee.

Mr. Scalise, a senior vice president of Advanced Micro Devices, said his company had noticed a cessation of dumping for Eprom's as well as dynamic RAM'S. But he agreed with the Government that there had been "no significant change" in the American share of the Japanese market.

B. Jenkins Middleton, a Washington lawyer who represents the Electronic Industries Association of Japan, called President Reagan's action "a favorable sign."

In Eprom's, for which there are several strong American producers, the effect of the trade agreement has been to make Japanese chips uncompetitive in the American market, said Victor de Dios, senior industry analyst at Dataquest.

The tariffs on Japanese electronics products are generally considered to have had little effect on Americans buying color TV sets and power tools.

William Steele, assistant vice president of Makita U.S.A. Inc., the American arm of the Japanese power tool manufacturer, said the company had not had to raise prices because it had a large inventory in the United States before tariffs took effect.

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A Venice Lifeboat for Drowning Debtors

By Bill Bradley

WASHINGTON

Brazil, Argentina and Uruguay have urged the countries attending the summit meeting in Venice to consider the problem of international debt. As debtors — sometimes defaulting debtors — their request may seem self-serving. As leaders in the struggle to consolidate new democracies, they are making a request that we ignore only at risk to our prosperity, security and commitment to democracy.

First, there are one million fewer jobs in our country as a result of Latin-America's debt-driven economic collapse. The Latins have flooded our market with imports to earn dollars to pay interest to the banks. Our exports to the region have collapsed. In no-growth economies, money allocated for interest is money not spent on our exports. This only hints at what will come if international debt is not brought under control.

Second, debt management is a test of the West's commitment to democracy. Without relief from debt burdens, newly elected Latin-American and Filipino democratic leaders cannot bring about economic growth and inspire hope for better lives.

Third, the debt issue gives the Soviet Union an opening for influence in Latin America. (We should remember that the first all-Latin debt conference was held in 1985 in Cuba.) Our insistence on exorbitant interest payments reduces domestic investment, cuts real wages and lowers living standards in fragile democracies.

Tough economic times make people listen to a different message. Mikail S. Gorbachev knows this. In the autumn, before a series of important Latin-American elections, he will be the first Soviet leader to visit the region. His message on debt will seek to drive a wedge between the United States and Latin America.

That is why I hope the summit leaders are talking frankly about debt. Recognizing that governments can play a critical role in debt management, they can inspire and coordinate relief.

They should agree upon which developing countries need and could put to good use interest relief (and, depending on the case, some debt forgiveness). Then they should ask leaders of those countries to propose reforms that embody a clear vision of the economic future and lay a foundation for hope and an end to poverty.

The summit partners should strongly encourage all creditors to offer relief, case by case, to countries that carry out significant reforms. Such relief should help finance and encourage those reforms.

It is imperative to couple relief with debtor reform. Today, we only couple bridge loans with debtor threats. Relief and reform are better ingredients for true North-South teamwork than bridge loans in crises.

Does this mean that the Administration's proposal to offer banks a menu of debt management options is inadequate? Yes. Banks have been unenthusiastic about making big new loans to cover developing countries' payments on even bigger old loans.

The Administration, which had hoped further lending would get us through the debt crisis, has expressed disappointment with the lenders' lack of enthusiasm. But the proposed options omit real relief. It's like a menu that offers beans with potatoes or potatoes with beans.

Any menu of options that omits interest relief does not really expand banks' alternatives. Interest relief (and possibly debt forgiveness) is the only option that deals with the banks' real problem abroad.

That problem is that most major developing-country debtors borrowed too much and invested too little in their own businesses and workers between 1974 and 1982. Their productive capacity did not keep up with their debt. Adding more debt to finance more interest payments does not reduce the gap between debt and productive capacity. It raises the debt. It creates no new productive capacity. It causes capital flight, which makes the cash problem worse.

The only way to fix the imbalance between debt and productive capacity is to reduce the debt burden and to ask debtor countries to put their houses in order and try to attract new investments if they succeed.

Does this mean that Citibank and others that in effect have written off part of their Latin loans, without providing interest-rate relief, have not wholly solved the problem? Yes. They thus declared that some developing countries cannot sustain current debt burdens. While stopping short of offering relief, they recognized reality. It's a step that could help.

No bank can offer relief by itself. No single country can. Even if every United States bank cut interest rates deeply for some developing country, that country might not benefit. European and Japanese creditors might collect more on their loans than they would have collected without such relief.

That's why governments should coordinate international debt management. Without coordination, there is little hope for effective relief. Without relief, debtors that have fallen behind will fall further behind in the race to meet their obligations. Without relief, there will be little growth and a spreading risk of default.

The summit meeting provides the best opportunity to revitalize debt management, rekindle developing-country growth and strengthen fledgling democracies. In effect, there is a referendum in the third world about the ability of democracy to fight poverty. We cannot permit it to lose. ☐

Bill Bradley, Democrat of New Jersey, is a member of the Senate Finance Committee.

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NEW YORK TIMES JUN 10 1987

Stalemate in Venice

U.S. Sees Good 'Exchange of Views'; Joksters Talk of 'Bland Canal' Summit

By R. W. APPLE Jr.

Special to The New York Times

VENICE, June 9 — On the eve of this week's seven-nation summit conference, Howard H. Baker Jr., the White House chief of staff, made a point of saying, "I am not one of those who have gone about trying to diminish expectations." He predicted "important developments."

News Analysis

Secretary of State George P. Shultz suggested tonight that the United States had achieved what it sought — that Mr. Baker's prediction had borne fruit. But other key aides to President Reagan sounded a good deal more defensive, especially in private. They were describing this 13th gathering of the leaders of the seven largest industrial democracies as a throwback to the first ones.

"A meeting with no agenda and no great expectations," one White House official called it, "whose real purpose was simply a frank exchange of views."

Officials from other nations put a still less positive spin on events as the leaders finished the second of their three formal sessions, talking in the seclusion of a 300-year-old library on the island of San Giorgio, while police helicopters circled incongruously overhead and a cordon a carabinieri launches and cruisers bobbed offshore.

"They're paralyzed," said a ranking official in one delegation when asked to assess the mood of the conferees. "They feel a compulsion to avoid visible risk. They're much more afraid of dissent than emptiness."

A Canadian described this gathering as "the most fragmented I've ever been involved in, with predictable results." A Briton termed it "a lot of jaw-jaw to no very great effect, which suits the Europeans just fine."

The 'Bland Canal' Summit

Every summit conference seems to produce its joke, and this one is being described in the hotels, restaurants and bars of Venice as "bland canal."

Fearful that President Reagan would be portrayed as the big loser, because he came to Venice with the most clearly defined set of goals, American officials spent much of the afternoon working out a strategy for presenting the results in the best possible light. One result was that Mr. Shultz spoke with reporters today, 24 hours early.

But no words of his could obscure the fact that the statement on the Persian Gulf was much more general than the United States had hoped. It contained not the slightest suggestion of retaliation against Iran if it failed to agree to cease-fire talks with Iraq. It contained no endorsement of the American commitment to use military force to keep the sea lanes open, and it suggested, by its evenhanded language, that the seven consider Iran and Iraq equally at fault for rising violence in the gulf.

Confusion on Gulf Statement

There was no agreement on what the language of the gulf statement meant. Mr. Shultz said it meant "the other countries here advocate mandatory sanctions on sales of military goods" to Iran if it continued to resist calls for a cease-fire. (Iraq has been willing for several years to heed such calls). But officials of the other participating countries denied having made any such commitment, and several said they would not have agreed to any statement implying that they had.

Nor was there much to which Mr. Reagan could point with pride in the statement on terrorism, which was largely a rehash of past statements, or in the largely anodyne statement on East-West relations, which was issued despite the rush of change in the Soviet Union since the leaders last met.

According to officials of several countries, the President also seemed headed for a series of setbacks on the economic front before the end of the Venice meeting Wednesday afternoon.

What happened?

First, as White House aides were quick to concede, the White House chief of staff, Mr. Baker, and some of his aides, inexperienced in the dynamics of these meetings, focused attention on areas where there was never much hope for success.

They circulated word, for example, that Mr. Reagan would push for tough language on Iran. In the end he did not, partly because others steered Monday night's conversation in different directions but mainly, a senior American said, because the delegation knew he had no real chance of success.

Second, the Japanese and the Europeans, with the exception from time to time of Prime Minister Margaret Thatcher of Britain, have always taken a narrower view of the function of these meetings than the Americans. They are willing to diverge from the formal economic mandate but not to make major decisions in security and weapons issues.

Third, the time was not ripe for new initiatives, with elections pending in Britain and Italy, Mr. Reagan under attack at home and the French and Japanese political situations unsettled. In the face of this situation, important constituencies such as the international financial community and the world press looked to Venice for answers to pressing problems.

It is part of the aura of these meetings that hopes will be raised by them.

'Tensions Here, Tensions There'

"I suppose it is inevitable," commented one of the personal assistants, or "sherpas," who help to arrange these gatherings. "Tensions here, tensions there, problems in the economy — where are people supposed to look for solutions if not to the assembled political firepower of the free world? The difficulty, of course, is that intractable problems do not yield solutions in 48 hours, or in 480."

Finally, many of the Europeans contend that American policy in the Persian Gulf is ill-formed and risky, although they will not say so publicly.

Hubert Vedrine, a senior foreign policy adviser to President François Mitterrand, came about as close to bluntness as diplomatic nicety permits. He said United States plans to protect shipping in the gulf were "in a state of gestation" — in other words, not yet fully developed — and added, "I don't think it is possible to talk of an American position yet."

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NEW YORK TIMES JUN 10 1987

U.S. GOALS UNMET IN ECONOMIC TALKS

Significant Proposals Unlikely as Discord Hobbles Parley

By PETER T. KILBORN

Special to The New York Times

VENICE, June 9 — President Reagan, who has managed to control the economic agenda at most of the seven-nation summit conferences he has attended, is suffering setbacks at the one here, according to American and other participants.

As the talks near their end, officials said that no noteworthy economic policy proposals were likely, with the exception of an agreement on a possible $9 billion in aid to the poorest debtor countries of Africa, sought primarily by France and Canada.

Americans set as goals the speeding up of talks for freer world trade, moving faster to end farm subsidies, and establishing a system to manage economic growth and stabilize currencies.

Nothing More Planned

The Administration had been pressing hard for major commitments in those areas but has been disappointed in all. Officials said they would do nothing more on those topics than they did in lower-level talks.

At previous summit meetings the President reigned as a proponent of a new economics of growth and free markets, which other nations began to emulate. But lately, the slower growth in the American economy has dimmed the respect for those policies.

"We're moving toward a rupture," a Canadian official said, pointing to the problems in the world economy that have been ignored.

The United States has had its difficulties with Japan and West Germany for several years, and its ties with Bonn appear to have deteriorated here.

Relations with the Germans have proved so hostile that both American and German officials are accusing one another of lying in reporting on President Reagan's private talk with Chancellor Helmut Kohl on Monday.

The Americans say the two discussed the reluctance of Bonn to take action to speed its economy; the Germans insist they did not. "They're stubborn," an American official said. "They need to do something now." A German official said, "We are at the limit of our possibilities. We can't do more."

West Germany, Britain and Japan are harping on the American budget deficits, as they have for four years. Such criticism infuriates the Administration, more so than at previous summit conferences because, for the first time, the Administration can point to evidence of a lower budget deficit and little corresponding domestic stimulation of the German and Japanese economies, which the United States had been urging.

An American official cited the $40 billion probable reduction in the current year's deficit from last year's record $220.7 billion and said, "The deficit reduction is more than we've seen from some countries in added growth."

Numerous Questions Raised

The discord raises numerous questions about the thrust of the Administration's international economic policies, which it sees as crucial to stabilizing the dollar, maintaining economic growth and allaying trade frictions.

Besides the budget deficit, Japan and Germany, the second and third most powerful countries here, also find fault with the Americans in such areas as agriculture and the method for stabilizing currencies.

But American relations with Japan clearly improved with Prime Minister Yasuhiro Nakasone's assurance of a Tokyo budget proposal that pleases the Administration and with President Reagan's decision on Monday to reduce the trade sanctions he imposed against Japan in April.

Little Headway Seen

Even by the standard that progress comes slowly, as small bites of big apples that take years to consume, this meeting is making little headway, officials said.

In the case of agriculture, for example, the Administration has been seeking some concrete steps toward reductions of farm subsidies, but the outlook for such movement has dimmed here. "That is not going anywhere," an Administration official said.

The heads of state faced issues that they had too little time and too little preparation to deal with. Economic Scene, page D2.

In the background, the Administration has also ruled out, at least for the present, an agreement on interest rates to discourage a further decline of the dollar that some economists expect later this year. Earlier, officials had said increases in American rates and decreases in Japanese rates might be considered.

President Reagan began the conference, which ends Wednesday, seeking support of a plan to urge the 92-nation General Agreement on Tariffs and Trade to put negotiations on reducing agricultural subsidies on a faster schedule than currently planned. The Administration wants them well under way before the President's term ends in January 1989.

Draft American communiqués have been using the term "fast start" in describing the goal. This has been reduced to "expeditious" and may have been downgraded further.

Tokyo and Bonn Reluctant

But a source close to Mr. Nakasone said Japan would go no further than the endorsement of the negotiations agreed upon at a meeting of the Organization for Economic Cooperation and Development last month in Paris. And the Germans here said they want an even slower schedule.

Similar doubts are being cast about the economic management plan that was conceived by Treasury Secretary James A. Baker 3d and that the countries agreed to develop at the summit conference last year in Tokyo. It is a complicated notion, intended to assert greater governmental control over currencies and interdependent economies. It seeks to reduce the influence of the financial markets, an objective all the countries support in principle.

Here, the countries will endorse one feature of the plan that they have already put into effect. This involves six "objective indicators," developed to assess the economies, that are more realistic than those now published. The indicators — for growth, budget deficits and surpluses, trade, exchange rates and interest rates — are used to set goals for the economies.

The Administration wants to go much further, however. It wants the countries to publish their forecasts to enhance pressure on them to run their economies to meet the forecasts and it wants meetings of the countries called automatically when one of their forecasts departs from expectations and signals possible difficulties for it and other countries.

British See Smokescreen

But several other countries have balked. The British say they see the system as a smokescreen for setting goals for currency exchange rates, similar to the fixed-rate system that was abandoned at the start of the 1970's. And many oppose the automatic meeting feature because they say it compromises their sovereignty over economic policy.

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Peter Blackburn reports from Abidjan on plans to expand the role of the 75-member bank

Huge capital increase for African Development Bank

MR BABACAR N'DIAYE, the president of the African Development Bank, will be seeking to establish the claim that his institution is one of the most effective instruments for channelling development aid into Africa at the bank's annual meeting in Cairo which starts today.

The Abidjan-based bank, which includes 50 African and 25 non-African members, is poised for a great leap forward.

During the next five years the AFDB group, which includes the soft loan affiliates, African Development Fund and Nigeria Trust Fund, plans to lend over $8bn—roughly equivalent to its entire lending over the past 20 years.

The expansion in the bank's activities is based on three developments:

- The bank's governors are expected in Cairo to approve formally a 200 per cent increase in its capital. This will raise its capital to $20.8bn from $6.9bn and put it in the same league as other multilateral development banks.
- The governors will also have a third round of talks concerning a substantial replenishment of the African Development Fund. Mr N'Diaye is seeking to double the fund's resources to $3bn for the three-year (1988-90) lending period in order to help meet the "critical" needs of the poorest African countries.
- Mr N'Diaye will be looking for endorsement from the governors for a radical and controversial reorganisation recently carried out. The changes are intended to improve the bank's efficiency and equip it for a major expansion in its activities.

In a lengthy interview with the Financial Times, Mr N'Diaye described the increase in the bank's capital as "remarkable."

He pointed out that, for the first time, a regional development bank has obtained the increase it requested even though it was the largest ever.

Mr N'Diaye will be looking for endorsement from the governors for a radical and controversial reorganisation recently carried out

The "massive" support given by non-African countries, including the US, was according to observers, exceptional, especially in view of their criticism of other development banks.

The huge capital increase will enable the bank greatly to expand lending and consolidate its role as an "important motor" in the drive towards African development, Mr N'Diaye said.

Observers point out, however, that the non-African countries have reduced the bank's original $10.6bn five-year (1987-1991) lending target to $6.4bn pending a mid-term review.

Although this was fiercely resisted by Africa nmembers, Mr N'Diaye recognises with hindsight that the decision was "prudent" and will help to safeguard the bank's financial ratios and two triple A and one Double A credit ratings.

Observers point out that an astute formula enables even the poorest African countries to subscribe to the huge capital increase. Only 0.25 per cent of the increase is paid up and this is spread over 10 years for African members.

About half the bank's African members are in arrears on previous capital subscriptions and non-African countries have insisted that voting rights should be linked to effectively paid up capital stock.

However, in order to preserve the African members' two-thirds voting majority, unsubscribed capital stock may be transferred between them.

No such problem occurs with the fund whose resources are mainly subscribed by non-African members.

In the first two funds meetings in Rome and Paris Mr N'Diaye and his colleagues have presented the case for substantially increased aid for Africa's poorest countries in order to reverse declining per capita incomes.

The bank president has argued that these countries can absorb increased concessional aid, notably through structural adjustment and other non-project lending, to support policy reforms. Such lending would be co-ordinated with the more experienced World Bank.

Finally Mr N'Diaye will explain to the AFDB's governors that the recent bank re-organisation was necessary to enable the institution to effectively administer the planned big expansion in lending.

In contrast to Mr Barber Conable, the World Bank president, Mr N'Diaye has been criticised for moving too fast.

"The implementation, not the principle is contested" one non-African executive director said. "It was a mistake to start with a big batch of promotions. It gives the impression the bank is full of chiefs," he added.

"For the first time, promotions have been made on merit instead of length of tenure," a close aide to Mr N'Diaye explained.

However, critics within the bank complain of arbitrariness, regional and religious bias in favour of French-speaking West Africans and Moslems, repayment of election debts and parachuting in outsiders.

The criticisms are strongly rejected by Mr N'Diaye who points out that the reorganisation was first planned by his predecessor three years ago and only executed after detailed studies and consultation.

The reorganisation involved the creation of 48 new departments and divisions increasing the total number of "command posts" to 100. So far, 82 of the new posts have been filled, only four by outsiders. However, most of the remaining posts, though are likely to be filled by outsiders because of a lack of suitable internal candidates, Mr N'Diaye said.

Some observers say that more attention should be paid to "quality" rather than "quantity" of lending, and suggest greater impact could be made with "fewer dollars and more homework"

"Appointments should be looked at in a historical perspective," Mr N'Diaye said. "Imbalances cannot be corrected overnight."

The West African share has been reduced to 38 per cent from 46 per cent while the North African share has been increased to 18 per cent from 9 per cent as a result of the reorganisation.

Some observers are concerned that the Bank may be trying to expand both "too fast" and in "too many directions at once."

Last year lending by the AFDB group rose 42.1 per cent to $1.9bn and disbursements by 26 per cent to $677m.

Bank lending rose 10 per cent to just over $1bn—the first time it has broken this barrier. Renewed borrowing by Nigeria and Algeria after an absence of nearly 10 years was a major factor behind the big increase.

However, some observers say that more attention should be paid to the "quality" rather than "quantity" of lending and suggest that a greater development impact could be made "with fewer dollars and more homework."

While wishing to preserve the African character of the bank non-African countries would like to make it more efficient and encourage lending in new areas such as environmental protection.

Although they understand the African desire that the AFDB should not be a "carbon copy" of the World Bank, they are sometimes uneasy about lending policy.

For instance there is concern about the bank's recent decision to grant Zambia a $19.2m loan, despite the fact that it has abandoned IMF austerity programmes and limited debt repayments.

FINANCIAL TIMES (LONDON)
JUN 9 1987

AFRICAN DEVELOPMENT BANK
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Subject
Sujet ....

Date June 9 .... *Publication* Financial Times of London

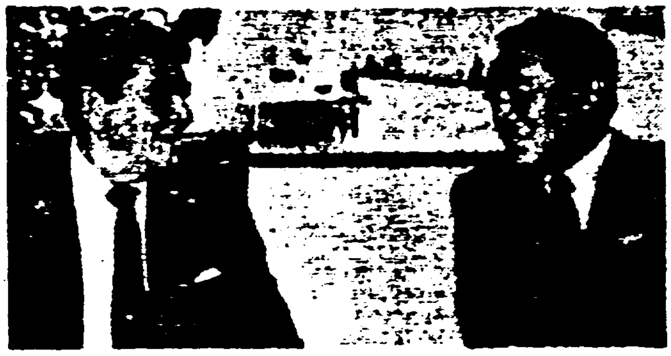
Baker adapts to reduced circumstances

BY STEWART FLEMING, US EDITOR

EUROPEAN OFFICIALS are saying that Mr James Baker, the US Treasury Secretary, has learnt the ropes, that he is now more subtle in negotiations with them. The Americans know there is another reason for the shift in tactics. The Treasury Secretary does not have the pull at the bargaining table that he had in the first two years after taking office in 1985.

Then, with Mr Paul Volcker, the Federal Reserve Board chairman, and Mr Richard Darman, his intellectual power house, at his side, the urbane and skilful Texan was the dominant politician on the international economic scene.

He took centre stage in the management of the devaluation of the dollar after the Plaza Accord in October 1985, and with some modest success used the threat of devaluation to press his country's industrial country trading partners into adopting the economic policy prescriptions he favoured. He also changed perceptions of Third World indebtedness by announcing a revision of the debt strategy and making efforts to revive growth as the focus of attention.



Mr Reagan and Mr Nakasone hold pre-summit talks

But as Mr Baker prepared yesterday to meet finance ministers of the other six major industrial countries, even American officials were conceding that the US has to play a more cautious game now. The vulnerability of the dollar on the foreign exchanges and the commitment Mr Baker has made to work for exchange rate stability means that the threat of dollar devaluation is no longer a weapon Mr Baker can control.

The last hint of such a game plan ahead of a meeting of the seven finance ministers came before February's meeting in Paris which formally established currency stability as a common goal.

Instead, in the run up to the Venice summit the US's efforts to strengthen the process of economic policy co-ordination in a way which would help it exert additional pressure for growth on West Germany and Japan seemed to have been successfully rebuffed.

Part of Mr Baker's problem is domestic. He is the member of an administration whose leader has lost credibility and will soon lose office. Mr Darman has gone, and in spite of Mr Baker's entreaties Mr Volcker has resigned leaving a hint of policy disagreements hanging over his departure.

The US press has taken to criticising him saying his policies have failed to reduce the trade deficit and that the "Baker plan" for tackling the debt crisis has collapsed.

Such judgments are too harsh. The legacy of budget and trade deficits he inherited in 1985, and which he helped create as White House chief of staff, were not susceptible to quick solutions. The fact that Mr Baker also decided to stay on the fringe of the budget debates meant that the one economic policy tool he most needed to manipulate was out of his control.

The hint he dropped on Monday night that a tax increase will eventually be needed to tackle the deficit suggests that he may be preparing to play a bigger role on this issue next month. Were a convincing budget deficit reduction package to emerge, Mr Baker would be well placed to demand more stimulative economic policies from West Germany and Japan.

Mr Baker knows too that time is running out for him as well as for Mr Reagan. Asked here whether he would stay until the end of the President's term, he made clear he would not. He will soon be too busy trying to help his friend Vice President George Bush succeed Mr Reagan

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ..... Financial Times of London

Date ..... June 9 .....

EXT 936/BIL.

Wet going as Fanfani wins the Ducal dash by a short head

BY JOHN WYLES

VENICE FLUFFED its lines yesterday and produced a downpour on the opening of the world summit which soaked feet, feelings and the dignity of the arrival ceremonies for the seven heads of government.

Dignity requires a certain slowness of movement and not the brisk canter along a red carpet employed by Mr Amintore Fanfani, belying the 79 years of this very diminutive Italian Prime Minister and summit host, when he greeted the first two arrivals.

These were an apprehensive Wilfried Martens, his Belgian counterpart, and Mr Jacques Delors, the President of the European Commission. In Brussels, where both men work, you do not organise an open air event because the climatic Murphy's law in Belgium always decrees rain like stair rods.

Italy's own version of this capricious law forced Mr Fanfani and the two representatives of the European Community to shelter under a colonnade while the military band, dripping from the elements in the open courtyard of the Ducal Palace rattled off a bar or two of Beethoven's Ode to Joy (the Twelve's anthem).

Then came the moment when the three had to take the red carpet route through the falling rain to the palace interior. Mr Fanfani waved a challenge for the others to follow. Mid-route when a somewhat overweight Mr Martens was getting up steam, the tiny Italian shout out an arm and called an abrupt halt.

A nasty accident was only narrowly avoided, and after disentangling themselves from the ensuing pile-up, the three paused for a secand and a half to how to the guard of honour. Mr Fanfani and Mr Martens then quickly resumed their old pace, leaving Mr Delors apparently facing the wrong way and risking a distant third in the red carpet stakes.

By the time Sir Geoffrey Howe arrived two hours later, the skies had lifted somewhat, the rain had ceased and the black feathers hung a little less sadly from the bushman-type hats sported by the guard of honour. Deputising for Mrs Thatcher, the British Prime Minister, whose electioneering schedule decreed a late arrival, Sir Geoffrey had no trouble keeping up with the Italian beneath his left shoulder, which is just as well since the Foreign Secretary is not built for speed.

As the rain was falling, President Ronald Reagan was also having trouble with his script in the dry fastness of the Cipriani Hotel. Mr Bill Plante, a member of the pool of journalists allowed in for a reverential peep at the President's bilateral meeting with Chancellor Helmut Kohl of West Germany, threw a question at Mr Reagan about the Gulf. "Sam, I can't talk about things like that," the President answered.

The confusion was spotted by the time of the pool's next arrival for a glimpse of the bilateral with Mr Yasuhiro Nakasone. "I just want you to know that the next time Sam asks me a question, I shall call him Bill," Mr Reagan told Mr Plante.

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DEPARTMENT OF EXTERNAL AFFAIRS

MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date June 9 Publication Financial Times of London

Thatcher extends her election campaign trail south

BY PHILIP STEPHENS

MRS Margaret Thatcher, the British Prime Minister, transferred her election campaign to the international stage last night with her arrival at the seven-nation economic summit in Venice. She will spend 18 hours at the three-day meeting.

The summit began last night with a dinner for heads of state and government.

Mrs Thatcher was said to be briefing other heads of state on her meeting in April with Mr Mikhail Gorbachev, the Soviet leader. As prospects improve for a summit between Mr Gorbachev and President Ronald Reagan later this year, Mrs Thatcher is believed to be anxious to receive credit for her role in East-West arms negotiations.

Before the opening of the formal session this morning, she will hold bilateral talks with President Reagan, a move designed to focus attention on the strength of their special relationship.

While insisting publicly that the US remains neutral in the election, President Reagan has made little secret of his desire for Mrs Thatcher to be re-elected.

According to British officials, the Prime Minister has been emphasising that Britain was playing a full role in helping the US to promote freedom of navigation in the Gulf. It has three warships in the area to defend British tankers.

There were signs last night, however, that on one issue Mrs Thatcher could find herself at odds with some of her Western allies.

Mr Brian Mulroney, Canada's Prime Minister, called on other summit leaders to issue a strong statement condemning the policies of the present Government in South Africa and called for further progress towards the dismantling of apartheid. He was quoted by Canadian officials as describing the situation in South Africa as "the greatest human rights concern of our time".

Italy and the US were also said to favour some sort of statement on South Africa.

Mrs Thatcher, however, was said to be strongly opposed to such a public condemnation. Officials from other delegations had said that Britain had made it clear in the run-up to the summit that it regarded the issue as too politically sensitive during an election campaign.

The official said that Britain had also indicated that it wanted to focus Western attention on aid for the Front Line states in southern Africa, rather than on renewed attacks on the Pretoria Government.

In discussions on the world economy this morning, Mrs Thatcher will give an upbeat assessment of Britain's performance and prospects. In the election campaign in Britain, she has repeatedly stressed that Britain's economy is growing faster than that of the other major industrialised nations.

Allies such as France are also set to have taken the lead from the Conservative Government in introducing privatisation programmes and in other moves to liberalise their economies.

The Prime Minister will return to London at lunchtime today leaving Sir Geoffrey Howe, the Foreign Secretary, to represent Britain until the summit ends on Wednesday afternoon.

Mr Nigel Lawson, the Chancellor, who missed last night's opening dinner for the finance Ministers will pay only a fleeting seven-hour visit to Venice today.

Japan aims to avoid a 'bashing'

By Philip Stephens

"DO YOU think that there will be Japan-bashing?" inquires the anxious Japanese diplomat. "Will Mrs Thatcher attack Japan?" asks a senior correspondent of one of Tokyo's leading newspapers.

As the seven-nation summit began in Venice last night, the questions were still to be answered. What was clear was that Mr Yasuhiro Nakasone, Japan's Prime Minister, had arrived with one key objective—to keep his country out of the spotlight as regards criticism.

To try to ensure that he succeeds, the Tokyo government has launched one of the most sophisticated diplomatic offensives seen at such a gathering.

Mr Nakasone has bitter memories of last year's summit in Tokyo. As host then, he found himself at the centre of attacks from his Western allies on issues ranging from the value of the yen to his country's tax on imports of Scotch whisky.

Crucially, he failed to win a commitment from his partners to stabilise the yen. Its subsequent climb brought howls of protest from Japnese industry. Mr Nakasone was judged to have presided over a failure

This time, the diplomatic process started two weeks ago. with the announcement of the inevitable package of measures to stimulate Japan's flagging economy. The details of the package, said by Tokyo to be worth Y6,000bn (£25.6bn), are still murky. But, even the most sceptical of Japan's allies concede that it seems bigger than anything previously.

It was accompaniesd by two separate moves designed to defuse potenital "Japan-bashing" by Mrs Thatcher's Government.

938/BIL.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date June 9 Publication Financial Times of London

US relaxes chip tariffs on Japan in summit gesture

BY STEWART FLEMING, PHILIP STEPHENS AND JOHN WYLES IN VENICE

PRESIDENT Ronald Reagan yesterday offered a modest gesture towards encouraging summit harmony with Japan by partially lifting the trade sanctions imposed in retaliation for alleged Japanese unfair trading in world semiconductor markets.

The US move reduces by $51m the [illegible] of special tariffs and duties on Japanese electronic goods which were imposed in March. It was announced shortly after a bilateral meeting between Mr Reagan and Mr Yasuhiro Nakasone, the Japanese Prime Minister, before the opening session of the seven-nation world economic summit.

The Japanese leader promptly expressed appreciation for the decision and told Mr Reagan that he hoped that the sanctions would soon be fully lifted.

However, even this partial concession – based on Japanese progress in reducing the scale of dumping dynamic random access memories (Dram) – will bring stern criticism from the US Congress for easing pressures on Japan to alter its trading practices.

Defending the decision, Mr Reagan said that the partial lifting of the sanctions would, in fact, encourage Japan to change its ways. He pointed out that the concession followed an increase in the pricing of Dram from 59 per cent to 85 per cent of their market value.

Thatcher to meet Reagan today

British Prime Minister Margaret Thatcher yesterday transferred her election campaign to the international stage of Venice. After briefing leaders on her meeting earlier this year with Soviet leader Mikhail Gorbachev, she will this morning meet US President Ronald Reagan, who insists publicly that the US is neutral in the UK general election but has made little secret of his desire for Mrs Thatcher's re-election. Page 3. UK election news, Page 20, 21 and 26.

"The Japanese Government has given me assurances that this positive pattern with respect to third-country dumping will continue. If this does not prove to be the case, I will not hesitate to reimpose the partial sanctions that have been lifted," warned the President.

US officials added that no change had been made in the penalty duties which were imposed in support of US complaints of restricted access to the Japanese semiconductor market.

While clearing one potentially troublesome cloud hovering over the summit, the US signalled yesterday readiness to make the agricultural trade issue another. During a 40-minute encounter with Mr Amintore Fanfani, the Italian Prime Minister and summit host, Mr Reagan indicated that he wanted the summit to build on last month's agreement among OECD finance ministers.

European participants have regarded the OECD's commitment to a "progressive reduction" in farm support and trade protection as a sufficient basis for the summit's declaration on the subject. US pressure at the summit for swift moves in this direction based on an agreed timetable are bound to encounter firm resistance from France, West Germany and Japan.

West German Chancellor Helmut Kohl's meeting with Mr Reagan was largely taken up with the US-Soviet negotiations to eliminate intermediate- and short-range nuclear weapons. According to Mr Howard Baker, the White House chief of staff, the President also told the Chancellor that he hoped that "the German Government would improve the level of economic activity in his country".

Continued on Page 26
Background, Page 3

US relaxes sanctions

Continued from Page 1

The West German delegation clearly remains determined to deflect the implied criticism that it could do more to stimulate its economy. Officials said yesterday that Mr Kohl would emphasise that West Germany's monetary and financial policies had been pushed to the limits of what was possible.

They said that figures for the first quarter of this year, due to be published next week, showed that the economy expanded by 2.4 per cent compared to the same period of 1986. They gave no comparison, however, with the last three months of 1986 which, it is widely thought, would reveal that German growth was stagnating or even falling slightly. West German officials are also stressing that the latest indicators for April showed a marked upturn in the economy.

For their part, Japanese officials quoted Mr Nakasone as emphasising the need for a further period of stability on foreign exchange markets.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date June 9 Publication Financial Times of London

Baker clarifies White House policy on Gulf

BY JOHN WYLES IN VENICE

THE WHITE HOUSE yesterday spelt out in new detail its diplomatic aims in the Gulf, while formally denying charges that it was "sabre rattling" over the Silkworm missiles Iran threatens to deploy near the Straits of Hormuz.

Mr Howard Baker, the White House Chief of Staff, also retreated from earlier comments which appeared to welcome the "joint efforts" being made by the Soviet Union and the US "to preserve the flow of oil through the Persian Gulf".

Mr Baker had described these efforts as "historic" but when challenged yesterday by reporters on his comments. Mr Baker said the activities of the Soviet Union in the Gulf had been "distinctly unhelpful". He said US moves to match Moscow's decision to protect Kuwaiti tankers in the Gulf had "thwarted their efforts to extend their control and influence in general".

Explaining the backing which the US hopes to secure from its partners at this summit in Venice, Mr Baker referred back to the policy "first initiated by President Carter, and that is that no nation or combination of nations is going to interfere with transit on the high seas in the Gulf, and interrupt the flow of oil from the Middle East to the rest of the world."

He said that the "major contribution" which the industrialised countries at the summit could make would be to help the US diplomatically, and to secure a United Nations resolution "with teeth," which which would call for a ceasefire to the Iran-Iraq war. Mr Baker was questioned about the reactions of Mr Yasuhiro Nakasone, the Japanese Prime Minister, and Mr Helmut Kohl, the West German chancellor, who discussed the Gulf in bilateral talks with Mr Reagan yesterday. He said they had expressed support for the US position. The President, he said, had not asked for specific backing.

A strong statement of support from the summit would clearly help the Reagan Administration to bolster its position against the many critics and doubters of its Gulf policy on Capitol Hill.

PHILIPPINES
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FINANCIAL TIMES (LONDON) JUN 12 1987

Philippine coconut industry pitches in to oils tax debate

BY RICHARD GOURLAY IN MANILA

MR JOSE ROMERO, chairman of the Philippine Coconut Administration, who will start lobbying against proposed new EC levies on coconut oil in Brussels next week, has the air of a man under siege.

He and senior trade officials fear that opposition within the Community to a European Commission proposal to impose levies on all vegetable and marine oils and fats is wavering as the 12 member states try yet again to cut the burgeoning costs of the common agricultural policy.

Mr Jose Concepcion, the trade secretary, says that if the proposed levy is applied it could "totally wipe out the market" in Europe for Filipino coconut oil.

As it stands, the proposal calls for a flat rate levy on all oils sold in the EC. The question is to be taken up again by June 15.
EC Agriculture Ministers on

Across the Atlantic, meanwhile, the American Soybean Association has asked the Food and Drug Administration to ensure that food labels carry warnings about the high cholesterol levels of some tropical oils. Mr Romero calls this "black propaganda" and says there are signs of an "emerging protectionist policy" — which US officials deny.

Adding to Mr Romera's problems is the prospect of an EC import ban on some copra meal, used as a feed for cattle, unless the Philippines can reduce levels of carcinogenic aflatoxins. The United Coconut Association of the Philippines says most of its exports meet the aflatoxin limit of 50 parts per billion imposed on April 1. As much as 25 per cent of the meal could be below the standard, however, once the maximum level is lowered to 20 parts per billion on October 1. Copra meal exports, almost all of which go to Europe, grew to 818,000 tonnes in 1986.

European Commission representatives in Manila and the US Department of Agriculture say Filipino officials are overreacting. But it is easy to see why the issue is an emotive one. The coconut industry is the Philippines largest foreign exchange earner, netting $472m in 1986, up 3 per cent on the previous year, and the industry supports 17m people — a third of the country's population.

Last year exports of coconut oil to Europe grew 166 per cent to 577,000 tonnes, while exports to the US grew 47 per cent to 521,515 tonnes. The coconut industry estimates that the proposed levy of 330 European currency units on edible oils would translate into a $260-per-tonne rise in Philippine coconut oil prices, nearly doubling them.

"It would definitely be hurtful to the Philippines" says Mr Alain Rens, the Belgian ambassador, who represents the EC in Manila.

At the moment, there is a blocking minority of European countries opposed to the levy and the US voiced its opposition at the recent summit in Venice. However, Filipino officials are worried that member-states could drop their opposition in the trade-off that usually accompanies the final stages of farm price negotiations.

As a result, the Philippine industry has been jolted into looking for new markets. It has successfully interested the country's trade department in a project that will force soap manufacturers to stop using hard alkyl benzine (AB) and move to soft (biodegradable) AB or coconut fatty alcohol (CFA).

This plan would cut petrochemical imports, raise the local value-added content of coconut oil products and cut losses at the plant making CFA — one of the country's many industrial white elephants.

It will not, however, create more than 51,000 tonnes of additional demand for coconut oil a year, even if soap makers buy nothing but CFA. That would be equivalent to about 7 per cent of annual coconut oil production.

The plan to force the three soap manufacturers, Procter and Gamble, Unilever and Colgate, to use CFA from Unichem's $100m plant is controversial.

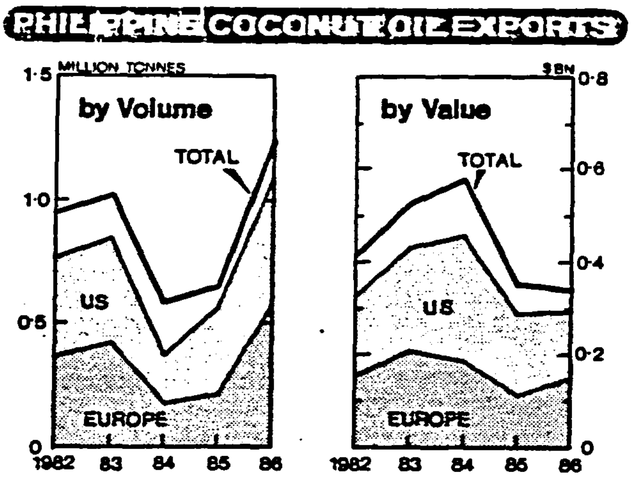
Replacing petrochemical based alkyl benzine with coconut fatty alcohol in soap production was conceived when crude oil prices were projected to be heading for $60 in 1981. The savings on petrochemicals imports at that level would have made it a profitable venture. After long delays, however, the project's viability started to slip along with falling oil prices.

Industry sources say business cronies of former President Ferdinand Marcos, saw the Unichem CFA project as an opportunity to monopolise supply of a key ingredient for detergent making. One of these, Eduardo Cojuangco, who was known as the "Coconut King," forced the three soap makers to change their equipment at a total cost of $20m.

There are still obstacles to the phasing out of hard AB. In the first place the soap makers argue detergent prices would rise by 18 per cent if they had to use CFA.

Secondly, it is doubtful that President Corazon Aquino, who has her plate full with land reform legislation, will decree a change in the law before a new congress sits in July and takes over legislative powers.

Meanwhile, coconut farmers across the country who are enjoying copra prices of 25 US cents a kg, near last year's high of 28 cents, have become eager watchers of the ins-and-outs of European Community politics.



Source: PHILIPPINE COCONUT AUTHORITY & DEPT. OF AGRICULTURE

Jakarta admits defeat on palm expansion plan

INDONESIA WILL fall far short of its goal of tripling the palm oil plantation area to 1m hectares by the end of 1989, according to Mr Hasjrul Harahap, Junior Minister for Tree Crop Development, reports Reuter from Jakarta.

He said Indonesia would only achieve half of the planned new palm oil plantations, thwarting its goal of becoming the world's biggest producer.

The expansion programme failed because it did not attract the necessary foreign and domestic investment, despite incentives announced last year, he said.

Mr Harahap said only seven of the 47 companies that originally applied for new plantation licences had started operations but a further seven would be given licences soon.

The Government provides each firm with 100,000 hectares under its nucleus estate scheme, where smallholders tave 60 per cent of the area and sell output to plantation companies, he said.

Last year, the Government announced a series of new investment incentives to shift palm oil production away from inefficient state companies to the private sector.

Land titles previously granted for 35 years could be extended for another 25 years. The new measures also entitled investors to credits to develop the smallholder plots, while duties on imported capital goods were waived.

But the new measures foundered on the high cost of bank loans—averaging at least 20 per cent over the last year—and the inability of the Government to provide low cost credits from its oil-squeezed budget, Mr Harahap said.

He said up to January of this year, total palm oil plantation area throughout Indonesia was 573,157 hectares. It was expected to reach 650,000 hectares by the end of the year.

Plantations would expand by another 75,000 to 100,000 hectares in 1988, he forecast. Production increased from 1.2m tonnes in 1985 to 1.4m in 1986. This year's output is projected at 1.5m tonnes and next year's at 1.6m.

Indonesia exported 530,000 tonnes of crude pal moil in 1986, earning $101m, against 468,000 tonnes in 1985 worth $181m, according to the central bank, Bank Indonesia.

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3RD WORLD DEBT
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CHRISTIAN SCIENCE MONITOR JUN 9 1987

Third-world debt: unsnarling the tangles

By Rodrigo D. A.-Valderrama

THE fundamental world debt situation hasn't changed much since the late 1970s. Developing country external debt, always increasing, was estimated by the World Bank to reach $1.035 trillion in 1986.

When Citicorp and Chase announced decisions to add to their reserves to cover anticipated losses on loans to developing countries, they attracted a lot of attention, but foreign banks have been doing this for years.

Surprisingly, many banks avoid adding reserves for dubious loans and are also reluctant to use the markets to rid themselves of these assets. Middle management can be at fault for not recommending the operations, and top management for refusing to recognize reality. Why weren't reserves ensured before, and do these additional reserves alter either a bank's strength or risks in the marketplace? Is it prudent for banks to turn isolationist or should they grasp the new profitable opportunities in the debtor countries?

United States authorities are proposing risk-based insurance for banks, which would thereby pay higher fees to insure riskier portfolios.

Risk? If Citicorp's loans to developing countries total $14 billlion, a $3 billion reserve covers 21 percent of the problem. The strongest Latin American borrowers generally see their loans trade at over 30 percent discount. Larger reserves are needed. Let's not forget, even the US has caused the banks loan problems.

It is time to spread country risk among lenders and to separate loans rescheduled because they can't repay the money from those that can profitably earn foreign exchange. Maintaining rescheduled loans in one lump hampers the banks and the borrowers. Loans should be "uncoupled" from the general rescheduling packages, when prudent, so they can partially begin to repay their own debt directly and also give the specific borrower greater access to growth funds. Repayment on new loans to viable projects can be assured using existing regional multilateral institutions in effect to "clear" the export proceeds of the projects.

The banks can have greater assurance of principal and interest repayment while the borrowing entity is relieved of part of the "country risk" premium that would otherwise be charged in interest on new loans. The developing countries can get on with strengthening their vital sectors, implementing new profitable projects.

The devaluation of the US dollar to the Japanese yen by over 40 percent since mid-1985 actually reduces US debt by that percentage vis-à-vis Japanese creditors. The US can have its cake and eat it too, but developing countries don't have this option. Rising interest rates will be felt by all borrowers and, consequently, lenders.

One has to ask if it isn't a conflict of interest for a regional bank's Brazil loan to be sold at, say, 65 percent of face value while the intermediary bank keeps the value of similar loans to that borrower at a higher price on its own books?

On the borrower's part, it would seem reasonable to expect that its creditors make every reasonable effort to maintain its loans at the highest secondary market value possible. The secondary market price of a country's outstanding loans reflects upon the desirability of banks to lend it funds. The higher the secondary market price for Bolivia's loans, the higher its creditworthiness is estimated by the purchasers. Do the banks have an inherent responsibility to maintain perceived creditworthiness of borrowers?

The US and its industrial allies must work together on the debt issue as part of the overall trade structure. Latin America's largest trade partner is still the US, but this can be disadvantageous with its current trade deficit problems. Helping the developing country export shoes or textiles to Japan or West Germany via joint ventures or direct investment helps take the heat off the US and strengthens the economies as a whole without large subsidies.

Reserves are a means to cushion banks from losses on debt and should be allocated when problems surface, not almost a decade after the trend is evident. Banks are looking to protect their portfolios and capital but also strive to find and open new markets to fuel growth. Risks are present in every transaction. The debt-ridden developing countries offer a great opportunity for profitability because of acute trade and general economic growth needs.

To shy away from a profitable opportunity and help individual entities in these countries open new markets at this point is as much a mistake as it was for the banks to trip over themselves lending to practically any flag that had a central bank. Let's hope it doesn't take the banks another decade to realize it.

Rodrigo D. A.-Valderrama, president of the Multilateral Group Ltd., served as senior officer in the Institute of External Finance at the Ministry of Finance in Bolivia from 1976 to 1978.

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SUBJECT/SUJET

DATE: 9 Juin

Le treizième sommet des pays industrialisés à Venise

Le regain de tension dans la région du Golfe, et notamment la querelle entre les Etats-Unis et l'Iran à ce sujet, devait être un des thèmes dominants du treizième sommet des Sept. En effet, dès dimanche, deux des principaux conseillers de la Maison Blanche, qui accompagnent le président Reagan, ont adressé un avertissement très net à l'Iran, « *déconseillant* » à la République islamique de déployer à l'embouchure du Golfe les missiles terre-mer *Silkworm*, récemment acquis auprès de la Chine (*le Monde* daté 7-8 juin). M. Frank Carlucci, le conseiller du président pour les questions de sécurité, a ainsi indiqué à la presse : « *Nous pensons qu'il est très déconseillé aux dirigeants iraniens d'essayer d'utiliser les missiles Silkworm pour interférer avec la liberté de navigation ; les bateaux de guerre américains sont prêts à se défendre et à défendre les bâtiments qu'ils escortent* ».

Pour sa part, M. Howard Baker, le secrétaire général de la Maison Blanche, a jugé que « *l'acquisition des Silkworm et la préparation de leur déploiement constituent une escalade dans les systèmes d'armes dans le Golfe et une chose dangereuse pour l'Iran* ». S'adressant lui aussi à des journalistes à Venise, il a indiqué que l'installation de ces fusées « *serait un véritable danger pour la liberté de navigation en haute mer* ». Il s'agit, selon lui, d'un sujet que le sommet devrait aborder.

Les Etats-Unis rappelleront à leurs partenaires qu'ils ont l'intention de faire passer quelque onze pétroliers koweïtiens sous pavillon américain – afin de dissuader les attaques iraniennes contre ces bâtiments – et d'assurer leur protection dans la voie d'eau.

Dans un entretien publié dimanche par le *New York Times*, le premier vice-ministre soviétique des affaires étrangères, M. Iouli Vorontsov, a déclaré que son pays n'avait pas l'intention d'augmenter sa flotte de guerre dans le Golfe (forte actuellement de trois navires) pour faire pièce à un éventuel déploiement de bâtiments américains.

A propos du désarmement, M. Vorontsov se dit optimiste sur les perspectives d'accord entre l'Est et l'Ouest sur les euromissiles. Il confirme que son gouvernement cherche à organiser une rencontre entre MM. Reagan et Gorbatchev en octobre prochain, et dit s'attendre à une rencontre préparatoire à ce sommet vers la fin de l'été entre MM. Shultz et Chevardnadze, les chefs des deux diplomaties.

Sur le troisième volet des discussions de Venise, les problèmes économiques, on en est resté aux vœux et aux aveux. L'Allemagne fédérale attend du sommet, selon un communiqué publié le 7 mai, « *des signaux positifs pour l'économie mondiale* ». Et Bonn d'ajouter qu'avec son plan de réduction des impôts sur trois ans – pourtant déjà mis en doute en Allemagne, y compris dans la majorité gouvernementale – il avait atteint « *la limite maximale* » de sa marge de manœuvre.

Les Japonais, eux aussi mis en demeure de prendre des mesures concrètes pour relancer la croissance, ont rappelé par la voix de M. Nakasone que leur pays est engagé dans « *une politique audacieuse d'encouragement de la croissance par la demande interne* ».

External Affairs Canada
Affaires extérieures Canada

SUBJECT/SUJET

LICATION Le Monde

DATE June 9.

Un impressionnant déploiement de forces

VENISE
de notre envoyé spécial

De la place Saint-Marc au Rialto, Venise est déjà livrée à des dizaines de milliers de touristes. Seules les forces de l'ordre, dont la cité des doges est truffée, rappellent la prochaine tenue de la conférence. Toutes les armes sont ici présentes. Les carabiniers (gendarmes) avec leur képi orné d'une grenade à la flamme, des militaires (fantassins et fusiliers marins) qui patrouillent l'arme au poing dans les ruelles de la ville, tandis que les vedettes rapides de la Guarda di finanza (douane) et de la police circulent dans les canaux et la baie de Saint-Marc, où la navette qui assure la liaison continue avec l'île San-Giorgio toute proche, lieu du sommet, est déjà en service.

Dans l'île San-Giorgio, les centres de presse se sont installés dans la journée de dimanche : le seul à peu près actif était, ce jour-là, celui des Japonais, où s'est déjà tenue en fin d'après-midi une conférence de presse consacrée au programme de relance auquel le gouvernement de Tokyo entend donner, et on le comprend, le maximum de publicité.

Amarré à peu de distance du Palais des doges, un grand aviso de la marine italienne est au mouillage. Plus loin, du côté du quartier Santa-Helena, un grand porte-hélicoptères de la marine américaine est ancré. Les hélicoptères de la police italienne survolent les ruelles de la vieille cité, assourdissant pour quelques minutes les groupes de touristes qui s'attardent sur une petite place.

Cet impressionnant déploiement de forces impressionnant, destiné à assurer la sécurité des sept délégations (y compris, bien sûr, celle du gouvernement italien venue de la lointaine Rome...) a déjà tenu en lisière une bruyante manifestation en faveur des sandinistes, sur la place San-Stefano, sur le chemin de l'Accademia soudainement bouché. Mais on n'est pas ici accueilli comme on l'a été dans des villes beaucoup plus grandes, Tokyo par exemple, par d'immenses banderoles annonçant le sommet. La République italienne semble s'en désintéresser. Personne, en effet, ne lui réclame un quelconque plan de relance. Les murs sont recouverts d'affiches concernant la prochaine consultation électorale. Celles qui rappellent la tenue du sommet sont bien modestes...

PAUL FABRA.

LOWE-MARTIN

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NETWORK / STATION: **RESEAU / STATION:**	CJOH/CTV	**TIME:** **HEURE:**	6:00 PM

US CONGRESSMEN VOICE DEMANDS ON FREE TRADE

CTV: A coalition of congressmen from the border states says no free trade deal with Canada will be approved without substantial changes in the auto pact. Canada has insisted the auto pact is not on the table. The congressmen say it is.

REPORTER: Peter Murphy, the American point man in the free-trade negotiations, came to brief congressmen over breakfast about how the talks are progressing. Afterwards, spokesmen for the law makers from heavy industrial border states in the northeast and midwest said it was now clear that without a change in the ground rules for the Canada-US auto pact, Congress will not approve a free-trade agreement.

REP. HOWARD WOLPE: Failure to resolve the auto question is going to mean, in my judgement, lack of congressional support for any agreement that would otherwise be proposed before the Congress.

REPORTER: Canada's chief negotiator, Simon Reisman, has stated vehemently time and again that the auto pact is untouchable and not on the table; but the congressmen, however, say differently. The auto pact, according to them, has become a one-sided deal, too favorable to Canada. They also accused Canada of making special auto arrangements with other countries at the expense of the U.S. and the pact.

Michigan Democrat Sander Lavin said the auto pact was now intolerable and that changing it one way or another is the U.S. price for any deal.

LAVIN: It's the U.S. position that autos and auto parts must be part of the discussions, and it's my hunch--I'm not-- I don't think it's for us at this point to issue threats, but maybe warnings.

REPORTER: It is probably going too far to say these talks are in trouble; but with the most politically-sensitive hard issues only now emerging, and a deadline fast approaching, one congressman gave their chances for a success as 50/50 at best.

Craig Oliver, CTV News in Washington.

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PM leads with his chin – again

CLAIRE HOY

At the Summit

VENICE — Experience, they say, is a great teacher.

Not for Brian Mulroney.

He's been burned at previous summits for assuming a greater role for himself than he should. He may have done it again.

He brought his travelling moral crusade on South Africa here this week but instead of being cautious about it, he led with his ample chin.

And West German Chancellor Helmut Kohl, an experienced heavyweight contender, promptly delivered a direct uppercut to the jaw.

The result is that Mulroney's plans to persuade summit leaders to openly condemn apartheid seems to be down for the count.

Barring a last-minute change of heart by Kohl, Mulroney won't even get a verbal mention — let alone the written condemnation he sought — when acting Italian Prime Minister Amintore Fanfani sums up the seven-nation, three-day summit today.

Rather than being satisfied with just getting the subject on the agenda, Canadian officials typically went too far in expecting Mulroney's persuasive powers to sway the western world's major leaders.

At an early-morning briefing yesterday, senior Canadian officials boasted of Mulroney's success in getting the subject discussed.

One official told reporters that "it stands to reason he (Mulroney) is looking for a strong statement of some kind . . . a condemnation of South Africa."

He added that a failure to do that would "send a strong negative message the other way."

Mulroney has been so keen to score points with African leaders he even telephoned U.S. President Ronald Reagan Sunday to seek his support.

Canadian officials openly concede Mulroney is seeking summit movement on South Africa so he could appear, at the upcoming Commonwealth and Francophone summits in Canada — which include several African countries — and accept plaudits as the one western leader fighting on their behalf.

But Marc Lortie, Mulroney's press secretary, said that when Fanfani asked summit leaders yesterday if he could include a condemnation of South Africa in his wrapup comments today, Kohl said "no."

It was to be discussed again at a dinner for the leaders late last night but unless Kohl recants, the lack of even a passing reference will be an embarrassing international setback for Mulroney.

According to Lortie, British Prime Minister Margaret Thatcher didn't object to the subject being mentioned by Fanfani.

As for Kohl, he's been relatively silent on the matter but it has been no secret he's opposed to strong action against South Africa.

Unlike Canada, which has little investment there, and can take a high moral tone with impugnity, West Germany has considerable investments there.

The mistake made by Canadian officials is they again assumed Mulroney's role here is more important than they have a realistic right to expect.

They made the same mistake in Bonn in 1985 when they claimed Mulroney was acting as conciliator between Reagan and French President Francois Mitterand over an economic dispute, only to have officials from those countries dismiss Mulroney's role out of hand.

Before leaving Ottawa last week, Canadian officials told reporters the mere discussion of the issue at the summit was a victory for Canada, since Mulroney had been the one who insisted it be discussed.

But once again, they seem to have got caught up in their own exaggerated self-importance and made the tactical error of announcing expectations which proved to be unrealistic.

There's still some time to convince Kohl to change his mind. But not much.

Will they never learn just a little humility?

Even if they don't mean it, it might spare them future embarrassment.

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Venice summit a bland affair

It has been said that the camel was the result of a committee's attempt to design a horse. But when the leaders of the seven most powerful Western industrial nations in the world met this week in Venice to devise a plan for the world economy, they didn't even manage to produce a camel. All they came up with was a composite caricature of themselves.

In their communique on the economy, the summit leaders acknowledged: "We need to overcome the problems that . . . remain in some of our countries: external imbalances that are still large; persistently high unemployment; large public sector deficits; high levels of real interest rates. There are also continuing trade restrictions and increased protectionist pressures; persistent weakness of many primary commodity markets; and reduced prospects for developing countries to grow, find the markets they need, and service their foreign debt."

But everyone knew that before the Venice summit began. And as the highly respected Economist magazine pointed out a week before the summit: "The remedy is uncontroversial — indeed boringly obvious." The U.S. would have to make a credible commitment to cut its large budget deficit, and both Japan and West Germany would have to shift to stimulus to bolster world demand. It was clear that no one really expected the summit leaders to come up with an Arabian stallion; a two-humped camel would do. "Even an unspectacular plan of co-ordinated policy could make a big impression on the markets and persuade them that the present pattern of exchange rates is a sustainable one," said the Economist.

But what the markets got was even less than unspectacular. It was a bland statement that "countries will design their policies to strengthen domestic demand and reduce external surpluses while maintaining price stability. That is, that countries, while following policies to encourage steady, low inflation growth, will reduce their fiscal and external imbalances." Lest anyone construe that to be a commitment to take bold decisive action, the summit leaders added that "a further *market-led* decline of interest rates would be helpful."

No camel there. Only a seven-headed pasta-fed chicken.

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Page A10

Kohl's resistance on South Africa may derail Mulroney rights drive

The Globe and Mail

VENICE

Prime Minister Brian Mulroney appears headed for a setback in his efforts at this year's annual economic summit to keep the international spotlight focused on human rights abuses in South Africa.

Although External Affairs Minister Joe Clark reported that Mr. Mulroney's iniative had the support of France, the United States and especially Japan, the firm resistance of West German Chancellor Helmut Kohl to any negative language about South Africa in this year's final communiqué may have scuttled the Prime Minister's best intentions.

Late yesterday afternoon, a harassed senior Canadian Government official indicated that although even Britain's Prime Minister Margaret Thatcher gave tacit approval to language about South Africa, Mr. Kohl refused to budge.

On Monday, before the official opening of the summit, Mr. Mulroney had been quoted by his officials as telling both President Ronald Reagan and Prime Minister Yasuhiro Nakasone that the final communiqué must show concern about apartheid in South Africa "or else we will send out a message in the wrong direction."

Having established such a clear goal, however, Mr. Mulroney is in danger of being considerably embarrassed. Mr. Clark reported in his briefing that the I Prime Minister had even telephoned Zambian President Kenneth Kaunda yesterday to discuss summit objectives, especially on the debt crisis.

As a result, the impression left here is that Canada had taken upon itself the role of representing such Third World nations at these deliberations.

Mr. Mulroney may also be stymied in getting the summit host — Italian Prime Minister Amintore Fanfani — to even mention South Africa in his summing-up at the conclusion of the summit.

The Canadian official said that Mr. Kohl, offering no reasons, objected to even this compromise.

However, another official said the fight was "not over yet" and Canada was still trying to get language of some sort into either the communiqué or final statement by Mr. Fanfani.

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Nouvelle tension Canada-France

OTTAWA -Une nouvelle pomme de discorde a soudainement poussé dans l'arbre des relations franco-canadiennes, qu'on s'acharne pourtant à embellir avant la tenue du deuxième Sommet de la francophonie, du 2 au 4 septembre, à Québec.

Jean-Denis Girouard

Deux libéraux de Terre-Neuve, Brian Tobin et George Baker, ont révélé hier matin que la France avait accordé des permis d'exploration de gisements gaziers et pétrolifères, dans «les eaux controversées» que les deux pays réclament, au large de Terre-Neuve.

Le Canada a demandé à son ambassadeur en France, M. Lucien Bouchard, d'émettre une note de protestation mais a refusé de le rappeler pour discuter plus à fond de la question, comme le réclamait l'Opposition.

Celle-ci voulait également que le vice-premier ministre Don Mazankowski téléphone à Brian Mulroney, actuellement au Sommet économique de Venise, pour qu'il fasse part de son mécontentement au président François Mitterrand.

Mazankowski a rétorqué que le premier ministre canadien n'avait pas besoin d'être pistonné pour savoir ce qu'il avait à faire, et que, de toutes façons, il était au courant de la décision prise par la France.

Pour Tobin, «le Canada fait preuve de lâcheté, et doit faire savoir à la France que l'époque coloniale est révolue...».

Les permis ont été accordés aux firmes Elf Aquitaine et Total Petroleum sur un plateau marin de 22,000 kilomètres carrés que la France (à cause de ses Iles St-Pierre-et-Miquelon) et le Canada considèrent comme le leur, tant pour la pêche que pour l'exploration, puisqu'étant à moins de 200 milles de leurs côtes.

«Le fait que la France émette de tels permis peu après la visite au Canada de monsieur Mitterrand, démontre clairement que le président français et M. Mulroney n'ont pas discuté sérieusement de nos droits de pêche au large de Terre-Neuve» selon John Turner qui réclame des «protestations dans les termes les plus vifs», de la part du Canada.

En mars dernier, le Canada a fermé l'accès de ses ports aux navires français qui s'y ravitaillaient jusqu'alors, et l'escalade se poursuit depuis.

Une autre rencontre afin de dénouer l'impasse, est prévue pour les 24 et 25 juin, à Paris.

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All-purpose agenda

BY JEFFREY SIMPSON

VENICE

Economic summits are like pieces of elaborate crystal in which each leader can find reflected precisely what he wants.

There is an unwritten rule that no leader shall embarrass another in public, which adds to the pervasive tedium of these affairs. Instead, communiqués are painstakingly drafted to cover everything and say nothing.

Against this backdrop, Prime Minister Mulroney has been laboring to extract such political mileage as he can from the Venice summit. He has his own agenda, a risky business for the leader of the least consequential country here, and the political success of his mission will be measured by whether the final communiqué even mentions what's on his mind.

Such mentions are of next-to-no consequence in reality, since even those who draft the communiqués can barely recall what they wrote last year. Rather, the mentions take on their full allure only when embellished back home.

Much is being made by the Prime Minister of the need to slap South Africa on the wrist in the final communiqué. An economic summit is, of course, the wrong forum to co-ordinate any action against South Africa — let alone to do anything else — but it might be marginally useful back home to be seen as having tried to do something.

The South African demarche in Venice is really a continuation of Canadian-British tussling in another forum. The real hair-pulling will come at next fall's Commonwealth conference in Vancouver.

The last thing British Prime Minister Margaret Thatcher wanted from Venice was anything that called her own South African policy into question. Satisfied that nothing wacky would be done at Venice, she promptly left to resume her campaigning at home, having engaged in the usual summit ritual of reading into the event a complete vindication of everything she has always preached.

Mr. Mulroney also wanted the summit partners to beat their breasts about economic aid for Africa. In particular, he thought special attention should be paid to the front-line states in southern Africa. This, too, was as worthy as it was inconsequential since summits are the wrong venue to co-ordinate anything for Africa.

The great Canadian effort, however, concerned agriculture. Our governments, federal and provincial, are mighty sinners in this bizarre business of subsidizing everything that grows and grazes. What allows us the dubious pose of offended virtue is merely that our treasury does not permit the quantity of sinning sanctioned by the larger treasuries of, say, the United States, Japan and the European Community.

But we have farmers screaming for help at home, and although they cannot plant their fields with final communiqués, Mr. Mulroney would like to emerge from Venice sheathed in the virtuous armor of having tried to blow the whistle on all the industrial world's other sinners.

In this world of monumental tedium and portentous communiqués, progress will be measured by whether the seven countries merely confirm the declaration of ministers following the recent report on agriculture from the Organization for Economic Co-operation and Development.

If this seems obscure, it is because that is what summits are all about. No one is supposed to remember what was decided at these summits, let alone change government policy as a consequence.

Their utility lies, as we said, in the ability of each leader to leave claiming victory. The spirit of Venice — the Canadian effort to slap South Africa, to assist Africa and to restore sanity to world agriculture — will live in the lexicon of Canadian political vocabulary long after everyone has forgotten that Venice meant little and counted for less.

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PM plans trade pitch in meeting with Reagan

BY JENNIFER LEWINGTON and CHRISTOPHER WADDELL
The Globe and Mail

Prime Minister Brian Mulroney will make a strong pitch, once again, to galvanize the sluggish free-trade talks when he meets President Ronald Reagan briefly tomorrow in Venice.

Mr. Mulroney, urged on by Canadian negotiators frustrated over what they see as stonewalling by the U.S. side, will try to enlist Mr. Reagan's help in breaking the logjam after more than a year of slow-moving talks. With only four months left on the negotiating clock, neither side has made major concessions on the key issues necessary for a broad agreement.

However, U.S. officials are irritated by what they regard as just another Canadian bid to politicize the talks and go over the head of the chief U.S. negotiator, Peter Murphy. One U.S. trade official, echoing a widely shared sentiment in Washington, described the U.S. response to the top-level meeting this week as an exercise in "damage control."

Another senior U.S. official added, "Simon Reisman (the chief Canadian negotiator) may be trying to elevate it to the political level. But we don't want to go along with it. We want to back up Peter Murphy."

The U.S. side aims to keep the meeting between the President and the Prime Minister as general as possible, leaving specific points of contention to the negotiating teams.

In particular, U.S. officials are braced for an attempt by Mr. Mulroney and other senior members of his Cabinet to press the Administration for a political commitment to negotiate a new way of resolving trade disputes, separate from the current application of U.S. trade law. Canadian negotiators see this issue as a fundamental demand and a cornerstone of a possible free-trade agreement. Mr. Reisman has repeatedly warned that without a

MULRONEY — Page A2

Mulroney

● From Page One

real breakthrough on the trade-remedy issue, there will not be a deal.

So far, the U.S. side has resisted Canadian proposals for a new set of rules to resolve bilateral trade disputes. A key feature of the Canadian proposal calls for a new joint panel to impose binding solutions to settle trade rows between the two countries. "We're just not ready to give up that much sovereignty," says one senior U.S. official. Moreover, Administration officials believe it will be hard to sell the idea to the U.S. Congress, which is ultimately responsible for U.S. trade law.

The meeting between Mr. Mulroney and Mr. Reagan comes at a critical time in the trade talks, which resume in Washington next Monday. While the U.S. side is expected to present some counterproposals on the sensitive issue of trade remedies, as well as on government procurement and subsidies, the acid test will be whether either side makes any move to narrow their differences.

Given the complex nature of the negotiations, both sides expect the key concessions to come late in the game. However, the Canadian side is worried that without some breakthroughs now there will not be enough time to put together a comprehensive agreement.

Mr. Mulroney and Mr. Reagan are to meet for about 30 minutes tomorrow, at the close of the seven-nation economic summit, and review the trade talks and other bilateral issues. They are not slated to meet again before early October, when negotiators hope to conclude a major deal designed to eliminate tariffs and non-tariff barriers between the world's two largest trading partners.

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Time not right to aid world economy

The Globe and Mail
VENICE

Finance ministers at the economic summit have attempted to push forward talks on trade and agriculture, but they do not think the time is right for an initiative to lift the flagging world economy.

Canada's Michael Wilson said the ministers welcome a new $42-billion (U.S.) package to stimulate Japan's economy and are confident it will be implemented.

But, he added, it is not necessary that there be a major announcement every time leaders or finance ministers meet.

Asked about forecasts of a slowing world economy, he argued that expansion rates will improve in Canada, Japan and West Germany.

Canada, he said, had a 2 per cent annual rate of growth in the first quarter that was higher than expected.

In recent days, currency and financial markets have been calling for new economic measures to be announced in Venice.

Mr. Wilson said more stability is what is needed. "We have a major readjustment in the U.S. dollar and other exchange rates, the largest in recent times. What we need now is stability for changes to take place."

The fall in the dollar has brought increasing protectionism and concerns about farm subsidies and Third World debt.

Mr. Wilson said there has been good response to Canada's wish for progress on neutralizing farm subsidies and on debt forgiveness for the poorest countries in the Third World. There also is a recognition of the need for a good start to new multilateral trade talks that are getting under way in Geneva. This will help contain protectionism in a number of countries.

As part of its presentation, Canada talked about its growth prospects, structural changes in opening up financial markets, tax reform and privatizing Crown corporations.

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Ministers endorse tighter currency stabilization

BY TOM RAUM
Associated Press
VENICE

Finance ministers of the seven Western industrial powers have agreed that the U.S. dollar has fallen enough and have endorsed a plan for tighter currency stabilization.

The proposal, which is expected to be approved by leaders of the seven nations and incorporated into their final communiqué today, is intended to prevent sharp fluctuations among major currencies.

The plan stops short of replacing the current system of floating exchange rates, but it moves toward a system of "target zones" for currencies favored by some economists, according to U.S. and European sources.

Under the new policy, economic forecasts developed by the 192-nation International Monetary Fund will be used to chart actions that could lead to government intervention in exchange markets to prop up the dollar or other currencies.

The procedure will use economic indicators such as trade balances, inflation and growth in the gross national product to help the U.S. Federal Reserve Board and other central banks co-ordinate their sales and purchases of various currencies, a process known as intervention.

The accord calls for finance ministers and central bank leaders from the Group of Seven industrial powers to meet at least three times a year.

At these meetings and others called when necessary, finance ministers will make their "best efforts to agree on remedial efforts," said a U.S. official, who requested anonymity.

The part of the plan not disclosed includes the ranges in which currencies might be allowed to roam before action is taken to stabilize them, and the exact list of indicators that will be used.

The United States was rebuffed in seeking disclosure of the plan's details. "That would have brought a little more peer or public pressure to bear" on governments, the U.S. official said, but keeping the details secret "was a condition of getting the agreement."

A British official, who also spoke on the condition that he not be identified, said that, early each year, every country must present a "medium-term course" outlining its economic objectives and forecasts.

"There is no surrender of sovereignty in this agreement," the official said. "Sovereign governments will be responsible for their own policies."

The finance ministers also reaffirmed agreements reached in Paris last February and in Washington in April calling for efforts to stabilize the dollar around "current levels."

Those accords called on the United States to do more to lower its budget deficit and for export-driven economies such as those in Japan and West Germany to do more to stimulate growth.

The dollar has fallen roughly 50 per cent since mid-1985 against other major currencies. Although this has held out the promise of easing the United States' record $166-billion (U.S.) trade deficit, it also has created economic hardship in West Germany and Japan and has threatened to rekindle inflation in the United States.

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Mulroney essuie un triple échec au Sommet de Venise

VENISE (PC) — Le chef du gouvernement canadien, Brian Mulroney, n'a pas réussi à vendre ses trois préoccupations à ses homologues du Sommet de Venise: le dossier de la crise agricole stagne, celui de l'Afrique du sud bloque et les discussions sur la question de l'aide aux pays endettés se poursuivent toujours.

par Pierre April

Le ministre des Finances, Michael Wilson, est convaincu que la question de la crise agricole et de la guerre des subventions entre les Etats-Unis et les pays de la Communauté européenne se retrouvera dans le communiqué conjoint final, aujourd'hui, même s'il continue de croire que la solution n'est pas pour demain.

Sans vouloir présumer de ce que contiendra la déclaration de clôture, le ministre canadien, qui a rencontré ses homologues des pays membres du Sommet économique, est venu dire en conférence de presse en fin d'après-midi, hier, que le Canada repartirait avec ce qu'il avait déjà obtenu en arrivant à Venise grâce à la résolution de l'Organisation de coopération et de développement économique (OCDE) à Paris en mai dernier.

"Tous les ministres des Finances, a-t-il dit, ont convenu qu'il ne peut y avoir de progrès dans ce dossier à moins que les sept, tous membres de l'OCDE (24 pays industrialisés) travaillent ensemble sur une base conjointe."

Les principes de réforme de l'OCDE, présentés par le Canada et endossés par les 24 pays membres, en mai, préconisent des politiques agricoles conçues de manière à ne pas porter préjudice au commerce international. A cette fin et progressivement:

- les politiques doivent tenir compte davantage des prix;
- les mesures de soutien ne devraient pas comporter d'incitations à la production et l'aide devrait aller aux agriculteurs et non à l'agriculture;
- les pays devraient renoncer à prendre de nouvelles mesures d'aide publique susceptibles de provoquer artificiellement des distorsions des cours mondiaux et devraient s'efforcer de réduire celles qui sont en place;
- les pays ne devraient pas instaurer de nouveaux obstacles aux importations non prévus par la législation en vigueur;
- ces principes devraient être mis en oeuvre collectivement.

En adoptant ces recommandations, en mai dernier, les ministres de l'OCDE, dont sept sont actuellement à Venise, se sont engagés à rechercher, dans le cadre de la série de négociations commerciales multilatérales, "une réduction progressive, selon une approche multi-pays et multi-produits, de l'aide et de la protection accordées à l'agriculture", a sensiblement répété le ministre Wilson hier.

Pas de solution imminente

Cet engagement, qui se retrouvera de toute évidence dans le communiqué conjoint d'aujourd'hui, s'il ne peut être considéré comme un gain pour le Canada, n'est pas un recul.

S'il est confiant que la question de la crise agricole fera quand même son bout de chemin, M. Wilson ne voit pas encore la lumière au bout du tunnel. "Parce que l'attitude des chefs d'Etat et de gouvernement, a-t-il dit, en est une de reconnaissance générale du problème."

Cette problématique, cruciale pour le gouvernement de Brian Mulroney, au prise avec des agriculteurs céréaliers en énorme difficulté — il y a cinq ans, l'aide aux producteurs était de $350 millions contre $3.5 milliards aujourd'hui — n'a guère impressionné un des membres de l'OCDE, le chancelier ouest-allemand, Helmut Kohl, qui s'est fait tirer l'oreille pour rencontrer officiellement le chef du gouvernement canadien, pour finalement discuter de façon non-officielle à quelques reprises au cours de conversations privées.

Pas une seule fois, les porte-parole du gouvernement canadien n'ont rendu compte de la teneur de ces trois rencontres informelles, dont un tête-à-tête à un petit déjeuner, au cours des derniers jours. Ils ont préféré continuer à dire que les deux hommes, qui séjournent dans le même hôtel, n'avaient pas pu s'entendre pour un tête-à-tête officiel.

"Cette question de la crise agricole, a précisé M. Wilson, va être finalement traitée, mais il ne faut pas s'attendre à une solution du jour au lendemain."

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Insistance

L'autre question, celle de l'Afrique du sud, n'a pas soulevé l'enthousiasme des participants, malgré l'insistance du premier ministre Mulroney. Le Japon, les Etats-Unis et la France ont démontré leur intérêt. Les autres, l'Allemagne de l'Ouest, l'Italie et la Grande-Bretagne, n'ont pas été mentionnés par les porte-parole canadiens et le Secrétaire d'Etat aux Affaires extérieures, Joe Clark.

Quant à la dette des pays en voie de développement, le premier ministre Mulroney a essayé de faire avancer sa proposition qui est une peu celle du secrétaire au Trésor américain James Baker.

Le plan Baker met l'accent sur certains besoins essentiels, à savoir la mise en oeuvre par les pays débiteurs, de réformes de leurs politiques économiques, un rôle central continu pour le Fonds monétaire international, un rôle accru pour les banques de développement multilatéral, particulièrement la Banque mondiale, et une augmentation des prêts des banques commerciales. Quant aux pays riches, ils devraient utiliser leurs excédents à cette fin.

Aujourd'hui, les Sept rendront public, au cours d'une conférence, le communiqué conjoint final de ce 13e sommet économique. Immédiatement après, le premier ministre Mulroney rencontrera les journalistes canadiens. Le Canada sera l'hôte du prochain sommet des Sept, qui se tiendra à Toronto.

Demain, avant de rentrer à Ottawa, M. Mulroney rencontrera le président des Etats-Unis Ronald Reagan, pour discuter, entre autres sujets, du dossier du libre-échange.

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RETRANS
Page 1

Subsidy rollbacks endorsed

By Brian Cole
Winnipeg Free Press

VENICE — Economic summit leaders have agreed to support an Organization for Economic Co-operation and Development agreement calling for a rollback of agricultural subsidies, but remained divided going into this morning's meeting on whether to establish a timetable for doing it.

One European spokesman suggested yesterday that one of the stumbling blocks to agreement was North American reluctance to extend the emphasis on agricultural reform under the General Agreement on Tariffs and Trade to areas such as services and intellectual property.

Apartheid stand resisted/14

Support for the OECD accord, reached in Paris last month, came after the first full day of meetings among the leaders, which also included discussions on East-West relations, terrorism and the Persian Gulf.

As well, there were talks on the debt crisis and protectionism.

Canada and the United States are pushing the Europeans, particularly West Germany and France, to agree to a statement that would provide for an early harvest on agricultural trade talks under GATT.

See CANADA page 4

Canada, U.S. stress urgency of subsidy cuts

continued from page 1

In trade jargon, early harvest means an interim review of negotiations on trade under GATT with the possibility of implementing some relief measures by 1988-89.

Canada and the United States had hoped to get the summit leaders to endorse a communique that would include a reference to an early harvest, but more recently officials have only been mildly optimistic for such an accord.

Canadian officials told reporters here that the Europeans, particularly West Germany and France, are rejecting North American and British pressure to include a reference to early harvest in the communique.

Prime Minister Mulroney and President Reagan took up a fair chunk of the eight hours the leaders spent together trying to impress their counterparts of the importance of a strong commitment to reduce subsidies.

Mulroney rattled off a series of statistics to illustrate the damage the U.S.-European trade war was having on Prairie farmers and those in countries belonging to the Cairns Group of fair trading nations, according to one spokesman.

The prime minister impressed on the Europeans that 25 per cent of farmers on the Prairies are on the brink of disaster because of the trade war.

He also said Canada would be unable to reduce its deficit effectively as long as it was losing tax revenues and spending billions on farm support.

Mulroney, in his capacity as spokesman for the Cairns Group, emphasized the effect the trade was having on smaller countries.

Finance Minister Michael Wilson said he, Mulroney and External Affairs Minister Joe Clark all pushed "very hard" on the agriculture issue.

However, Wilson noted at a later news conference the agricultural programs undertaken and anticipated by the government have not thrown Ottawa's debt projections and overall expenditure plan out of whack.

A spokesman for the European Community delegation here told the *Free Press* that the community has no problem with the concept of early harvest so long as it does not refer only to agriculture.

"We are not going to accept Canada singling out agriculture for early harvest," the official said.

"We have no problem with early harvest as long as it includes everything," he said.

The spokesman said U.S. administration members are divided on the issue.

The official also accused the Americans and Canadians of mischief by raising a fuss about a proposed oils and fats tax.

He said unlike previous proposals for a levy on imports to protect European producers against outside competition, the latest plan is a consumer tax that would not discriminate against imports.

Although Canadian officials had suggested last week the oil and fats tax could scuttle efforts to reform agricultural trade, one said yesterday that the fears have been allayed somewhat. He did not elaborate.

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Nothing at the summit

So little of value has emerged from the three days of deliberation in Venice by leaders of seven major industrial democracies that it is difficult to see much point in continuing with such annual meetings under the dubious title of economic summit.

The original idea of relatively informal meetings between key leaders with the goal of improving co-ordination of differing economic policies was good. Former French president Valery Giscard d'Estaing was working on the sensible idea that such get-togethers could reduce the likelihood of nasty surprises in the form of public declarations of policy changes to which other states would have to respond publicly and politically.

His flawed view that the idea would work best with a very restricted group of countries was rightly challenged by Canada and Italy so that it now consists of these countries, France, Britain, Japan, West Germany and the United States. The trouble is that a good idea 13 years ago has become a bad one because the whole exercise, like Topsy, has just growed.

What happened to Venice this week, including the outraged gondoliers, should not happen to any beautiful city in exchange for such meagre results. Instead of direct discussion of a manageable number of strictly economic issues between relaxed leaders and a handful of key advisers, the summit seemed to be a rigid exchange of pre-formed views about almost every fashionable subject under the sun.

The hijacking of central Venice by 8,000 security operatives, watched by thousands of fascinated television and newspaper journalists desperate for a scrap of genuine information, came to dominate the summit and to be a symbol of all that has gone irretrievably wrong with a good idea. Where leaders stayed, how much it cost, how they were to be protected from assassins, how grave the effect of this extravaganza would be on inhabitants, businessmen and tourists drew more attention than the basic reason for the event. This was not a distortion of reality but the reality itself, since the summit substance was almost non-existent.

Legitimate subjects for discussion in Venice were trade protectionism, righting of trade imbalances, approaches to Third World debt, currency policy, agricultural subsidies and the threat of recession. Regrettably, there was little time for serious exchanges on these subjects because, like a bill passing through the U.S. Congress, participants added on so many other favorite issues that the meeting and its communique took on the appearance of a Christmas tree.

Prime Minister Brian Mulroney played an enthusiastic part in ensuring paralysis when he forced South Africa and its apartheid regime onto the agenda. Important as this subject is, it has nothing to do with a serious discussion of economic problems, more to do with helping Mr. Mulroney to continue to present himself as a major agent of change in southern Africa. Predictably, the bureaucratic time spent trying to get what Mr. Mulroney would call a strong statement was entirely wasted because Britain and West Germany were never going to allow that. Their huge trading connections with South Africa make this a very serious domestic issue, not a matter for the kind of posturing in which Mr. Mulroney can indulge at little economic cost.

It was welcome news for Canadian farmers that the seven leaders were able to endorse their own recent call in the Organization for Economic Co-operation and Development for an early end to market-distorting farm subsidies but nobody undertook to do anything soon.

Other participants matched Mr. Mulroney's time-wasting by dragging in such issues as the global war on AIDS, on narcotics, on terrorism, on poverty in sub-Saharan Africa and on structural barriers to investment and employment in the Third World. Superpower negotiations on eliminating medium-range nuclear missiles in Europe took up time as did the question of protecting Arab shipping in the Persian Gulf.

Each of these issues is important but each belongs in another forum. Canada and its six partners would be wise to conclude that the travesty in which they have just participated proves such meetings to be useless.

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Grain pricing crisis over, conference told

By Janice Vansickle
Star Agriculture Reporter

CHATHAM — While world agriculture trade is in a state of "expensive chaos," grain prices have finally bottomed out, according to a vice-president of one of Canada's largest grain companies.

"The worst of the agriculture crisis is behind us. There is no question the long climb out is already under way," Dick Dawson of Cargill Grains Ltd. told the annual conference of the Ontario Grain and Feed Dealers' Association Tuesday.

Dawson said increased prices for wheat and corn on the futures market, increased global consumption and reduced wheat production are positive signs.

But, he warned, the world is headed for dramatic trouble unless fundamental changes are made in agriculture trade.

While surpluses are behind the subsidy war being waged by the European Economic Community and the United States, Dawson said the world doesn't have a problem of overproduction.

The problem, he said, is in distributing food to the world's poor. Dawson said the current surplus could be readily absorbed if world calorie intake rose by three per cent.

He blasted politicians for creating world agriculture trade problems and the traumas they have caused the farm industry, particularly in Ontario, the country's largest agriculture-producing province.

"It has been reduced to a near basket case," he said. "Where it was once a proud industry, it is now reduced to living virtually on taxpayer handouts."

GOVERNMENT POLICIES, based on political gain, have led to subsidies, tariffs and quotas that amount to "tampering and distortion" in the market place, said Dawson.

"More and more it is being proven that agriculture must be returned to the common disciplines of the market place."

Clearly, Dawson said, agriculture is an industry that cannot be administered from a politician's desk. Farmers, he added, need a restoration of the natural economic signals in order to make production decisions.

But first, he said, steps must be taken through the current round of General Agreeement on Tariffs and Trade talks to define subsidies, decouple them from production, decrease them and eventually let them self-destruct.

Canada, along with the Cairns Group, can play an important role in these negotiations as a credible third party, he said. The Cairns Group, which consists of 14 agriculture-exporting countries, has called for agriculture trade reforms through GATT.

But the EEC and the U.S. don't want to be the first to call a truce in their trade war and this is where an organization like the Cairns Group can act as a broker, he said.

Terry Daynard, general manager of the Ontario Corn Producers' Association, was less optimistic in his assessment of the current state of grain farming.

Recent figures prepared by the association show corn prices are currently lower than they were in 1931 when adjustments are made for inflation, said Daynard. Corn that sold for 41 cents a bushel back then would now be worth $3.30. Corn prices are now around $2 a bushel.

"How we wish we had it as good as it was during the Depression," he said.

Low grain prices, he said, are having a more dramatic effect in Ontario than other provinces.

"Ontario is losing farmers at twice the rate of any other province," he said.

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The yawning Gulf

The U.S. had hoped to use the Venice meeting of the Big Seven industrial democracies to get backing for tougher policies against Iran and the threat posed to oil tankers in the Persian Gulf.

But when the leaders issued their joint statement on the Gulf yesterday, it looked like something emerging from one of the Ayatollah's prisons — pale and tortured.

They agreed to "just and effective measures" by the U.N. and promised to "consult on ways" to ensure the free flow of shipping through the Gulf...

Which is to say they agreed to do sweet tweet.

That's partly because two of the seven governments in Venice are facing elections (Britain and Japan) and the Italians are represented by one of those "caretaker" governments they're famous for.

And partly because no one really wants to take foreign policy decisions at what's billed as an "Economic Summit." (Which is why Brian Mulroney is whistling *Dixie* if he thinks he's going to get far with his crusade on South Africa.)

But, more important, it's clear there's just *no* Western consensus on what's become this century's longest-running major war.

Only self-interest and political and moral confusion:

To the point where France sells Iraq the planes and Exocet missiles which kill 37 American sailors — who are trying to protect oil shipments destined to France, among other places.

And a U.S. administration currently in hot water at home for selling arms to encourage the invisible "moderates" in Tehran, now demands absolute and implacable international condemnation of Iran backed, if necessary, by military force.

None of which makes a darned bit of sense.

The prime western interest in the Gulf is clearly peace.

But as long as the nations which *rely* on Gulf oil do little to protect their own supplies and insist on selling arms to either side in the war, the U.S. should steer clear of going it alone and upping the military ante in the region.

The Iraqi and Iranian regimes are equally appalling, and a victory by either side would likely create more problems than it would solve.

To take sides is to invite disaster — if not now, then later.

Ronald Reagan was right, in Venice, to say this is an international problem...

And, unfortunately, he's going to have to put more time and effort into bringing about an international solution.

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Investment dealers call for national securities agency

By Peter Morton
(Herald staff writer)

OTTAWA – Canadian investment dealers are urging creation of a national securities commission as the country takes a more active role in global financial activity.

"The time has come to move ahead toward a federally administrated national securities comission." Anthony Fell, new chairman of the Investment Dealers Association of Canada, said Tuesday.

Fell, who is also president of Dominion Securities Inc., and IDA president Andrew Kniewasser said at the association's annual meeting that the federal government is the only government capable of negotiating reciprocity deals with Japan and the United States.

"A (national) commission is indispensable to speak for Canada in international securities markets and to negotiate access for Canadians to those markets," said Kniewasser, noting that Canada is the only industrialized country in the world that does not have a national securities commission.

In Canada, the task of regulating the securities industry falls within the jurisdiction of individual provinces.

The Investment Dealers Association has received 50 new applications for membership, of which more than half are from large international firms waiting to move into Canada at the end of June when Ontario deregulates its financial industry. The association's current membership stands at 64 firms.

"With the banks getting into our business and the federal government assuming more power and the growing globalization of the markets, that is something that will be more talked about," said Fell.

But Fell and Kniewasser were cautious about what roles the provinces would play in securities regulation, carefully noting they are not suggesting that "the provinces get out of the field at all."

"The present system of provincial securities commissions has served us efficiently and well," said Fell. "Nevertheless, the time for change has come."

The push toward a national securities commission came just two days before Minister of State for Finance Tom Hockin is scheduled to meet with his provincial counterparts.

The day-long meeting is to be held Thursday as Hockin attempts to placate angry provincial ministers who are upset that Ontario and Ottawa put together a deal to deregulate the financial industry without including them.

Hockin said the meeting will include discussions about the deal between Ontario and Ottawa and a "desire for harmonization" of the rules across Canada and the control of the huge exempt market, one in which banks and other sophisticated traders are exempt from normal rules.

The exempt market is now under provincial jurisdiction, although Ontario has agreed to hand over its power to Ottawa. Other provinces have not agreed to the same deal.

The provincial ministers, include Alberta Consumer and Corporate Affairs Minister Elaine McCoy, meanwhile met in Charlottetown in preparation for Thursday's meeting.

McCoy had been spearheading a campaign to set up a meeting with Hockin in at attempt to develop a national consensus on deregulation before Ontario opens its doors at the end of the month.

Also on Tuesday, the new governor of the Bank of Canada said he welcomes the federal government's moves to keep commercial and financial institutions at arm's length.

But John Crow also warned that the regulations aren't enough to keep the closely-linked companies from situations of crossing loans back and forth, something that ultimately could lead to insolvency if a commercial deal goes sour.

"In my view, to put one's faith in regulatory walls to restrict the scope for related-party transactions, without a reinforcing buttress of restrictions on ownership links, would not be prudent," he said.

He said he welcomes federal measures, suggested in a policy paper last December, to force commercial companies to sell off a large part of their financial institutions.

Later, Crow said he had no comment on the calls for a national securities commission.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date June 10 Publication Globe and Mail

U.S. dollar keeps slipping as summit hits a plateau

Associated Press
NEW YORK

The U.S. dollar has slipped further against major currencies, extending its decline of the past several days as traders began looking past the Venice economic summit to upcoming U.S. trade and inflation figures.

Depressing the dollar were expectations that, in light of few new developments at the summit meeting, U.S. trade and inflation figures to be released Friday would show little improvement from previous months, analysts said.

A lack of improvement in the trade deficit could mean further declines in the value of the dollar. A weaker dollar makes U.S. exports more competitive and has been a major weapon in the Reagan Administration's attempts to trim the trade imbalance.

Sharply higher inflation, as measured by growth in producer prices, also would depress the dollar because it reduces returns on dollar-denominated investments.

Finance ministers from the United States and six other leading industrialized nations meeting in Venice agreed the dollar had fallen enough, and endorsed a plan for tighter currency rate stabilization. But that news had little impact on the currency markets, which had expected such an announcement.

"The bearishness that had ingrained itself in the market for many, many months is starting to show through again," said Lawrence Kreicher, a vice-president for Merrill Lynch Capital Markets.

The dollar's decline accelerated somewhat, once the currency dipped past certain technical support levels that pushed it below its recent trading range, said Joe Cally, a trader for Prudential-Bache Securities Inc. "I think the key is that nothing's been coming out of the summit, nothing good anyway."

In Tokyo, the dollar fell against the Japanese yen for the third straight day, dropping to a closing 142.70 yen from late Monday's 143.25 yen. Later in London, the dollar traded at 142.55 yen and in New York the dollar dipped to 142.20 yen from late Monday's 143.60 yen.

In London, the British pound rose to $1.6580 from $1.6400 late Monday, buoyed by growing conviction in London markets that the pro-business Conservative Party would retain power in tomorrow's general election. Later in New York, sterling rose to $1.6645 from late Monday's $1.6360.

Late dollar rates in New York, (compared with late Monday's rates), included: 1.7880 West German marks (1.8050); 1.4790 Swiss francs (1.5015); 5.9780 French francs (6.0255); 1,297.50 Italian lire (1,302.50) and 1.34115 Canadian dollars (1.34215).

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
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Date June 10 Publication Globe and Mail

Ministers endorse tighter currency stabilization

BY TOM RAUM
Associated Press

VENICE

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"There is no surrender of sovereignty in this agreement," the official said. "Sovereign governments will be responsible for their own policies."

The finance ministers also reaffirmed agreements reached in Paris last February and in Washington in April calling for efforts to stabilize the dollar around "current levels."

Those accords called on the United States to do more to lower its budget deficit and for export-driven economies such as those in Japan and West Germany to do more to stimulate growth.

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Time not right to aid world economy

The Globe and Mail

VENICE

Finance ministers at the economic summit have attempted to push forward talks on trade and agriculture, but they do not think the time is right for an initiative to lift the flagging world economy.

Canada's Michael Wilson said the ministers welcome a new $42-billion (U.S.) package to stimulate Japan's economy and are confident it will be implemented.

But, he added, it is not necessary that there be a major announcement every time leaders or finance ministers meet.

Asked about forecasts of a slowing world economy, he argued that expansion rates will improve in Canada, Japan and West Germany.

Canada, he said, had a 7 per cent annual rate of growth in the first quarter that was higher than expected.

In recent days, currency and financial markets have been calling for new economic measures to be announced in Venice.

Mr. Wilson said more stability is what is needed. "We have a major readjustment in the U.S. dollar and other exchange rates, the largest in recent times. What we need now is stability for changes to take place."

The fall in the dollar has brought increasing protectionism and concerns about farm subsidies and Third World debt.

Mr. Wilson said there has been good response to Canada's wish for progress on neutralizing farm subsidies and on debt forgiveness for the poorest countries in the Third World. There also is a recognition of the need for a good start to new multilateral trade talks that are getting under way in Geneva. This will help contain protectionism in a number of countries.

As part of its presentation, Canada talked about its growth prospects, structural changes in opening up financial mar[illegible] and privatizing C[illegible]

EXT 936/BIL.

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet
Date

Globe And Mail June 10

Canada's clever approach turns two issues into one

VENICE

Here is a tale of two top issues at Venice that, rather cleverly, have become one in the Canadian approach to this summit.

The two seem disparate enough. They are, first, the use of economic indicators to put a mild amount of pressure on governments to change their policies and, second, Ottawa's desire to somehow, with the small clout it has, turn swords into plowshares and get the big boys to stop their subsidy wars on agriculture.

First, indicators. The idea of economic indicators got an official seal of approval at the Tokyo summit last year.

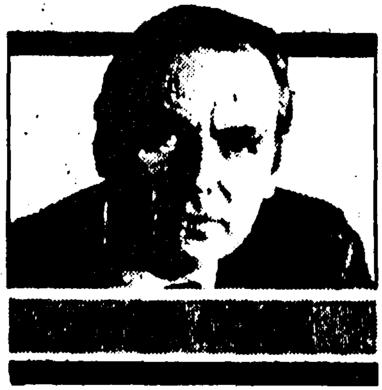
At its grandest, the notion is that finance ministers meeting regularly to look at things such as currencies, payments deficits, inflation, the state of their budgets and so on could use these as "indicators" of whether their economies are getting out of line and action is called for — a kind of substitute for the checks and balances that existed before former U.S. president Richard Nixon closed down the gold window in 1973 and ushered in an era of floating (wildly gyrating) currencies.

That is the idea at its grandest. Political realities, however, have watered it down.

British Chancellor of the Exchequer Nigel Lawson, a non-believer in indicators, says bluntly that the idea has not been fully thought out. U.S. Treasury Secretary James Baker, however, wants a firmer commitment by the seven Western industrial powers to abide by what the indicators say.

Whatever the outcome, the cynical are right when they say that governments will collaborate when it serves their interests and go their own way when it does not.

The indicators' debate, and the definition of the indicators that are looked at, is a secret. But talk of indicators has led to a differentiation between the surplus nations (West Germany and Japan) and the deficit nations (the United States, Canada, Britain, Italy and France). Within these groupings, there are countries that are doing well or badly on their own terms. Next to Japan, perhaps the best-looking economy — from the standpoint of the indicators and its ability to generate growth and jobs — is Canada.



An election-bound Margaret Thatcher has made much of the British economy's ability to outgrow the other six this year.

Perhaps it will. More likely, to judge from the latest first-quarter numbers, Canada will emerge at the top with a 3 per cent real growth rate versus something lower in Britain. Looking at economic indicators over a longer period (1985-88) in forecasts by the International Monetary Fund, the growth league goes like this: Japan averaging 4.3 per cent annually, Canada 3 per cent, Britain 2.8, the United States and Italy 2.6, West Germany 2.2, and France 1.9.

Go further and look at unemployment and inflation performances, and Canada ranks in the middle: not as good as the United States, Japan and West Germany, but better than France, Italy and Britain.

The bad news for Canada comes elsewhere, in its current account balance and budget deficit.

In relation to the size of its economy, the current account balance next year ranks not far behind a horrific U.S. one. On budget deficits, we belong in the doghouse. Only those wastrels from Italy have a fiscal balance that is further out of line.

What to do about the bad news and how to get our indicators back in line to help our economic partners?

Well, here is where the Canadians start talking about agriculture. Sorry folks, they say, but, unless something is done to limit the subsidies we have to pay farmers, there is no way we can co-operate by cutting our budget deficit. At the moment, aid to our grain farmers is $3-billion and growing. If you want us to meet our international responsibilities, you've got to give us a break.

The argument also applies to the current account balance where Canada has been hit by declining farm exports. And it applies, forcefully, to some of the 13 countries of the Cairns Group of food producers whose voice, Canada, is at these talks.

Among this group are countries as diverse as Australia, Thailand, Hungary, Colombia, Brazil and Argentina. If Canada is being hurt, consider the case of poor, bankrupt Argentina, where farming employs a quarter of the population and accounts for 30 per cent of the gross national product.

When Prime Minister Brian Mulroney phoned U.S. President Ronald Reagan on Monday morning, they talked first about agriculture. Since then, the cause of radical reform and of going further than merely calling a truce on new farm subsidies has been taken up by the United States, Canada and Britain, and the other Europeans are starting reluctantly to come around.

If the policy is to change, it will be because the Americans make it happen — through proposals they are due to table at the GATT talks that will shift farm aid from production and export subsidies to income support. In small part, it also may be due to the ingenious arguments of Canada that big farm subsidies handicap small countries in their ability to grow and help others to grow.

Subject
Sujet

Date June 10 Publication Globe and Mail

City feeling left out

Toronto whispered as next summit site

BY JOHN FRASER
Globe and Mail Correspondent

VENICE

Next year, Canada will be the host for the annual economic summit, but the lucky city has yet to be announced. An unusually reliable source said the decision has been made and it will be Toronto, perhaps to assuage the Queen City for feeling left out of the Commonwealth summit (Vancouver), the francophone summit (Quebec City) and the Olympic Games (Calgary).

The unusually reliable source did not yet know the actual venue in Toronto that would know the thrill of having its guts ripped out to accommodate the massive security and electronic media demands of a summit, but he tipped the new City Hall as the kind of photo-op backdrop summit leaders like to be filmed against.

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Traditional summit-style security arrived at Venice yesterday following a welcome respite during the first days. A car bomb exploded in Rome near the U.S. Embassy, grenades went off there and on the grounds of the British Embassy. As a result, security checks doubled at most checkpoints, leaving the impression that they had been tripled in the places journalists don't see — like the frogmen on 24-hour duty all around the Island of San Giorgio, where the leaders met.

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As if seven thousand police and troops in the environs of Venice to protect the magnificent seven were not enough, the hosts have resorted to unlockable loos in the public places on the island where the summiteers are gathering.

Adding an extra element of, well, surprise is the presence in the press buildings of unisex facilities. An official emerged from an office labelled "Italian spokesman" — which had remained firmly closed for a generously long lunch break — to explain that such open facilities were a necessary security measure.

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Didn't you use to be . . . (Venice edition). Pierre Salinger, press secretary to president John F. Kennedy long ago, proved that there is life after the demise of an administration. The familiar scowling countenance of the man who has frequently swapped media assignments is here in the Doge's domain, scowling dutifully for ABC.

But wait, who's that? Didn't you use to be . . . Jacques Parizeau? Yes indeed. The former minister of finance in the Parti Québécois government of René Levesque has also discovered the thrill of being a media man and is here to opine for Le Point, Radio-Canada's version of The Journal.

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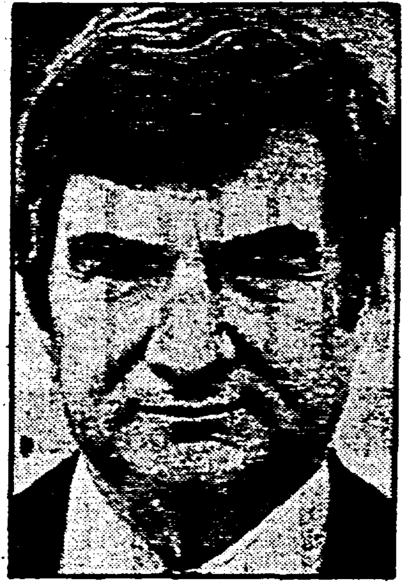
The following is the final question and answer in a CBC interview conducted by David Halton with External Affairs Minister Joe Clark. It is reproduced here for the purposes of clarity on a complicated subject. The transcript was provided by the CBC.

Halton: Does the (European) Community oil-fats proposal seem to suggest that we are not very much on track?

Clark: The Community oil fats proposal suggests that. Some of the concerns that some of the aspects of the concerns that the effects of the policy community in the United States express regarding the truce suggest that we have made a lot of progress in Paris; we want to keep it but we also want to try to set forth some of the kind of very general timetable that will indicate that we are keeping on track. But none of these things are easy and certainly the agricultural question which has moved a long way since Tokyo is still a long way from being solved.



Pierre Salinger

Jacques Parizeau

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More on the gondola crisis. Among the canals closed off — for security — to the affronted gondoliers of Venice are the approaches to the city's crematorium. A result, the city fathers have pro ited funerals for four days. A typ Venetian funeral procession m hire as many as two dozen gond for several hours, including a dola hearse. This is lucrative b ness even at the reduced rates cals enjoy.

"It has come to this," moane Rome newspaper in an edito sympathetic to the plight of gondoliers. "In Venice, the auth ties have ordered people not to during the summit. Take care obey or suffer a fate worse t death."

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Finally, here is a warming remi er that Italian male chauvinism withstood the test of time. Yes day, the nice Italian liaison won helping journalists here ca around to each and every male jo nalist attending the summit to g them beautiful Battistoni silk with the summit motif set agai dark blue, courtesy of Giova Agostini, chief of press arran ments.

And for the women journalis nothing at all. This caused a cert amount of upset in some quarte but when a liaison woman was q ried about the omission by one the upset ones, she simply sa "This is Italy. What do you expe Why should you be better off t we are?"

DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date June 10 Publication Globe and Mail

Kohl's resistance on South Africa may derail Mulroney rights drive

The Globe and Mail

VENICE

Prime Minister Brian Mulroney appears headed for a setback in his efforts at this year's annual economic summit to keep the international spotlight focused on human rights abuses in South Africa.

Although External Affairs Minister Joe Clark reported that Mr. Mulroney's iniative had the support of France, the United States and especially Japan, the firm resistance of West German Chancellor Helmut Kohl to any negative language about South Africa in this year's final communiqué may have scuttled the Prime Minister's best intentions.

Late yesterday afternoon, a harassed senior Canadian Government official indicated that although even Britain's Prime Minister Margaret Thatcher gave tacit approval to language about South Africa, Mr. Kohl refused to budge.

On Monday, before the official opening of the summit, Mr. Mulroney had been quoted by his officials as telling both President Ronald Reagan and Prime Minister Yasuhiro Nakasone that the final communiqué must show concern about apartheid in South Africa "or else we will send out a message in the wrong direction."

Having established such a clear goal, however, Mr. Mulroney is in danger of being considerably embarrassed. Mr. Clark reported in his briefing that the 1 Prime Minister had even telephoned Zambian President Kenneth Kaunda yesterday to discuss summit objectives, especially on the debt crisis.

As a result, the impression left here is that Canada had taken upon itself the role of representing such Third World nations at these deliberations.

Mr. Mulroney may also be stymied in getting the summit host — Italian Prime Minister Amintore Fanfani — to even mention South Africa in his summing-up at the conclusion of the summit.

The Canadian official said that Mr. Kohl, offering no reasons, objected to even this compromise.

However, another official said the fight was "not over yet" and Canada was still trying to get language of some sort into either the communiqué or final statement by Mr. Fanfani.

Bombs go off at missions; suspect has Canadian ID

Associated Press and CP

ROME

A car bomb shattered windows and set fire to parked cars near the U.S. Embassy yesterday and bombs exploded on the grounds of the U.S. and British embassies. An anonymous caller linked the attacks to the seven-country summit in Venice.

Police said four explosive devices were launched from a room in a hotel across the street from the U.S. Embassy. They said the room had been rented to a man of Asian origin with a Canadian passport.

The man was not in the room when police entered.

Police named their main suspect as Edwin Hsu-Kao-Yen, an Asian with Canadian and Thai documents. One report said the man was believed to have been born in Toronto.

In Ottawa, Denis Tessier, an External Affairs spokesman, said the passport in question had been reported lost last June by a Canadian travelling in Europe. He would not release the name on the passport.

A woman who was near the car that blew up was treated for shock, police said. No other injuries were reported.

A caller to The Associated Press in London said the attacks were the work of the Anti-Imperialist International Brigade.

Last year, callers using the same name claimed responsiblity for the assassination of the French military attaché in east Beirut and for bomb and rocket attacks on the Canadian, U.S. and Japanese embassies in Jakarta.

DEPARTMENT OF EXTERNAL AFFAIRS

MINISTÈRE DES AFFAIRES EXTÉRIEURES

Globe and Mail June 10

Canada isolated on apartheid

Reagan wins backing for stand on terrorism

anadian Press, Staff [illegible] Reuter

ENICE

President Ronald Reagan won support yesterday for tough stand against terrorism and a diplomatic initia- [illegible] to counter threats against shipping in the Persian [illegible], but Canadian calls for condemnation of South frica and its apartheid policies received little support.

The pledge by the leaders of the seven major indus- [illegible] democracies not to cave in to terrorists came on a [illegible] that bombs exploded at the U.S. and British em- [illegible].

In the Persian Gulf — Page A6
Tighter currency plan — Page B22

In a foreign policy statement issued on the second day of the three-day meeting, the summit leaders also effectively endorsed a proposed superpower arms deal.

Mr. Reagan said he was delighted with the largely symbolic declaration of support for the free passage of oil tankers through gulf shipping lanes.

The communiqué calls for new efforts to end the

REAGAN — Page A10

Reagan wins backing on terrorism

● From Page One

ny questioned U.S. strategy in dealing with Moscow.

The summit partners did not condemn arms sales to Iran, whose Government is seen by U.S. officials as the principal obstacle to stability in the region, and they did not offer military assistance for U.S. efforts to keep oil shipping lanes open.

Secretary of State George Shultz said the United States achieved "the principal thing" it wanted, with unanimous support for a United Nations Security Council resolution calling for a ceasefire in the Iran-Iraq war and imposition of a mandatory arms embargo on either side that persisted in fighting.

On the face of it, Mr. Reagan and leaders of Britain, West Germany, France, Italy, Canada and Japan were united on arms control. They issued a flurry of resolutions midway through the 13th annual economic summit.

They pledged themselves to work toward genuine arms reduction, at the same time retaining positive language about "the continuing importance of the nuclear deterrent in preserving peace."

That will be a disappointment to Soviet leader Mikhail Gorbachev, despite the favorable references to him in the section dealing with East-West relations.

Speaking for Canada at a press briefing, External Affairs Minister Joe Clark denied a journalist's charge that the foreign policy communiqué was "hawkish" in tone:

"I think in fact that there is a momentum toward arms control and that there is a consensus among the countries of the West ... to proceed into negotiations."

The summit's lone dissonant note was sounded by West German Chancellor Helmut Kohl, who reportedly urged Mr. Reagan at the opening banquet on Monday to seek a Soviet commitment to focus the next negotiating phase on tactical nuclear weapons in Europe.

Mr. Reagan and Mrs. Thatcher rejected that idea, saying that the United States intends to press the Soviets to redress the Warsaw Pact's edge in manpower over NATO forces.

Mr. Kohl is concerned that a U.S.-Soviet accord on medium-range and shorter-range missiles in Europe would remove a layer of U.S. nuclear protection for West Germany and give Soviet tactical weapons greater significance in the nuclear equation.

On the subject of Mr. Gorbachev's reforms in the Soviet Union, the communiqué said the leaders were "following with close interest recent developments" there. It contained familiar language from previous summit conferences expressing hope that the Soviet Union will make further efforts to end human-rights problems and regional conflicts and to allow freer exchanges between East and West.

The allies expressed approval for the quickening pace of negotiations that have led the superpowers closer to signing a treaty that would eliminate hundreds of nuclear missiles from Europe and Asia.

In Moscow, the Kremlin accused the leaders of the seven countries of failing to give a concrete response to Soviet initiatives on arms control, but it said a Reagan-Gorbachev summit this year is still possible

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DEPARTMENT OF EXTERNAL AFFAIRS

MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date June 10 .... *Publication* Globe and Mail

PM plans trade pitch in meeting vith Reagan

Y JENNIFER LEWINGTON
nd CHRISTOPHER WADDELL
he Globe and Mail

Prime Minister Brian Mulroney ill make a strong pitch, once ain, to galvanize the sluggish ee-trade talks when he meets resident Ronald Reagan briefly morrow in Venice.

Mr. Mulroney, urged on by Canaan negotiators frustrated over hat they see as stonewalling by the .S. side, will try to enlist Mr. eagan's help in breaking the logm after more than a year of slowoving talks. With only four onths left on the negotiating clock, ither side has made major consions on the key issues necessary r a broad agreement.

However, U.S. officials are irried by what they regard as just other Canadian bid to politicize e talks and go over the head of the f U.S. negotiator, Peter Mury. One U.S. trade official, echoing widely shared sentiment in Washgton, described the U.S. response the top-level meeting this week as exercise in "damage control."

Another senior U.S. official add, "Simon Reisman (the chief nadian negotiator) may be trying elevate it to the political level. t we don't want to go along with We want to back up Peter Mury."

The U.S. side aims to keep the eting between the President and Prime Minister as general as sible, leaving specific points of tention to the negotiating teams.

In particular, U.S. officials are ced for an attempt by Mr. Mulney and other senior members of Cabinet to press the Administran for a political commitment to negotiate a new way of resolving trade disputes, separate from the current application of U.S. trade law. Canadian negotiators see this issue as a fundamental demand and a cornerstone of a possible free-trade agreement. Mr. Reisman has repeatedly warned that without a

MULRONEY— Page A2

Associated Press

The world leaders attending the summit in Venice prepare for a photograph of the group that was taken yesterday. From left: EC President Wilfried Marten; EC Commission President Jacques Delors; Yasuhiro Nakasone; Margaret Thatcher; Ronald Reagan; Amintore Fanfani; Francois Mitterrand; Helmut Kohl and Brian Mulroney.

Mulroney

● From Page One

real breakthrough on the trade-remedy issue, there will not be a deal.

So far, the U.S. side has resisted Canadian proposals for a new set of rules to resolve bilateral trade disputes. A key feature of the Canadian proposal calls for a new joint panel to impose binding solutions to settle trade rows between the two countries. "We're just not ready to give up that much sovereignty," says one senior U.S. official. Moreover, Administration officials believe it will be hard to sell the idea to the U.S. Congress, which is ultimately responsible for U.S. trade law.

The meeting between Mr. Mulroney and Mr. Reagan comes at a critical time in the trade talks, which resume in Washington next Monday. While the U.S. side is expected to present some counter-proposals on the sensitive issue of trade remedies, as well as on government procurement and subsidies, the acid test will be whether either side makes any move to narrow their differences.

Given the complex nature of the negotiations, both sides expect the key concessions to come late in the game. However, the Canadian side is worried that without some breakthroughs now there will not be enough time to put together a comprehensive agreement.

Mr. Mulroney and Mr. Reagan are to meet for about 30 minutes tomorrow, at the close of the seven nation economic summit, and review the trade talks and other bilateral issues. They are not slated to meet again before early October when negotiators hope to conclude a major deal designed to eliminate tariffs and non-tariff barriers between the world's two largest trading partners.

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date June 10 .... Publication Globe and Mail ....

All-purpose agenda

BY JEFFREY SIMPSON

VENICE

Economic summits are like pieces of elaborate crystal in which each leader can find reflected precisely what he wants.

There is an unwritten rule that no leader shall embarrass another in public, which adds to the pervasive tedium of these affairs. Instead, communiqués are painstakingly drafted to cover everything and say nothing.

Against this backdrop, Prime Minister Mulroney has been laboring to extract such political mileage as he can from the Venice summit. He has his own agenda, a risky business for the leader of the least consequential country here, and the political success of his mission will be measured by whether the final communiqué even mentions what's on his mind.

Such mentions are of next-to-no consequence in reality, since even those who draft the communiqués can barely recall what they wrote last year. Rather, the mentions take on their full allure only when embellished back home.

Much is being made by the Prime Minister of the need to slap South Africa on the wrist in the final communiqué. An economic summit is, of course, the wrong forum to co-ordinate any action against South Africa — let alone to do anything else — but it might be marginally useful back home to be seen as having tried to do something.

The South African demarche in Venice is really a continuation of Canadian-British tussling in another forum. The real hair-pulling will come at next fall's Commonwealth conference in Vancouver.

The last thing British Prime Minister Margaret Thatcher wanted from Venice was anything that called her own South African policy into question. Satisfied that nothing wacky would be done at Venice, she promptly left to resume her campaigning at home, having engaged in the usual summit ritual of reading into the event a complete vindication of everything she has always preached.

Mr. Mulroney also wanted the summit partners to beat their breasts about economic aid for Africa. In particular, he thought special attention should be paid to the front-line states in southern Africa. This, too, was as worthy as it was inconsequential since summits are the wrong venue to co-ordinate anything for Africa.

The great Canadian effort, however, concerned agriculture. Our governments, federal and provincial, are mighty sinners in this bizarre business of subsidizing everything that grows and grazes. What allows us the dubious pose of offended virtue is merely that our treasury does not permit the quantity of sinning sanctioned by the larger treasuries of, say, the United States, Japan and the European Community.

But we have farmers screaming for help at home, and although they cannot plant their fields with final communiqués, Mr. Mulroney would like to emerge from Venice sheathed in the virtuous armor of having tried to blow the whistle on all the industrial world's other sinners.

In this world of monumental tedium and portentous communiqués, progress will be measured by whether the seven countries merely confirm the declaration of ministers following the recent report on agriculture from the Organization for Economic Co-operation and Development.

If this seems obscure, it is because that is what summits are all about. No one is supposed to remember what was decided at these summits, let alone change government policy as a consequence.

Their utility lies, as we said, in the ability of each leader to leave claiming victory. The spirit of Venice — the Canadian effort to slap South Africa, to assist Africa and to restore sanity to world agriculture — will live in the lexicon of Canadian political vocabulary long after everyone has forgotten that Venice meant little and counted for less.

DEPARTMENT OF EXTERNAL AFFAIRS

MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet

Date June 10 Publication Toronto Star

UNCLASSIFIED/NONCLASSIFIE

8/24

Visitor to Venice

THERE is room for two opinions on whether Mrs Thatcher's 18-hour visit to the Venice summit was necessary — or wise. It is not immediately obvious what benefits it brought to the world leaders assembled, or to her. To be fair, Mrs Thatcher has attended eight earlier summits and may have felt it only courteous to show her face at this one. More probably, she was advised that Venice would enhance her standing as a serious figure on the world's stage. This was doubtful: her international status really needs no advertisement. On the other hand, electors are acutely jealous of a leader whose global influence seems to transcend their own.

During the General Election of 1945, Churchill had a comparable problem when he met President Truman and Stalin at Potsdam. He invited Attlee, his deputy in the war-time Coalition but by then Leader of the Opposition, to join him. This turned out to be prudent. When Potsdam had its next session on July 28, Attlee was Prime Minister.

We are left to imagine what might have happened had Mrs Thatcher offered to give Mr Kinnock a lift to Venice. She would have arrived with him and both the Davids, denounced by Enoch Powell for overlooking the Ulster Unionists. Then they would have found there was only one place laid at the table for all four of them. Perhaps she did best to travel alone.

Daily Telegraph 10 Jun

UNCLASSIFIED/NONCLASSIFIE

UNCLASSIFIED/NONCLASSIFIE

Fin Times 11 June

7/24

Meeting of the mighty proves decidedly modest event

BY JOHN WYLES AND PHILIP STEPHENS

"A POSITIVE non-event," was one senior European official's judgment on the results of the two-and-a-half-day summit on a Venetian island. He was reflecting as well as any the calm but humdrum attitudes which were brought to Venice, as much by the heads of government taking part as any others.

President Ronald Reagan did not seek to push his partners too far on political issues, the Europeans demonstrated that their cohesion is growing at these occasions, Mr Yasuhiro Nakasone was spared any real "Japan bashing" and Mrs Margaret Thatcher was able to make a very abbreviated appearance without apparently disrupting the almost tranquil flow of events.

Measured against the requirements for strong multilateral responses to current problems, Venice produced modest achievements on the political front and probably rather thinner gains on the economic.

The Europeans genuinely feel that they have diverted President Reagan away from a risky military adventure in the Gulf, and that they have persuaded him to take an optimistic view of Mr Mikhail Gorbachev's domestic and external initiatives. The statement on terrorism builds on previous summit initiatives and strengthens the seven's responses to the problem.

On the economic front, the Venice summit was, more clearly than many of its predecessors, part of a chain of multilateral discussion and negotiation whose other principal links are the two meetings a year of the International Monetary Fund's executive committee, the annual OECD ministerial meeting, and gatherings of the General Agreement on Tariffs and Trade.

All of the main economic issues dealt with at Venice—policy co-ordination, agriculture, trade and debt—have been receiving fuller treatment elsewhere. But the summit could have served to add fresh momentum and even new agenda items to the negotiations in these other forums.

As a catalyst to further action the Venice achievement looks modest. Only two new items for the international agenda have been given a clear political "push." One was an undertaking to try to agree by the end of the year on proposals from Mr Michel Camdessus, the managing director of the IMF, for tripling the Structural Adjustment Facility for helping poor debtor countries. The other was an indication that negotiations on a capital increase for the World Bank may be launched in the coming year.

Attention in the markets is focusing immediately on the declaration on economic policy making for evidence of a stronger attack on economic imbalances. There is none, in the sense that substantive new actions have been agreed. Instead, there is a decision to establish a more detailed policy framework for international co-ordination from which, some day, may flow policy adjustments. Indeed, it is the trend in this direction which prompted President Francois Mitterrand of France to call the development "the success of the confernece."

But no one can say whether economic policy changes will emerge in time to reverse the downward trend in the world's economy. New forecasts from the OECD are expected to point next week to growth both this year and next of only a little over 2 per cent.

The seven's joint commitment to stable exchange rates has been reaffirmed, but the policies shakily underpinning the dollar remain unchanged. West Germany was still unmovable at the summit in its view that no new measures are needed to stimulate its economy ahead of the package of tax cuts planned for next January. West Germany as a locomotive? "This will not occur," affirmed Chancellor Helmut Kohl at his closing Press conference.

President Reagan, meanwhile, disappointed European hopes that he might consider some modest tax increases if the Democrat-controlled Congress turns away from his planned reductions in the 1988 budget deficit. Higher taxes were simply not an option, he told his colleagues, although his Treasury Secretary, Mr James Baker, did hint that they might have to be.

Japan whose ¥6,000bn package of public spending increases and tax cutting measures was generally well-received at the summit can claim more than most to live up to its commitments to stimulate its economy.

UNCLASSIFIED/NONCLASSIFIE

UNCLASSIFIED/NONCLASSIFIE

8/24

Financial Times
June 10, 1987

Thatcher claims summit backing

By Philip Stephens in Venice

MRS MARGARET THATCHER left the seven-nation economic summit at Venice yesterday, claiming international endorsement of the Government's defence and economic policies.

In ebullient mood after her 18-hour stay in Venice, the Prime Minister praised the summit's three political declarations—on the Gulf war, East-West relations and terrorism—as all being in tune with British policies.

Mrs Thatcher dismissed Opposition charges that her visit to the summit had been an elaborate "photo call" designed to boost her chances in tomorrow's election. Although she had been at the summit for only a short time it had been "extremely concentrated, very intense", she said. "It was absolutely vital that I came."

The western allies had backed "all the things we have been doing. And people want those things to continue"

In spite of her crowded schedule, the Prime Minister found time for a 45-minute private meeting with US President Ronald Reagan in his hotel. Both declined comment on whether the election had been discussed, but their close personal relationship was emphasised by their joint arrival yesterday morning for the summit's first formal session on the Venetian island of San Giorgio.

The world's television cameras caught the two leaders stepping ashore together from President Reagan's motor launch, then chatting and smiling as they stood together for the group photograph of the seven leaders.

British and US officials said their talks had covered everything from agricultural subsidies and the US budget deficit to East-West arms control and the Gulf war.

Official briefings indicated no area of disagreement between the two.

Mrs Thatcher said the summit statement on East-West relations reflected a unanimous view that nuclear deterrence was still essential to Western security. The West was on course to secure the first-ever reductions in nuclear weapons, but "we all believe that nuclear deterrence is going to be vital to our peace for many years to come."

The summit economic declaration, to be released today, would underline the consensus on economic policy. Mrs Thatcher said the policies that her Government had been pursuing since 1979 to promote "steady non-inflationary

Continued on Back Page

Continued from Page 1

Thatcher

growth" had now become the orthodoxy. "No one questions them now," she said.

The summit had also pushed forward the growth consensus on the need for a gradual dismantling of agricultural subsidies. It would agree to boost Western aid to the poorest countries in Africa and strengthen co-operation to remove the biggest imbalances in the world economy.

So would Mrs Thatcher not have liked to have stayed longer? Of course, but it was, she said, absolutely impossible.

UNCLASSIFIED/NONCLASSIFIE

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Financial Times

Wednesday June 10 1987

Summit welcomes Gorbachev policy

BY STEWART FLEMING, PHILIP STEPHENS AND JOHN WYLES IN VENICE

LEADERS OF the seven major western industrial countries yesterday gave a first welcome to the policies of Mr Mikhail Gorbachev, the Soviet leader, saying they held out the hope of a turning point in East-West relations.

In the most encouraging assessment of East-West relations for years, the seven said: "It is our hope that they will prove to be of great significance for the improvement of political, economic and security relations between the countries of East and West."

On the day the Soviet Union proposed an international inspectorate to monitor a nuclear test ban, the heads of government acknowledged that "new opportunities for progress" had opened up since last year's Tokyo summit and that the goals of nuclear disarmament and conventional force reductions should be pursued.

Although President Reagan obviously endorsed this declaration, his spokesmen put their emphasis on its qualifying clauses, namely, that Soviet actions would be closely watched on human rights, Afghanistan and people-to-people contacts.

Mr George Shultz, US Secretary of State, said human rights were stressed "as necessary in themselves and as a guage to the quality of a relationship which is still possible."

The leaders implied that the brighter horizons for East-West relations stemmed from Mr Gorbachev's internal and external policies which they were following "with great interest."

The approving reference to Soviet internal affairs was both unusual and rather more cautious than some delegations wished. West Germany pressed unsuccessfully for the inclusion of an appeal for greater economic collaboration between the two halves of Europe.

On arms negotiations, the declaration gave only general backing for US efforts to negotiate "balanced, substantial and verifiable reductions."

Mr Shultz indicated that a fuller endorsement of the US position on removing medium- and short-range nuclear weapons from Europe could be expected from the meeting of Nato foreign ministers opening in Reykjavik tomorrow.

The Gulf issue, which some leaders feared would plague the summit, was overshadowed until the leaders started their meeting yesterday morning in the elegant 16th century library of the Fondazione Cini on the island of San Giorgio, a short ferry ride from St Mark's Square.

In the event, France, West Germany and Britain beat off what was said to be only token US pressure for a statement which might have risked compromising their official neutrality on the Gulf war by appearing to favour Iraq.

The statement ultimately contained only the faintest hint of support for the US objective of mandatory sanctions by the United Nations to try to end the fighting.

Mr Shultz, nonetheless, claimed that the declaration's call for "effective measures by the United Nations security council" really endorsed the US strategy of calling for a ceasefire backed up by a mandatory arms embargo if either country refuses. Mrs Thatcher had also offered this interpretation earlier in the day.

Mr Shultz, for his part, paid tribute to British activities in the Gulf, revealing that the Royal Navy had escorted 140 vessels through the area this year.

In addition to East-West relations and the Gulf, the summit returned to the subject of terrorism for the sixth time in nine years. The leaders promised counter measures against states clearly involved in supporting international terrorism and confirmed the principle of "no concessions to terrorists or their sponsors."

In the wake of the controversial US arms sales to Iran, this affirmation seemed aimed at rebuilding the US Government's credibility in resisting terrorist pressures.

Summit details, Page 2; Soviet nuclear proposals, Page 3

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HE TIMES

JUNE 10, 1987.

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Venice: a step forward

From David Smith
Venice

The finance ministers of the seven major industrial countries yesterday agreed to extend the process of economic policy co-ordination. However, most of the summit countries meeting in Venice held out against a US proposal for the publication of indicators of economic performance and automatic policy action when performance diverged from agreed limits.

The Chancellor, Mr Nigel Lawson, said: "This does, I think, provide a useful framework for the international co-operation which we are all resolved to continue and intensify. I would characterize it as a useful step forward."

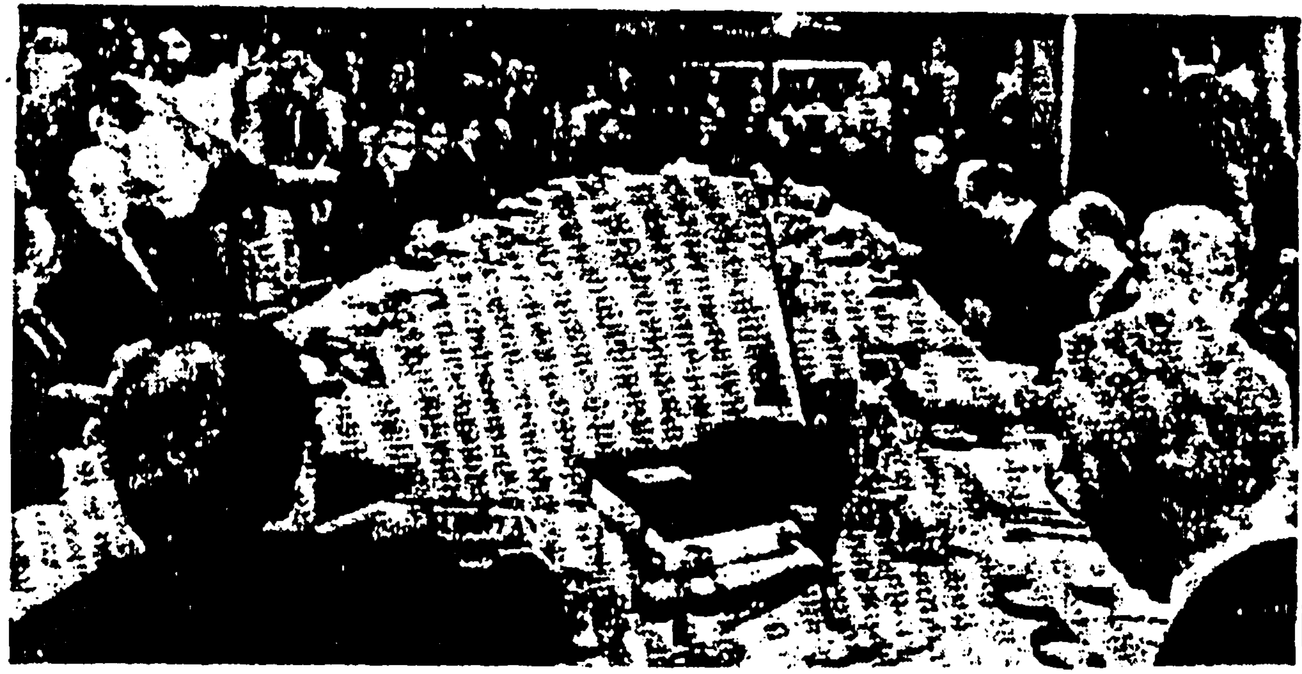
He added that the plan went beyond last February's Louvre agreement on exchange rates.

Today's summit communiqué will stress the achievement of the major countries in attaining sustained non-inflationary growth, while pledging action on trade and budgetary imbalances, agricultural surpluses and unemployment.

The summit partners reaffirmed their commitment to stable exchange rates. The US Treasury Secretary, Mr James Baker, citing economic policy moves in Japan, Germany and the United States, said that stable exchange rates would be achieved, not by statements from the summit, but by the actions already in train.

Officials said finance ministers preparing the summit statement for approval by government leaders and heads of state had agreed that the Louvre accord had been successful and had helped stabilize currencies.

There was also general agreement that while this currency stabilization was having a positive effect on real trade balances, it would take some time before the currency rate stability was reflected in nominal trade figures.



At table: ministers of the seven major industrial countries ready for the start of yesterday's plenary session

The ministers had also said that while current economic growth levels could be higher, there was no general expectation of a recession.

Under the system of indicators agreed yesterday, each country will present medium-term forecasts of growth, inflation, current account and trade balances, budgetary policies, monetary conditions and exchange rates for consideration by the other summit partners.

These forecasts will not be published, except as part of the normal forecasting process in each country. Britain, for example, will present its forecast early in the year to the summit partners, but the details will not be made public until Budget Day.

The big steps forward yesterday were that other countries will be able to raise objections if there are inconsistencies in the forecasts presented. In addition, there will be the facility for meetings of ministers and central bankers to be called when economic performance diverges from the indicators, although there will not be any automatic requirement for countries to change policy.

The move forward on indicators, with the aim of fostering exchange rate stability, followed a series of meetings yesterday in which the summit partners were in broad agreement on economic issues.

No new commitments on macro economic policy came from the summit participants and neither Japan nor Germany came under significant pressure.

Mr Lawson presented a three-point plan for easing the debt burden on sub-Saharan Africa. But the US is unlikely to agree at this meeting to the interest relief element

"I hope we will get agreement by September," Mr Lawson said. "I think we should set ourselves that deadline."

He also urged the adoption of a parallel $4 billion plan, put forward by M Michel Camdessus, the IMF managing director, to ease that part of sub Saharan Africa's debt burden, which is owed to the international agencies.

Comment, page 31

Japanese pressed on C&W

The Prime Minister, Mrs Thatcher, pressed the issue of Cable & Wireless's participation in the Japanese telecommunications market, in a brief meeting with Japan's Prime Minister yesterday.

But Mr Nakasone said he was still awaiting a progress report on the proposed merger of the two rival telecommunications consortia in Japan, and could offer no concessions at this stage.

Mrs Thatcher appeared determined to keep the subject of Japanese trade on the agenda at yesterday morning's full summit meeting.

"Our purpose, of course, is to open up the Japanese market and we do not think that the steps that they have taken have been enough. We do not think that will bring down their surplus enough," she said.

A further meeting is scheduled between the Foreign Secretary, Sir Geoffrey Howe, and his Japanese counterpart, Mr Tadashi Kuranari.

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Wednesday June 10 1987

Financial Ti

Industrial nations in accord on economic policy co-operation

BY STEWART FLEMING, PHILIP STEPHENS AND JOHN WYLES IN VENICE

GOVERNMENTS of the leading industrial nations yesterday established a more detailed framework for international economic co-operation.

The accord, agreed by Britain, the US, Japan, West Germany, France, Canada and Italy at the Venice economic summit aims to provide added focus to the countries' efforts to reduce the major trade imbalances in the world economy.

The seven also endorsed February's Louvre agreement, under which they resolved to seek a period of stability on foreign exchange markets.

The latest accord was greeted by the US and France as a significant step forward in policy co-ordination. However, other nations, including Britain and West Germany, suggested it had no particular significance for their present economic policies.

The agreement calls for the increased use of economic performance indicators to try to ensure that individual nations' domestic policies are consistent with steady world growth as well as reductions in the huge US current account deficit and in the parallel surpluses in Japan and West Germany.

The indicators cover growth, inflation, exchange rates, monetary conditions, trade and current account balances and budgetary positions.

Under the accord, each of the seven governments will prepare medium-term projections and objectives for their economies at the start of every year. They will then meet with the aims of removing inconsistencies between their national projections and ensuring their compatibility with sustained and more balanced growth.

The policies of Mr Mikhail Gorbachev, the Soviet leader, hold out the prospect of a turning point in East-West relations, the Western leaders said in an assessment, adding that the goals of nuclear disarmament should be actively pursued and "translated into concrete agreements." Back Page

The group's finance ministers will then review the indicators throughout the year to assess each country's performance, and, if necessary, discuss possible "remedial action."

Mr Nigel Lawson, Britain's Chancellor of the Exchequer, described the agreement as "a useful step" rather than a great leap forward, and said it represented some advance on the Louvre accord.

However, he stressed that there was no question of national governments being committed to firm targets for the indicators. He also said the accord did not imply that governments had established target zones for their currencies.

His caution was echoed by Japanese and West German officials. They said their national sovereignty over domestic economic policy had not been compromised. They suggested that the accord heralded a more systematic approach to policy co-ordination rather than anything more substantive.

However, the US and France, which have been the driving forces behind the move towards a more formal system of co-operation, can claim that they have achieved a further step in that direction.

Mr James Baker, the US Treasury Secretary, said the accord represented about 90 per cent of what the Washington Administration was seeking.

The remaining differences between governments were reflected in a decision not to publish the full text of the agreement. Senior monetary officials said the US believed that publication would strengthen the value of the indicators, but West Germany and Britain were wary of publishing anything that suggested formal target zones for exchange rates.

Officials said there were also problems over the role of the Group of Five nations in international co-operation. Italy and Canada, which are excluded from this group, are concerned to ensure that meetings of the five do not undercut yesterday's agreement.

Continuing disagreements over existing policies were reflected in several statements by government leaders yesterday. However, they were toned down in the interest of unity at the summit.

The US and Britain expressed concern at the recent slowdown in growth in West Germany, with Mr Lawson suggesting that Bonn could cut its official interest rates by another half a percentage point.

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Summit reports, Page 2

Continued from Page 1

Accord

Several governments voiced anxiety over the prospects for further substantial reductions in the US budget deficit. European officials quoted President Reagan as forcefully rejecting any suggestion of tax increases in the US in order to achieve bigger cuts in the deficit.

Mrs Margaret Thatcher said Japan should do more to open up its economy to foreign goods. However, Mr Yasuhiro Nakasone, Japan's Prime Minister, emphasised his country's recent package of measures to stimulate economic growth.

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PM says British policies won the day at Venice

From Alex Brummer and Peter Rodgers in Venice

Mrs Thatcher claimed after one of the shortest appearances in the history of Western summits yesterday that the other six leaders had seent the light had adopted her policies on East-West relations, nuclear deterrents, terrorism, and the economy.

"The policies we have been practising have become the orthodox policies of the world economic summit," Mrs Thatcher said of her economnic policy before leaving Venice. "No one questions them now: durable, non-inflationary, sustained growth."

As if this were not enough for 18 hours' work, the Prime Minister also extolled the virtues of stationing missiles in Britain, which she said was leading to the first reduction in nuclear weapons. With a keen eye for the electoral weaknesses of Mr Neil Kinnock's defence policies, she persuaded other leaders to back a strong reaffirmation of nuclear deterrence. She said it was "absolutley vital and there was no difficulty in getting that because we all believe in it."

The Venice political communiqués on East-West relations and arms control were conveniently released as Mrs Thatcher was returning to the fray in London. She said they "confirm almost everything we ourselves have been saying on the main East-West relations" in which she included Mr Gorbachev's reforms in the Soviet Union and reinforcement of the nuclear deterrent.

British-based cruise and Pershing missiles had brought Moscow to the bargaining table. "We are getting the first reduction in nuclear weapons that we have ever had," Mrs Thatcher said. Her performance on the quayside in Venice conflicted with the tradition that heads of government hold theirtongues until the gathering is over, and fulfilled the fears of Opposition leaders that she would use Venice as an election platform.

Summit backing on Gulf shipping, page 10; Reagan in red star's shadow, page 25; US blocks Lawson's aid plan, City Notebook, page 29.

Mrs Thatcher responded tgo a suggestion that her trip to Venice might have been one long photo opportunity by saying: "I assure you it is not." But she seemed to relish the opportunity to be seen with statesmen from the US, Japan, West Germany, France, Italy, and Canada. She took particular pride in being framed with her oldest international buddy, President Reagan.

President Reagan applied pressure for greater activity by the Western powers in keeping oil supplies in the Gulf moving. Mrs Thatcher said: "We simply must uphold the principle of free passage up the Gulf . . . we will do everything we can to support the Secretary-General of the United Nations and to see that there is both a just and effective resolution in the Security Council." The Thatcher interpretation of what was generally seen as a weak statement was that the word effective also meant "enforceable."

Mrs Thatcher left before the main economic sessions began, but this did not prevent her from presenting her analysis of "a very good discussion on the world economy." The Prime Minister said everybody had the same objectives as Britain. "We all want steady growth, non-inflationary, sustained."

Some countries had imbalances, she said, but Britain was "very nearly in balance in a budgetary way and we are also about in balance in our trade." Her only concession on economic comparisons with the other summit six was

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Guardian 10 June 87

PM claims triumph at Venice

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the lower unemployment rate in Japan and the United States. She complained during the morning session that Japan was not doing enough despite its expansion package announced last week, which she admired, and its surplus might increase.

Mrs Thatcher also pushed her campaign for an end to taxpayers' subsidies to farmers — not just in Britain, but worldwide.

The Prime Minister's visit to Moscow was still uppermost in her mind when it came to the East-West discussion in Venice. Referring to her Moscow performance and arguing that she was the first person to say it, Mrs Thatcher said: "Yes it is in the interests of the West that Mr Gorbachev's reforms succeed because it will mean a little bit extra freedom for them within limits."

This sentiment was endorsed by the final communiqué in which the Americans agreed to terminology noting the "significance" of reforms for "the improvement of political, economic, and security relations between countries of East and West."

The possibility of an early Reagan-Gorbachev summit was not raised by the communique. But the American Secretary of State, Mr George Shultz, made it plain that the two sides were on track for an erly accord on short and medium-range Euro-missiles and that the issue of conventional arms could be settled in a new forum. Even progress on strategic weapons was possible despite the Reykjavik debacle last October.

The allies in Venice seemed less sure. The firm statement on deterrence, for which Mrs Thatcher took so much credit, was diplomatically designed to prevent another Reykjavik. It also aimed at reassuring the Europeans that their own nuclear deterrents would remain intact and the Americans would not deprive them of the strategic umbrella which Mrs Thatcher says has kept the peace in Europe for 40 years.

It could also be interpreted as a direct repudiation of Mr Kinnock's platform, even though the summit was billed by the Tories as nothing to do with the election, and a duty Mrs Thatcher had performed for nine years.

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The Times 10 June 87

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Summit boost for Prime Minister

From Philip Webster, Chief Political Correspondent, Venice

Mrs Thatcher goes into the final day of the election campaign today able to claim overwhelming backing from the leading Western nations for her defence and economic policies.

She received the big electoral boost for which she had planned when she set the election date by securing from the leaders of the United States, Japan, Canada. France, Italy and West Germany an effective repudiation of Labour's non-nuclear defence policy.

As she left Venice at lunchtime yesterday, after just 18 hours at the summit, she declared that the economic strategy which she had pursued for eight years had now become the "orthodox" policy of the West.

Shortly before leaving the summit island of San Giorgio Maggiore after a three-hour discussion on the world's economy Mrs Thatcher said her truncated trip had been "absolutely vital."

Shrugging off suggestions that it was all an electioneering exercise, Mrs Thatcher said that she was representing her country as she had done for eight years, that Britain had had a "tremendous influence" on past summits, and that no country now questioned the British policies of "durable non-inflationary sustained growth".

The "steady" policies pursued since she had been attending the world summits were beginning to bear fruit, she said.

As Mrs Thatcher returned to the campaign trail with her final rally speech at Harrogate last night, Conservative election strategists probably concluded that the summit gamble, as in 1983, had again paid off.

Continued on page 28, col 3

Mrs Thatcher and President Reagan discussing world issues in the garden of the Hotel Cipriani in Venice yesterday.

Hope in Venice for Prime Minister

Continued from page 1.

After a long discussion at a working dinner when Mrs Thatcher arrived on Monday night, the heads of government yesterday approved a statement on East-West relations which committed each country to "maintaining a strong and credible defence" and reaffirmed "the continuing importance of nuclear deterrence in preserving peace". Whether all the other leaders intended it or not, they have given Mrs Thatcher an important final trump card in the crucial election argument about defence.

Speaking before she boarded her motor launch for the airport, Mrs Thatcher said the deterrent was vital. "We all believe that. We all believe the nuclear deterrence is going to be vital to our peace for many years to come."

She said it was "specially pleasing" because it looked as if the West's firm strategy of deploying cruise and Pershing missiles would be successful in leading to an agreement to reduce nuclear weapons in a balanced and very viable way. "We are on course for getting the first reduction in nuclear weapons we have ever had."

As she emerged from the summit building, Mrs Thatcher also hailed the agreement reached yesterday on terrorism which, for the first time, committed each country to the principle of making no concessions to terrorists or their sponsors.

In her contribution to yesterday's discussion Mrs Thatcher said that previous summits had been important in bringing down inflation, reducing interest rates and producing sustained growth for five continuous years. But she said that problems remained, including unemployment and the problem of trading imbalances, which had to be dealt with. She urged her colleagues to fight against protectionism and to continue the fight to reduce agricultural surpluses.

Her remarks about imbalances were aimed particularly at Mr Yasuhiro Nakasone, the Japanese Prime Minister, with whom she had a brief discussion before the full summit at which she urged him to do more to open up hismarkets.

Later she said: "We do not think the steps the Japanese have taken have been enough. We do not think they will bring down their surpluses enough."

Mrs Thatcher began her tight schedule yesterday with a 45-minute discussion with President Reagan at his hotel. They discussed the Gulf crisis and agreed that the United Nations should be asked to take effective action to help bring the Iran-Iraq war to an end. They also discussed East-West relations and arms control before travelling together in Mr Reagan's boat to the summit.

Just before she left for home Mrs Thatcher denied that her trip was just a long photo opportunity. It had been very concentrated and extremely worthwhile, she said.

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Independent June 10 1987

Summit agrees to monitor policy

From Steve Levinson
in Venice

FINANCE ministers of the seven industrial nations at the Venice summit yesterday agreed to put in place new arrangements for monitoring their economic performance and for closer consultations.

They also reaffirmed last February's Louvre accord on exchange rates which committed them to stabilisation of exchange rates and has since led to concerted largescale intervention on the foreign exchanges.

While the confirmation of the Louvre currency pact was expected, the early announcement that there had also been an agreement on so-called "objective indicators" was unexpected. It was announced by British government officials within hours of Nigel Lawson's arrival in Venice for a flying visit of even shorter duration than Mrs Thatcher's.

While the agreement is a step forward in terms of closer consultations on individual countries' economic performance, it falls a long way short of setting performance targets coupled with commitments to adjust policies if the targets are not met. Both the US and France had been pushing for more concrete commitments, while the British, West German and Japanese governments made it clear they were not prepared to tie themselves to any automatic policy adjustments.

Before leaving Venice, Mr Lawson confirmed that there was "no automatic link" between the indicators and policy adjustments. The agreement would provide a useful framework for international co-operation but it was a "useful step forward rather than a great leap forward".

The British officials who first gave details of the agreement said it would involve each country each year presenting their medium term projections, with the aim of "ensuring a degree of forward consistency between them". A series of "interim performance indicators" would be developed, but not published.

Mr Lawson said the secrecy was necessary to give "more effective operation in market terms". There would be seven indicators, but unemployment was not one of them. However, it would be reflected in the indicator of economic growth, he said. The other indicators are thought to be the exchange rate, trade, current account, inflation, monetary conditions and budget deficits.

Officials said the indicators would vary from year to year. They would be reviewed regularly by finance ministers and central bank governors of the seven summit countries.

From this point, however, the commitment becomes vague. The officials said the seven could "reach understandings on policy actions if it is necessary.".

The agreement reached in Venice is the latest stage in developing closer economic co-ordination, the need for which has grown more acute because of the major imbalances between the US, Japanese and European economies. At last year's summit the seven agreed to investigate the setting of targets and report back to this year's summit.

But the details that emerged yesterday fall a long way short of commiting governments to any action. "There is no surrender of sovereignty. Sovereign governments remain responsible for their own policies, but the intention is that there should be a good faith agreement," said the British spokesmen.

At his press conference Mr Lawson said that finance ministers had also spent much time on the subject of international debt. While there was general endorsement for the existing strategy of dealing with middle-income countries, and a welcome for the recent extra debt provisions made by US banks, there was now a growing recognition that the problem of the very poorest sub-Saharan countries had to be dealt with differently.

The Chancellor said he had urged action along the lines of his own three-point plan to help these countries. A new initiative was needed and he hoped it would be made by September.

Mr Lawson admitted, however, that the part of his proposals which suggested interest rate subsidies for the poorest countries was "a contentious issue" although it addressed the heart of the problem which was to reduce the payments burden on these countries. "I don't think at the moment we have got universal agreement on that. We still have to convince the US."

The Chancellor also noted that his plans which were directed at easing the debts owed to individual nations fitted well with another plan put forward by IMF managing director, Michel Camdessus, which was directed at IMF debt burden. Mr Camdessus is proposing that the IMF special pool for help to the poorest countries should be trebled from $4bn to $12bn.

JOHN VOOS

Useful step: The Chancellor, Nigel Lawson, after yesterday's summit meeting in Venice.

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Financial Times June 11

Washington influence on decisions wanes

BY STEWART FLEMING, US EDITOR

WHEN President Ronald Reagan arrived in Venice a week ago he disappeared to a country hotel for the first few days to recuperate from the journey, spending much of his time taking walks and watching films with his wife Nancy.

The contrast with his first summit in Ottawa in 1981, which produced the vivid picture of Mr Reagan vigorously taking charge—chauffering an anxious-looking West German Chanceller Helmut Schmidt in a golf cart—is, striking. It symbolises the diminished influence not only of Mr Reagan, but also of the US in summit decision-making.

In almost every area that the summit leaders have addressed, US positions have been watered down in the drafting process or dropped before the meetings opened.

Instead, it has been the Europeans who have had the biggest influence on the way the various summit communiques have evolved. The Japanese have been largely on the defensive because of the weakness of Mr Yasuhiro Nakasone, their Prime Minister, dissatisfaction with their economic and trade policies and the fact that their strongest ally at such international meetings has traditionally been the US.

The summit statements on East-West relations, and especially on the Gulf war, provided the most graphic evidence of the shift in the balance of power away from a Reagan Administration which has lost international credibility and clout.

The Iran arms sales scandal, for example, led directly to a statement in the political communique confirming the principle of "no concessions" to terrorists or significantly "their sponsors."

Disenchantment with the US conduct of foreign policy, which deepened with the near-disaster at the Reykjavik summit, was evident in the refusal of summiteers to go along with the tough statement on policy in the Gulf which US officials initially sought.

Mr George Shultz's efforts to interpret the summit statement on the Gulf as an endorsement of the US call for a ceasefire, a retreat to international boundaries and mandatory sanctions against whoever failed to heed the call—almost certainly Iran—was greeted with profound scepticism even by a sympathetic US press. It, too, found it hard to understand how words like "ceasefire" did not appear and how the call for "effective measures" by the United Nations could be interpreted by the US as a call for mandatory sanctions, especially when Mr Schultz conceded he did not know whether China and the Soviet Union would support such a call in the Security Council.

In fact, of course, the other summit nations had succeeded in their goal of endorsing broad principles such as free navigation in the Gulf, but not what they saw as the dangerous tilt towards Iran implied by Mr Shultz.

Most striking and significant, especially when it is contrasted with the "evil empire" rhetoric of Mr Reagan's early days as President, was the cautious but clear endorsement the summit leaders gave to the internal and external policies of the Soviet Union.

As US officials presented their interpretation of the communique, they were again at pains to emphasise that US priorities which the other summit leaders can broadly accept were mentioned. Those include the resolution of regional disputes, withdrawal of Soviet forces from Afghanistan, an improvement in Moscow's human rights record and progress across the board on East-West relations.

A new and remarkable element in the communique was the guarded but nevertheless optimistic assessment of the significance of the reforms which Mr Gorbachev is setting in train. It was hard not to detect the hint of detente in the communique's wording that "it is our hope that they will prove to be of great significance for the improvement of political, economic and security relations."

Mr Reagan's difficulty, of course, is that having embarked on a firm course towards an arms control agreement on intermediate and shorter-range missiles in Europe, partly to reinforce his weakening domestic political position, he is hard pressed to stick with his earlier hard line towards Moscow. This is especially so when scepticism about US policies and leadership is being fostered by Mr Gorbachev's success in presenting a favourable image to the West.

US economic problems, and the nation's weakened capacity to lead, also left a mark on the communique. When it comes to spending money, on helping Third World debtors, or boosting the capital of the World Bank, it is Washington—with its budget problems and the pressure the Democratic Congress is exerting on the foreign aid budget—which is having to drag its feet.

The other summit leaders have had to accept therefore that such issues as the world bank capital increase or the strengthening of the International Monetary Fund's structural adjustment facility, cannot be done as quickly as some would want. But the reference to the possibility that the World Bank's "financial stability" might require a capital increase and the deadline for approving the structural adjustment facility expansion show that these are issues which the other summit leaders believe need to be addressed urgently.

The statements out of the summit thus provide little for Mr Reagan in his efforts to rally his conservative supporters—supporters who will be needed to push an arms control accord through the Senate. They will do little either to damp down right-wing criticism of European failure to support the US enthusiastically.

But European governments know that conservative strength is on the wane that Mr Reagan's effectiveness as President is fast declining, and that now might be an opportune moment to encourage those in the US who have been more sympathetic to European concerns.

US stand on AIDS rejected

BY STEWART FLEMING

THE BROAD outline of the Reagan Administration's recent stand on AIDS was rejected implicitly yesterday at the Venice summit.

Saying that efforts to combat AIDS needed to be intensified and made more effective through international co-operation, a Chairman's Statement on AIDS was issued in Venice saying that the attack on the disease had to be based on the principles of human rights.

The statement went on to say that in the absence of a vaccine or cure)" a strategy based on educating the public about the seriousness of the AIDS epidemic, the way the AIDS virus is transmitted and the practical steps each person can take to avoid acquiring it or spreading it" is needed.

After a fierce debate within the Reagan Administration, the President last month announced that the federal government would require testing of people for AIDS where it had authority such, as in prisons or dealing with immigrants.

Where it lacked such authority, the Administration said it would encourage AIDS testing, for example in the case of couples seeking a marriage licence.

The Administration has also avoided placing emphasis on practical education to combat AIDS by instructing children about the use of condoms. Conservatives in the White House have maintained that this would encourage immorality and could tend to weaken family ties.

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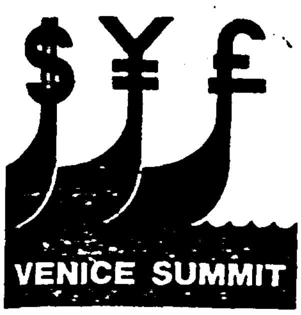

Thatcher claims support for economic policy

BY PHILIP STEPHENS

"IT WAS absolutely vital that I came," Mrs Margaret Thatcher, the British Prime Minister, said as she left the seven-nation economic summit yesterday, claiming international endorsement of her government's defence and economic policies.

In ebullient mood after her 18-hour stay in Venice, the Prime Minister praised the summit's three political declarations. The statements, on the Gulf war, on East-West relations, and on terrorism, were all in tune with British policies, she said.

Mrs Thatcher dismissed opposition charges that her visit to the summit had been an elaborate "photo call" designed to boost her chances in tomorrow's election. Although she had been at the summit for only a short time, it had been "extremely concentrated, very intense."

The Western allies had backed "all the things we have been doing. And people want those things to continue."

Despite her crowded schedule, the Prime Minister found time for a 45-minute private meeting with President Ronald Reagan in the President's hotel.

Both sides declined comment on whether the election had been discussed, but their close personal relationship was emphasised by their joint arrival yesterday morning for the summit's first formal session on the Venetian island of San Giorgio.

The world's television cameras caught the two leaders stepping ashore together from President Reagan's motor launch, then chatting and smiling as they stood together for the group photograph of the seven leaders.

British and US officials said that their talks had covered everything from agricultural subsidies and the US budget deficit to East-West arms control and the Gulf war.

Official briefings indicated no area of disagreement between the two.

Mrs Thatcher said the summit statement on East-West relations reflected a unanimous view that nuclear deterrents were still essential to Western security.

The West was on course to secure the first reductions in nuclear weapons ever, but "we all believe that nuclear deterrence is going to be vital to our peace for many years to come."

Bomb blasts linked to summit

A POWERFUL car bomb exploded near the US embassy in Rome yesterday and crude grenades hit the grounds of the US and British missions in attacks linked by police to the Venice summit, Reuter reports.

The early-morning blasts caused considerable damage to cars and buildings near the US embassy but the only casualty was a woman suffering from shock.

Responsibility for the attacks was claimed by the "International Anti-Imperialist Brigade."

● An official Soviet spokesman raised the prospect yesterday that Mr Mikhail Gorbachev would meet President Ronald Reagan this year to sign an agreement on limiting medium-range nuclear missiles.

"We favour such a summit on the understanding that it brings concrete, positive results," said Mr Boris Pyadyshev of the Foreign Ministry's Information Directorate.

"Is it realistic to expect a meeting of the leaders of our two powers? In our view, it is, and even this year," he told a news briefing in Moscow.

Mr George Schultz, the US Secretary of State, interviewed in Venice yesterday, said preparations for a third Reagan-Gorbachev summit were proceeding "pretty well" but would not say when it might take place.

Tokyo growth scheme 'will win go-ahead next month'

BY PHILIP STEPHENS

MR YASUHIRO NAKASONE, Japan's Prime Minister, yesterday pledged that his government next month would secure parliamentary approval for its Y5,000bn (£21.3bn) package of measures to stimulate the country's economy.

Attending the world economic summit in Venice, Mr Nakasone also spelt out the details of the Tokyo government's plan to establish a $20bn fund to recycle cash to developing countries.

He acknowledged, however, that the timing of a planned Y1,000bn in tax cuts was less certain than the main package of expansionary measures, which focuses on boosting public works programmes.

Mr Nakasone, who has worked assiduously at the summit to avoid criticism from other heads of state, said that parliamentary approval of the public works expansion was assured.

The Tokyo government estimates that it could add between 1 and 1.5 percentage points to the country's growth rate over the next year.

Japanese officials said that timing of the implementation of the tax cuts could be more complicated. Last month Mr Nakasone's proposal to introduce a domestic sales tax to balance reductions in income tax was defeated amid fierce domestic opposition.

The officials said that he was still prepared to introduce the income tax cuts, but the Prime Minister wanted some assurance from opposition parties in the Japanese diet that they would co-operate in implementing future offsetting tax increases.

Mr Nakasone said that the $20bn recycling to aid developing countries would consist of new official and private sector funds over the next three years. The money would be channelled through multinational development institutions and bilaterally to heavily-indebted nations.

Since the government had already allocated $10bn for the same purpose last year, the total flow of funds during the next three years would be $30bn. Of that, however, only an unspecified proportion would be direct aid. The rest would have to be raised by international development agencies on the Japanese capital market.

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Leading industrial nations approve co-operation pact

BY STEWART FLEMING, PHILIP STEPHENS AND JOHN WYLES IN VENICE

GOVERNMENTS of the leading industrial nations yesterday established a more detailed framework for international economic co-operation.

The accord, agreed by the US, Japan, West Germany, France, Britain, Canada and Italy at the Venice economic summit, aims to provide added focus to their efforts to reduce the major trade imbalances in the world economy.

The seven also endorsed February's Louvre agreement under which they resolved to seek a period of stability on foreign exchange markets.

The latest accord was greeted by the US and France as a significant step forward in policy co-ordination, but other governments – including Britain and West Germany – suggested it had no particular significance for their current economic policies.

It calls for the increased use of economic performance indicators to try to ensure that individual nations' domestic policies are consistent with steady world growth and reductions in the huge US current account deficit and the parallel surpluses in Japan and West Germany.

The indicators cover growth, inflation, exchange rates, monetary conditions, trade and current accounts balances, and budgetary positions.

Under the accord each of the seven governments will prepare medium-term projections and objectives for their economies at the start of every year. They will then meet with the aim of removing inconsistencies between their national projections and of ensuring their compatibility with sustained and more balanced growth.

The group's finance ministers will then review the indicators throughout the year to assess each country's performance, and, if necessary, to discuss possible "remedial action."

Mr Nigel Lawson, Britain's Chancellor of the Exchequer, described the agreement as "a useful step rather than a "great leap" forward, and said it represented some advance on the Louvre accord.

He stressed, however, that there was no question of national governments being committed to firm targets for the indicators, or that governments had established target zones for their currencies.

His caution was echoed by Japanese and West German officials, who said that their national sovereignty over domestic economic policy had not been compromised. They suggested that the accord heralded a more systematic approach to policy co-ordination rather than anything more substantive.

The US and France, which have been the driving force behind the move towards a more formal system of co-operation, can claim however that they have achieved a further step in that direction.

Mr James Baker, the US Treasury Secretary, said the accord represented about 80 per cent of what the Washington Administration was seeking.

Continued on Page 26

Details, Page 2

Co-operation pact is approved

Continued from Page 1

The remaining differences between governments were reflected in a decision not to publish the full text of the agreement. Senior monetary officials said that the US believes that publication would strengthen the value of the indicators, but the Bonn and London governments were wary of publishing anything that suggested formal target zones for exchange rates.

Officials said there were also problems over the role of the group of five nations in international co-operation. Italy and Canada, which are excluded from this group, are concerned to ensure that meetings of the five do not undercut yesterday's agreement.

Continuing disagreements over existing policies were reflected in several statements by government leaders yesterday, although they were toned down in the interest of unity at the summit.

The US and Britain expressed concern at the recent slowdown in growth in West Germany, with Mr Lawson suggesting that West Germany could cut its official interest rates by another half percentage point.

Several governments voiced anxiety over the prospects for further substantial reductions in the US budget deficit. European officials quoted President Reagan as forcefully rejecting any suggestion of tax increases in the US in order to achieve bigger cuts in the deficit.

Mrs Margaret Thatcher, the British Prime Minister, said that Japan should do more to open up its economy to foreign goods, T 936 (82/8)

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PREVIOUS SUMMIT POSITIONS REINFORCED

Leaders find easy accord on political aims

BY STEWART FLEMING, PHILIP STEPHENS AND JOHN WYLES

IF JUDGED only by the speed with which the heads of government were able to adopt their declarations on political subjects, then there is a marked degree of consensus and harmony among the Western world's leading industrialised nations.

In reality, of course, there were differences of approach, although none of them fundamental. As a result, no head of government with a minority view felt the need to be difficult over statements on East-West relations, terrorism and the Gulf War which contain something old and something new and broadly build on positions adopted at previous summits.

The minorities included President Ronald Reagan who did not secure unequivocal backing for an "enforcement" aspect to any possible UN Security Council resolution calling for a ceasefire in the Iran-Iraq war. Nor did he obtain an appeal to Mr Mikhail Gorbachev to drop his objections to the Strategic Defence Initiative and to press ahead with negotiating strategic nuclear force reductions.

Mr Brian Mulroney, the Canadian Premier, had wanted some strong language on South Africa but he bowed to the opposition from President Reagan and Mrs Margaret Thatcher and may have to content himself instead with a statement in the final summing up by the summit host, Mr Amintore Fanfani, the Italian Premier.

The [illegible] in the East-West [illegible] is a favourable [illegible] on Mr Gorbachev's new policies. This bears the imprint of West Germany's view, now evidently supported by Mrs Thatcher and President Francois Mitterrand of France that they present an opportunity to render the Cold War [illegible] obsolete.

However, the conservative [illegible] of Mr Reagan's Republican Party will not applaud the President's endorsement of the summit's "hope" that recent developments in Soviet internal and external policies "will prove to be of great significance for the improvement of political, economic and security relations between the countries of East and West."

President Reagan with Mrs Thatcher at Venice yesterday.

Nor did the seven heads of government want to appear too satisfied with Mr Gorbachev. They still believe in the need to be "vigilantly alert" in responding to Soviet policy and reminded Mr Gorbachev that "much still remains to be done" in the field of human rights to honour Soviet commitments made under the Helsinki Final Act. They added a call for a "rapid and total withdrawal" of Soviet forces from Afghanistan and said they wanted greater and freer contacts between the peoples of East and West.

Ahead of the Nato foreign ministers meeting which opens in Reykjavik on Thursday, the summit did not seek to deal with the substance of the US negotiating position over short and medium range nuclear weapons. But after one of the most thorough examinations ever of arms issues at a world economic summit, the leaders claimed that the new opportunities for progress in East-West relations were confirmation of "the soundness of the policies we have each pursued" in their commitment "to peace and increased security at lower levels of arms."

"The continuing importance of nuclear deterrence in preserving peace' was duly noted, and US efforts to negotiate balanced, substantial and verifiable reductions in nuclear weapons were appreciated. European concern at Soviet superiority in conventional weapons was reflected in the summit goal of "conventional stability at a lower level of forces" together with the "total elimination of chemical weapons."

Preparation of the summit's conclusions on the Gulf crisis were seriously handicapped by the absence of any clear sign of what the US wanted until the end of last week. Some US officials were suggesting then that the minimum Washington wanted from the meeting was a joint declaration about the importance of keeping open to shipping the Strait of Hormuz and a reaffirmation of the principle of freedom of navigation.

In the event, Washington got very little more and certainly nothing to ensure success in obtaining a toughly-worded Security Council resolution which the S thinks should call for sanctions against non-compliance by Iran or Iraq in the form of a mandatory arms embargo.

The declarations did call for urgent and concerted efforts to end the Gulf War and for a negotiated settlement leaving intact the territorial independence and integrity of the two belligerents. But Washington had been pressing for a UN resolution involving a ceasefire, rather than a negotiated settlement and a withdrawal by the two countries to their internationally recognised boundaries.

Such a stance would have tilted the Western position more visibly towards Iraq since it is Iran which would have to withdraw from its current military positions. Instead, the seven have held to their formal neutrality, fearing that any departure along the lines suggested by the US would only harden Iranian intransigeance.

Unamity and harmony evidently reigned on the subject of terrorism and the summit's final declaration actually broke some new ground. After reaffirming their statements from earlier summits going back to Bonn in 1978, the seven confirmed for the first time the principle of making no concessions to terrorists "or their sponsors."

They welcomed progress made in international co-operation against terrorism since last year's summit in Tokyo and drew particular attention to the meeting in Paris in May of nine European Community ministers responsible for countering terrorism.

This passage was seen by officials as establishing for the first time a link between the anti-terrorism efforts of the seven and those of the EC. In the past, France has blocked such a move which it is hoped will further improve international co-operation through the swapping of intelligence and the smoothing of extradition procedures.

In a separate annex, the summit strengthened the position originally taken in Bonn to make it more effective in dealing with all attacks on civil aviation. Where a country refuses extradition or prosecution of those who have committed attacks, or refuses to return an aircraft, the seven have undertaken to cease all flights to that country and to halt incoming flights from it.

It is also proposed to expand the list of offences which would trigger such a response to include not just hijackings at present, but also violence to passengers and damage to aircraft.

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ROBERT J. SAMUELSON

Lessons From the Age of Volcker

On history's blackboard, most public figures—the politicians and bureaucrats who dominate daily headlines—leave barely a mark. They are too powerless or purposeless to make a difference. They are mainly swept along by the sea of events, shouting loudly as they go to convince themselves and everyone else that they matter. It's a deception and a fraud. Paul A. Volcker was not one of these. He shaped history as well as being shaped by it.

The business of the Federal Reserve—managing interest rates, money flows and credit availability—is so technical and remote that the true scope of Volcker's achievement may not be appreciated. No one disputes his main accomplishment: subduing the most stubborn peacetime inflation in U.S. history. But Volcker's triumph extends beyond this. He presided over the economy during the period of its greatest stress and danger since World War II, and no great calamity occurred on his watch.

No one can say what might have happened if Volcker had not been there. The grim possibilities exist only by way of analogy. The last time the U.S. economy experienced comparable uncertainty was

See SAMUELSON, F2, Col. 2

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ROBERT J. SAMUELSON

SAMUELSON, From F1

in the late 1920s. Many economists believe that, with better Federal Reserve leadership, the Great Depression might have been averted. Facing unprecedented problems, the Federal Reserve of the early 1930s couldn't cope. It permitted a banking crisis that cascaded into an economic collapse. Volcker faced equally unfamiliar problems. The absence of crisis measures his skill.

More is involved than a feat of economic management. Mastering inflation has restored confidence in our capacity to govern. The accelerating inflation of the Carter presidency touched everyone and corroded Americans' optimism. The antidote wasn't subtle. In the 1981-1982 recession, unemployment reached a peak of 12.1 million and the factory utilization rate dropped to 69.5 percent. But Volcker's success disproved all the elaborate excuses (higher oil prices, indexed wages, etc.) of why government couldn't contain inflation. And the subsequent recovery has quieted the argument that inflation's cure would be worse than the disease.

To say this is not to say Volcker has created a state of economic bliss. Everyone knows today's problems. Agriculture remains depressed. Banks are overburdened with dubious loans to farmers, developing countries, oil drillers and real estate developers. The U.S. trade deficit is the largest ever, and some manufacturers haven't revived from the recession and import competition. But many of these problems are the aftershocks of high inflation, and they have—so far—remained isolated. They didn't coalesce into a general economic collapse and haven't kept the recovery from entering its fifth year.

Nor, obviously, did Volcker singlehandedly conduct the crusade against inflation. The alliance between Volcker and Ronald Reagan was a happy accident: neither could have done so well without the other. Although Reagan opposed inflation (who didn't?), he had no forethought of savagely stamping it out. But once Volcker started the job, the president supported him. Criticism from Congress grew. Home builders, auto dealers and real estate agents mailed thousands of keys to Volcker as symbols of unsold houses and cars and threatened bankruptcies. But Reagan didn't wave Volcker off.

The episode underlines the ambiguous relationship between the White House and the Federal Reserve. Technically "independent," the Federal Reserve has huge latitude to run its interest-rate and credit policies on a daily basis. But it cannot maintain a truly independent economic policy in defiance of the White House. What bonded Volcker and Reagan—who spoke rarely and have little personal rapport—was patience and a conviction that uncontrolled inflation endangers a productive and democratic society. Reagan's patience was richly rewarded. Inflation's decline remains his greatest accomplishment and assured his reelection.

Volcker has become what most public figures yearn for and never attain: a legend in his time. The reputation is deserved and yet distorts reality. He had luck. The economy has its own rhythms and recuperative powers. Moreover, there was much that Volcker failed to predict: the severity of the 1981-1982 recession; the sharpness of inflation's fall; the huge rise in the dollar's exchange rate between 1980 and 1985, and the extent of the international debt crisis. But if Volcker didn't control events, neither did he allow himself to be controlled by them. As an economic tactician, he had two great virtues.

First, he had a better grasp than most U.S. officials or economists of the importance of the international economy. In 1982 Volcker helped defuse the international debt crisis. Had that been left to Donald Regan's Treasury, it's hard to know what might have happened.

Second, he could see through the veil of economic statistics and theory to the real world. After the recession, neither interest rates nor money supply statistics provided an accurate guide to Federal Reserve policy. High interest rates implied credit was tight, while a rapidly expanding money supply indicated it was easy. Volcker became a slave to neither.

What emerged was an acute sense of timing. He knew when to change emphasis, as in 1982 when he shifted from suppressing inflation to promoting growth. But to call Volcker a "pragmatist" (as is often done) is wrong. All his flexibility and attention to detail were ultimately directed toward fulfilling strongly held beliefs about what's vital for preserving a democratic society and a healthy economy. Chief among these values was the importance of regaining price stability—a goal he almost attained.

His legacy is blurred, because his achievement can be so easily undone. Avoiding inflation's long-term hazards involves periodically accepting the temporary hardships of recessions. Otherwise, inflation gradually rises until it becomes so strong that it can be controlled only at a brutal social cost, or not at all. That dilemma should never recur if anything has been learned from Volcker's experience. He's been a giant among midgets, but only time will tell whether Americans have the discipline and wisdom to grasp the meaning of what he did.

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Dollar Drops As Venice Talks Are Discounted

Dealers Now Doubt Summit Will Help Support Unit; Voter Polls Boost Pound

CURRENCY MARKETS

By CHARLES W. STEVENS
Staff Reporter of THE WALL STREET JOURNAL

The dollar fell sharply in foreign exchange trading as dealers concluded that nothing new will emerge from the Venice economic summit to support the U.S. currency.

The currency's decline triggered a strong rally in precious metals markets. Treasury bond prices drifted lower, and stocks showed a slight gain (stories on pages 46, 44 and 50).

As the dollar weakened, the British pound soared on expectations that the Conservative Party government of Prime Minister Margaret Thatcher will be reelected tomorrow with a majority of the seats in Parliament.

In late New York trading, the pound stood at $1.6855, a 1.8% gain from $1.6360 late Monday. Its rebound was sparked by the latest polls of prospective British voters, which showed the Conservatives well ahead of the opposition Labor Party. Polls last week that showed the Conservative lead narrowing had caused the pound to tumble.

"The market's perception of where the Thatcher campaign is heading has turned around," Robert Hatcher, vice president and corporate foreign exchange dealer at Barclays Bank PLC in New York, said. The pound's fate has been riding "from poll to poll," he said. If the polls change again before tomorrow's voting, he said, "things could change" for the currency as well.

In other trading, the dollar dropped 1% to 142.20 Japanese yen from 143.60 and was down 0.9% to 1.7835 West German marks from 1.8050.

The dollar's slide began in Tokyo trading and continued throughout the day as news from the seven-nation Venice meeting indicated there would be no new measures to stabilize the currency, traders said.

In early trading today in Tokyo, the dollar was quoted at 141.70 yen.

"Dealers are going back to their bearish scenarios of a few weeks ago," Valerie J. Walker, vice president, foreign exchange, at Harris Trust & Savings Bank, New York, said. "Nothing concrete designed to support the dollar is coming out of the summit."

Although meetings are still scheduled today among leaders of the U.S., Japan, West Germany, France, Britain, Canada and Italy, traders said yesterday that the results of the three-day summit were already clear:

A communique from the seven heads of state today is expected to endorse February's agreement by their finance ministers to stabilize exchange rates. The finance ministers reportedly agreed in Venice yesterday to reaffirm that accord.

"There was always the possibility of something coming out of the summit, and now that possibility has been dashed. So we're off to the races again," Mr. Hatcher of Barclays said. "The market will take the dollar down until the central banks tell us to stop."

The dollar also was hurt yesterday as traders looked beyond the Venice meeting to Friday's report on the U.S. merchandise trade balance for April. Expectations of a widening trade deficit could take the currency "down a lot further" in the rest of the week, Samuel F. Lek, a trader at Bear, Stearns & Co., New York, said.

He cited a survey of economists that produced a consensus forecast that the April trade deficit will widen to $13.9 billion from $13.6 billion in March. Earlier surveys had forecast a slight narrowing to $13.5 billion, he said.

On the Commodity Exchange in New York, gold for current delivery rose $8.40 an ounce to $457.90 in moderate trading. Estimated volume was three million ounces.

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Escaping High Cost of Meal in Venice Is Weighty Issue for Economic Leaders

By Ellen Hume and Philip Revzin
Staff Reporters of The Wall Street Journal

VENICE, Italy – Treasury Secretary James Baker was amazed at the price of his lunch here: The small plate of fish cost $37. And so the man credited with sharply cutting the value of the dollar learned first-hand what other American tourists have been complaining about.

During this week's economic summit, Mr. Baker and other visitors have been assaulted by a combination of summit-gouging and the anemic dollar. A room at the Hotel Excelsior is going for $380 a night. A box of 24 Pampers disposable diapers runs for about $17 just off St. Mark's Square, and water taxis are renting for at least $800 a day.

But while the industrial world's leaders aren't likely to either boost the value of the dollar or do anything else to ease the abnormally high Venetian prices this week, Mr. Baker has found a way to escape the pain. During a recent excursion to the nearby island of Murano, he left behind the summit crowds and tight security and found a cafe lunch for $6.

After-Dinner Stroll

Some of the other summit participants also have found ways to escape, at least for a while. French President Francois Mitterrand kept his aides and several dozen reporters waiting for more than an hour Monday when he took an after-dinner midnight stroll through moonlit Venice, in order to "get his thoughts together," according to an aide.

And West German Chancellor Helmut Kohl enjoyed an anonymous evening at a public cafe, without being disturbed, while nearby crowds thronged around American television correspondent Sam Donaldson as he reported the news from St. Mark's. Chancellor Kohl visited the same square early the next morning, attending mass in St. Mark's Basilica, unremarked and virtually unguarded.

Such idylls are amazing, given the intense security on land and water in this community of 117 islands. Young Italian police officers with their fingers on the triggers of machine guns seem to be stationed every 100 feet, both on land and in high-powered boats on the canals. The Grand Canal is closed temporarily to the gondoliers, who are seeking reparations from the Venice authorities for their lost opportunities.

Some of these estimated 8,000 police and military officers are required to sleep on boats, and they have complained about unsanitary conditions. But the White House staff hasn't been thrilled with its more luxurious accommodations either. Until they moved to the lavish Hotel Cipriani, where the Reagans are staying, some senior staff officials complained that their hotel was filled with geriatrics having mud-bath treatments.

Genuine Clams

Despite the best efforts of professional linguists, some things here defy translation. One restaurant menu in the Rialto area said in English that spaghetti with clams was $5.50, while spaghetti with "genuine clams" was $8. The slowest water bus is labeled the "accelerato."

Even as some Venetians grumble about the foreign invasion, others display the continuing power of American culture. Boston Celtics T-shirts are all the rage, and in the era of the James Baker dollar they cost only $23 here.

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Reagan's Sanctions Move Followed Japanese Request

By a WALL STREET JOURNAL Staff Reporter

VENICE, Italy—President Reagan's decision to partially lift U.S. sanctions on Japanese trade followed a private request by a top Japanese official that the sanctions be eased to improve the U.S.-Japanese political climate.

Makoto Kuroda, Japan's powerful deputy trade minister, said in an interview here that he urged administration officials late last month in Washington to at least modify the sanctions if they couldn't be altogether removed.

Like other Japanese officials, Mr. Kuroda—Japan's chief negotiator on the computer-chip issue—argued that the sanctions should be totally lifted. He contended that there is now "no dumping whatsoever" of Japanese chips in third countries when chip prices are analyzed using a system that he asserted was more accurate than the method used by the U.S. government. The U.S. charges that the dumping, while lessened, continues.

Mr. Kuroda said that he told U.S. officials that "if you acknowledge improvement by Japan, it is very important for us to see that you show improvement, too," by at least reducing the sanctions. He said he urged such a gesture as a way of aiding Prime Minister Yasuhiro Nakasone's political standing, as well as improving U.S.-Japanese political relations, which he said polls show are worsening.

Mr. Kuroda didn't claim direct credit for the president's decision. But Mr. Reagan himself said Monday that he eased the sanctions because "we have to recognize that there are people in Japan, like Prime Minister Nakasone, who have worked very hard" to oppose unfair trade practices who should be rewarded for their efforts.

"I don't know who influenced whom," Mr. Kuroda said in the interview. "But it's common sense." He said that U.S. officials told him only that a decision wouldn't be made in Washington and that they didn't forecast to him last week what the decision would be.

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Summit Yields Vague Position On Persian Gulf

Leaders Call for New Efforts To End Iran-Iraq War, Offer No Help to U.S.

By Ellen Hume and Philip Revzin
Staff Reporters of The Wall Street Journal

VENICE, Italy—Leaders of the major industrialized democracies adopted a weak statement on the security of Persian Gulf oil lanes, an issue that had been a top U.S. priority at the summit here.

In their first joint statement of the meeting, the seven leaders called for new efforts to end the Iran-Iraq war, including "just and effective measures" by the United Nations Security Council. The statement said that free navigation through the gulf "is of paramount importance for us and for others and must be upheld."

But the document didn't make any mention of the U.S. naval effort to keep navigation flowing, and didn't offer help of any kind, military or nonmilitary, to the U.S. Nor did the statement include any explicit reference to the sort of tough provisions the U.S. hopes to see in any U.N. resolution, such as the threat of an arms embargo against whichever combatant refuses to negotiate an end to the war.

Unity Is Proclaimed

The declaration on the gulf was far shorter and less detailed than two other statements included in the leaders' communique, proclaiming unity on East-West relations and pledging specific steps to fight terrorism. Contrary to the expectations of U.S. officials, the leaders have spent almost no time discussing the Persian Gulf issue, which had dominated Reagan administration activities in the period leading up to the summit.

Secretary of State George Shultz said that "I think we have done basically what we want" on the gulf issue. He contended that the vague language hid stronger agreement on details of a gulf policy, including support for a U.N. resolution with arms-embargo sanctions that might be imposed against Iran and Iraq.

But foreign officials offered a contrasting view. A high-ranking French official said that "the United States made a big publicity push on the gulf prior to the summit, getting it on the agenda, sending us all telegrams, but once here they have been very, very discreet. It has barely been mentioned so far. Perhaps they saw they would have no support for military intervention or specific action."

Diplomacy Encouraged

Belgian Foreign Minister Leo Tindemans, here as a representative of the European Community, said: "We [Europeans] came here to drive the Americans off the military path and back to the diplomatic path. We have succeeded." British Prime Minister Margaret Thatcher also had expressed concerns that the U.S. was considering a preemptive strike against Iran in order to prevent the deployment of Chinese Silkworm missiles.

So far, the U.S. has appeared unable to control the summit meeting as much as it has in previous years. On Monday, for instance, White House officials publicly and privately advised reporters that they expected the gulf to be a major topic of the leaders' opening dinner that night. But the subject wasn't even mentioned, as the leaders instead engaged in a very long, spirited debate about nuclear-weapons strategy and how to handle the new Soviet leadership.

"Sometimes it's a little hard to predict what people are going to talk about," Secretary of State Shultz told reporters yesterday, trying to put the best face on things.

On another topic, Japanese officials, instead of welcoming what was a political gift from President Reagan, gave a cool public greeting to his lifting of some trade sanctions and demanded further measures.

And the large White House press apparatus has seemed off its game here. As the White House team left last week for the summit, presidential spokesman Marlin Fitzwater said it was "unlikely" that Mr. Reagan would lift any of the trade sanctions on Japanese goods, and other White House officials privately echoed that view. But then Mr. Reagan decided to do so. Even though White House officials signaled this shift the day before the actual announcement, they insisted publicly that Mr. Reagan made the decision himself, during a bilateral meeting with Japanese Prime Minister Yasuhiro Nakasone.

The East-West statement didn't include any specific language endorsing the growing consensus in the North Atlantic Treaty Organization on the Soviet proposal for eliminating all intermediate-range nuclear missiles from Europe. Unlike the Persian Gulf statement, however, it praised U.S. efforts to negotiate reductions in nuclear weapons.

The leaders affirmed their commitment "to the principle of making no concessions to terrorists or their sponsors." They reaffirmed the commitment to try or extradite terrorists.

President Reagan contended that the statement on the gulf satisfied him. Asked why it didn't have more teeth in it, he quipped, "We couldn't think of anybody to bite."

Walter S. Mossberg contributed to this article

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Reagan Is Finding Himself on the Defensive at This Summit

By Jim Hoagland
Washington Post Foreign Service

VENICE, June 9—After six years of dominating the annual summit meetings organized by the world's leading industrial democracies, President Reagan has found himself on the defensive and unable to impose his agenda on the opening stages of this year's gathering in Venice.

NEWS ANALYSIS

The political and economic problems that confront almost all of his six fellow leaders have prevented any of them, however, from substituting a clear and coherent alternative view in a summit that thus far has lacked focus and drama.

The summit's opening dinner, which often sets the tone for the three-day event, last night found Reagan trying to dispel European concerns that his agreement to remove U.S. medium-range missiles from Europe will affect the Atlantic alliance's overall military strategy against the Soviet Union.

Significantly, it was British Prime Minister Margaret Thatcher, Reagan's closest ally here, who led the way in politely but closely pressing the president to explain the impact he expects his negotiations with the Soviet Union to have on the North Atlantic Treaty Organization's "flexible response" strategy of deterring or combatting any type of Soviet attack on Western Europe.

The dinner conversation was thus not a battle over conflicting objectives, as has been the case at past summits when Reagan has pushed U.S. economic priorities or his Strategic Defense Initiative plan for a space-based antimissile defensive shield.

Instead, it was an examination by concerned allies, containing an undercurrent of skepticism about American leadership in Reagan's final 18 months of office, according to informed accounts of the 3½-hour dinner discussion.

The session also indicated that new differences over allied strategy on future negotiations with the Soviets on battlefield nuclear weapons—very short-range missiles and artillery not covered by the would-be superpower accord—are emerging.

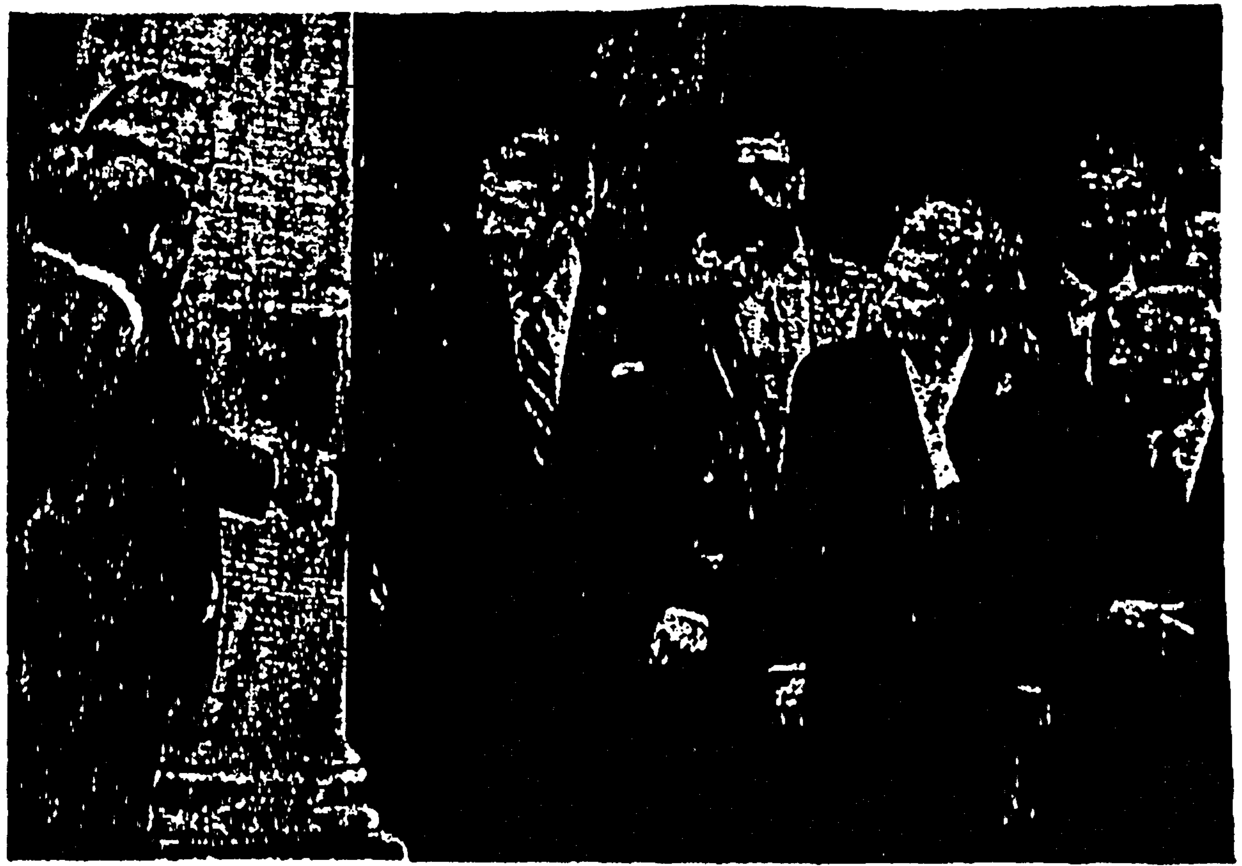
West German Chancellor Helmut Kohl, who remained silent for most of the discussion, has insisted that the West has to go through the motions of being ready to negotiate on battlefield nuclear weapons.

But he heard no echo of that position in the comments by Reagan and Thatcher, who appear to favor instead establishing a negotiating "firebreak" that would rule out the elimination of a category of nuclear arms that would be used only on German territory in a conflict involving NATO and the Warsaw Pact. Those who oppose further negotiations on these battlefield weapons believe they are necessary to help deter an attack by numerically superior Soviet ground forces.

Even the way in which the content of the discussion became known stood in revealing contrast to previous years, when American briefers have aggressively pushed the White House version of the president's accomplishments among his peers.

This year, the White House issued a laconic three-paragraph summary of the dinner after it became known that other delegations would brief journalists in some detail.

French President Francois Mitterrand, 70, was made so enthusiastic by the discussion that he took three of his aides on an hour-long walk along the canals and bridges of Venice immediately after the dinner to recount the conversation in detail to them. They then briefed a 2 a.m. press gathering.



President Reagan and Chancellor Kohl shake hands as Prime Ministers Nakasone, at left, Thatcher and Fanfani watch.

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Their account was confirmed in its essentials by British, West German and other delegates. Secretary of State George P. Shultz also acknowledged to reporters that the leaders had been willing to say to each other, "Yes, there are problems, there are changes," and to discuss them "in a direct, realistic and informed way."

The discussion cleared the way for the quick endorsement this morning of three political declarations—on terrorism, the Iran-Iraq war and East-West relations. None of the statements broke new ground.

The East-West declaration reflected what European delegates said had been a thorough discussion at dinner last night of Soviet leader Mikhail Gorbachev's new policies.

Thatcher, who visited Moscow in March, took the lead and then began to draw Reagan out on his views on the impact that the tentative U.S.-Soviet intermediate-range nuclear forces (INF) agreement would have on NATO strategy.

Under the INF agreement, the superpowers would withdraw all nuclear missiles under their control in Europe with a range of more than 800 miles. That would leave NATO with an estimated 4,600 nuclear warheads in Europe, most of them on tactical battlefield missiles, artillery shells or mines.

For Thatcher, Kohl and other European leaders, the U.S. Pershing II and ground-launched cruise missiles that would be eliminated by the INF agreement formed a significant component of NATO's "flexible response" strategy, designed in the early 1960s to give the United States a variety of tactical nuclear responses to a Soviet attack in Europe short of a cataclysmic massive retaliation on Soviet territory from missiles based in the United States.

The INF agreement, now in draft form in negotiations in Geneva, would mark the first time that NATO weapons systems would be eliminated as a result of an arms control accord and has created serious misgivings within the NATO military establishment.

In response to Thatcher's question, which goes to the heart of allied concerns, Reagan reportedly only repeated for the other leaders portions of a televised speech he gave last Friday in which he reaffirmed the American commitment to defend Europe.

He also sought to reassure the group that flexible response would not be affected by removal of the medium-range missiles.

Mitterrand, noting that France was not affected by the discussion on flexible response because it does not belong to NATO's integrated military command, also reportedly called attention to Reagan's recently renewed commitment to a common strategy built around nuclear deterrence, which he suggested was the key element of maintaining peace. The traditional American commitment to use its long-range missile force as an umbrella over the allies as well had been called into question after the U.S.-Soviet summit in Iceland in October in which both leaders nearly agreed to get rid of all nuclear missiles.

Mitterrand clearly implied that nuclear weapons that could hit Soviet territory were the heart of a deterrence strategy while the battlefield variety were not really an important concern for alliance strategy.

But Kohl, in putting aside strong reservations about giving up the American INF rockets, has insisted that the INF agreement should be followed by talks between the superpowers on reducing or eliminating the short-range, battlefield nuclear missiles as well.

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Summit Allies Tepid On Terrorism, Gulf

U.S. Warned on Dangers of Budget Deficit

BY LUCIAN PERKINS—THE WASHINGTON POST

Japan's Nakasone, Britain's Thatcher, President Reagan and Italy's Fanfani face cameras at summit session yesterday.

By Lou Cannon and Hobart Rowen
Washington Post Staff Writers

VENICE, June 9—President Reagan received only tepid support today from allied leaders attending the 13th economic summit here for U.S. policy on terrorism and the Persian Gulf and also came under strong pressure to reduce the U.S. budget deficit.

French President Francois Mitterrand and West German Chancellor Helmut Kohl described the U.S. deficit as the "central issue" facing the global economy. Japanese Prime Minister Yasuhiro Nakasone, usually conciliatory to U.S. policy in Reagan's presence, also spoke out forcefully about the harmful impact of the American deficit.

The general economic package emerging at the summit after the seven nations' finance ministers met today appeared to fall short of U.S. goals to reach agreement on measures sustaining world economic growth, policy coordination and the reduction of farm subsidies.

Conspicuously absent from the terrorism statement was a passage in last year's declaration at the Tokyo economic summit pledging "refusal to export arms to states which sponsor or support terrorism."

Secretary of State George P. Shultz said there was "no particular reason" for this deletion, but another administration official said the United States had eliminated the passage from the draft presented to the allies. He said this avoided what "could have been an embarrassing reminder" of the clandestine U.S. arms sale to Iran.

Before he left for the summit in Tokyo last year, Reagan approved a mission to Iran carrying U.S. weapons in return for a prospective release of American hostages in Lebanon.

The Tokyo summit statement on terrorism agreed to "intensify the exchange of information" between governments about terrorists. Shultz said at a news conference after today's summit session that increased international cooperation

See SUMMIT, A22, Col. 1

■ *Reagan is finding himself on the defensive in this summit. Page A22*

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Allies Give Reagan Tepid Support On Terrorism, Persian Gulf, Economy

SUMMIT, From A1

had produced a worldwide decline in terrorist incidents, especially in Europe.

Shultz was asked about the case of Mohammed Ali Hamadei, a Lebanese Shiite Moslem accused of perpetrating a 1985 TWA hijacking and now held by West German authorities. The Reagan administration is seeking to have Hamadei extradited to the United States or tried for the murder of a U.S. Navy diver, but Bonn sent an envoy to Iran last month to discuss ways to free two West German businessmen who were taken hostage in Beirut after Hamadei's arrest.

"I don't have the slightest doubt—and I think I'm reasonably well informed—that the Germans will handle this in a correct and stiff way," Shultz said.

The continued presence of terrorist activity was underscored for summit leaders today by two bomb blasts that caused minor damage but no injuries at the U.S. and British embassies in Rome. Here in Venice, Italian authorities also exploded a suspicious object in the channel near the island where U.S. reporters are quartered, but it turned out to be a buoy.

The Persian Gulf statement issued by the summit leaders affirmed support for the principle of free navigation. Shultz said that the president requested no new commitments of military assistance in the gulf and that none were offered.

Both Reagan and Shultz said they were satisfied with the allies' expression of support. In an exchange with reporters at the start of the plenary session, Reagan said he was "delighted with the support we are getting, the attitude of these allied nations here with regard to the gulf."

A senior administration official said the president arrived here well aware of the reluctance of allied nations to expand their naval presence in the gulf, where Britain and France already have small forces to protect their oil tankers. "We didn't ask for very much," the official acknowledged.

The resolution on the gulf asked for "new and concerted efforts" to end the Iran-Iraq war, which has been raging since September 1980. Shultz said the United States wanted a United Nations resolution that would call for a cease-fire in the war and mandatory sanctions if either belligerent fails to abide by it. But the actual statement adopted by the summit leaders stopped short of that demand, calling for "just and effective measures" by the U.N. Security Council.

The United States had proposed a call for "enforceable" measures, but this word was deleted in the discussions, Shultz said.

On Persian Gulf policy, the statement said, "We reaffirm that the principle of freedom of navigation in the gulf is of paramount importance for us and for others and must be upheld. The free flow of oil and other traffic through the Strait of Hormus must continue unimpeded."

Also included in the three-part political declaration was a lengthy statement on East-West relations that reaffirmed a common commitment to arms control but made no specific mention of the pending U.S.-Soviet accord to eliminate medium-range missiles in Europe.

Shultz said "there is a greater and greater consensus now coming forward" on the accord to eliminate medium-range missiles. He maintained that the allied countries were basically "on board" on the accord and expected to complete agreement at a meeting this week of NATO foreign ministers in Reykjavik, Iceland.

"We have talked about this endlessly," said Shultz. "There's nothing to argue about."

On economic issues, Reagan responded to allied criticism of the U.S. budget deficit, as he has in the past, by saying it is now declining.

Meanwhile, a key administration official said there was "an amazing degree of consensus" among the seven finance ministers this morning on the key economic issues facing the summit.

Yet the communique is likely to fall short of American hopes in several areas unless West Germany is persuaded to change its positions.

One critical area relates to global economic growth. All nations except West Germany are pushing for a strong statement urging all countries to expand their economies, where possible, to boost production and jobs. But the most that West Germany has agreed to so far is a reiteration of a promise, made in Paris last month at a meeting of the 24-nation Organization for Economic Cooperation and Development (OECD), to boost its economy if growth slows down.

It seems clear to all except the West Germans that Bonn's economy is already sliding and that the time has arrived for action. West Germany, however, has not conceded this point. Publication of final first quarter figures, normally available now, has been postponed by the Germans until after the summit.

On another key issue, the United States and other countries have been seeking an endorsement by the summit leaders of the commitment by the OECD to work toward elimination of farm surpluses. They have also been seeking to strengthen the OECD language by calling for "expeditious" action that would lead to cutting farm subsidies.

But Bonn has been trying to weaken the OECD agreement. The word "expeditious" has been abandoned. At this stage, the administration official said, "I would feel pretty good if we don't have to back away from the OECD language."

In a final area of economic importance, U.S. officials said they are pleased with the endorsement of a new process for coordinating economic policy that "was conceived in Tokyo" at last year's summit.

But even here, the administration had to settle for something less than it had wanted—although it knew before Venice what the limits of the bargain were likely to be.

Under the new coordinating system, there will be a minimum of three regularly scheduled meetings a year of the seven finance ministers to review at least six key economic indicators: exchange rates, the trade balance, the current account (trade and services) balance, the gross national product, inflation and monetary conditions.

In this system, each country's forecasts of these indicators will be compared with its performance by the seven finance ministers with the help of the International Monetary Fund. If performance does not match the promise, then each country is supposed to make "best efforts" to "take remedial measures and to consult," the official said.

American and French officials sought to put teeth into the system by making the details of the system public. But West Germany succeeded in keeping the details secret and thus avoiding any peer pressure to adjust economic policy.

The American official acknowledged "a condition of getting the agreement was that it not be made public." But he said with a smile that "leaks" would probably be inevitable.

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Rowland Evans and Robert Novak

Reagan's Tightrope

VENICE, Italy—Ronald Reagan's tightrope act in easing Japanese trade sanctions typified the difficulty of a president in trouble at home trying to lead his peers abroad.

Lifting of what amounted to 17 percent of the punitive super-tariffs against Japanese products was apologetic, amid heckling on Capitol Hill and even in his own administration. Consequently, it was done hesitantly and apologetically. As a boost for Japanese Prime Minister Yasuhiro Nakasone and a demonstration that free trade still lives in the Reagan administration, it fell flat.

If the president could not easily rescind a decision that he probably feels intuitively should not have been made, any stronger leadership seems impossible. Indeed, the mood of Reagan and the leaders of the other six industrial democracies evoked the feeling that they would be happy to leave the city of canals and their annual economic summit with the world no worse off than it was three days earlier.

The president was in no mood to harangue his colleagues. Expected demands that European nations and maybe Japan share the naval burden in the Persian Gulf turned into requests for support of a U.N. cease-fire in the Iraq-Iran war. Instead of putting the heat on West Germany for a more internationally responsible economic policy, U.S. officials praised Bonn for doing what it promises about economic growth—which is not much. The other six, for their part, laid off harping about U.S. budget deficits.

In this live-and-let-live atmosphere, Japan-bashing was out—particularly after the lame-duck Nakasone government proposed a $43 billion economic growth package. Thus, before leaving Washington, the president decided on a partial lifting of sanctions. That fit the desires of Secretary of State George Shultz, Secretary of the Treasury James A. Baker III, all governors of the Federal Reserve system and most of the civilized world. Neither the bond market nor the dollar has fully recovered from the original shock of the trade sanctions.

But, the president was advised, it would roil Capitol Hill waters and do no good for passage of a "moderate" trade bill. The U.S. trade representative's office and Commerce Department moaned over free-trade backsliding. Commerce Secretary Malcolm Baldrige insisted on language changes, and got them.

It sounded like it. The president's statement was grudging and conditional. If the Japanese do not obey the largely unenforceable semiconductor agreement imposed on them, said the president, "I will not hesitate to reimpose the partial sanctions that have been lifted."

If the president lacks enough self-confidence at home to lift these sanctions and so encourage growth-oriented Japanese policies, it naturally follows that he cannot advocate bold economic designs.

A venturesome international monetary reform long ago was ruled out as impossible in today's political climate. But even the modest agreement pledging the seven to observe economic "indicators," set for inclusion in the summit-ending communiqué, was watered down.

West Germany and Britain flinched at economic targeting. Neither wants the system by which the seven nations could criticize each other for noncompliance. The Germans made clear, meanwhile, they would not stand for a summit statement too vigorously attacking cherished farm subsidies.

Reagan does take these summits seriously, as witness his arrival early—to avoid jet lag and dominate the news. British Prime Minister Margaret Thatcher (campaigning for re-election) and French President Francois Mitterrand made cameo appearances. Nakasone, more somber than at earlier summits, arrived just before the first session.

But taking Venice seriously is not the same as making it important. It was decided early on at the White House that not much would be decided here. A president who has trouble pulling back from a self-ruinous trade retaliation cannot be taken seriously as leading the industrial democracies to needed economic initiatives.

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U.S. GOALS UNMET IN ECONOMIC TALKS

Significant Proposals Unlikely as Discord Hobbles Parley

By PETER T. KILBORN

Special to The New York Times

VENICE, June 9 — President Reagan, who has managed to control the economic agenda at most of the seven-nation summit conferences he has attended, is suffering setbacks at the one here, according to American and other participants.

As the talks near their end, officials said that no noteworthy economic policy proposals were likely, with the exception of an agreement on a possible $9 billion in aid to the poorest debtor countries of Africa, sought primarily by France and Canada.

Americans set as goals the speeding up of talks for freer world trade, moving faster to end farm subsidies, and establishing a system to manage economic growth and stabilize currencies.

Nothing More Planned

The Administration had been pressing hard for major commitments in those areas but has been disappointed in all. Officials said they would do nothing more on those topics than they did in lower-level talks.

At previous summit meetings the President figured as a proponent of a new economics of growth and free markets, which other nations began to emulate. But lately, the slower growth in the American economy has dimmed the respect for those policies.

"We're moving toward a rupture," a Canadian official said, pointing to the problems in the world economy that have been ignored.

The United States has had its difficulties with Japan and West Germany for several years, and its ties with Bonn appear to have deteriorated here.

Relations with the Germans have proved so hostile that both American and German officials are accusing one another of lying in reporting on President Reagan's private talk with Chancellor Helmut Kohl on Monday.

The Americans say the two discussed the reluctance of Bonn to take action to speed its economy; the Germans insist they did not. "They're stubborn," an American official said. "They need to do something now." A German official said, "We are at the limit of our possibilities. We can't do more."

West Germany, Britain and Japan are harping on the American budget deficits, as they have for four years. Such criticism infuriates the Administration, more so than at previous summit conferences because, for the first time, the Administration can point to evidence of a lower budget deficit and little corresponding domestic stimulation of the German and Japanese economies, which the United States had been urging.

An American official cited the $40 billion probable reduction in the current year's deficit from last year's record $220.7 billion and said, "The deficit reduction is more than we've seen from some countries in added growth."

Numerous Questions Raised

The discord raises numerous questions about the thrust of the Administration's international economic policies, which it sees as crucial to stabilizing the dollar, maintaining economic growth and allaying trade frictions.

Besides the budget deficit, Japan and Germany, the second and third most powerful countries here, also find fault with the Americans in such areas as agriculture and the method for stabilizing currencies.

But American relations with Japan clearly improved with Prime Minister Yasuhiro Nakasone's assurance of a Tokyo budget proposal that pleases the Administration and with President Reagan's decision on Monday to reduce the trade sanctions he imposed against Japan in April.

Little Headway Seen

Even by the standard that progress comes slowly, as small bites of big apples that take years to consume, this meeting is making little headway, officials said.

In the case of agriculture, for example, the Administration has been seeking some concrete steps toward reductions of farm subsidies, but the outlook for such movement has dimmed here. "That is not going anywhere," an Administration official said.

The heads of state faced issues that they had too little time and too little preparation to deal with. Economic Scene, page D2.

In the background, the Administration has also ruled out, at least for the present, an agreement on interest rates to discourage a further decline of the dollar that some economists expect later this year. Earlier, officials had said increases in American rates and decreases in Japanese rates might be considered.

President Reagan began the conference, which ends Wednesday, seeking support of a plan to urge the 92-nation General Agreement on Tariffs and Trade to put negotiations on reducing agricultural subsidies on a faster schedule than currently planned. The Administration wants them well under way before the President's term ends in January 1989.

Draft American communiqués have been using the term "fast start" in describing the goal. This has been reduced to "expeditious" and may have been downgraded further.

Tokyo and Bonn Reluctant

But a source close to Mr. Nakasone said Japan would go no further than the endorsement of the negotiations agreed upon at a meeting of the Organization for Economic Cooperation and Development last month in Paris. And the Germans here said they want an even slower schedule.

Similar doubts are being cast about the economic management plan that was conceived by Treasury Secretary James A. Baker 3d and that the countries agreed to develop at the summit conference last year in Tokyo. It is a complicated notion, intended to assert greater governmental control over currencies and interdependent economies. It seeks to reduce the influence of the financial markets, an objective all the countries support in principle.

Here, the countries will endorse one feature of the plan that they have already put into effect. This involves six "objective indicators," developed to assess the economies, that are more realistic than those now published. The indicators — for growth, budget deficits and surpluses, trade, exchange rates and interest rates — are used to set goals for the economies.

The Administration wants to go much further, however. It wants the countries to publish their forecasts to enhance pressure on them to run their economies to meet the forecasts and it wants meetings of the countries called automatically when one of their forecasts departs from expectations and signals possible difficulties for it and other countries.

British See Smokescreen

But several other countries have balked. The British say they see the system as a smokescreen for setting goals for currency exchange rates, similar to the fixed-rate system that was abandoned at the start of the 1970's. And many oppose the automatic meeting feature because they say it compromises their sovereignty over economic policy.

SHIPPING FREEDOM IN PERSIAN GULF BACKED AT SUMMIT

A DECLARATION IN VENICE

But Statement Falls Short of Reagan's Wish for a Stern Warning to Iranians

By JAMES M. MARKHAM

Special to The New York Times

VENICE, June 9 — The leaders of the seven major industrial democracies issued a political declaration today that endorsed the principle of freedom of navigation in the Persian Gulf but fell considerably short of the Reagan Administration's wishes for a stern warning to Iran.

The statement, which was read by Italy's caretaker Prime Minister, Amintore Fanfani, on the first full working day of the Venice economic summit gathering, said that "the principle of freedom of navigation in the gulf is of paramount importance for us and for others and must be upheld."

"The free flow of oil and other traffic through the Strait of Hormuz must continue unimpeded," said the declaration, issued in the name of the United States, Britain, Canada, France, Italy, West Germany and Japan. "We pledge to continue to consult on ways to pursue these important goals effectively."

Statement on Terrorists

Touching two other subjects, the political declaration also affirmed the seven nations' determination to "stabilise military competition between East and West at lower levels of arms" and committed them "to the principle of making no concessions to terrorists or their sponsors." [Text, page A10.]

As the seven leaders issued their statement, officials in Washington said Iran and Iraq had showed evidence of caution in the Persian Gulf since American ships heightened their alert after the attack on a United States Navy frigate last month. [Page A3.]

In preliminary discussions on the Persian Gulf issue, American officials had sought approval for a draft United Nations Security Council text that would have explicitly called for a mandatory ban on arms sales to Iran and Iraq if they spurned efforts for a negotiated peace to the seven-year-old gulf war. As Iraq has repeatedly expressed its willingness to enter negotiations, the ban would have applied solely to Iran.

All-Night Drafting Session

But Western European officials said that Britain, France, Italy and West Germany had balked at the American proposal, which was raised by summit organizers last weekend. The compromise document was issued today after an all-night drafting session by aides from the seven countries.

The seven leaders' declaration, affirming that "new and concerted international efforts" were urgently required to end the Persian Gulf war, called on Iran and Iraq to negotiate its end and strongly supported the mediation efforts of Javier Pérez de Cuéllar, the United Nations Secretary General. It also urged "the adoption of just and effective measures" by the Security Council.

Secretary of State George P. Shultz said at a news conference that the word "effective means that we call for a cease-fire, and if either country declines, then we will follow that up in our view, in the view of the countries represented here, with a call for mandatory sanctions on the sale of arms."

No Talk at Dinner of Missiles

"Now whether the Soviets will join in that or the Chinese will join in that we don't know yet," he said, "but that's what we're going to take into our discussions in the Security Council."

Later Mr. Shultz added, "Whether we'll be successful, I don't know."

Although White House officials had issued a series of public warnings to Iran, apparently in an effort to deter the Iranians from using Chinese-made Silkworm missiles in the Persian Gulf, President Reagan did not raise the issue at a dinner on Monday night that was dominated by a discussion of East-West relations and the personality of Mikhail S. Gorbachev, according to various delegation officials.

"It's a classic summit situation — an issue that gets blown up before the summit and then really isn't discussed within it," a senior adviser to Chancellor Helmut Kohl said. Another European official said many of the American statements on Iran "seemed to be for home consumption."

On his way to a meeting, President Reagan was asked by journalists today why the Persian Gulf document had no teeth. The President smiled and replied, "We couldn't think of anybody to bite."

"I believe somebody misinformed you," Mr. Reagan said when asked why the allies had not given him firmer backing on the Persian Gulf. "I am delighted with the support we are getting, the attitude of these allied nations here with regard to the gulf."

But a senior Administration official said it had been a mistake to have raised excessively high expectations for a tough warning to Iran at Venice. The official attributed this miscalculation to the fact that several senior White House aides were attending a summit gathering for the first time.

'Moderate Text' on Gulf

At a news conference, the French Foreign Minister, Jean-Bernard Raimond, praised the "moderate text" on the gulf war, which he said reflected the interests of Arab nations in the region as well as those of the West.

"I am not saying that there were not other thoughts," Mr. Raimond said, when asked about behind-the-scenes American efforts to obtain tougher language. "But we in the West have no interest in seeing the question of the gulf being turned into an East-West confrontation."

At a separate news conference, the Canadian Foreign Minister, Joe Clark, gave the gulf declaration a more forceful interpretation, saying that if its provisions were not observed and if frontiers in the region were not respected "sanctions could be imposed."

"It's a preliminary step," Mr. Clark said.

A separate declaration on East-West relations did not go into details of the Soviet-American arms negotiations, nor did it highlight the newly achieved consensus within the North Atlantic Treaty Organization over the goal of abolishing the superpowers' medium- and short-range missiles in Europe.

White House officials had earlier predicted a ringing endorsement of President Reagan's arms negotiating strategy. But the East-West document, which was also fashioned overnight by a drafting committee in light of the freewheeling dinner discussion on Monday night, said merely:

"We appreciate U.S. efforts to negotiate balanced, substantial and verifiable reductions in nuclear weapons. We emphasize our determination to enhance conventional stability at a lower level of forces and achieve the total elimination of chemical weapons."

Several senior European officials said they did not consider Venice the appropriate forum for a detailed statement on arms control, a subject that will be at the center of the deliberations of NATO foreign ministers at the end of this week in Reykjavik, Iceland.

'No Concessions,' Shultz Says

At his news conference, Mr. Shultz said the political document's reference to the principle of "no concessions to terrorists or their sponsors" was unrelated to the Iran-contra affair unfolding in Washington. He said the statement on terrorism reflected increasing cooperation among the summit nations on the issue.

"We see more and more emphasis — no concessions, no place to hide," he said. "States sponsoring terrorism can expect trouble from us."

The document on terrorism commits the seven nations "to support the rule of law in bringing terrorists to justice."

But Mr. Shultz said this passage did not have any connection to a Lebanese hijacking suspect detained in West Germany and wanted by the United States; he expressed confidence that the Kohl Government would deal "in a stiff way" with the case.

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Stalemate in Venice

U.S. Sees Good 'Exchange of Views'; Joksters Talk of 'Bland Canal' Summit

By R. W. APPLE Jr.

Special to The New York Times

VENICE, June 9 — On the eve of thi week's seven-nation summit conference, Howard H. Baker Jr., the Whit House chief of staff, made a point o saying, "I am not one of those who hav gone about trying to diminish expectations." He predicted "important developments."

News Analysis

Secretary of Stat George P. Shultz suggested tonight that the United States had achieved what it sought — that Mr. Baker's prediction had borne fruit. But other key aides to President Reagan sounded a good deal more defensive, especially in private. They were describing this 13th gathering of the leaders of the seven largest industrial democracies as a throwback to the first ones.

"A meeting with no agenda and no great expectations," one White House official called it, "whose real purpose was simply a frank exchange of views."

Officials from other nations put a still less positive spin on events as the leaders finished the second of their three formal sessions, talking in the seclusion of a 300-year-old library on the island of San Giorgio, while police helicopters circled incongruously overhead and a cordon a carabinieri launches and cruisers bobbed offshore.

"They're paralyzed," said a ranking official in one delegation when asked to assess the mood of the conferees. "They feel a compulsion to avoid visible risk. They're much more afraid of dissent than emptiness."

A Canadian described this gathering as "the most fragmented I've ever been involved in, with predictable results." A Briton termed it "a lot of jaw-jaw to no very great effect, which suits the Europeans just fine."

The 'Bland Canal' Summit

Every summit conference seems to produce its joke, and this one is being described in the hotels, restaurants and bars of Venice as "bland canal."

Fearful that President Reagan would be portrayed as the big loser, because he came to Venice with the most clearly defined set of goals, American officials spent much of the afternoon working out a strategy for presenting the results in the best possible light. One result was that Mr. Shultz spoke with reporters today, 24 hours early.

But no words of his could obscure the fact that the statement on the Persian Gulf was much more general than the United States had hoped. It contained not the slightest suggestion of retaliation against Iran if it failed to agree to cease-fire talks with Iraq. It contained no endorsement of the American commitment to use military force to keep the sea lanes open, and it suggested, by its evenhanded language, that the seven consider Iran and Iraq equally at fault for rising violence in the gulf.

Confusion on Gulf Statement

There was no agreement on what the language of the gulf statement meant. Mr. Shultz said it meant "the other countries here advocate mandatory sanctions on sales of military goods" to Iran if it continued to resist calls for a cease-fire. (Iraq has been willing for several years to heed such calls). But officials of the other participating countries denied having made any such commitment, and several said they would not have agreed to any statement implying that they had.

Nor was there much to which Mr. Reagan could point with pride in the statement on terrorism, which was largely a rehash of past statements, or in the largely anodyne statement on East-West relations, which was issued despite the rush of change in the Soviet Union since the leaders last met.

According to officials of several countries, the President also seemed headed for a series of setbacks on the economic front before the end of the Venice meeting Wednesday afternoon.

What happened?

First, as White House aides were quick to concede, the White House chief of staff, Mr. Baker, and some of his aides, inexperienced in the dynamics of these meetings, focused attention on areas where there was never much hope for success.

They circulated word, for example, that Mr. Reagan would push for tough language on Iran. In the end he did not, partly because others steered Monday night's conversation in different directions but mainly, a senior American said, because the delegation knew he had no real chance of success.

Second, the Japanese and the Europeans, with the exception from time to time of Prime Minister Margaret Thatcher of Britain, have always taken a narrower view of the function of these meetings than the Americans. They are willing to diverge from the formal economic mandate but not to make major decisions in security and weapons issues.

Third, the time was not ripe for new initiatives, with elections pending in Britain and Italy, Mr. Reagan under attack at home and the French and Japanese political situations unsettled. In the face of this situation, important constituencies such as the international financial community and the world press looked to Venice for answers to pressing problems.

It is part of the aura of these meetings that hopes will be raised by them.

'Tensions Here, Tensions There'

"I suppose it is inevitable," commented one of the personal assistants, or "sherpas," who help to arrange these gatherings. "Tensions here, tensions there, problems in the economy — where are people supposed to look for solutions if not to the assembled political firepower of the free world? The difficulty, of course, is that intractable problems do not yield solutions in 48 hours, or in 480."

Finally, many of the Europeans contend that American policy in the Persian Gulf is ill-formed and risky, although they will not say so publicly.

Hubert Vedrine, a senior foreign policy adviser to President François Mitterrand, came about as close to bluntness as diplomatic nicety permits. He said United States plans to protect shipping in the gulf were "in a state of gestation" — in other words, not yet fully developed — and added, "I don't think it is possible to talk of an American position yet."

number of fronts and that, on a … necessary was implied … from several of its original bargain-

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Economic Scene | Leonard Silk

Photos, Futility And Fatuities

VENICE could be the summit to end all economic summits. The congresses of the heads of the major industrial democracies that began at Rambouillet, outside Paris, in 1975 and continued in successive years through Puerto Rico, London, Bonn, Tokyo, Venice, Ottawa, Versailles, Williamsburg, London again, Bonn again and now Venice again have degenerated into opportunities for photos and fatuities.

Where the Congress of Vienna (1814-15) took more than eight months to redraw the map of Europe, the three-day Venice summit has sought to tackle an agenda that included the promotion of noninflationary economic growth; the curbing of protectionism; the reduction of excessive trade imbalances; the lowering of agricultural subsidies; the elimination of structural barriers to investment and employment; the war on poverty, especially in sub-Saharan Africa; the solution of the third world's debt problems; the protection of shipping in the Persian Gulf and the threat of war if Iran attacks American-flag vessels; the need to combat AIDS and drugs, and the elimination of intermediate-range missiles from Europe.

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Obviously, these are all terribly important problems. And one cannot say that the economic and political problems are not closely interrelated. The drug trade, for instance, is significantly linked to the poverty, unemployment, agricultural and balance-of-payments problems of Venezuela, Mexico and other Latin American countries.

Similarly, the issue of European military security and the reduction of nuclear arms is linked to the budgetary problems of the United States, West Germany, Britain and the other members of the North Atlantic Treaty Organization. As Christoph Bertram, the diplomatic correspondent of a West German weekly, Die Zeit, writes in the current Foreign Affairs, "NATO's conventional forces will almost inevitably shrink" in the years ahead,

largely because of the budgetary squeeze and because of the shrinkage in the supply of conscripts or volunteers. "None of the major nations will be able to make up for the reductions experienced by the others," Mr. Bertram concludes. "On the contrary, once one nation announces reductions all the others are likely to follow suit only too eagerly."

Hence, whatever the outcome of arms negotiations with the Soviet Union, military expenditures in the West for both nuclear and conventional forces appear to be headed down.

Should budgetary constraints — and an unwillingness to raise taxes — be determining national and international security policy? Or should the economic threats to the world be the crucial determinant of budgetary policy? The summiteers came with too little time and too little preparation to discuss so vital a question.

Nowhere is the budgetary problem more acute than in the United States, with its huge deficits that have been distorting exchange rates and worsening trade imbalances, making this country increasingly dependent on the inflow of foreign capital. This summit was marked by the emergence of a more assertive and critical Japanese Government; Prime Minister Yasuhiro Nakasone, in trouble at home for being a tail to Mr. Reagan's kite, said he dared to request a cut in the American budget deficit, and Hajime Tamura, the Minister of International Trade and Industry, sought a new timetable for debt reduction, apparently disbelieving the Gramm-Rudman-Hollings timetable, which calls for a balanced budget by 1991.

For his part, Mr. Reagan is apparently not ready to make a budgetary deal, either with the foreign heads of government or Congress. Nor is he or his chief financial officer, Treasury Secretary James A. Baker 3d, ready to get down to the serious business of overhauling the world monetary system. Mr. Baker's earlier suggestions that he would be interested in a new "Bretton Woods" conference seem to have evaporated.

Instead, Mr. Baker has sought in Venice to get the other industrial nations to agree to a new set of rules for coordinating their policies, based on such economic indicators as growth, trade, inflation. This would require some countries to stimulate their economies more vigorously if currencies are to be stabilized and world trade put in better balance. But West Germany and Britain are blocking the proposal. The Japanese, worried about losing access to the huge American market, are being more responsive, with their $43 billion plan to stimulate their economy. But the Americans, who have been disappointed in Japan's follow-through on past commitments, remain cautious.

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Mr. Reagan, in "good will," announced that he was lifting $51 million, or 17 percent, of the tariffs he had imposed on $300 million of Japanese electronics goods as a retaliatory response to the purported dumping of Japanese chips, and called Japan "a staunch friend and ally." The tariffs were removed mainly from Japanese-made 20-inch television sets.

But the Japanese trade minister, Mr. Tamura, said Mr. Reagan's move had been insufficient, and called for "an early and total lifting" of all the punitive tariffs.

So far, this seems to be the main accomplishment of the summit. Yesterday, the financial markets, deciding the conference was meaningless, wobbled about. And no celebration could be heard among those communities worried about arms control, the Persian Gulf, Soviet expansion there, oil supplies, farm surpluses, AIDS, drugs or economic policy, either. Is all this futility necessary?

EXT 936 (82/8)

Washington Post June 10

Summit Falls Short of Accord

Leaders Postpone Action on Bolstering World Economic Growth

By Hobart Rowen
Washington Post Staff Writer

VENICE, June 10—The leaders of the seven major western industrial countries concluded their summit here today admitting that, despite slipping global economic growth rates and serious trade and economic problems, they were unable to agree that growth-oriented policies should be pursued now.

Instead, in a long communique ending the 13th annual summit, the leaders postponed any stimulative actions until "world economic growth is insufficient."

The leaders also issued a separate declaration noting that AIDS, acquired immune deficiency syndrome, has become "one of the biggest potential health problems in the world" and urged an international program of greater public education and support for the World Health Organization to combat the disease.

The summit participants, in a political statement issued by host country Italy, also urged an end to the Soviet "military occupation" of Afghanistan and the withdrawal of foreign troops from Cambodia, an allusion to Vietnamese troops in that country. They also called for the dismantlement of the apartheid regime in South Africa and its replacement "by a new form of democratic, nonracial government."

The communique on economic issues was couched in general terms that indicated the inability of the leaders to reach substantive agreement on some key topics and policies.

Nonetheless, Treasury Secretary James A. Baker III insisted that "clear progress has been made on a number of fronts" and that, on a

SUMMIT, From A1

success scale of 1 to 10, the summit rated "an 8 or 9."

"I can't think of anything we asked for that we didn't get," Baker told a news conference.

But when asked how he thought financial markets would assess the summit, Baker would only say that "maybe the reaction will be all right" as long as the markets remember that no new major initiatives had been promised.

The leaders reaffirmed the need for stability in the foreign exchange value of the dollar and other currencies. They also promised to intensify their economic policy coordination "with a view to ensuring internal consistency of domestic policies and their international compatibility."

The new coordination measures were reported yesterday to include a minimum of three regularly scheduled meetings a year of the seven finance ministers to review economic policy based on at least six key indicators: exchange rates, the trade balance, the current account (trade and services) balance, gross national product, inflation and monetary conditions.

In explicit terms, the communique warned that "further substantial shifts in exchange rates could prove counterproductive to efforts to increase growth and facilitate adjustment"—an endorsement of the decision by their finance ministers in Paris last February to stabilize exchange rates. It marked the first such pledge by summit leaders.

In other areas, the communique:

- Gave its blessing to improving the global trading system by a new round of negotiations through the General Agreement on Tariffs and Trade (GATT). It endorsed the American effort to extend the new negotiations to services and intellectual property rights, such as patents. It suggested that agreements made early could be implemented on a provisional basis before the formal conclusion of the negotiations.
- Pledged to refrain from further accumulation of farm surpluses, or increasing protective agricultural measures, and called on other nations to do the same. This was done to enhance the progress of a forthcoming round of multilateral trade negotiations.
- Endorsed the Baker strategy for reducing the Third World debt, supplemented by a "menu" of alternatives to regular bank loans for middle-income debtor countries and "enhancement" of lending by international institutions, especially the World Bank.
- Said consideration should be given to lower interest rates on the existing debts of countries in sub-Saharan Africa, as well as longer repayment terms through the so-called Paris Club that reschedules official debt. The leaders also welcomed a proposal by the head of the International Monetary Fund, Michel Camdessus, to triple the IMF's subsidized loans to these countries, from approximately $3 billion to $9 billion. But a final decision on these proposals was put off until the end of the year.

French President Francois Mitterrand and Japanese Prime Minister Yasuhiro Nakasone praised the commitments on exchange rates and economic policy coordination.

Mitterrand said that agreement on the use of economic indicators, including exchange rates, to monitor international cooperation was a step toward "reference" or target zones, a form of greater rigidity long favored by the French.

"You always want more, but we are pleased when our partners make the kind of progress that was made here. We're getting close to reference zones," Mitterrand said. Publicly, the American side does not use the "reference" or "target zone" phrase to describe the process.

Nakasone, according to a spokesman, also praised the summit for approving measures to achieve greater currency stability. The Japanese leader was generally credited with personal success at the Venice summit. He not only deflected criticism by introducing a $43 billion fiscal expansion package but obtained, after a struggle, inclusion of a paragraph in the communique praising his country for offering new aid to developing countries.

On the question of economic growth, the United States and other countries had been urging Bonn to bolster its sagging economy, in part to help global prosperity.

But West Germany firmly and successfully resisted the pressure. "We are no locomotive," Chancellor Helmut Kohl said at a news conference after the summit.

When Baker was pressed today to explain the vague language about economic growth in the summit communique—which did not repeat pledges made by West Germany last month at a meeting in Paris of the Organization for Economic Cooperation and Development (OECD)—Baker said the German commitment to take action when necessary was implied.

"If you need it, I personally have received that assurance . . . . It's simply that you don't spell out that kind of thing in the communique," Baker told a reporter.

A key paragraph in the communique says that the leaders "agree that if, in the future, world economic growth is insufficient; additional actions will be required to achieve their common objectives."

At another point, the communique says that countries with budget surpluses—meaning Japan and West Germany—"will design their policies to strengthen domestic demand and reduce external surpluses while maintaining price stability."

German officials said that from their standpoint, the summit turned out better than expected because the United States had backed away from several of its original bargain-

For example, the United States, after pressing for implementation of the coordination process based on economic indicators, yielded to West German insistence that the details be kept secret.

Baker conceded that keeping the process secret reduces the potential for exacting compliance through public pressure, but he argued that "there is a certain degree of discipline in it, in the sense that it will trigger consultations," if a nation's performance moves out of line with its forecasts.

When it was noted that the communique drops the promise made at last year's summit in Tokyo to make "best efforts" to change policies according to the indicators, Baker said that "an indicator paper exists" covering all details of the process. In accordance with the deal made with West Germany to

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SUBJECT/SUJET

PUBLICATION Le Monde

DATE June 10

Sécurité et relations commercial

A Venise, M. Reagan cherch à rassurer ses alliés

Le sommet des sept principales démocraties Ind trielles a poursuivi, le mardi 9 juin, ses travaux. Qu' s'agisse de sa politique de désarmement, de son so d'assurer la sécurité dans le Golfe ou des relatio commerciales, M. Reagan semble avant tout soucieux rassurer ses alliés.

VENISE
de nos envoyés spéciaux

La bataille du Golfe n'aura pas lieu. Pas à Venise, en tout cas. Les Etats-Unis ne paraissaient nullement disposés à déclencher une épreuve de force avec certains de leurs alliés européens pour obtenir la rédaction d'un texte militairement contraignant à propos de la liberté de navigation dans le Golfe.

Cette crainte avait pourtant été confortée par l'envoi la semaine dernière, par M. Reagan, de lettres aux participants de Venise, notamment au chancelier Kohl, au président Mitterrand et à Mme Thatcher.

Dès lundi matin, M. Carlucci, le conseiller de M. Reagan pour les affaires de sécurité, avait fait baisser la pression en précisant que les Etats-Unis se contenteraient d'un « *soutien diplomatique, même symbolique* ».

Lundi soir, lors du dîner réunissant les sept chefs d'Etat et de gouvernement (plus M. Jacques Delors, le président de la Co mission de Bruxelles), l'affaire Golfe n'a pratiquement pas abordée.

JACQUES AMALRIC
et PAUL FABRA.

(Lire la suite page 2.)

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M. Reagan cherche à rassurer ses alliés

(Suite de la première page.)

Il a simplement été décidé d'en reporter l'examen à la séance plénière de mardi matin, en attendant que les *« sherpas »* (1) mettent au point dans la nuit un texte acceptable pour tous – y compris pour les Français qui étaient sans doute les plus réticents à mettre le doigt dans un engrenage dont ils ne seraient plus les seuls maîtres. Un des membres de la délégation française nous confiait alors : *« Si les Américains avaient voulu faire le forcing, ils auraient exigé de parler du Golfe dès ce soir. »*

Le texte envisagé pourrait réaffirmer trois principes : d'abord, bien entendu, celui de la liberté de navigation dans le Golfe ; ensuite, la nécessité de mettre un terme à la guerre Iran-Irak, avec sans doute une mention des efforts déployés dans ce sens par les cinq membres permanents du Conseil de sécurité des Nations Unies ; enfin, chaque pays préciserait qu'il reste maître des moyens à utiliser, même si le but à atteindre est commun à tous.

Ce dernier rappel est vivement souhaité par la délégation française, qui ne veut pas d'une extension géographique déguisée de la zone couverte par l'OTAN, et qui veut garder sa liberté de manœuvre dans la région. Il l'est presque tout autant par l'Allemagne, le Japon, et même l'Italie, *« qui a bien une marine, mais qui n'a pas de gouvernement »*.

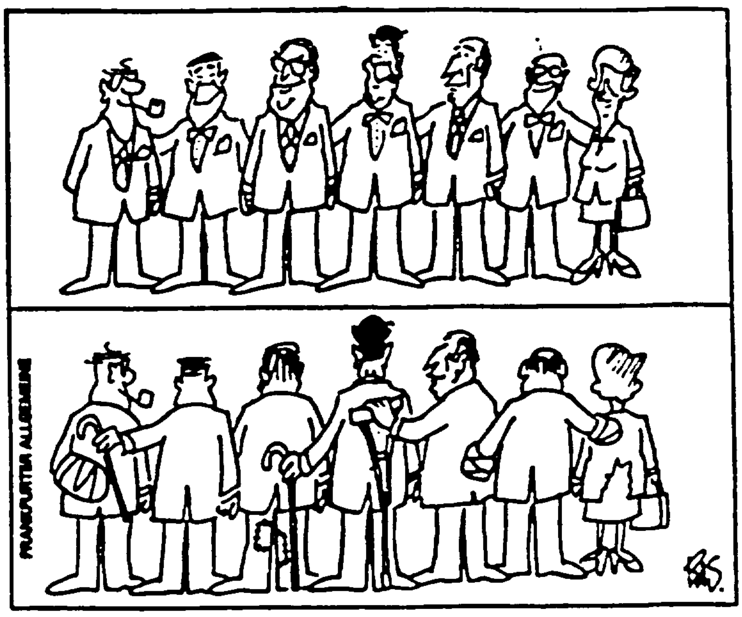
Les sujets politiques retenus au menu de lundi étaient donc pour l'essentiel au nombre de deux : les relations Est-Ouest et le terrorisme. Si l'on excepte l'Afrique du Sud, qui a fait l'objet d'un tour de table à la demande du premier ministre canadien, M. Mulroney, sans qu'on puisse s'entendre sur le principe d'une déclaration spéciale, ce sont les relations Est-Ouest qui ont été traitées le plus longuement. Trois intervenants se sont particulièrement distingués, d'après les premiers comptes rendus dont on dispose : le président Reagan, Mme Thatcher et le président Mitterrand.

M. Reagan a, bien sûr, vanté les mérites de sa politique de désarmement, mais il a aussi rappelé les engagements américains à l'égard du Vieux Continent et le principe de la riposte graduée, affirmant que *« l'Europe reste la première ligne de défense de l'Amérique »*. L'histoire ne dit pas si ce fut suffisant pour rassurer tous ses interlocuteurs, à commencer par le chancelier Kohl, qui doit encore méditer d'autres déclarations du président américain, à commencer par celle contenue dans un discours spécialement destiné à l'Europe, et qui a été diffusé vendredi dernier. S'adressant aux pacifistes ouest-allemands – c'est-à-dire aux adversaires politiques du chancelier, – qui avaient en leur temps amplement manifesté contre l'implantation des Pershing-2 et des missiles de croisière, M. Reagan a déclaré ce jour-là : *« Je voudrais qu'ils sachent que mon cœur était avec eux, que moi aussi j'aspire au jour où l'humanité pourra vivre libre de la peur de l'annihilation nucléaire. »*

L'exposé de Mme Thatcher fut, lui, sans surprise, et pour M. Reagan sans complication. Le premier ministre britannique, qui ne passe que vingt-quatre heures à Venise pour raisons de campagne électorale, ne tient pas à se montrer méfiante à l'égard des Etats-Unis. M. Mitterrand, pour sa part, a consacré un long exposé doctrinal à la dissuasion. Il a laissé entendre au passage que la doctrine de riposte graduée, telle qu'elle est formulée aujourd'hui, sera de moins en moins adaptée à la situation, au fur et à mesure que progressera le désarmement.

Or s'il est un point qui ne fait de doute pour personne, c'est que M. Reagan est bien décidé à signer le plus tôt possible avec l'URSS l'accord sur le démantèlement des missiles intermédiaires. Il a pris soin de faire annoncer par son porte-parole, à l'issue de son tête-à-tête, lundi, avec le chancelier allemand, que ce dernier approuvait sa politique. Nombreux sont les membres de la délégation américaine à confier qu'il faut s'attendre pour cet automne à une visite de M. Gorbatchev à Washington.

Tout comme les rapports Est-Ouest, la lutte contre le terrorisme pourrait faire l'objet d'une déclaration. Encore du travail pour les sherpas, ces créatures dont la spécialité est de passer des nuits blanches. Plusieurs pays, à commencer par la France, veulent en effet éviter que le sommet des Sept ne devienne une autorité en la matière, un directoire, comme aurait pu dire de Gaulle.



Formalisme

A vrai dire, ils n'en prennent pas la direction. Le formalisme, toujours plus de formalisme, a-t-on au contraire envie d'écrire devant le spectacle un peu dérisoire qu'offre Venise en état de siège et de faste. Tout ou presque est consacré au spectacle et à la sécurité, comme si le plus important était de pouvoir dire qu'on s'est rencontré, quoi qu'on ait pu se dire.

Encore, pour certains, faut-il faire vite. On a déjà parlé de Mme Thatcher, qui n'a pu se dégager que vingt-quatre heures. Pour cause de finale de Coupe de France de football, M. Mitterrand grignotera quelques heures du programme de mercredi pour rejoindre M. Chirac au Parc des Princes. Le premier ministre, lui aussi, ne passera que vingt-quatre heures à Venise, mais il a une excuse : M. Jean-Bernard Raimond, le ministre des affaires étrangères, qui accompagne M. Mitterrand, ne devait lui céder sa chaise que mardi après-midi. Or chaque délégation ne dispose que de trois sièges pour les entretiens, et il n'est pas question que M. Balladur s'absente d'un sommet dont la vocation initiale est strictement économique.

Les sanctions américaines contre le Japon

En ce qui concerne les questions économiques, précisément, M. Reagan a voulu marquer la première journée des entretiens par une mesure d'apaisement à l'égard des Japonais. Avant même de s'entretenir avec le premier ministre japonais, M. Nakasone, la délégation américaine faisait publier un communiqué pour annoncer qu'une partie des sanctions décidées, il y a six semaines, par les Etats-Unis contre les producteurs japonais de semi-conducteurs accusés de dumping serait levée.

Les sanctions en question consistaient en un doublement des droits de douane. Celles qui sont supprimées concernent l'importation de semi-conducteurs pour une certaine catégorie de téléviseurs en couleurs et un montant d'importation de 51 millions de dollars. Soit, comme le précise le communiqué, 17 % du total des importations touchées par les sanctions.

La raison donnée par le président américain est que, pour cette catégorie de produits, les Japonais ont pratiquement abandonné leur pratique de dumping, selon le communiqué officiel, 85 % de ces produits importés aux Etats-Unis, contre 59 % auparavant, seraient conformes à la condition de « justes prix de marché ». En réalité, les choses semblent s'être passées de façon différente. L'accord sur les semi-conducteurs, que certains fabricants nippons sont supposés avoir transgressé, visait à limiter à une certaine quantité le volume des ventes de produits japonais sur le marché américain, afin de maintenir un certain niveau de prix. Autrement dit, il s'agissait d'inviter les exportateurs japonais à entrer dans un cartel qui pouvait leur être très favorable, étant donné qu'il leur garantissait pratiquement un niveau de profits, semble-t-il, très confortable. Mais les fabricants japonais se livrent, dans leur propre pays et sur tous les marchés du monde, une concurrence féroce. Certains d'entre eux ont circonvenu les termes de l'accord en expédiant leurs marchandises vers le marché américain via Hongkong, Singapour et d'autres ports. Autrement dit, ces fabricants ont refusé de jouer le jeu qu'on leur offrait du cartel. La phraséologie du sommet donne du phénomène une autre interprétation.

M. Nakasone s'est félicité de la décision prise par le président Reagan, tout en regrettant, bien sûr, qu'elle ne soit pas étendue à d'autres produits, pour lesquels les droits de douane à l'entrée sur le territoire américain ont également été doublés.

Les subventions agricoles

Le président Reagan s'est aussi entretenu en tête à tête avec le chancelier Kohl, lui demandant notamment d'intervenir pour que soient réduites au plus vite les subventions à l'agriculture. Pourtant, lors de la récente conférence ministérielle de l'OCDE, les Américains et les Canadiens avaient renoncé à demander qu'un accord sur le démantèlement des dispositifs de protection agricole soit conclu au GATT avant la fin des négociations tarifaires, qui ont commencé en septembre dernier en Uruguay. Les Américains reviendraient-ils sur l'accord conclu au sein de l'OCDE ? Le chancelier Kohl a répondu à son interlocuteur que la question des subventions agricoles devrait être d'abord discutée entre Européens, et que cela prendrait trois à quatre ans au moins. Or les négociations commerciales du GATT sont prévues pour une durée de cet ordre. La discussion en est restée là.

Lors de leur premier dîner, les ministres de l'économie et des finances réunis à Venise ont notamment discuté d'un rapport établi par le ministre du Trésor italien, M. Goria, sur la procédure de consultations à établir entre les Sept pour organiser un droit de regard mutuel sur leur politique économique respective. Le problème était de savoir quels critères seraient retenus. Le taux de change en ferait-il partie ? La question est restée ouverte.

JACQUES AMALRIC
et PAUL FABRA.

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(1) On appelle ainsi les assistants désignés par les chefs de délégation pour préparer les sommets.

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PROGRAM: / EMISSION: CANADA AM NEWS

DATE: / DATE: JUNE 11, 1987.

NETWORK / STATION: / RESEAU / STATION: CTV/CJOH

TIME: / HEURE: 8:30 AM

US COMMITMENT TO FREE TRADE

CTV: Prime Minister Brian Mulroney says the US administration remains firmly committed to pushing ahead on a free-trade deal with Canada. Mulroney says he was encouraged during a private meeting with President Reagan in Venice this morning. The two had stayed behind after the economic summit to talk over some bilateral issues and some other issues. Pam Wallin has details.

REPORTER: On the grounds of the exclusive Hotel Chipriani(?), the two leaders held a private tête-à-tête to discuss the free-trade negotiations that are now in the final stages. Some strong differences remain, but the president joke for the cameras was a reference to the first-place standings of the Toronto Blue Jays baseball team.

RONALD REAGAN: Right now he has me at a disadvantage. In fact, they're leading the league, baseball. That's pretty hard for me to take.

REPORTER: With a little prompting from the prime minister, the president says, though, he's still optimistic?

(REPORTER): Are you close?

MULRONEY: Our negotiators are--

REAGAN: Our negotiators are at that now, but I made it plain in our meeting in Canada that I was a full supporter of his proposal of free trade.

REPORTER: And after the half-hour session, Mulroney too seemed confident.

MULRONEY: And as the president indicated to you, he is fully committed to that.

REPORTER: But he also readily admits that the bargaining is still far from over.

MULRONEY: Ultimately we will or will not conclude a large agreement which will then be submitted to both sides for consideration. But we're not at the point of saying there are two outstanding issues remaining, and if you'll do A, I'll do B. No, we're not there at all. We have a long way to go before we get there.

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REPORTER: Mulroney and Reagan are both personally committed to freer trade; but Canada must keep up the political pressure on Washington if it wants to see a trade deal signed. Brian Mulroney has staked his political career on getting a new kind of trading arrangement with Washington, and he never passes up an opportunity to remind the president of just that.

Pamela Wallin, CTV News in Venice.

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PROGRAM: / EMISSION: WORLD REPORT
DATE: / DATE: JUNE 11, 1987
NETWORK / STATION: / RESEAU / STATION: CBC/CBO
TIME: / HEURE: 7:00 AM

VENICE SUMMIT WRAPUP

CBC: Prime Minister Mulroney says there is no tradeoff going on between Canada and the United States in the free trade negotiations. Mulroney met with President Reagan in Venice this morning before leaving the site of the economic summit and returning to Ottawa. Brian Kelleher reports.

REPORTER: Prime Minister Mulroney says today's meeting in Venice was another attempt to galvanize all the support possible in the United States for free trade. He says, we want to keep the Reagan administration fully seized of the idea. Mulroney says it's important that any deal include a mechanism to solve day to day trade disputes and he says he also discussed with Reagan in general terms the U.S. desire for freer investment in Canada. But Mulroney denies any suggestion that that's going to be the basic tradeoff. More access to Canada for the Americans in exchange for secure access to the U.S. for Canadians. He was asked about that possible tradeoff in the garden outside the hotel where the meeting took place.

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MULRONEY: We will or will not conclude a large agreement which will then be submitted to both sides for consideration. But we're not at the point of saying there are two outstanding issues remaining and if you do A I'll do B. We're not there at all.

REPORTER: Mulroney says he remains confident that a free trade package can be ready by October. That's the deadline for submitting it to the U.S. Congress, but he says the negotiations are very difficult and complex. Reagan, for his part, said only that he fully supports free trade. Brian Kelleher, CBC News, Venice.

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PROGRAM: **EMISSION:**	CTV NATIONAL NEWS	**DATE:** **DATE:**	JUNE 11, 1987
NETWORK / STATION: **RESEAU / STATION:**	CTV/CJOH	**TIME:** **HEURE:**	11:00 PM

DRUMMING UP SUPPORT FOR FREE TRADE

CTV: In Washington today officials were drumming up support for free trade with Canada. Their message was their deadline is closing in and a lot of key issues are unresolved. Craig Oliver reports.

REPORTER: According to President Reagan's trade representative Clayton Yeutter, negotiations are at their final phase. Whether a deal is possible will be known by July. Yeutter says the U.S. will put its final proposals on all issues on the table this month, in the round which starts in Washington Monday.

YEUTTER: It's much too early to be articulating gloom and doom scenarios. Obviously we have wide differences between us on some key issues. It's going to be very difficult to bridge those gaps between now and October. That's not very much time.

REPORTER: The chief U.S. negotiator, Peter Murphy, briefed

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congressional leaders for the second day in a row. With talks bogged down, Murphy told them it was now up to political leaders in both countries to decide what they can afford to give up politically to break the deadlock.

MURPHY: Well, you know, they're difficult issues for both sides, and I still think it's politically doable, it's just a question of can we get there.

REPORTER: And Murphy says it is a real question whether the negotiations can get there. Almost all of the major trade differents are still unresolved, and privately the Americans are gloomier than they're making out in public. Craig Oliver, CTV News, in Washington.

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THE TORONTO SUN / FINAL 117

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World leaders pick Toronto to host 1988 economic meet

A1-7

Toronto is to host next summer's economic summit, possibly at Casa Loma.

Another site said to be under consideration is Toronto City Hall.

Toronto Mayor Art Eggleton got a telegram yesterday from Prime Minister Brian Mulroney saying the annual economic summit, which ended yesterday in Venice, will be held in Toronto next year.

"I'm absolutely delighted," he said. "This will focus Toronto on the world stage for three days next June."

The event will pump at least $4.5 million dollars into Metro's economy, said Bill Duron, president of the Metropolitan Toronto Convention and Visitors Association.

Eggleton said a successful summit will also help Toronto's bid for the 1996 summer Olympics.

Security problem

And he downplayed the danger of a possible fiasco at the three-day conference of the leaders of the seven largest industrialized democracies — Canada, the United States, Great Britain, France, Japan, Italy and West Germany: "We've been able to cope with Royal visits and Papal visits . . . and I think we're going to be able to do it again."

Metro police Chief Jack Marks said the meeting "will be a security problem, there's no doubt about that."

"Any time you bring in the head ministers of all those countries, you're going to have a security problem," Marks said.

Helps bid

Casa Loma would be an ideal site for the meeting, he said. "It's self-contained. To isolate that property is very easy.

"I would probably establish a joint force from the RCMP, Ontario Provincial Police and ourselves. It's too early to say whether there will be other forces involved."

Eggleton said the cost of security will be shared by the police forces involved.

Metro Chairman Dennis Flynn said 4,500 hotel rooms have already been booked for what "a little birdie" in Ottawa told him four months ago would be something big coming to Toronto next year.

Paul Henderson, Toronto Ontario Olympic Council chairman, said

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World economic summit coming to Toronto in '88

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staging the summit helps the city's bid for the 1996 Olympic Games.

One of the problems in persuading International Olympic Committee members to hold the Games here "is that no one knows where Toronto is," Henderson said.

Eggleton said, "Hosting world events strengthens Toronto an an international city" and that "can't help but have an effect" on the Olympic bid.

The summit will attract about 3,000 journalists, Eggleton said, as well as the entourages of the seven leaders, for a total of about 5,000 people.

Premier David Peterson told the Legislature the selection of Toronto "recognizes the growing awareness of the importance of Toronto as an international business centre. It acknowledges the central role that Toronto and Canada play in mapping out the economic future of the western industrialized world."

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Free trade would cost many jobs MPPs told

By Alan Christie Toronto Star

Free trade with the United States could mean the loss of jobs in a wide range of Canadian industries — from children's toy manufacturers to food producers, says Ontario Industry Minister Hugh O'Neil.

O'Neil told the Legislature yesterday the provincial government is closely monitoring free trade talks "with a firm of lawyers we have" in Washington.

In response to a question from Tory MPP David McFadden (Eglinton), O'Neil listed the following "areas where there could be job losses: tires, many food products, wine, beer, many wood products, some electrical products, construction machinery, toys, games, toiletries, glass and buses."

McFadden had actually asked O'Neil what industries might be put in jeopardy because of trade legislation now before the U.S. Congress, but an aide to O'Neil said in an interview later that the minister instead read from a list of industries vulnerable in a free trade deal.

Tougher stand

O'Neil, Robert Latimer, who is Ontario's free trade adviser, and Hershell Ezrin, Premier David Peterson's principal secretary, met after question period yesterday with a Coalition Against Free Trade, which represents more than 30 organizations opposed to a deal with the United States.

Six coalition members told the media later they pressed the Ontario government to take a tougher stand with Ottawa.

Economist Abraham Rotstein echoed the sentiments of government officials when he suggested that when the U.S. signed a free trade deal with Israel "the U.S. did not give an inch on the question of trade remedy legislation" which imposes duties or restrictions on the import of goods into the country.

This means when the two sides make an agreement public, "what we'll get is not a real agreement but a cosmetic agreement . . . the appearance of an agreement for which we will pay through the nose," Rotstein said.

"We will end up with the worst of both worlds — the Americans won't concede what we want most (an exemption from their trade laws), because they haven't in the past — and we'll make all kinds of concessions."

Those concessions include "whatever is left of the foreign investment control legislation, particularly in the cultural field. We may have to give up book publishing," Rotstein said.

Members of the coalition said they have noticed a "perceptive slackening" of opposition to the deal by Peterson, but the Premier said yesterday the Liberal government has been "vigilant" in monitoring the negotiations.

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Population problems ignored by the summit

By Werner Fornos A23-7

The leaders of seven of the world's richest nations gathered this week in Venice for what has become an annual pageant of Western unity, full of pomp and high hopes for a more prosperous world future.

The heads of state, as they always do at such conferences, negotiated, jockeyed — and hedged. Occasionally, they even discussed ponderous and substantive world issues.

At the end of each of the annual economic summits, the leaders record their mutual concerns and commitments in an official conference declaration. These documents read like a capsulized history of recent world economic trends.

Yesterday's statement at the end of the Venice Summit renewed a call for an end to protectionism, called for closer co-ordination of the seven nations' economies and vowed to reform agricultural subsidies.

All of these documents, however, and all of the noble and worthy sentiments they contain, will remain just so much paper until the leaders recognize one of the world's most fundamental economic problems — rapid population growth.

The world's population, already 5 billion, is still surging forward, adding another 87 million people last year alone. An overwhelming 92 per cent of this growth is taking place in the Third World, in precisely the nations that can least afford to support such expansion.

Once upon a time, the leaders of the industrialized world, meeting at earlier economic summits, were frank in recognizing the role that over-population plays in choking economic development in the Third World and destabilizing the global economy.

As recently as 1981, at the Ottawa Summit, the leaders wrote into their final declaration: "We are deeply concerned about the implications of world population growth. Many developing countries are taking action to deal with that problem, in ways sensitive to human values and dignity . . . We recognize the importance of these issues and will place greater emphasis on international efforts in these areas."

When U.S. President Ronald

Population (con't)

Reagan put his signature to the bottom of that document, his thoughts must have been elsewhere. The U.S. delegation went home from Ottawa and sought to slash the U.S. international population assistance in each and every year that followed. They succeeded in reducing sharply over-all spending and in cutting off all U.S. support for the two most efficient providers of family planning assistance abroad: the United Nations Fund for Population Activities and the International Planned Parenthood Federation.

What's more, discussion of the issues relating to over-population has since disappeared from Western economic summits, and, starting with 1983 when the U.S. played host to the gathering, the word "population" has not appeared in any conference declaration.

The reason for this retreat can be traced in good part to the influence of the far right wing in the U.S. Don't let anyone tell you that Senator Jesse Helms hasn't left his stamp on U.S. foreign policy. Helms may not dictate to a secretary of state, but he has effectively intimidated younger, ambitious policymakers who are mindful that they may one day appear before him at a confirmation hearing.

Helms is notorious at the State Department for stalling or strangling hundreds of once-routine promotions for foreign service officers. The prospect of facing Helms across a hearing table and explaining one's authorship of a pro-family planning declaration is unappealing to the State Department officers who help draft the summit declarations.

Consequently, when the leaders met in Venice this week, population growth was not on their agenda. They decried pollution and the loss of resources vital to the world economy, but not the pivotal role population growth plays in altering the environment. And they lamented the persistent difficulty for Third World nations in handling the burden of international debt, but not the fact that overpopulation cripples developing economies and smothers the aspirations of the Third World.

The leaders toasted the importance of economic stability, the need for labor productivity and new employment, and the desirability of social equality and political freedom, while ignoring that all of these depend upon our coming to grips with overpopulation.

It is not always clear precisely what these summits really accomplish. What is clear, however, is that these meetings have a striking potential to produce something real and tangible. It is equally clear that what results these summits do produce will always be merely cosmetic until the leaders move beyond discussions of the symptoms and consider the cause of the illness.

☐ Werner Fornos is president of the Population Institute, a nonprofit public service organization based in Wahington, D.C.

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Small oil firms said in peril of takeover

4/7

By Arch MacKenzie Toronto Star

OTTAWA — The takeover of Dome Petroleum by Amoco Canada may lead to a rash of buyouts of intermediate and small Canadian oil companies at rock bottom prices this summer by the multinational oil corporations, the Council of Canadians warns.

Big foreign-owned companies like Texaco and Shell have lots of cash because cancellations of the federal Petroleum and Gas Revenue Tax has upped earnings by 25 per cent this year, council chairman John Trent of the University of Ottawa said yesterday.

He said some companies have already told shareholders they see it as a good time to scoop up Canadian reserves while prices are low.

Trent and Bruce Wilson, a former natural gas industry executive, spoke to a news conference before appearing before a Senate committee on the Amoco proposal to take over financially-troubled Dome.

The council is urging the federal and provincial governments to launch a five-year moratorium on foreign takeovers of Canadian petroleum outfits and provide time for alternative bids for Dome.

While Dome is 75 per cent foreign-owned now, it says, management would slip from Canadian hands because Amoco is Chicago-based.

"Canada is heading into a very tight supply situation," Wilson said, urging government precautions to help meet that situation.

Trent said it makes a lot more sense to try to keep Dome operating pending an alternative offer for it that makes more sense for Canada.

Unless action is taken, the percentage of the oil and gas industry in foreign hands would start to creep back up to the area of 70 per cent where it rested a decade ago, they warned.

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Huge trade surplus in April called fluke

By Jonathan Ferguson
Toronto Star E1-7

Economists say Canada's trade position is showing signs of erosion, despite a $1.6 billion trade surplus in April.

Some even label the country's highest monthly merchandise surplus in 12 months a "fluke."

That pessimism stems from economists' conclusions that the sharp increase, more than $500 million higher than in March, was the result of a steep decline in imports rather than any real growth in exports.

In fact, figures released yesterday by Statistics Canada show that exports dropped by $480 million to $10 billion. But the country posted the trade surplus because imports fell by more than $1 billion to $8.4 billion, the lowest level in two years.

"The figures tell us that the export market is not very strong," said Daniel Schwanen, international economist with the Canadian Imperial Bank of Commerce.

"The strong showing in April was a bit of a fluke — a one-month wonder."

Schwanen said the declines in both imports and exports reflected a general downturn in the U.S. and Canadian economies.

"The export market is not very strong because the second quarter in the U.S. is weak," he said. "And there's been a surprising dip in imports, which means there's a slowdown in demand."

More than 80 per cent of the goods and services that Canada exports end up in the huge U.S. market. Of the $1 billion drop in imports, about $850 million was a reduction of goods and services from south of the border.

"The bottom line is that the U.S. and European economies, Canada's major markets, aren't on a roll and it's starting to show," said George Saba, chief economist with Montreal Trust.

"It was just luck that we showed the surplus this month. Only the imports dropping so much gave us this misleading number."

Meanwhile, April's figure shows that Canada's trade surplus with all its trading partners for the first four months of the year was about $4.5 billion, $343 million more than during the same period last year.

Merchandise trade is only half the country's over-all trade picture, however. It also includes trade in services in which Canada traditionally runs a large deficit with the U.S. and other trading partners.

Last year, the country had an over-all deficit of $8.8 billion in trade of goods and services. That's because the $10.1 billion surplus in merchandise trade was offset by a staggering $18.8 billion deficit in the trade of services.

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Canada's contribution to summits: Championing cause of less fortunate

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RICHARD GWYN

at the summit

VENICE — As power-players go, Canada doesn't really belong at these annual economic summits.

Our Gross National Product, the total value of goods and services a country produces, is two-thirds that of the next-smallest member, Italy. Our population is less than half that of two of the next smallest, Britain and France. Our currency scarcely circulates beyond our own borders, unlike the deutschmark, yen or the real dollar of the United States.

We trade a lot, but largely in raw materials, which don't really count.

Had the summits remained, as they began in 1975, an occasion for strictly economic navel-gazing, our presence at them would have been an embarrassment. The other nations would have tolerated us, but they would also have patronized us in the manner practised by the heavyweight members of the "G-7" international financial group that we recently got ourselves invited into.

Instead, the summiteers spend as much of their time talking about politics as economics. Because all of them are politicians, the kind of topics that make the headlines, such as arms negotiations and terrorism and even AIDS, come naturally to them. The intimidating abstractions of debt and currencies and trade do not come so easily.

Creative source

In the new-style summits, we still are a source of embarrassment. But we are a creative source. We say things that need to be said but would not be raised if we weren't present.

Pierre Trudeau began this tradition. Joe Clark continued it at the Tokyo summit, the one summit he attended as prime minister. Brian Mulroney is perpetuating the practice.

It's the Canadian style — or the way we do things because we cannot help but do them that way — and for which, of course, Lester Pearson was the original source.

Being this way doesn't make ours a better society than the others. We are as comfortable and as affluent as the other summit members, and are far more secure from military or terrorist threats than any of them.

But we are different. Our consciences run against the grain of our contentment in a way that those of the more realistic — or more cynical — Europeans, or the self-absorbed Japanese, do not.

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Hard stare

It was therefore purely and predictably Canadian for us to have expended so much effort on the topic of South Africa during a summit held at a time when many economists are sending agitated signals that a financial crash looms.

None of the others really wanted to hear about South Africa. After the recent electoral triumphs of the white right-wingers in that country, few here or anywhere can think what to do to change conditions there.

British Prime Minister Margaret Thatcher gave Mulroney a hard, dismissive stare when he raised the subject at a dinner meeting. West Germany's Helmut Kohl quashed conversation on the topic at the next morning's session.

As Mulroney admitted at his post-summit news conference, his raising of the topic "did not raise much enthusiasm in some quarters".

The effort certainly didn't produce a grand victory. The six other leaders refused Mulroney's proposal for a formal declaration on the need for change in South Africa. But they did accept his argument that, as he later said in public, "the failure to say anything would be the most powerful message (of encouragement) that could be sent to Pretoria."

So, as a gesture, summit chairman and Italian Prime Minister Amintore Fanfani listed South Africa, along with the Pacific islands (for the benefit of France), South Korea and the Middle East, among the "other" political topics the group had worried over.

The same Canadian conscience prompted Mulroney's attention here to the long-neglected problem of the debt-devastated African nations in the drought belt below the Sahara.

Assistance plan

The Prime Minister tabled a detailed proposal for international financial assistance for those countries, as did also France and Britain. And he gave credibility to the message by telephoning Zambian President Kenneth Kaunda and then reporting to his colleagues that 60 per cent of Zambia's national income is now spent on interest payments.

The victory this time, while still not grand, was consequential. The seven committed themselves to drafting a detailed assistance program by the end of this year.

On South Africa, Canada in fact achieved little. On African debt, the contributions of France and Britain were as consequential as our own.

The Canadian characteristic instead was consistency. Summits come and go, but at each of them we are usually alone in talking about those who aren't around the table, the world's poor and less fortunate.

We also had our say on all the summit's heavyweight subjects, from debt management to fighting trade protectionism to co-ordinating international economic policies.

No doubt our interventions were sound and sensible, although it is likely the collective economic decisions that actually were taken by the summit leaders would have been taken anyway.

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Varity defeats motion to leave South Africa

By John Spears Toronto Star E1-15

Opponents of apartheid have scored an unexpected moral victory at Varity Corp.'s annual meeting.

Ottawa and Queen's Park, which both own shares in the company, yesterday backed an unsuccessful motion calling on Varity to leave South Africa.

The company, meanwhile, fought back in an effort to score public relations points by bringing in two black South Africans to speak against the motion.

To no one's surprise, the South African divestment proposal lost decisively, with 85 per cent of the shares cast against it.

Nonetheless Michael Czerny, who made the motion on behalf of the Jesuit Fathers of Upper Canada, said he was pleased with getting 15 per cent of the votes, representing 10.7 million shares.

The federal and provincial governments hold 7.2 million Varity shares between them — a legacy of their role in rescuing the company from bankruptcy in the early 1980s, when it was called Massey-Ferguson.

Apartheid policy

The federal government hadn't committed itself on the resolution until yesterday.

"We have a responsibility to vote in favor of the resolution because of the government's policy on apartheid," Jean Sattor, spokesman in the federal office of privatization, which oversees the crown corporation holding the Varity shares, told Canadian Press.

That pleased Czerny.

Varity "cannot help but be rattled by what happened," he said after the meeting.

"They're out of step with their colleagues in the corporate world, and now they're out of step with the two most important governments in Canada."

Varity chairman Victor Rice fought the motion every step of the way.

"All of us agree that apartheid is wrong," he told the annual meeting.

"The only point of disagreement is what the world outside South

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7 leaders seek closer economic ties

Statement by summit host on apartheid pleases PM

BY JOHN FRASER
Globe and Mail Correspondent

VENICE

The leaders of the seven Western industrial democracies ended their annual summit yesterday. with promises to increase co-ordination in economic policy, reduce farm subsidies, combat illegal drugs and co-operate in the fight against AIDS.

To the evident satisfaction of Prime Minister Brian Mulroney, the final summation by Italian Prime Minister Amintore Fanfani also included a strong pledge to continue the effort to dismantle "the apartheid regime" in South Africa.

The economic portion of the final communiqué dealt extensively with trade and agricultural questions, which dominated the proceedings.

Faced with continuing agricultural overproduction, the leaders made a dutiful introductory promise to remember the importance of farming to rural communities. Elsewhere, however, they pledged to increase efforts to address "the grave implications" of growing imbalances:

"The long-term objective is to allow market signals to influence the orientation of agricultural production," the central communiqué said, "by way of a progressive reduction of agricultural support as well as by all other appropriate means."

There is nothing, however, requiring any change in existing domestic subsidy programs, such as Canada's marketing boards. A Canadian official said the language on subsidies includes a proviso giving due consideration "to social and other concerns, such as food security, environmental protection and overall employment."

Nor are the leaders precluded from offering income subsidies to farmers.

In the broader area of international trade and economics, they decided to adopt a mutual monitoring system intended to set off alarms if any country starts to veer dangerously off course.

"The heads of state or government consider this measure an important step toward promoting sustained, non-inflationary global growth and greater currency stability," the comminqué said.

This idea, first formulated at Tokyo last year, was developed at a series of meetings since then. Using such economic indicators as unemployment, exchange rates, GNP growth, balance of trade and capital-account statistics, the leaders seem to indicate that they would be in a position to bring pressure on erring nations to take corrective measures.

The meeting this year was concerned with two great economic

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Farm sudsidies examined by leaders

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imponderables: whether general growth would or could continue, and what to do about what a respected senior Canadian Government official called "the famous global imbalances."

At the moment, the perceived erring nations are West Germany, with its slowing economy, and Japan, with its seemingly sealed domestic markets. There will be a review at the 1988 Toronto summit, the choice of which Mr. Mulroney announced yesterday.

There was, however, no noticeable ganging up on either country, as had been predicted for weeks leading up to the meeting. Even the United States, which was thought to be concerned primarily with obtaining practical as well as moral assistance in keeping Middle East shipping lanes open, disappointed those expecting a showdown of some sort.

A senior British official, pointing out that both Japan and West Germany had recently introduced specific measures to take summit pressure off them, said that "you could say the monitoring system is already working . . . . Now we shall be looking for an enhancement of the process."

Indeed, the only hint of conflict came with Mr. Mulroney's efforts to obtain "committed language" in the communiqul about racism in South Africa. On Tuesday, one senior Canadian Government official told journalists that West German Chancellor Helmut Kohl had rejected any inclusion of South Africa in the communiqué and was resisting even mention of the issue by Mr. Fanfani.

Yesterday, however, another and more senior official, said it was "a misunderstanding of the summit process" to expect "a regional issue like South Africa" to be included in any central communiqué.

In any event, Mr. Mulroney can claim some success in the strength of Mr. Fanfani's statement yesterday. When asked at a press conference if this were not merely tokenism to no immediate effect, Mr. Mulroney responded with considerable vigor:

"It's not going to change anything tomorrow, I agree. But it may do something for young blacks in South Africa who are sitting listening to some radio somewhere and hear that this group coming together in Venice took the time to at least acknowledge that the concepts of freedom and democracy did not escape our attention. At the very least, it sent the right sort of signal out."

One of the longest parts of the communiqué concerned the debt crisis in developing countries.

"We recognize particularly," it said, "that the problems of some of the poorest countries, primarily in the sub-Saharan Africa, are uniquely difficult and need special treatment." Consideration should be given, the leaders said, to "the possibility" of applying lower interest rates to their existing debt and allowing longer repayment and grace periods.

For the major middle-income debtors, the leaders said that they continue to support a growth-oriented "case-by-case" strategy.

The statement on AIDS, acquired immune deficiency syndrome, did not cover any particularly new territory but was nevertheless considered important because it underlined the need for greater international co-operation on the deadly disease as it spreads throughout the world. It also warned against unnecessary duplication in efforts to find a cure, an oblique criticism of scientific competition.

The leaders said AIDS had become "one of the biggest potential health problems in the world" although they cautioned that any measures must be taken "in accordance with the principles of human rights."

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Seeds of power

BY JEFFREY SIMPSON

VENICE

"Gratiano speaks an infinite deal of nothing, more than any man in all Venice." — Shakespeare, The Merchant of Venice.

The Gratianos have all gone home, to reassemble next year in Toronto, there to resume their laborious efforts to translate fine words into concrete action.

Nowhere are the efforts more urgent than in agriculture, where the world has gone quite mad. This year, the Americans and the European Community will pitchfork about $50-billion into agricultural subsidies. For its part, Ottawa's agriculture budget has jumped in a few years to more than $4-billion from about $1.5-billion. Mix in provincial support programs, and Canada's spending rises further.

Two years ago, at the Bonn economic summit, furious wrangling attended the mere mention of agriculture. The French, in particular, objected to including agriculture in the communiqué and to tackling agricultural subsidies in the next round of multilateral trade negotiations.

Clearly, the big battalions of the U.S. Farm Bill — and another of the Community's periodic budget crises — softened French opposition. Prodded by the United States and Canada, the Venice summit partners did commit themselves to a series of procedural steps to accelerate discussion on the agricultural madness.

The biggest obstacles to fundamental reform remain political. In every summit country, including Canada, farmers exercise political influence wildly disprupportionate to their numbers.

Within the European Community, for example, the Common Agricultural Policy eats up 72 per cent of the total EC budget. This patent absurdity, widely noted and deplored, has resisted all serious efforts at reform, although the CAP's primary objective — self-sufficiency in food — was long ago achieved. But huge constituencies of awesome political might are tied to the various EC subsidy programs.

The French, for example, face presidential elections next May. You can be sure that no presidential candidate will pledge other than to defend French farmers. In West Germany and Italy, farmers overwhelmingly support the ruling conservative coalitions. Even in Britain, where Prime Minister Thatcher's Government is nominally opposed to EC budgetary excesses, the farmers provide a bastion of Conservative support.

So, too, the Americans, who will be in mid-campaign during the Toronto summit of 1988. No presidential aspirant searching for the elusive farm vote will likely pledge to do less for his country's farmers. And we all know the degree to which Japan's ruling Liberal Democratic Party relies upon votes from rice farmers within an electoral system that gives more weight to rural voters than to urban ones.

Canada, garbed in offended virtue, has played a constructive role in focusing such attention as it can with like-minded states on the agricultural madness. Happily, Canada has structured its efforts so that the blame falls on everyone else and we can continue to subsidize our own farmers. This arises from the distiction between income-support programs, which we practice, and subsidies encouraging overproduction, which obstensibly everyone else practices.

Which leaves open — does it not? — how this distinction applies to marketing boards, which both support income and regulate production. If, as the Venice summit communiqué reads, the world must move toward allowing market signals to influence the orientation of agricultural production, then marketing boards are probably doomed.

But, then, these boards are supported so ardently by the producers who benefit enormously from them that the boards are probably impervious to reform whatever the Gratianos of Venice purport to suggest.

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U.S. investment issue unresolved among provinces, Peterson says

BY ROBERT SHEPPARD
The Globe and Mail

The federal Government does not have a mandate from the provinces to negotiate unfettered levels of U.S. investment in Canada as part of a free-trade deal, Ontario Premier David Peterson says.

Mr. Peterson said he is already "extremely concerned" about the level of foreign ownership in his province in many key sectors and does not want to see this exacerbated by a free-trade arrangement.

The role of the federal trade team on this issue was left unresolved at the last first ministers' meeting, he said. "But very clearly they were not given a mandate to negotiate" investment issues.

Mr. Peterson said the June 22 first ministers' meeting on the free-trade talks might be used to set terms of reference for the federal negotiators "with respect to the investment issue.

"One of the structural defects in our economy right now is that there is such a high percentage of foreign ownership." Consequently, as a Government, "you lose your levers" to effect economic change.

"Do we want Global TV, for example, to become an affiliate of NBC? I don't. And I am not very happy with the Dome deal as well. I think we have already opened up our borders very substantially in that regard." American-owned Amoco Canada Petroleum Co. Ltd. is the prime bidder for Dome Petroleum Ltd.

In recent days, Mr. Peterson has become more vocal about the prospect of unrestrained U.S. investment in Canada, talking to a provincial radio audience Tuesday and reporters yesterday about the matter.

Senior national politicians on both sides of the border have said recently that the investment issue, for the U.S. side, and freedom from retaliatory U.S. trade measures, for the Canadian negotiators, are the two major stumbling blocks to any deal.

Mr. Peterson says he has his own views on how the foreign-investment issue should be handled, but he wants to see first what Ottawa puts on the table. The federal Government has most of the authority in this area because it controls levels of foreign investment generally and also regulates many of the key industries such as telecommunications and broadcasting.

But the provinces also have some, more indirect, control over several areas the U.S. negotiators are particularly interested in, such as securities regulation and the distribution of alcoholic beverages and films.

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A vacuum in Venice

The expectations were modest, and the results fully justified them. The Sedate Seven who ascended to the summit at Venice have provided the Western world with the most dismal abdication of economic leadership since the 1930s.

The leaders of the seven major industrial states met at a moment of anxiety about the stability of the capitalist economic system. Nations seek to preserve trade surpluses, or correct trade deficits, with imprudent protectionist measures that shrink the incomes of all. The barriers exacerbate the debt woes of the Third World, and could unleash a crisis of confidence in their creditor banks.

Yet the leaders of the Seven have responded to this potential crisis with a display of collective paralysis and individual opportunism. The discussions were a sterile repetition of the divergent economic viewpoints rehearsed at each of the three or four previous summits. The U.S. tells the Germans and the Japanese to stimulate their economies, and they in turn tell the Americans to reduce their budgetary deficit.

In the final communiqué, the Seven vowed to try to adhere to declared economic policies, and to use a common set of economic indicators to alert them if the world economy was off course. They reaffirmed commitments to combat foreign exchange fluctuations and protectionism — including the $70-billion a year spent on farm subsidies. But for all these pious promises, it was clear that the only time the Seven moved in lockstep was to be present at the photo opportunities.

Unable to act in the common interest, they mounted their personal hobby horses. President Ronald Reagan won an empty endorsement of free movement in the Persian Gulf. Prime Minister Brian Mulroney elicited harsh words for South Africa (albeit in the summit sum-up by Italian leader Amintore Fanfani rather than in the formal communiqué). Britain's Margaret Thatcher obtained a reaffirmation of the importance of the nuclear deterrent in order to undermine the credibility of her election opponents back home.

So why has the summit sunk to such depths? Certainly, the calibre of its participants has much to do with its decline. Former leaders such as Helmut Schmidt, Valery Giscard d'Estaing and Pierre Trudeau provided an intellectual lustre that is now absent. Then, too, Mr. Reagan, Japan's Yasuhiro Nakasone and France's François Mitterrand have all lost the domestic political clout they commanded in their earlier appearances. Mrs. Thatcher is now the only world-class statesman of the bunch.

But the process is almost as much at fault as the participants. The summits have become overloaded with officials and media. The officials turn the affair into an excessively formal exchange of views, complete with more solemn texts than Fawn Hall could hope to shred. The media presence tempts the leaders to emphasize spectacle over substance.

It is probably unrealistic to hope that, in future, the leaders could board a destroyer and sail out to the middle of the Atlantic, leaving their advisers and media chroniclers behind. (Each state wants to take its turn as host of the summit, if only because the event does more for local tourism than a Shriners' convention.) But surely it should be possible to take some of the starch out of the summiteers' shirts.

The abolition of a final communiqué would, by itself, reduce the need for officials by half. More leaders-only sessions could be scheduled, too, and those could be devoted to informal talks rather than the recitation of scripted positions. Toronto may be a worthy site for the next summit, but Meech Lake would be the ideal spirit.

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OVERNIGHT CANADA/DU JOUR AU LENDEMAIN
OTTAWA
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THE GLOBE AND MAIL / NATIONAL 115
Code 7
Page A8

Ottawa promoting free trade on video

BY CHRISTOPHER WADDELL
The Globe and Mail

OTTAWA

An $88,000, 10-minute videotape featuring many prominent spokesmen for free trade is the latest element in a $12-million, two-year campaign by the Department of External Affairs to promote a trade deal with the United States.

The video, produced by Yaletown Productions Ltd. of Vancouver, will be made available in English and French to libraries, universities and community colleges and television stations upon request.

To meet the anticipated demand, the Department of Supply and Services has produced about 700 copies of the video at an additional cost of $8,000.

The videotape follows a booklet produced by the International Trade Communications Group of External Affairs that should begin appearing in supermarkets later this month. That pamphlet is supplemented by an information kit available on request, which contains brochures outlining the benefits of a trade deal for each province and territory and for 20 different industry sectors.

The tape, shown to reporters yesterday, is entitled Trade: Securing Canada's Future. It features comments of many spokesmen for free trade from the business and academic communities, interspersed with video footage of Canadian industry and workers, featuring the manufacturing of high-technology products.

However, there are no comments from any labor representatives or critics of free trade included in the tape.

With no narration, the video strings together the comments of a Who's Who of free-trade proponents, who make the case that a trade agreement is essential to secure U.S. market access for Canadian exporters.

They further state that a trade agreement will bring benefits for consumers in lower prices, while Canadian industry will adjust to greater U.S. competition by producing a greater volume of a narrower range of goods. As a result, they imply, there will be more jobs, not fewer, after a trade deal.

The presentation ends with an exhortation for Canadians to broaden their vision and take a place on the world stage.

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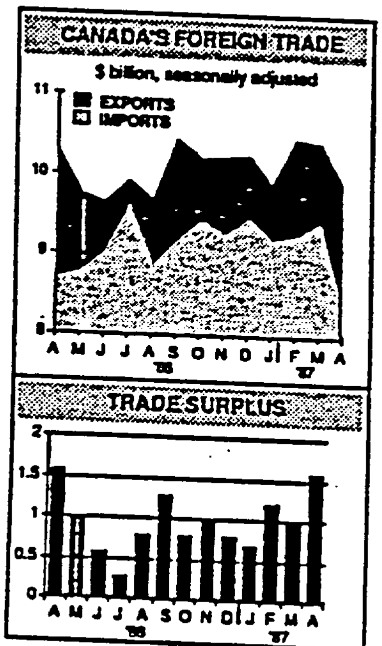
Code 7
Page B1

$1.6 billion trade surplus biggest in year



Source: Statistics Canada

BY PHILIP DeMONT
The Globe and Mail

Canada posted a $1.6-billion merchandise trade surplus in April, the largest surplus since April of 1986, Statistics Canada reports.

The value of exports fell for the month, down $481-million from March, to a level of $10-billion. But imports fell by even more, a whopping $1-billion from March, to $8.4-billion. This is the lowest level since April of 1985, which accounts for the higher trade surplus.

The merchandise trade surplus, the amount that Canadian exports of wheat, metals and other goods exceeds imports, was up 55 per cent from March's level of $1-billion.

Canada's imports of car and car parts were down $464.5-million, the main reason for lower imports numbers. Imports of equipment and machinery were down by $276-million.

On the export side, overseas sales of crude oil went up by $50.6-million, while wheat exports edged up $38.3-million. Surprisingly, Canadian exports of automobiles and parts were down $218.2-million.

Dennis DesRosiers, an independent automobile industry analyst, said lower export and import figures for the automotive industry are not surprising. The passenger car market in United States is down about 15 to 20 per cent, while Canadian car demand has fallen 6 to 8 per cent, he said.

The car industry in North America is about halfway through its downturn, and is unlikely to pick up throughout the rest of the year, Mr. DesRosiers said.

Some economists see the over-all April figures as a good sign for the Canadian economy. Paul Kovacs, senior economist with Burns Fry Ltd., said the lower import numbers partly reflected the process of Canadian producers squeezing foreign producers out of the Canadian market.

Susan Clark, chief economist with Richarson Greenshields of Canada Ltd., agreed that the merchandise trade situation looks good. She noted that the surplus for the first four months of this year is $4.7-billion, up 23 per cent from a year ago.

Both economists said Canada should enjoy a continuing healthy surplus on its merchandise trade. Mr. Kovacs sees increasing prices for foreign goods in the future, which gives Canadian producers even more scope for producing for the domestic market.

Export volumes have begun to pick up, along with prices for oil and other commodities, he said.

Mr. Kovacs estimates that next month's merchandise trade surplus may drop to about $1.1-billion. But, for the year, he guesses that the yearly surplus could reach $12-billion. Last year's merchandise trade surplus was $10.1-billion.

Canada's merchandise trade surplus with the United States increased by 19 per cent to $1.7-billion in April from $1.5-billion in March. Canadian imports from south of the border fell by 10 per cent to total $5.8-billion. Exports, however, dropped by only 5 per cent to $7.5-billion.

Canada's trade deficit with Japan also improved, falling to $54.4-million from $194.7-million last month. Imports from Japan plummeted by 31 per cent to $490-million, as the low Canadian dollar relative to the Japanese yen continued to drive up the price of Japanese exports. Canadian exports to Japan fell by 16 per cent to $435.6-million in April from $519-million a month before.

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OVERNIGHT CANADA/DU JOUR AU LENDEMAIN

These days, summitry just ain't what it used to be

PETER COOK

VENICE

A dozen years ago, former French president Valery Giscard d'Estaing had a good idea.

Given the interdependence of the world economy, and the degree to which decisions in one country affect others, he reasoned that it would be a positive step to have an informal, unstructured meeting among the leaders of the largest Western economies.

The first summit took place at the Château de Rambouillet, and maddeningly little was said about it afterward. This secretiveness did not last long. At Venice, it is apparent how far summitry has travelled since.

Informal, unstructured and reflective it is not. The leaders and their retinues have been sashaying over the past few days from the Ducal Palace to the Palazzo Volpi to the Isola San Giorgio. Against an ornate background, there have been scrumptious dinners, photo opportunities and meetings that ended suspiciously on time (had they run out of things to talk about?).

Meanwhile, in the streets and canals of Venice, the presence of thousands of overarmed militia, navy patrols, cordoned-off secure areas and the constant putt-putt of helicopters overhead give visitors and residents the feeling of being caught up in the final days of the Vietnam War.

The business of summitry has changed into just that — a political business of getting a favorite issue, or the conflagration of the moment, on the agenda. That way, the voters back home will know what a whiz you are.

The Americans wanted immediate talks on the Persian Gulf and a strong East-West statement to counter Mikhail Gorbachev's propaganda successes. Venice became no less than the sixth such meeting to condemn international terrorism (the trouble with terrorists is that they are not big on reading communiqués).

Margaret Thatcher, in a fleeting visit, seemed to take credit for everything that was to be said or done.

The Canadians wasted everyone's time by making a big issue of South Africa when the redoubtable Mrs. T., the Americans and the West Germans did not want to. "Silence could not be tolerated on this very vital issue," Prime Minister Brian Mulroney said at his press conference. And so it went.

The idea — this year in Venice and doubtless next year at the Toronto summit — is to get your topic discussed and mentioned in the communiqué. Whether anything effective will be done or whether it has much significance — as Canada's plea for relief on Third World debt or its supposed new push on agricultural trade — is another matter. It is enough to claim that the issue has been put before the world.

In Venice, the going has been particularly rough because the Italian hosts, caught up in an election, wanted to keep everything as bland as possible.

That the summit has departed so sharply from its original purpose is a pity, and nowhere more so than in economic policy — the one-time raison d'être for the whole shebang.

If a number of recognizably economic matters emerged in yesterday's communiqué and in bilateral talks, they were mainly things that trade ministers (who were not present) ought to be talking about; freeing up farm trade, proceeding with a faster implementation of the GATT trade talks, and partially removing restrictions on Japan's semiconductor imports into the United States, to name a few.

For the rest, there was a small move forward in economic co-operation. Finance ministers and central bank governors will step up the monitoring of each other's economies, implying there will be more pressure on governments to take remedial action.

But, otherwise, the summit participants chose to ignore the dangers posed by a slowdown in the world economy.

Without 3 per cent-plus growth globally, unemployment worsens, Third World nations cannot meet debt payments, commodity prices decline in real terms and protectionism flares up as countries find themselves competing for a shrinking share of world markets.

Less than a month ago, a report by the OECD in Paris talked of disappointing growth and appallingly high levels of unemployment and expansion in the industrial countries of a mere 2 to 2.5 per cent this year, with little prospect of improvement in 1988.

Less than two weeks ago, the National Institute of Economic and Social Research in Britain took a look at the stimulative measures taken by West Germany and Japan, and said they were not enough to maintain growth or stop the U.S. dollar from sliding.

In Venice, the leaders have proclaimed that they want to prevent the dollar from falling further, stabilize the world economy and encourage free trade.

Fine words. But, where they have done anything, it has been to treat the symptoms, not the cause. Protectionism is not going to abate no matter how much negotiating is done, unless the world economy and world trade start to expand more vigorously.

Such superficial treatment of deep-seated economic problems is, unfortunately, typical of what summitry has become.

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EDMONTON
JUN 11 1987
THE EDMONTON JOURNAL / FIRST J25
THE EDMONTON SUN / FIRST J26
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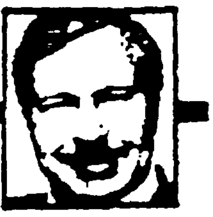
Page 56

Fed Tories losing West's faith

POOR SHOWING IN OIL, AGRICULTURE ASSISTANCE



NEIL WAUGH

The federal Tories were trying to do a little maintenance to the crumbling pillars of Alberta's bushwacked economy again this week.

Unfortunately, they didn't do much more than slap a little latex over the dry rot.

First Energy Minister Marcel Masse was dispatched to Vancouver on Monday supposedly to douse the flames of those old Socreds disguised as the western reform association.

Although, if you want my opinion, getting the Marc-Lalonde-think-alike to show up anywhere is like fighting a brush fire with high test gas.

Marcel's message to the Vancouver Board of Trade was that the Reformcreds were out to lunch about the Mulroney government not caring and sharing with the West.

He bit back that his regime "has moved quickly and decisively to remove the shackles imposed by the previous governments."

Then he went through the usual litany of relief he and Pat Carney have brought to the oilpatch — right down to the mid-break-up announcement that the feds were jumping into the drilling subsidy business.

"We estimate this program could lead to over one billion dollars in additional investment and the creation of 20.000 jobs." Masse boomed to the laid back timber-and-mining audience in Vancouver.

He didn't mention those jobs all had been de-created last year when the oil price plunged from $28 US a barrel to less than $9, just 18 months ago. And it took him until March 25 to realize that things were bad enough to warrant a pogey program for oil companies.

Oh so close

Now the oil price is oh-so-close to punching through the 20-buck-a-barrel-barrier again (Go West Texas Go). And a good chunk of the government road bans have been removed for a couple of weeks.

But Masse's 20.000 jobs haven't shown up.

Sure, Amoco Canada was trying to fly its Canadian colors again yesterday. In a press release topped "Amoco Canada announces $45.8 million expansion in Mipisi" the company with Dome on its mind announced a 20-well drilling program in the field 300 km northwest of Edmonton. It will add an extra 8.500 acres to the on-going miscible flood project and allow recovery of an additional $25.5 million barrels. It took Amoco until the very last paragraph to reveal that it only has a 15-per-cent working interest in the play — so presumably it is bringing only $6.8 million to the table. Nice try.

The real test comes every Tuesday when the Canadian Association of Oilwell Drilling Contractors releases its weekly rig count.

151 active rigs

This week the active count stood at 151. Last week it was 10 less, out of a rig fleet of about 452 units.

In other words, even with the moving restraints off, there's a long way to go before Marcel's miracle begins to work.

The same goes for the miracle his boss — the prime minister — was supposed to pull off at the Venice economic summit.

We sent Mr Let's-Make-a-Deal to the meeting of the six big western nations plus Canada to kick butts over agricultural subsidies. (These apparently are naughty but Masse's drilling subsidies are a dandy in Torythink.)

The best Mulroney could come back with is a vague commitment that the European Economic Community and the Americans aren't going to subsidize their farmers anymore. But not any less either.

It doesn't matter that these dudes are already backing their stock trucks up to their respective treasuries and hauling away the taxpayers' loot. And the convoluted way the Americans are doing it actually drives world prices down.

Luckily Mulroney didn't have anything to give away this time.

Or we really could have been in trouble.

Brian Mulroney
Nothing to give away

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CALGARY
June 11/87
THE CALGARY HERALD / FIRST
THE CALGARY SUN / FINAL
J21
Code 1/2
7,15
Page A5

Important People could discuss Important Issues

A5

William F. Gold

Once upon a time there was a Group of Five nations that got together once every year or so to make solemn statements about international monetary arrangements and other similarly inscrutable Important Matters.

Indeed, such a profound aura of Importance attached itself to these proceedings that certain of those nations which were not invited began to feel that this omission automatically defined them as Unimportant.

Their feelings were hurt. They complained. They lobbied and whined. Finally the amiable proprietors of the U.S., the U.K., France, West Germany, and Japan said to two of the most-left-out nations, OK, you can come.

Thus did Italy and Canada become Important. The Group of Five became the Group of Seven. For several years now Canada has preened itself on this exclusive world stage. The handful of people in this country who actually pay any attention at all to international affairs had something new to ponder.

This has been going on for nearly 10 years and only now is it becoming apparent that these meetings actually accomplish very little in terms of concerted international policy or action. And why should that be? There are many possible answers.

All this week there has been an enormous torrent of publicity about the Venice meeting. So Very Important is this meeting thought to be that the Italian government has proclaimed no end of rules and regulations.

These have caused despair and dismay in a damp tourist town that long ago figured out that Important People neither carry money on their persons nor spend any in the local shops. Their hangers-on must have money but they seem to spend it all on guns and dark glasses through which they peer suspiciously at honest merchants and innocent gondoliers.

But these are grubby commercial concerns. The Important People have Important Issues to discuss and resolve. Discuss. anyway.

The United States seems to have got everyone to agree that terrorism is a Bad Thing, and the meeting's final communique may well contain a statement to that effect. It must, after all, contain something.

Canada, which has seemingly allowed its preoccupation with South Africa to dominate all aspects of its foreign policy, wanted to rally the Important Troops against the white government of that tragic nation.

Unhappily, none of the other nations, some of which actually have direct interests at stake in the issue, wanted to play, so Canada's chance at Importance in the communique seems to have faded.

Actually, the meeting has done nothing about anything.

The world is a terribly troubled place. Its economy is in dreadful shape and some of the policies being followed by countries whose leaders were in Venice contribute directly to that sad condition.

The United States is now adding protectionism to the lunatic financial policies that have allowed it to become the world's biggest debtor nation while its jolly president goes around lowering taxes and raising spending.

The Japanese have become the world's biggest creditor while they manipulate and protect their domestic market even as they rely upon the United States and the rest of the free world to provide for their defence.

The French are major players in the

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VANCOUVER
JUN 11 1987

THE PROVINCE / FINAL K 10
THE SUN / FIRST K ⑪
THE VICTORIA TIMES-COLONIST / FINAL K 12

Code 7
Page B4

Deadliness in Venice

Despite the routine chauvinistic headlines, obligatory in all seven countries, there was no big splash at Venice: rather a miserable drip or two on the world's major problems, which aren't going to get any smaller as a result.

It's a pathetic measure that the best the seven could do was agree to something that they and a larger group had already approved — the statement on agricultural subsidies — at the Organization for Economic Coöperation and Development meeting last month.

They didn't agree, however, on any specific measures or timetable to reduce their own agricultural subsidies, which are wreaking havoc in world trade.

The usual efforts were made to find some diversionary topic on which they could issue a great pronouncement without having any effect on their economic well-being. Sure enough, there was condemnation of terrorism, passing the buck on AIDS to the World Health Organization, a watery resolution on protecting innocent traffic in the Persian Gulf, and arguing not very conclusively about apartheid. Motherhood was taken care of by endorsing nuclear arms reduction.

The real business of the annual summit is supposed to be the economy. But the meetings are rapidly degenerating into political photo opportunities. This year Margaret Thatcher's most important contribution was trying to hog the picture before running home to her election. Italy's Amintore Fanfani wasn't going to rock any gondolas before his election, next Sunday. Next year — surprise — the summit will be in beautiful downtown Toronto. And when will the election be?

Although the Americans went to Venice talking of good intentions, President Ronald Reagan probably set the tone for a do-nothing event by letting go the most powerful economic bureaucrat in the world, Paul Volcker, chairman of the Federal Reserve Board. Mr. Volcker was inflation's greatest foe and the stern critic of his own country's deficit. Thus no commitments from the United States on domestic economic reforms.

None, either, from the Europeans, who may see more to be gained from a U.S. decline than from a coöperative effort to manage its problems.

This all leaves only a faint hope of real progress in the wider forum of the General Agreement on Tariffs and Trade. The current round of GATT negotiations got little inspiration from the elite seven in Venice. But there's always a chance that sheer numbers will force economic change in spite of them. The only trouble is, it might be for the worse.

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VANCOUVER
JUN 11 1987
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THE VICTORIA TIMES-COLONIST / FINAL K 12

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Page B4

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SUN

Calgary's Other Voice

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BRUCE CREIGHTON, General Manager
ROBERT POOLE, Editor-in-Chief
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Truce good news

Some you win, some you lose.

Just ask Prime Minister Brian Mulroney and External Affairs Minister Joe Clark, who have been beating the bushes this week at the meeting of the leaders of the seven major industrialized democracies, to drum up support for a truce in the agricultural subsidy wars and for massive sanctions against South Africa.

All seven countries endorsed the toughly-worded agreement hammered out last month at a meeting of the Organization for Economic Co-operation and Development that calls for an immediate end to farm subsidies and policies that deliberately encourage surplus agricultural production. It calls for a rollback in farm subsidies, but there is no date for implementation.

That agreement is good news for Canada, and particularly for those of us who live in the agricultural west. It offers hope that commodity prices will begin to rise again to a natural market level, from the currently artificially deflated level brought about by the subsidy war between European and North American countries.

The loss for Mulroney and Clark — and, one supposes, by extension, all of Canada — was the rejection of Canada's demand for an embargo against South Africa.

The real loss for Canada was that our leaders, once again, saw fit to demand that other countries interfere in the internal politics of South Africa.

Condemn apartheid, by all means. The Venice summit did so, with its call for the dismantling of the system that is undeniably a blemish on the face of human rights..

But if we are to refuse any commerce with nations which are guilty of violating human rights, then we must look far beyond the borders of South Africa to other countries, far more brutal, whose regimes we support, not with trade, but with direct foreign aid.

As for the other major announcements out of the summit, well, who can argue? There should be an end to the Iran-Iraq war, an offensive against terrorism and co-operation in fighting AIDS.

For Canada, the real breakthrough is the agricultural provision. Now, we'll wait and see if it is just words.

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REGINA

THE LEADER-POST / FIRST J15
THE SASKATOON STAR-PHOENIX / FIRST J16
THE WESTERN PRODUCER / FINAL J17

Code 7-
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Venice summit aftermath: now, the hard part starts

There was some symbolism in the high tides that washed along Venice's legendary canals this week as leaders of seven major industrial countries met in the historic Italian city for their yearly economic summit.

The leaders seemed inundated by an agenda that spilled far beyond the confines of economics. As has happened at past summits, the purely political seemed to take precedence over the exclusively economic. Consequently, the time was taken up with discussions and statements on such topics as quickening of pace on arms negotiations, co-operation on countering international terrorism, on coping with the Persian Gulf tinder-box, and on arranging high-level co-operation on AIDS. There is no denying that these issues are of critical importance, but it also means that with such a heavily "politicized" agenda, economics ends up playing second fiddle at the *Economic Summit*.

It seems that crippling agricultural subsidies, an issue which became Prime Minister Mulroney's lead card at Venice, was stacked near the bottom of the deck. Canada brought to Venice not only its own brief, but also that of the so-called Cairns group. Membership in the latter consists of 14 agricultural exporting countries, Canada included, that have been particularly hurt by the farm subsidy wars involving the U.S. and the Common Market.

Last month, the 24-member Organization for Economic Co-operation and Development, which included the summit countries and other Western industrialized nations, agreed to a truce in the agricultural trade subsidy wars. They even went so far as to urge rollbacks of subsidies, but without imposing any deadlines for doing so.

Reports from Venice suggest that Canada faced some tough sledding getting other summit participants, notably West Germany's Helmut Kohl, to go along with the OECD resolution. The chancellor apparently wanted to soften the OECD statement while Canada sought to have more starch added.

(Kohl also appeared to be the source of a *nein* to Mulroney's efforts to give the issues of human rights in South Africa a more prominent spot on the summit agenda.)

The summiteers finally did settle on an endorsement of the OECD's May commitment, but did not go beyond that to lend weight to Canadian and American calls to fast-track agriculture negotiations during the already-agreed-upon Uruguay Round trade talks that are to take place under the General Agreement on Tariffs and Trade (GATT). Termed an "early harvest" initiative, such provision would allow rollbacks of farm subsidies to be in place by 1989, well before a broader trade accord is expected to be reached during GATT's Uruguay Round.

A willingness by the summit participants to follow up on the vital question of farm subsidies, as well as on agreements to more closely monitor currency fluctuations, just might allow the Venice *Economic Summit* to live up to its name, instead of going down simply as yet another *piazza* for political posturing.

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Page A6

Loose cannon

For his brutish insensitivity to environmental concerns, former U.S. interior secretary James Watt earned the distinction of being the Reagan administration's most embarrassing political appointee. A more ill-suited candidate for that sensitive portfolio is difficult to imagine.

Yet Don Hodel, the current interior secretary, seems determined to outdo his outrageous predecessor.

Canadians will remember Hodel as the man who claimed Ottawa's desire for bilateral cuts in acid rain emissions stemmed from a greedy urge to sell more electricity to the U.S.

Then there was his "Rayban" plan. In the absence of an international pact to limit chlorofluorocarbons, which are blamed for destroying earth's protective ozone layer, Hodel suggested people should wear hats, sunglasses and sunscreens.

Now he recommends to Congress that oil exploration and drilling on Alaska's Arctic coast proceed, regardless of objections by Canada and environmentalists. Despite overwhelming evidence to the contrary, he argues that the risk to wildlife of such a scheme is negligible.

His callous disregard for the environment and for Canadian sovereignty is disturbing.

If there is a bright side to his dark plan it is that Hodel no longer questions the motives of the Canadian government.

He leaves that task to Frank Murkowski, a Republican senator from Alaska. Murkowski supports oil exploration and drilling, calling it "an energy issue, not an environmental issue as some would prefer to characterize it." There would be plenty of time to react to environmental problems that may develop, he argues, ignoring that a good government doesn't react. It anticipates. Further, he says, Ottawa is opposed only because it wants to sell more oil and gas to the U.S.

Nonsense. Canada and the U.S. assign different priorities to environmental concerns.

In conjunction with British Columbia, Ottawa is considering lifting a 16-year-old moratorium on West Coast oil and gas exploration. While the move is rightly opposed by environmentalists, Ottawa has at least shown some concern for the environment in accepting 80 of the 92 recommendations of a three-year federal-provincial study into potential environmental hazards. The clamor for oil and gas exploration on Alaska's Arctic coast places energy concerns ahead of ecology.

Fortunately, saner voices prevail in Congress. Democrat Morris Udall proposes legislation to bar oil and gas exploration on a northern wildlife refuge. Timothy Worth, also a Democrat, says if Washington is worried about its dependence on foreign oil, it should promote conservation. Others advocate more study of the environmental hazards before oil exploration is even considered.

Still, the attitudes of such powerful politicians as Hodel and Murkowski are disquieting. They do not bode well for resolution of other bilateral issues, such as free trade, Arctic sovereignty, grain subsidies and acid rain. Nor do they foster optimism about the future of the environment.

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06/11/87 05:35 MEDIASCAN/TORONT NO.006 001

MEDIASCAN

OVERNIGHT CANADA/DU JOUR AU LENDEMAIN

TORONTO

JUN 11 1987

THE GLOBE AND MAIL / METROPOLITAN 170

THE TORONTO STAR / FIRST 116

THE TORONTO SUN / FINAL (17)

Code 7

Page 10

Crowded summit

Events forced this year's western economic summit in Venice to be more important than just being the world's No. 1 photo opportunity. That's good!

Those same events overshadowed Brian Mulroney's vain effort to swing the spotlight over to his concerns. That's bad—for the PM's ego.

After all, he was sure he was on the side of the angels. But his timing was off. There were too many issues.

In fact, this summit dealt with a broad list of serious issues—the Gulf War, terrorism and the U.S. dollar.

And buried amid the platitudes and pledges of closer economic co-operation there was a call for reform of agricultural policies, including "a progressive and concerted reduction of agricultural support."

That has to be good news for our PM—although not as good as an immediate end to those subsidies that are wrecking markets for our grain farmers.

And against the background of bloodshed of the Gulf War, plus the threat this instability poses to the West, his labelling of apartheid as "the greatest human rights concern of our time" was raw hyperbole.

Apartheid is an evil, unjust and murderous system.

The summit called for its end.

But more people are dying in the fighting in Iran and Iraq. And just beyond, eager to advance its tyranny, is the Soviet empire where millions live in bondage.

We shouldn't dismiss Mulroney's efforts. But they must be viewed in a world perspective.

So, though the leaders of the non-communist world failed to deal with all the economic and social problems confronting them, the meeting can't be written off.

The West's united stand on the Gulf War is crucial. Pressing Iran and Iraq to negotiate an end to their 6½-year-old war is vital for stability, not just in the Middle East, but in the entire world.

The West can, under no circumstance, allow the oil-rich region to fall into the Soviet sphere.

The priorities at this summit may not have suited Mulroney's personal agenda, but for now they were the right ones. Next year's summit will be in Toronto—where he may have a better chance to be heard.

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THE TORONTO STAR / FIRST 116
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Code 27
Page 36

Free trade foes state their case

By MARK NUSCA
Toronto Sun

An influential group of men and women representing 35 organizations has urged Premier David Peterson to forget about free trade with the U.S.

Representatives of the Coalition Against Free Trade met with top officials from Peterson's office yesterday to voice strong opposition.

The coalition wants Peterson to stand tough in defending Canada's interests.

"There is huge opposition here in Ontario to free trade," said Marjorie Cohen, a spokesperson for the National Action Committee on the Status of Women.

Peterson has already said he will not attempt to block a free trade deal outright but says he has many unanswered questions.

The premier, who is to attend a first ministers' conference in Ottawa later this month to discuss the negotiations, said the June 22 meeting might not produce any substantial announcements.

But he said there may be new developments to discuss after free trade negotiators meet again next week.

In Washington, a group of congressmen warned the chief U.S. negotiator yesterday that a free-trade agreement with Canada won't fly in Congress unless a string of conditions are met.

Congressmen from the U.S. Northeast and Midwest told negotiator Peter Murphy the final pact must correct the imbalance in automotive trade between the two countries.

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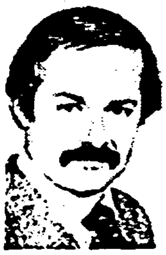
DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet: Ottawa Citizen

Date: June 11

Could several wrongs make voters go right?



MacGregor at large
Roy MacGregor

The prime minister could not sleep.

He had tried, but he was just too excited.

Venice had gone just as he had prayed. He had brought up South Africa and agricultural subsidies and Ronnie and Margaret and François and Yasuhiro and Helmut and Amintore had all told him to go ahead and say whatever he wanted about their level of interest, so long as he backed up their claims to their press.

Yes, the saving of the Free World was going just as planned.

But back home it was the same dismal story: stuck in third place and not likely to improve even if Ronnie agreed to end acid rain and François promised to stay out of Canadian waters.

Why couldn't home be like this?

The prime minister dressed himself — no valet this trip — and slipped out of the room.

He made his way to a ledge overlooking the canal. His watch glowed 1:45 a.m., the very moment the urgent and confidential Telex from Ottawa had advised him to be at this spot.

A burbling sound forced his gaze down into the pungent waters. The prime minister had seen the frogmen all around the Island of San Giorgio, where the summit leaders had been meeting, but no one had said there would be anything like that around the hotels.

The water broke over a grin. The prime minister had seen none of the other frogmen smile. But nor had any been wearing a yellow T-shirt with "I LOST IT AT MEECH LAKE" emblazoned in rainbow sparkles across the chest.

"Dalton?"

"It's me, boss."

"What are you doing here?"

"Research, sir. A hand, please."

The prime minister pulled Dalton out of the mire and helped him out of his flippers and air tank.

"What are you covered with?"

"Goose fat. I swam here from Florence, down the Arno, through the Ligurian Sea, across the Tyrrhenian, the Ionian, up the Adriatic and left at the second bridge."

"You must be exhausted."

"With respect, sir, when you've been going against the current as long as I have, this was like two lengths of the Château Laurier pool."

"What were you doing in Florence?"

"Research," [illegible] "I said [illegible]

"What for?"

"For you, sir. I wanted to see what the great Machiavelli had to say about dealing with barons and city states, which is pretty well what you're going to be going back to, you must realize."

The prime minister winced.

"And?" he asked.

Again the grin. "No sweat — you'd almost think he'd been working in the PMO himself over the past four centuries, not rotting in the grave."

"I'm afraid I don't follow. What has a guy like Machiavelli got to teach a guy like me."

Dalton shook his head. "How about a campaign slogan for starters. This guy called the shots in the Florentine Republic for 14 years, you know, and as he put it himself: 'For our country, wrong is right.' Like it?"

"I'm not sure I know what it means."

"It means you've got an out if you need it. Say this Trudeau thing catches on. Or say one of the premiers screws up on the constitution and it's all down the tubes."

"That would be the end of me."

"The start, boss, if you just follow Machiavelli. Blame it on the premiers. Say you knew it was wrong all along but let it go knowing that it would turn out right in the end. Remember — wrong is right!"

"But that would be unethical."

"You know what Machiavelli would say to that? 'Politics has no relation to morals.'"

The prime minister stared out toward the island, where the seven leaders had taken turns saving the world. "I wonder what Ronnie and Margaret would say about that?"

"With respect, sir, Machiavelli realized 470 years ago that 'the great majority of mankind are satisfied with appearances, as though they were realities and are often more influenced b_ the things that seem than by those that are.'"

The prime minister considered this for a moment.

"Why can't I have a guy like that working for me?"

Dalton giggled once, then splashed back into the canal. "No reason at all, [illegible] [illegible] see you back at the [illegible]

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DEPARTMENT OF EXTERNAL AFFAIRS
MINISTÈRE DES AFFAIRES EXTÉRIEURES

Subject
Sujet ....

Date 07 June 11 Publication Ottawa Citizen

Mulroney protests French oil drilling permits

The Canadian Press

Prime Minister Brian Mulroney added his voice Wednesday to Canadian protests over a French decision to issue oil and gas exploration permits in disputed waters south of Newfoundland.

Mulroney met French Premier Jacques Chirac in Venice, where both men are attending the seven-nation economic summit, and expressed Canada's objections to the permits granted to two French oil companies.

He told reporters later that the French move is not "the kind of action designed to be particularly helpful."

Mulroney's comments came during the second day of an opposition barrage in the Commons over the permits. Liberal and New Democratic Party MPs demanded strong Canadian action to ensure the two French companies do not actually drill any wells in the 22,000-square-kilometre disputed zone

Newfoundland Liberal MPs George Baker and Brian Tobin requested an emergency debate on the diplomatic flareup. Commons Speaker John Fraser reserved his decision until today.

Government spokesmen said they believe the French have no intention of actually drilling in the area, which extends southward from 30 nautical miles off the Newfoundland coast around the tiny French islands of St-Pierre-Miquelon.

In Paris, Canadian ambassador Lucien Bouchard asked that the verbal agreement preventing drilling be put in writing by both sides.

The French are upset that Canada closed its ports to French fishing vessels last March when French trawlers exceeded Canadian-set catch limits in the disputed zone. France does not recognize Canada's right to set quotas or manage fisheries in the area.

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ENT OF EXTERNAL AFFAIRS
DES AFFAIRES EXTÉRIEURES

June 11 Publication Ottawa Citizen

PM wins partial victory at summit

By Les Whittington
Southam News

VENICE — After chalking up partial successes on farm problems and South Africa at the Venice summit, Prime Minister Brian Mulroney will meet today with U.S President Ronald Reagan.

Canada made headway on agricultural trade and achieved a minor victory on the highly-charged topic of South Africa, which Mulroney made his major personal issue during the three-day meeting.

However, his meeting today with Reagan, which will be dominated by the struggling free-trade negotiations, may overshadow the three days of bilateral meetings with leaders of the world's seven major industrial democracies.

Mulroney's bid to criticize Pretoria's apartheid policies in the summit's final communiqué was denied by the United States, Britain and West Germany. But summit host Amintore Fanfani, the Italian prime minister, took a different tack and issued a blunt challenge to South Africa in his closing remarks to the other leaders.

Mulroney admitted Fanfani's expression of concern about South Africa would "do nothing" to eliminate apartheid immediately, but he said the fact that leaders discussed the problem at all "is going to do a lot for the young blacks in South Africa" who hear about it

The Italian leader said: "We agreed that a peaceful and lasting solution (in South Africa) can only be found to the present crisis if the apartheid regime is dismantled and replaced by a new form of democratic, non-racial government."

Several countries, notably Britain and West Germany, were not prepared to approve the strong condemnation of Pretoria that Canada had been seeking.

The British foreign secretary, Sir Geoffrey Howe, said the summit consensus was that now is the wrong time to be starting new initiatives on South Africa.

Mulroney said he "argued simply that the failure of this summit to speak out on this would be a grievous error."

He added: "This is a moral issue that cannot go unaddressed. Our failure would be the most powerful message you could send to South Africa."

Mulroney said he was satisfied with the agreement reached by the seven leaders on agriculture.

In what he called "an important step in the right direction," they pledged to consider a stepped-up timetable for negotiated solutions to the world grain wars that are bankrupting farmers in Canada and elsewhere.

However, reducing the massive farm support programs in the U.S. and Europe will still be a long-

(Summit, page A2)

Summit

From page A1 story: PM wins partial victory at summit

term effort, Mulroney said.

"Farmers would be the first to tell you, it's not a problem that's going to be solved tomorrow," the prime minister said at a press conference.

Mulroney
To meet Reagan

On the whole, Mulroney did better than most of the leaders attending the 13th annual conference, which will stand out for its lack of concerted action.

Attending were the leaders of Canada, the U.S., Italy, Britain, West Germany, France and Japan.

Under pressure from the U.S., Britain and Canada, the other nations lent their support to a decision last month by the Organization for Economic Co-operation and Development, which called for governments to reduce expensive farm support programs distorting the world grain market.

Efforts at the international level to accomplish this goal will now be reviewed at the next summit, which Mulroney confirmed will be held about a year from now in Toronto.

Progress in Venice, where this year most of the leaders were facing either imminent elections or political turmoil at home, was measured in inches.

Other results include:

- The leaders' underscored their support for free trade, international economic co-operation and efforts to stabilize currency rates. In particular, the seven nations pledged to set medium-term economic policy objectives to be monitored by all the summit nations.
- There was agreement that world financial institutions should provide relief to debt-ridden Third World countries such as those in sub-Saharan Africa.
- On AIDS, the summit leaders agreed to co-operate in battling the deadly disease and called for intensified medical research and more public education about the seriousness of the current epidemic.

In a separate statement on drugs, they called for a global campaign against the production and distribution of narcotics and to find substitute crops for peasants who grow them.

The seven leaders also announced a number of agreements on foreign policy issues, including support for nuclear disarmament and for U.S. efforts to keep Persian Gulf sea lanes open.

JARDIAN Thursday

Backing for Britain but no action over S Africa.

Venice pledge t act if economic recovery falters

From Peter Rodgers and Alex Brummer in Venice

The leaders of the seven biggest industrial countries yesterday vowed to take new economic measures if the present economic recovery begins to falter.

They also delivered a strong declaration of support for the British system of education and research to combat Aids, and a rebuff for President Reagan's approach of routine testing.

The leaders failed to come up with any initiatives on South Africa. The Foreign Secretary, Sir Geoffrey Howe, said Britain had been told by white liberals and by blacks that this was the wrong moment as South Africa would be "unreceptive," so soon after the whites-only election.

Leader comment, page 14; US retreats on World Bank move, City Notebook, page 28.

There appeared to be a significant shift in the balance of power among the leaders of the US, Japan, West Germany, France, Britain, Italy, and Canada. President Reagan, who has dominated the agenda in recent years, was seen to be in retreat on severl key issues from East-West relations to the Gulf and the role of the World Bank in development. He also failed, because of European objections, even to get a deadline of the year 2000 into the summit's commitment to end agricultura, subsidies and surpluses.

The summit's economic communiqué called for a "further market-led decline of interest rates," and it backed policies agreed by finance ministers to stabilise the foreign exchanges, saying further substantial shifts would damage growth and efforts to control trade surpluses and deficits.

The Big Seven agreed that "if in the future world economic growth is insufficient, additional actions will be required." They told their finance ministers to work out policies for this purpose and they also backed a new system of using economic indicators to steer the world economy with the help of regular discussions be governments.

No sooner was the s over than participant their aides were forced fend the lack of specif policy initiatives by the biggest economies, the Japan and West Ger clearly fearing that fin markets would take view and start a new r the dollar.

The US Treasurey Sec Mr James Baker, sa hoped the markets had aboard his warnings "you should not be l for major macro-eco policy initiatives every t three weeks or months like all the participant emphasised that a key el of the summit was t muscle behind existing done by finance min including himself.

American officials clearly frustrated by failure of the West Germ do more to stimulate faltering economy. W German growth, Ame officials warned, "There be no one to buy our now that our econom slowing."

This was underpinne claims from Mr Baker th Americans had the d moving downwards. He "Actions speak louder words and I think we hav actions." There would solid substantial deficit r tion this year of $40 b and more next year, an said that in four years deficit had plummeted 6.3 to 3.9 per cent of (National Product.

Before leaving for a appearance in his con ency, Sir Geoffrey Howe a surprising claim that Venice summit... offe beacon of hope to the u ployed in our countries a the economically disad taged in the develo world," though he did elaborate on the logic.

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Independent 11 June 87

Summit avoids commitments

From Steve Levinson in Venice

THE VENICE summit yesterday ended in self-congratulation but with a notable absence of specific commitments by the seven nations taking part.

While the leaders pronounced themselves satisfied with their two days of talks, the most euphoric was Sir Geoffrey Howe. Standing in for Mrs Thatcher, he described the summit as "a beacon of hope to the unemployed in our countries and to the economically disadvantaged in the developing world".

It was difficult to reconcile this with the summit's largely uncontentious economic declaration. Its main feature was the trailed agreement that the seven would have closer consultations, and set up a system of non-enforceable and unpublished performance indicators.

The final declaration avoided naming Japan West Germany or the United States as needing to adjust their policies. It included a commitment to "additional actions" should growth be insufficient. But the US Treasury Secretary, James Baker, said present policies were "doing the job".

One success for which the Government may wish to avoid publicity was its virtual veto of a Canadian proposal for a statement from the summit condemning South Africa and its apartheid regime. Although the Canadian move received support from most of the other leaders, it was clear from early on that Mrs Thatcher and Sir Geoffrey were adamant.

As a result, the reference to South Africa appeared only in a summary of the proceedings given by the Italian Prime Minister, Amintore Fanfani, at the end of the summit. Sir Geoffrey said later this was not the time for outside initiatives on South Africa.

Details, page 24

Telegraph
5

Backing for Britain but no action over S Africa.

Venice pledge to act if economic recovery falters

From Peter Rodgers and Alex Brummer in Venice

The leaders of the seven biggest industrial countries yesterday vowed to take new economic measures if the present economic recovery begins to falter.

They also delivered a strong declaration of support for the British system of education and research to combat Aids, and a rebuff for President Reagan's approach of routine testing.

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The Big Seven agreed that "if in the future world economic growth is insufficient, additional actions will be required." They told their finance ministers to work out policies for this purpose and they also backed a new system of using economic indicators to steer the world economy with the help of regular discussions between governments.

No sooner was the summit over than participants and their aides were forced to defend the lack of specific new policy initiatives by the three biggest economies, the US, Japan and West Germany, clearly fearing that financial markets would take a dim view and start a new run on the dollar.

The US Treasurey Secretary, Mr James Baker, said he hoped the markets had taken aboard his warnings that "you should not be looking for major macro-economic policy initiatives every two or three weeks or months" and like all the participants, he emphasised that a key element of the summit was to put muscle behind existing work done by finance ministers, including himself.

American officials were clearly frustrated by the failure of the West Germans to do more to stimulate their faltering economy. Without German growth, American officials warned, "There will be no one to buy our goods now that our economy is slowing."

This was underpinned by claims from Mr Baker that the Americans had the deficit moving downwards. He said: "Actions speak louder than words and I think we have got actions." There would be a solid substantial deficit reduction this year of $40 billion and more next year, and he said that in four years the deficit had plummeted from 6.8 to 3.9 per cent of Gross National Product.

Before leaving for a brief appearance in his constituency, Sir Geoffrey Howe made a surprising claim that "the Venice summit... offers a beacon of hope to the unemployed in our countries and to the economically disadvantaged in the developing world," though he did not elaborate on the logic.

Sir Geoffrey said that creating jobs was the paramount task. He claimed that the summit countries were following policies in line with Britain's, and he said that this had led to a fall in unemployment of 200,000 in the last 12 months.

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to fight Aids

By Ian Brodie, Venice

THE SEVEN Venice summit nations called for increased international co-operation to fight Aids yesterday and welcomed a British offer to co-sponsor an internalonal conference about the disease with the World Health Organisation.

In the absence of a vaccine of a cure, the best hope to combat Aids was education about both its seriousness and practical steps to avoid it, the seven said.

They made no specific mention of Aids testing, but cautioned that any measures against the disease must be "in accordance with the principles of human rights."

This catch-all phrase was included in the text to cover the concerns of those who fear that mandatory Aids test could lead to invasions of privacy and discrimination against victims, the majority of whom homosexuals or intravenous drug users.

Concerted campaigns

Recognising Aids as "one of the biggest potential health problems in the world," the summit nations declared:

"National efforts need to be intensified and made more effective by internaional

co-operation and concerted campaigns to prevent Aids from spreading further."

An astute understanding of the politics of Aids was shown by the seven—Britain, France, West Germany, Italy, Japan, Canada and the United States.

Co-operation would not be improved by duplication of effort, they said, meaning there should be an end to competition among scientists to win the race for a cure by not disclosing key discoveries to their rivals.

The leaders hailed the recent agreement between French and American Aids researchers to settle their patent dispute in favour of sharing their work.

Priority would need to be given to strengthening existing organisations by giving them full political support and by providing them with the necessary money and staff, said the Venice communique.

The World Health Organisation was the best forum for drawing together international efforts to combat Aids.

All nations were encouraged to co-operate fully with WHO a reprimand to black African nations which have resisted admitting they need outside help despite Aids outbreaks of epidemic proportions.

Although 51,000 cases have been reported by 112 nations, WHO says the reality is more than twice that number with perhaps as many as 10 million carriers of the sexually contagious virus worldwide.

SUBJECT/SUJET

PUBLICATION Financial Times of London

DATE June 11

Full-scale criticism of South Africa blocked by Britain

BY PHILIP STEPHENS

WESTERN LEADERS yesterday made a brief critical reference to the apartheid regime in South Africa, but Britain blocked a full statement on the issue.

At the end of the seven-nation economic summit in Venice, Mr Amintore Fanfani, the Italian Prime Minister and host at the meeting, said that the leaders viewed the situation in South Africa with "particular concern."

In remarks agreed with the other heads of state and government, Mr Fanfani added: "We agree that a peaceful and lasting solution can only be found to the present crisis if the apartheid regime is dismantled and replaced by a new form of democratic, non-racial government."

The criticism of Pretoria, contained in Mr Fanfani's general summary of the summit stand on a wide range of political issues, fell short of the detailed declaration sought by a number of governments.

Senior officials from several delegations said that the British Government refused to agree to a separate statement on South Africa. Sir Geoffrey Howe, Britain's Foreign Secretary, denied that Britain had been isolated. He said that other governments shared his view that it was the wrong moment to launch any initiative so soon after the whites-only election, when the South African Government was likely to be particularly unreceptive.

According to the officials, Canada and the US had both during the past two months prepared drafts which they had hoped might form the basis of a separate statement at the summit.

The European Community's political directors had also discussed a draft declaration of guiding principles for the West's relations with Pretoria. This had focused on the pre-eminent need to dismantle apartheid, to establish the equal treatment for all South Africans under the law, and the need for respect of human rights.

At one stage, the US raised the possibility that its draft and the European version could be merged to provide a "Venice declaration." US enthusiasm, however, was said by the officials to have waned considerably after Britain made its opposition known.

At the summit, Canada continued to argue forcibly for a separate text, but was forced to accept the smaller declaration contained in the general political summary.

Mr Brian Mulroney, Canada's Prime Minister, said that the compromise was not "a perfect response," but it was nonetheless important that the issue had been addressed by the seven leaders. A failure to say anything would have sent the wrong message to Pretoria.

Industrial stars add to summit glitter

By Alan Friedman in Milan

THE ITALIANS are calling it the "other summit," description which undoubtedly flattered a number of the 100 American and Italian chief executives from industry and finance who gathered last night amid the splendour of Milan's 15th century Sforza aCstle for a dinner party given by Mr Carlo De Benedetti of Olivetti.

Beginning yesterday morning in Milan, and ending this afternoon in Venice with a climactic address by President Reagan, the "Italian-American Conference on Private Sector Initiatives" is a decidedly unusual beast.

The conference — organised by the White House, Italian companies such as Fiat and Olivetti and a group of US business stars such as Mr John Phelan, chairman of the New York Stock Exchange, and Mr Jim Robinson, chairman of American Express—is all about "charitable giving," "voluntarism" and the promotion of "corporate social responsibility."

Mr Phelan, who like many of his colleagues spoke about "this important initiative," held a glass of spumante in one hand yesterday and explained how amazing it is that of the $87.22bn of charitable giving in the US last year "only 5 per cent came from corporations." The bulk of American philanthropy, some $71.7bn, came from individuals.

The chairman of one major Italian bank smiled sardonically last night when asked what he thought of the two-day extravaganza, which comes to a glistering end today at Fiat's Palazzo Grassi museum in Venice. "We've been giving money to the arts and to other worthy causes for years," he said when asked whether the Italian business community was learning from the experience of its US counterparts.

Spotted in the corridors of Milan's deluxe Hotel Principe di Savoia, where the "summit" began, the ever-dapper Mr Mario D'Urso, an American Express executive who is known as one of Italy's most intrepid bankers and socialites, took the official line in describing the proceedings as a "very important initiative." Then, fumbling slightly for the right phrase he predicted that at today's Venice meeting the group would "get down to—how do you call it—brass tacks."

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External Affairs Canada
Affaires extérieures Canada

PUBLICATION Financial Times of London

DATE June 11

SUBJECT/SUJET

Communiques show waning Washington influence

BY STEWART FLEMING, US EDITOR

WHEN President Ronald Reagan arrived in Venice a week ago he disappeared to a country hotel for the first few days to recuperate from the journey, spending much of his time taking walks and watching films with his wife Nancy.

The contrast with his first summit in Ottawa in 1981, which produced the vivid picture of Mr Reagan vigorously taking charge—chauffering an anxious-looking West German Chancellor Helmut Schmidt in a golf cart—is, striking. It symbolises the diminished influence not only of Mr Reagan, but also of the US in summit decision-making.

In almost every area that the summit leaders have addressed, US positions have been watered down in the drafting process or dropped before the meetings opened.

Instead, it has been the Europeans who have had the biggest influence on the way the various summit communiques have evolved. The Japanese have been largely on the defensive because of the weakness of Mr Yasuhiro Nakasone, their Prime Minister, dissatisfaction with their economic and trade policies and the fact that their strongest ally at such international meetings has traditionally been the US.

The summit statements on East-West relations, and especially on the Gulf war, provided the most graphic evidence of the shift in the balance of power away from a Reagan Administration which has lost international credibility and clout.

The Iran arms sales scandal, for example, led directly to a statement in the political communique confirming the principle of "no concessions" to terrorists or significantly" their sponsors."

Disenchantment with the US conduct of foreign policy, which deepened with the near-disaster at the Reykjavik summit, was evident in the refusal of summiteers to go along with the tough statement on policy in the Gulf which US officials initially sought.

Mr George Shultz's efforts to interpret the summit statement on the Gulf as an endorsement of the US call for a ceasefire, a retreat to international boundaries and mandatory sanctions against whoever failed to heed the call—almost certainly Iran—was greeted with profound scepticism even by a sympathetic US press. It, too, found it hard to understand how words like "ceasefire" did not appear and how the call for "effective measures" by the United Nations could be interpreted by the US as a call for mandatory sanctions, especially when Mr Schultz conceded he did not know whether China and the Soviet Union would support such a call in the Security Council.

In fact, of course, the other summit nations had succeeded in their goal of endorsing broad principles such as free navigation in the Gulf, but not what they saw as the dangerous tilt towards Iran implied by Mr Shultz.

Most striking and significant, especially when it is contrasted with the "evil empire" rhetoric of Mr Reagan's early days as President, was the cautious but clear endorsement the summit leaders gave to the internal and external policies of the Soviet Union.

As US officials presented their interpretation of the communique, they were again at pains to emphasise that US priorities which the other summit leaders can broadly accept were mentioned. Those include the resolution of regional disputes, withdrawal of Soviet forces from Afghanistan, an improvement in Moscow's human rights record and progress across the board on East-West relations.

A new and remarkable element in the communique was the guarded but nevertheless optimistic assessment of the significance of the reforms which Mr Gorbachev is setting in train. It was hard not to detect the hint of detente in the communique's wording that "It is our hope that they will prove to be of great significance for the improvement of political, economic and security relations."

Mr Reagan's difficulty, of course, is that having embarked on a firm course towards an arms control agreement on intermediate and shorter-range missiles in Europe, partly to reinforce his weakening domestic political position, he is hard pressed to stick with his earlier hard line towards Moscow. This is especially so when scepticism about US policies and leadership is being fostered by Mr Gorbachev's success in presenting a favourable image to the West.

US economic problems, and the nation's weakened capacity to lead, also left a mark on the communique. When it comes to spending money, on helping Third World debtors, or boosting the capital of the World Bank, it is Washington—with its budget problems and the pressure the Democratic Congress is exerting on the foreign aid budget—which is having to drag its feet.

The other summit leaders have had to accept therefore that such issues as the world bank capital increase or the strengthening of the International Monetary Fund's structural adjustment facility, cannot be done as quickly as some would want. But the reference to the possibility that the World Bank's "financial stability" might require a capital increase and the deadline for approving the structural adjustment facility expansion show that these are issues which the other summit leaders believe need to be addressd urgently.

The statements out of the summit thus provide little for Mr Reagan in his efforts to rally his conservative supporters—supporters who will be needed to push an arms control accord through the Senate. They will do little either to damp down right-wing criticism of European failure to support the US enthusiastically.

But European governments know that conservative strength is on the wane that Mr Reagan's effectiveness as President is fast declining, and that now might be an opportune moment to encourage those in the US who have been more sympathetic to European concerns.

US stand on AIDS rejected

BY STEWART FLEMING

The BROAD outlines of the Reagan Administration's recent stand on AIDS, was rejected implicitly yesterday at the Venice summit.

Saying that efforts to combat AIDS needed to be intensified and made more effective through international co-operation, a chairman's statement on AIDS was issued in Venice saying that the attack on the disease had to be based on the principles of human rights.

The statement went on to say that in the absence of a vaccine or cure "a strategy based on educating the public about the seriousness of the AIDS epidemic, the way the AIDS virus is transmitted and the practical steps each person can take to avoid acquiring it or spreading it" is needed.

After a fierce debate within the Reagan Administration, the President last month announced that the federal government would require testing of people for AIDS where it had authority such, as in prisons or dealing with immigrants.

Where it lacked such authority, the Administration said it would encourage AIDs testing, for example in the case of couples seeking a marriage licence.

The Administration has also avoided placing emphasis on practical education to combat AIDS by instructing children about the use of condoms. Conservatives in the White House have maintained that this would encourage immorality and could tend to weaken family ties.

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Industrial nations reaffirm commitment to co-operation

BY STEWART FLEMING, PHILIP STEPHENS AND JOHN WYLES

THE 13th annual summit of leaders of the main Western industrial countries wound up here yesterday with a general reaffirmation of a wide range of previous commitments on economic policies, trade and agriculture and only a limited prospect of new initiatives.

Although the achievements may not have matched the splendour of their surroundings, the heads of governments were characteristically pleased with the outcome.

President François Mitterrand of France was "personally satisfied", Mr James Baker, the US Treasury Secretary, was content that the US had achieved what it wanted on all major items, while Sir Geoffrey Howe, Britain's Foreign Secretary, thought that "a beacon of hope" had been lit for the unemployed.

On the economic front, both Mr Baker and President Mitterrand stressed that the summit's principal importance had been in developing the move towards greater international economic co-operation launched at last year's Tokyo meeting.

The summit's final declaration on economic issues reaffirmed the commitment by the seven – the US, France, Britain, West Germany, Italy, Canada and Japan plus the European Community – to the policy measures agreed in Paris in February. It also added a more detailed framework for policy co-ordination through the use of economic performance indicators.

President Mitterrand called this "the success of the conference" and another step towards the target of reference zones for the major currencies which France had been seeking for several years.

More cautiously, Mr Baker said that the economic indicators would provide "an early warning system" which would allow governments to consider whether changes in economic policies were needed to maintain the momentum of world growth.

But West Germany, which has been under constant pressure to boost its economic growth, insisted that the accord implied to new obligations. West German Chancellor Helmut Kohl stressed afterwards that domestic demand in his country was growing strongly and that his Government was living up to its international commitments.

Nevertheless, US officials drew attention to the section of the declaration committing governments to review policies if their economies were faltering – which, in their view, applied particularly to West Germany.

Mr Baker acknowledged that the summit had taken no major new policy initiatives, but added that "major macro-economic policy undertakings by these countries every two or three weeks or months are simply unrealistic."

Asked about initial reaction by the currency markets to the summit agreement, he said that if they had been paying attention over the last three weeks they would not have been expecting brand new initiatives. "Maybe the reaction will be all right," he added.

The Third World debt problem emerged as a serious preoccupation at the summit's final session yesterday morning. Concern was evident in the extremely rapid endorsement in the final declaration of the proposal by Mr Michel Camdessus, the managing director of the International Monetary Fund, for a "significant increase" in the Structural Adjustment Facility – the IMF's special fund for poor countries.

In addition, the seven approved an extraordinary reference to the financial stability of the World Bank, whose ability to lend is being constrained by a shrinking capital base.

However, the summit came up with no new commitments for Third World debtors and was unable to reach an agreed approach on how to help the very poorest debtor countries which are in sub-Saharan Africa. French efforts to secure a commitment from the seven to fix their development aid at 0.7 per cent of national gross domestic product ran into resistance from the US.

"The entire world is asking the US to reduce its deficit and at the same time for major new initiatives for Third World development. These two things are inconsistent," said Mr Baker.

On trade and agriculture, the summit stood pat on established International positions within the General Agreement for Tariffs and Trade and the Organisation for Economic Co-operation and Development.

Protectionism was roundly condemned and the new round of negotiations in Gatt on trade liberalisation was urged to press ahead "with all due despatch".

President Reagan's attempt to seek faster progress in reducing agricultural subsidies through a special meeting of the seven's agriculture ministers later in the year was bluntly rejected by President Mitterrand and Chancellor Kohl.

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SUMMIT LEADERS

reaffirm policy commitments

BY STEWART FLEMING, PHILIP STEPHENS AND JOHN WYLES IN VENICE

THE 13th annual summit of leaders of the main western industrial countries ended in Venice yesterday with a general reaffirmation of a wide range of previous commitments on economic policies, trade and agriculture and only a limited prospect of new initiatives.

Although the achievements may not have matched the splendour of their surroundings, the participants were characteristically pleased with the outcome. President Francois Mitterrand of France was "personally satisfied," and Mr James Baker, the US Treasury Secretary, was content that the US had achieved what it wanted on all significant items. Sir Geoffrey Howe, Britain's Foreign Secretary, thought that "a beacon of hope" had been lit for the unemployed.

On the economic front both Mr Baker and President Mitterrand stressed that the summit's main importance had been in developing the move towards greater international economic co-operation launched at last year's Tokyo meeting.

The summit's final declaration on economic issues reaffirmed the commitment by the seven leading nations — the US, France, Britain, West Germany, Italy, Canada, and Japan—to the policy measures agreed in Paris in February. This commitment also has the backing of the European Community.

The declaration also added a more detailed framework for policy co-ordination through the use of economic performance indicators.

President Mitterrand called this "the success of the conference" and another step towards the target of reference zones for the major currencies which France had been seeking for several years.

More cautiously, Mr Baker said the economic indicators would provide "an early warning system" which would allow governments to consider whether changes in economic policies were needed to maintain the momentum of world growth.

However, West Germany, which has been under constant pressure to boost its economic growth, insisted that the accord implied no new obligations. Mr Helmut Kohl, the West German Chancellor, stressed afterwards that domestic demand in his country was growing strongly and that his Government was living up to its international commitments.

Nevertheless, US officials drew attention to the section of the declaration committing governments to review policies if their economies were faltering—which in their view applied particularly to West Germany.

Mr Baker acknowledged that the summit had taken no major new policy initiatives, but added that "major macro-economic policy undertakings by these countries every two or three weeks or months are simply unrealistic."

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In addition, the seven approved an extraordinary reference to the financial stability of the World Bank whose ability to lend is being constrained by a shrinking capital base. This will be seen as giving a new momentum to the World Bank's demand for a capital increase.

However, the summit came up with no new commitments for Third World debtors and was unable to reach an agreed approach on how to help the very poorest debtor countries which are in sub-Saharan Africa. French efforts to secure a commitment from the seven to fix their development aid at 0.7 per cent of national gross domestic product ran into resistance from the US.

On trade and agriculture, the summit stood firm on established international positions within the General Agreement on Tariffs and Trade and the Organisation for Economic Co-operation and Development.

Protectionism was roundly condemned and the new round of negotiations in the Gatt talks on trade liberalisation was urged to press ahead "with all due despatch."

A statement on AIDS from the summit president, acting Italian premier, Mr Amintore Fanfani, recognised that international co-operation was needed to combat the deadly disease. But it implicitly rejected American approaches based on mandatory testing.

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OUTLOOK

Coma in Venice

Hopes of the summit were not high; one cannot therefore sensibly talk of disappointment at its results. Just the same, they were clearly at the lower end of expectations and the lack of market reaction is more an indication of its indifference than of contentment with the final communiqué.

Most noticeably, this communiqué does not point the finger at any particular government's policies: this is an old convention of such international gatherings, but it has been breached this year on more than one occasion, such was the concern at the level of trade imbalances and the slowdown in the world economy.

The muted tones of the communiqué will do nothing to keep up the pressure on Japan and West Germany to stimulate their economies; even the final statement of the summiteers' intent to monitor "objective indicators" and alter policies accordingly sounded less enthusiastic than it had only the day before.

It was, of course, improbable that seven free governments would really agree to subordinate their economic policy-making to the mechanistic rules provided by measurement of a series of indicators of growth, monetary conditions, and exchange-rate pressures. The real progress on this front consists of general agreement as to which indicators of performance are important, which should shorten the policy dialogue between summiteers.

The downside is that this agreement on form seems to have blunted the demand for substance; having giving the US boffins much of what they wanted on the technicalities, the other governments found themselves less pressed to take real-life action.

It may be that the "objective

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Times 13/24
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1987

Venice call for freer trade

Summit concerned over protectionism

From David Smith, Economics Correspondent, Venice

The seven leading industrial countries yesterday committed themselves to preserving the present pattern of exchange rates, pledged action against protectionism, which they viewed with "grave concern", and called for a market-led reduction in interest rates worldwide.

The summit declaration, presented by the Italian Prime Minister, Signor Amintore Fanfani, came after two-and-a-half days of discussions in Venice. Britain was represented by the Foreign Secretary, Sir Geoffrey Howe, on the final day of the summit."It has been a very business-like and successful summit," he said.

Mr James Baker, the US Treasury Secretary, said: "We have seen clear progress on a number of fronts. I cannot think of any item on the economic side in particular, that we came here wanting and did not get."

The new system of indicators for economic policy action was, he said, "a political mechanism for promoting action." And he had received a personal commitment from Herr Gerhard Stoltenberg, the West German finance minister, that Bonn would take further expansionary action if its growth was not up to expectations.

The summit declaration also promised changes in agricultural policies to reduce farm surpluses, pledged a general capital increase for the World Bank, action on a special debt package for sub-Saharan Africa this year and measures to create jobs through structural change in the main economies.

There was little last-minute wrangling among the seven — the US, Britain, West Germany, Japan, France, Italy and Canada — which reflected discussions on the world economy which were free of rancour. There was little evidence that the big surplus countries, Japan and West Germany, came under pressure to take further expansionary fiscal action even though world growth has slowed this year.

The seven said there had been a number of positive developments for the world economy over the past year. Growth was in its fifth consecutive year "albeit at lower rates" and interest rates and inflation had come down. Exchange rates had been brought "within ranges broadly consistent with economic fundamentals". Trade flows had begun to adjust to the new pattern of exchange rates but current account imbalances remained "too large".

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Along with the problems of trade imbalances, the heads of state said a number of problems had to be tackled, including "persistently high unemployment, large public-sector deficits and high levels of real interest rates".

No early correction of the US current account deficit and the Japanese and West German surpluses is foreseen, their correction will be "a long and difficult process". It was enforced, according to the declaration, for all countries, including the newly industrialized ones, to co-operate in opening up world markets.

And, in a veiled reference to the possibility that the West German Bundesbank could take the first step in a new round of international interest rate cuts, the declaration said: "In view of the outlook for low inflation in many countries, a further market-led decline of interest rates would be helpful."

Measures favoured for job creation include promotion of competition, labour market reforms, reducing agricultural imbalances, opening of markets and promotion of investment. But there was no pressure at the meeting for a general world expansion to cut into unemployment.

Medium-term economic forecasts and objectives will be provided by the countries on seven indicators not listed in the declaration but understood to be growth, inflation, monetary conditions, current account and trade balances, budgetary policy and exchange rates.

"In effect it is a system for international group therapy," Sir Geoffrey Howe said. On trade and agriculture, the seven gave full support to the preparations currently under way for the Uruguay round of trade talks under the auspices of the General Agreement on Tariffs and Trade. They also committed themselves to "a progressive and concerted reduction of agricultural support".

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Times June 11, 1987

Howe welcome for CAP reform

From Andrew McEwen
Venice

Sir Geoffrey Howe, the Foreign Secretary, said yesterday that the final declaration of the Venice economic summit amounted to a strong commitment to reform the European Community's Common Agricultural Policy.

Three Community countries which are also major agricultural producers — France, West Germany and Italy — were among the seven industrialized nations which signed a declaration that included a call for "concerted reform of agricultural policies."

Although the Venice Economic Declaration had a global, rather than European, scope, Sir Geoffrey said that the recognition of the need for CAP reform was implicit.

The agricultural statement formed part of the Economic Declaration read at the end of the summit by Signor Amintore Fanfani, Italy's interim leader.

Leaders of the seven main industrial countries pledged to sustain non-inflationary world growth, to act on trade imbalances, and called for international rate cuts, in their final summit declaration yesterday.

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He also read separate statements on Aids and on drugs, and a further document described as the "chairman's summary on political issues," which contained a mild reference to the need to promote dialogue in South Africa.

The heads of state and government said that Aids "is one of the biggest potential health problems in the world."

They identified the World Health Organisation as the best forum for international co-operation to fight it.

The statement on drugs included a commitment to work for the eradication of their illegal cultivation.

The Prime Minister of Canada, Mr Brian Mulroney, had hoped for a separate statement on South Africa, but Britain was one of several nations which opposed it. Although the final declaration included a strong condemnation of apartheid it did not go as far as the Canadians would have liked.

Sir Geoffrey said there was a strong feeling that it was the wrong moment to launch any kind of initiative.

Britain was supported by West Germany and the United States in blocking Canada's initiative. Mr Mulroney later indicated his strong disappointment.

Mixed impressions, page 10

Satisfied world leaders leave behind some differing impressions

From Andrew McEwen, Venice

The Venice economic summit broke up last night leaving three of the participating groups with different impressions. The leaders were satisfied, the American journalists disappointed, and the Venetians both proud and impatient.

Judged on the basis of the original intentions, the leaders were right. When President Giscard d'Estaing convened the first economic summit at Rambouillet, France, in 1975, the idea was to bring together leaders for an informal chat without an agenda.

The 12 subsequent summits have come under increasing pressure to be more obviously productive. Mr George Shultz, the US Secretary of State, and Mr Frank Carlucci, the National Security Adviser, faced hostile questions this week from American journalists who expected the summit to produce agreements for Britain and France to step up naval patrols in the Gulf and for Japan to help pay for them.

British officials were barracked and jeered when they reported that the leaders had talked until midnight on Monday without coming to any clear conclusions. Yet that sort of discussion was the whole point of the exercise. The pressure has gradually compelled leaders to respond to issues of the day in their final declarations, as the mention of Aids yesterday demonstrated. But the original 1975 spirit has survived.

Sir Geoffrey Howe, the Foreign Secretary, commented yesterday: "I think the real worth of the economic summits is that they enable heads of government to stand back from their own scenes, to take a broad view, and to realize that to some extent they are facing the same problems and can help each other."

Economic summits were not designed to produce winners, but at the 13th the venue has scored more public opinion points than the participants. Long after the public has forgotten what was said at Venice, its stunning images will be remembered.

● REYKJAVIK: On the eve of today's meeting of Nato foreign ministers, which is expected to give backing at last to a superpower deal on Euro-missiles, Lord Carrington, the Nato Secretary-General, said a deal appeared to be "within reach" (Richard Owen writes). But he acknowledged that there were still difficulties, including a dispute between France and the United States over the best forum for new talks in Vienna on reducing conventional forces in Europe.

Diplomats said France was firmly opposed to direct negotiations on conventional reductions between Nato and the Warsaw Pact, and preferred a 35-nation forum involving the neutral and non-aligned states of Europe within the framework of the European Security Process.

The diplomats said that West Germany was also causing last-minute problems by insisting that the imminent INF deal should be followed immediately by talks on tactical nuclear weapons with a range of less than 500 kilometres.

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Venice ends without naming names

From Steve Levinson in Venice

THE seven-nation Venice summit ended yesterday with a watered-down economic declaration which avoided specific calls for West Germany, Japan or the US to alter their economic policies.

The overall message was one of satisfaction among the seven that the existing policies were correct, despite growing fears among economists that the international economy may be weakening.

James Baker, US Treasury Secretary, said that after recent meetings of the OECD and the Louvre accord, actions were already being taken to stimulate growth. "If these commitments are followed through on, that will do the job."

Both Mr Baker and Sir Geoffrey Howe, the foreign secretary, defended the absence of named countries in the declaration. "We try to avoid naming countries as such," said Mr Baker.

The main step forward at the summit was a move towards closer economic co-operation among the seven, and there was a commitment that unspecified action would be taken if world economic growth was insufficient.

As foreshadowed on Tuesday, the summit countries are to present projections for their economies and use a series of performance indicators to determine whether economies are developing as intended or whether remedial action is required.

But there is no compulsion to act. Mr Baker described this as "an early warning system" which would trigger consultations. The economic indicators are not to be published, a fact which Mr Baker earlier made clear was "unfortunate."

The US had to go along with this as "one of the conditions of getting an agreement."

Instead of naming countries, the seven call on surplus countries to strengthen domestic demand, while deficit countries will reduce their fiscal and external imbalances.

The 12-page document, which was delivered by Italian prime minister, Amintore Fanfani at the end of the two-day summit, also reaffirmed the February Louvre currency accord.

The seven recognise that there are numerous problems to be overcome, including trade imbalances, unemployment, large budget deficits, high real interest rates, increased protectionism and debt problems among the developing countries.

There is a section on ways of creating jobs, which Sir Geoffrey said was the "paramount task". But the approach does little more than emphasise the need for competition, agricultural subsidy reforms, and more open markets, whether they be financial markets, or labour markets.

On the topic of overseas debt, the seven endorse the case-by-case approach which has been adopted towards middle-income debtors but adds that there is a need "for timely and effective mobilization of lending by the commercial banks."

Financial Times

Wednesday June 10 1987

Summit welcomes Gorbachev policy

BY STEWART FLEMING, PHILIP STEPHENS AND JOHN WYLES IN VENICE

LEADERS OF the seven major western industrial countries yesterday gave a first welcome to the policies of Mr Mikhail Gorbachev, the Soviet leader, saying they held out the hope of a turning point in East-West relations.

In the most encouraging assessment of East-West relations for years, the seven said: "It is our hope that they will prove to be of great significance for the improvement of political, economic and security relations between the countries of East and West."

On the day the Soviet Union proposed an international inspectorate to monitor a nuclear test ban, the heads of government acknowledged that "new opportunities for progress" had opened up since last year's Tokyo summit and that the goals of nuclear disarmament and conventional force reductions should be pursued.

Although President Reagan obviously endorsed this declaration, his spokesmen put their emphasis on its qualifying clauses, namely, that Soviet actions would be closely watched on human rights, Afghanistan and people-to-people contacts.

Mr George Shultz, US Secretary of State, said human rights were stressed "as necessary in themselves and as a guage to the quality of a relationship which is still possible."

The leaders implied that the brighter horizons for East-West relations stemmed from Mr Gorbachev's internal and external policies which they were following "with great interest."

The approving reference to Soviet internal affairs was both unusual and rather more cautious than some delegations wished. West Germany pressed unsuccessfully for the inclusion of an appeal for greater economic collaboration between the two halves of Europe.

On arms negotiations, the declaration gave only general backing for US efforts to negotiate "balanced, substantial and verifiable reductions."

Mr Shultz indicated that a fuller endorsement of the US position on removing medium- and short-range nuclear weapons from Europe could be expected from the meeting of Nato foreign ministers opening in Reykjavik tomorrow.

The Gulf issue, which some leaders feared would plague the summit, was overshadowed until the leaders started their meeting yesterday morning in the elegant 16th century library of the Fondazone Cini on the island of San Giorgio, a short ferry ride from St Mark's Square.

In the event, France, West Germany and Britain beat off what was said to be only token US pressure for a statement which might have risked compromising their official neutrality on the Gulf war by appearing to favour Iraq.

The statement ultimately contained only the faintest hint of support for the US objective of mandatory sanctions by the United Nations to try to end the fighting.

Mr Shultz, nonetheless, claimed that the declaration's call for "effective measures by the United Nations security council" really endorsed the US strategy of calling for a ceasefire backed up by a mandatory arms embargo if either country refuses. Mrs Thatcher had also offered this interpretation earlier in the day.

Mr Shultz, for his part, paid tribute to British activities in the Gulf, revealing that the Royal Navy had escorted 140 vessels through the area this year.

In addition to East-West relations and the Gulf, the summit returned to the subject of terrorism for the sixth time in nine years. The leaders promised counter measures against states clearly involved in supporting international terrorism and confirmed the principle of "no concessions to terrorists or their sponsors."

In the wake of the controversial US arms sales to Iran, this affirmation seemed aimed at rebuilding the US Government's credibility in resisting terrorist pressures.

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Still life in Venice

MRS THATCHER made the right comment on the Venice summit by coming home early. Her morning phone-in appearance on British television may well have made more difference to the destiny of nations than any final amendments to the wording of the summit communiqué. This was in essence the document which has been leaked over the past 10 days by officials engaged in the preparatory work; only the question of free navigation of the Gulf was added to the agenda, and here the US's partners carefully limited themselves to oratory. There appears to have been no productive meeting of minds among the canals.

It would be naïve to pretend that this outcome is particularly disappointing: nothing, after all, was expected. Three of the leaders present were political lame ducks, and another facting an election; strong political decisions were not possible, even if they had been agreed.

Meanwhile the Louvre accord shows at least that sufficiently determined central banks can hold exchange rates relatively stable by means of open-ended intervention. For the time being it seems that this substitue for a strategy will have to do.

In a sense the summit came too early. The rest of the world is still waiting to see whether Mr Nakasone can win parliamentary approval for his quite ambitious plans to stimulate the Japanese economy, and whether the West Germans will become less intransigent if their economy does not revive according to the official timetable.

Debt crisis

Today's figures for the Japanese economy, which grew by only 2½ per cent in the last fiscal year, against an initial official forecast of 4 per cent, will do nothing for the credibility of official optimism, and it is not only to be seen in the surplus countries. No one in the US Administration seems willing yet to acknowledge openly the possibility that the US economy may now be drifting into recession despite the enormous scale of government borrowing, because of the burden of private debt.

This would be far more serious, both domestically and internationally, than any shortfall in the surplus countries. They have known remedies to hand, if they are once convinced that they need to use them. The US is potentially faced with a deep dilemma, since any further fiscal stimulus is unthinkable, while the dollar is dependent on its life support system.

These topics could form the agenda for a genuine crisis summit if the worst comes to the worst; meanwhile it is quite understandable if the leaders keep their fingers crossed. What is unfortunate is that they did not take the opportunity of meeting in which major strategy was to be left unchanged to address some other important and hardly marginal problems.

The most obvious is the continuing debt crisis. President Alfonsin's address to the industrial leaders, calling for a genuine debt reconsrtuction, seems to have gone unheard. Meanwhile the Baker plan for constructive lending appears to be permantly stalled, and the commercial banks are under pressure to make substantial write-offs. Some official initiative might have been hoped for on the anniversary of the Marshall Plan, but it seems that self-interest is no longer as enlightened as it was 40 years ago.

Trade might also have been discussed; President Reagan's gesture in softening some recent US sanctions against Japan should have created the right atmosphere. This, however, would certainly have risked disharmony. Three of the seven leaders present are committed to agricultural protection, which reaches its most absurd extreme in Japan and this issue will certy elain crucial in the current trade round. However, trade negotiations are notoriously slow sa that this issue too could safely be left in the pending file.

This Micawberish approach could still succeed. There are now signs of buoyant private spending in West Germany and Japan, after a rather protected adjustment lag; and trade volumes are now responding strongly to the realignment of exchange rates.

However, time is growing short, because intervention on the scale set recently courts a rerun of the monetary inflation of the late 1970s. The question which Venice leaves on the agenda is whether effective political leadership can be re-established in the US and Japan in time to face the real problems which can already be heard stirring just off-stage.

VENICE SUMMIT
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NEW YORK TIMES JUN 11 1987

Venice Was a Bust; Here's What to Do

By Roger Altman

True to expectations, there was no progress at the Venice economic summit conference. Despite an intellectual consensus on the grave dangers of standing still, and even on the solutions, nothing happened.

This means the government-to-government negotiating process has broken-down — at the worst possible time. The untenable imbalances on trade, payments and debt are finally beginning to take their toll. World growth is slowing ominously, and there is talk of a global recession. The steps that would avert it cannot wait two years until a new American President is installed and ready to lead. There is no alternative but to switch international economic negotiations onto an entirely new track.

At other crucial moments in modern history, enlightened leaders have turned to special envoys to break such stalemates. Franklin D. Roosevelt used Harry Hopkins and Averell Harriman on supersensitive war-planning matters, Richard M. Nixon had Henry A. Kissinger on China and President Reagan turned to Alan Greenspan on Social Security.

In the same spirit, and with the same sense of urgency, Washington, Tokyo and Bonn should now call in new negotiators.

True, the two summit meetings preceding the one in Venice were also do-nothing affairs. There, to excuse inaction, the leaders pointed to continued growth. But that doesn't wash anymore. America and Japan have slowed to a crawl, the West German economy actually contracted last quarter and the third world is sliding into economic chaos.

This disappearing growth and the extreme trends in international debt suggest that we are headed for real trouble. America continues to run annual balance of payments deficits approximating $150 billion, raising our external debt to $240 billion, the world's largest. Total debt of the five largest developing nations also is growing unchecked and stands at $320 billion. Worse, credit flows to these debtors are beginning to weaken. Foreign capital is pulling back from financing our budget deficits just as American banks and others are cutting off new credit to the developing world.

The United States and other chronic borrowers are careening toward the type of debt-driven adjustment that hit Mexico. Like any other debtors, we and the developing world must service our external debt. But, with less foreign credit, it must increasingly be serviced from earnings, not new borrowing.

In international trade terms, earnings mean trade surpluses. But the only route to surpluses is to decrease consumption and imports and step up investment and exports. Diminished consumption is another term for the bitter experience of lowering our standard of living. We would not be the only injured parties. The economies that have been living off exports, including Japan's and West Germany's, would drop as their foreign markets dry up. Taken together, this would mean global recession.

The time for study has passed. Here are five elements of a solution.

First, Washington has no choice but to move on its budget deficits, thereby slowing its debt accumulation, lowering real interest rates and spurring investment.

Second, West Germany and particularly Japan must undertake larger domestic-stimulus programs to promote imports. This would prod growth in the United States, the rest of Europe and Latin America.

Third, Japan, sitting on the world's biggest capital surpluses, must become financier to the developing world. It should pour capital into the World Bank and other multinational development agencies and sharply increase government-to-government aid. West Germany should make proportionate commitments.

Fourth, Washington and Tokyo should lead a new and tougher fight against protectionism. Self-defeating moves like semiconductor dumping and the Gephardt trade amendment would be stopped.

Fifth, Washington, Bonn and Tokyo should commit themselves to a more stable international monetary regime. The recent coordination on currency reference zones would be institutionalized.

The new negotiators would not need huge staffs and elaborate conferences. Harry Hopkins often negotiated alone with Churchill and Stalin, and the Greenspan group negotiated a Social Security package in two weeks. They would, however, need full backing of their heads of state and legislatures.

To provide it, President Reagan and the Congressional leadership should join together to select the American representative and a small bipartisan group to advise him. Tokyo and Bonn would do the same. Our man should be Paul A. Volcker — our only real economic leader.

These envoys should be given a finite timetable — two months, say — and promised a fast legislative track on any agreement. It is a tall order. But when the stakes are colossal and the solutions understood, there is a basis for a historic breakthrough. □

Roger Altman, Assistant Secretary of the Treasury from 1977 to 1980, is managing director of Shearson Lehman Brothers.

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Venice Talks Conclude in a Mood Of Satisfaction but Little Progress

By R. W. APPLE Jr.

Special to The New York Times

VENICE, June 10 — The 13th conference of the major non-Communist industrial nations ended today with a sober appraisal of the world economy and a series of generalized proposals to deal with persistent problems like unemployment and protectionism.

Although little new ground was broken on political or economic questions, all participants proclaimed satisfaction.

Leaders of the seven nations — Britain, Canada, France, Italy, Japan, the United States and West Germany — spent their last working session on economic questions and then issued a long communiqué dealing with such questions as trade, coordination of economic policies, debt relief for sub-Saharan Africa, exchange rates and agriculture. [Text, page A16.]

No breakthroughs were made and none were claimed. But President François Mitterrand said "a few advances" had been made on the long road toward alleviating some of the world's economic problems.

In other statements, the leaders took a tough line on South Africa and promised heightened international cooperation in coping with the AIDS epidemic and with drugs. [Page A12.]

U.S. Had to Settle for Less

The United States, which came to this three-day summit meeting with the amplest agenda for action, had to settle for mach less specific commitments than it had sought.

But Treasury Secretary James A. Baker 3d called the conference a success and said, "It compares favorably with past summits." He described the absence of "a major contretemps" as a good sign, not a "detrimental" one.

Sir Geoffrey Howe, the British Foreign Secretary, for whom this was the ninth such meeting, termed the conference "very businesslike."

Asked tonight as he appeared on ABC News what was the most important development at the conference, Howard H. Baker Jr., the White House chief of staff, responded, "I think the most important thing is there are probably no surprises."

Frank C. Carlucci, the national security adviser, said the political talks produced "all that we sought."

Unlike some of his counterparts, President Reagan held no news conference. He will remain in Venice an extra day and meet with reporters Thursday before flying to West Berlin and Bonn on Friday and then on to Washington.

Venice produced idyllic weather — a sunny, breezy day with one of the storied, pale-blue Adriatic skies — for the final day of the gathering. The church and bell tower of San Giorgio Maggiore, on the island where the sessions were held, stood out as crisply as in a painting by Canaletto.

But there were widespread grumblings about this conference among the participants — about the number of people involved, about a lack of informality and, especially, about the overwhelming security apparatus assembled by the Italians, in large part to meet American requirements.

'Gigantomanic Security'

Chancellor Helmut Kohl of West Germany bemoaned what he called the lack of opportunity for "deeper conversation" and ascribed it to "this giganto- manic security operation."

Mr. Mitterrand struck the same note, commenting on "an excess of ritual" and remarking with his characteristic understated humor. "We continued to be so very numerous and one felt oneself so very well protected here."

On the American side, W. Allen Wallis, Under Secretary of State for Economic Affairs, charged that the French had an almost "quasi-religious" dislike of summit conferences.

Most of the participants appeared to take particular satisfaction from the fact that they had not been pressed much by the others.

Hideo Watanabe, Japan's spokesman, said his country was "grateful that there has been nothing that can be called Japan-bashing," adding, "That is as it should be."

Japan had feared it would come under attack for not doing enough to cut its huge trade surplus. German officials expressed gratitude that neither the United States nor anyone else had renewed demands that Germany stimulate more rapid economic growth and thus act as a "locomotive" for the other European economies.

By all accounts, Mr. Reagan and his chief aides made little or no effort to push either the Japanese or the Germans on those issues. Nor did they push for specific language on political questions such as the Persian Gulf.

A senior official of one of the European countries said of the President, "He was a pussycat here."

A typical point on which Mr. Reagan gave way was the elimination of agricultural subsidies. In a speech only last Friday, he had said he would push for language in the communiqué binding the seven countries to reaching that goal by 2000.

Treasury Secretary Baker conceded that the President had not done so, and the communiqué, mainly because of German resistance to doing more, simply reaffirmed the agreement to a slower process approved in May by the Oragnization for Economic Cooperation and Development.

Mr. Baker saw the highlight of the meeting, from an economic point of view, as the formal adoption of new methods for coordinating policies.

He said they "now have a political mechanism for promoting action" on economic issues. But the communiqué represented a compromise. It said six newly defined "performance indicators," such as exchange rates and growth rates, would be used only "to determine whether there are significant deviations from an intended course that require consideration of remedial actions."

The French had wanted to go much further, with a trigger mechanism that would have automatically instituted changes in policy if the indicators gave evidence of trouble. The United States had wanted a trigger that would automatically convene a meeting of the seven nations' finance ministers. Neither was successful.

On third-world debt, as well, the French had to settle for less. As a goad to the United States to spend more on aid to developing countries, France had wanted to mandate a spending level for all seven countries of seven-tenths of 1 per cent, more than twice what they say the United States now spends. The figure is mentioned in the communiqué, but it is not endorsed.

The nations conceded in a generally somber though optimistic review of the world economy that the correction of trade imbalances, with some countries running large deficits and some, large surpluses, "will be a long and difficult process" in which "exchange rate changes alone will not solve the problem."

But Mr. Kohl, the leader of one of the "surplus countries" that are supposed to "strengthen domestic demand," said at his news conference that "anyone who came to Venice expecting the Germans to play the locomotive now knows that this will not occur with us and with me."

Mr. Reagan, leader of one of the "deficit countries" pledged to reduce the deficits, said happily in an aside to reporters that he had not felt any pressure to make a more rapid or more concerted assault on the deficit. "No," he said, "we've been able to show the extent to which we're reducing it."

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SUBJECT/SUJET

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Kohl's Status As Linchpin

Main Economic Role Seized From Reagan

By PETER T. KILBORN

Special to The New York Times

VENICE, June 10 — Helmut Kohl, alone among the seven heads of state visiting Venice, took time to visit the city's cafes and stroll among the pigeons of St. Mark's Square, proving himself the symbol of a modest summit conference.

News Analysis

The West German Chancellor came content with existing arrangements for managing the world economy and wanting merely to keep the Americans off his back about his own. He succeeded.

"We're extremely satisfied," said the Chancellor's spokesman, Friedhelm Ost. "No one said you must do this or you haven't done that."

On all significant economic questions that came before this conference, Germany captured the initiative from President Reagan, who had controlled these events until the Democrats won control of Congress and the Iran-contra affair erupted. The Americans still dictated most of the agenda, but the Germans determined the results.

The Sensitive Farm Issue

One important example was the issue of subsidies that all the countries give their farmers to keep them in business. The subsidies have led to widespread overproduction and have become budget-busters for many countries — accounting, in the case of the United States, for more than 10 percent of the Federal budget deficit.

The subject of farming is so delicate politically that not until last year's conference at Tokyo did the countries even acknowledge a problem. Then in Paris last month, at a meeting of the Organization for Economic Cooperation and Development, they agreed to work "expeditiously" toward multilateral reduction of the agricultural subsidies.

The Administration, particularly, was cheered by that agreement, and last Friday President Reagan set the year 2000 as a target for elimination of all the subsidies.

But according to Americans here, Mr. Kohl and his ministers, sensitive to the domestic political implications for their farmer-constituents, balked at phraseology in today's communiqué that would connote speed or deadlines.

Comments From Officials

"The others," said a senior German official, "have accepted our arguments that in discussing farm subsidies, you've got to take into consideration protection of the countryside and protection of farm families."

An American official said, "All we got was generalities."

In the dispute over German trade surpluses and American budget deficits, Mr. Kohl did not give an inch, while for the first time in the four-year-old dispute it appeared that President Reagan did.

In previous conferences the United States had conceded that its budget deficits undermined the world economy, but in endorsing reductions in those deficits it said it could do so only by cutting Government spending.

Frank C. Carlucci, the national security adviser, about to begin briefing yesterday in Venice.

In Venice, President Reagan did not go so far as to accept the urging of other countries that he raise taxes, too. But today's communiqué, in referring to "deficit countries," avoids any comment about spending and implies — although no American here would confirm it — that the President could soon relent in his fervent opposition to higher taxes.

Kohl's Stand on Surpluses

There was no relenting by Chancellor Kohl, however. West Germany, codified with Japan as a trade surplus country, promised policies to strengthen domestic economic growth, which would help reduce the surpluses.

Germany said at a Paris meeting of finance ministers last February that it would do its part by cutting taxes somewhat at the start of 1988 — but nothing more and nothing sooner. Bonn's Finance Minister, Gerhard Stoltenberg, said today's agreements represented simply a "reinforcement" of that accord.

"They're always saying, 'Watch out for inflation,' " a Canadian official here said, "but it's more complicated than that. They have a different idea about how economies function. It's not just inflation. It's also a belief that surpluses are virtuous, and they become indignant at being lectured by profligates."

Chancellor's New Figures

American officials, though the Germans deny it, say they did press Chancellor Kohl to do more to stimulate his nation's economy but found that they got nowhere in their appeals.

The Chancellor came to Venice with a new set of figures contending that West Germany's economy had not declined during the first four months this year, as the nation's central bank had reported, but that by other criteria it had grown at a fairly moderate rate.

"They're simply stubborn," an American official here said. "They refuse to acknowledge that their growth has fallen."

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Venice and the Gulf

THE SUMMIT in Venice is being described as a disappointment for the United States, which wanted a more demonstrative endorsement of its Gulf policy. But leave aside that it was imprudent for the administration to publicise its hopes in this matter in advance. It was even less prudent not to anticipate that the allies would be sobered by the stunning secret turn American policy toward Iran and terrorism had taken during the last few years. For the allies now to embrace Mr. Reagan's policies as though he had not raised the deepest doubts about his credibility was never in the cards. Bungles cost.

But what about the allies? Are they as detached as depicted in some quarters? The issue is relevant to the effectiveness of American policy and to the support for it likely to come from Congress, which tends to view allied cooperation as the standard by which it should measure out its own support for the Reagan initiative. The evidence available at Venice was not cheering. But the evidence available in the Gulf is different. The United States is not alone there, as the more alarmist congressional sentiment suggests. The British and French have their warships there too. The American government, to keep itself from looking isolated and reactive, exaggerates the extent of allied cooperation. But some in Congress, putting a strategic gloss on jitters, minimise it.

Besides, the Russians are now in the Gulf. This cuts several ways. The Red Navy has made a historic leap into a region from which it has been the Western strategic purpose for a century or more to exclude a Russian/Soviet presence. This leap created an absolute requirement for any would-be great power to offset the new Soviet presence—not to be careless, but to act. Instinctively and intellectually, the allies understood this large requirement; that is why, nervous as they may be about Mr. Reagan, they accept his reflagging. Some in Congress have not yet understood, and focus less on the rationale of reflagging than on its risks.

Not out of any love for us, but in pursuit of its own interests, the Kremlin, in moving its fleet into the Gulf, is reinforcing goals held by the West: free navigation, containment of Iran, a negotiated end to the war. The administration is unaccustomed to finding itself with even so scanty and partial a convergence of interests with Moscow as this. But the tactical uses of this convergence are there to be applied. It makes the American intervention marginally safer, and gives Russians and Americans incentive to see the other succeed. The administration, which needs to build international and domestic support for a sound policy, would profit from making the point.

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Few Clear Winners or Losers Seen Among Summit's Troubled Players

Public Relations Event Still Useful as 'Group Therapy,' Says One

By Jim Hoagland
Washington Post Foreign Service

NEWS ANALYSIS

VENICE, June 10—Britain's urbane foreign secretary, Geoffrey Howe, paused as the end came today for the seven-nation economic summit and reflected on whether these gatherings have become a wasting asset.

A useful exercise in "international group therapy," was Howe's considered judgment. The leaders of North America, Western Europe and Japan profit from giving each other "solemn assurances around the table that they will try to do better" on economic policy in the coming year, he said.

The Venice summit, the 13th of the series, provided fewer clear winners and losers than previous gatherings. Because of the accumulation of political and economic burdens carried by these leaders this year, it resembled a reunion of the walking wounded.

In another briefing room across a shaded garden from the British pavilion, French President Francois Mitterrand also summed up the summit as an event that has become a necessary evil now that "propaganda has edged out utility" as its primary purpose.

The turning of the summit into a major international media event "has led the participants to try to show that each one has won something," causing boxing terms to be used to describe "knockouts" by one leader over another, Mitterrand said with an air of regret.

In closing press conferences before departing this afternoon, most of the leaders suggested they were relieved that combat had not been more fierce this year. President Reagan will meet reporters and leave Thursday.

Whether instinctively or by premeditation, the official delegations appeared to be determined not to allow their counterparts to look either very good or very bad.

Mitterrand, for example, won a reference in the final communique to a goal of seven-tenths of 1 percent as the amount of economic aid that industrial nations should give to poor countries. He brandished it at his press conference as one of the summit's major accomplishments.

He had barely finished speaking when U.S. Treasury Secretary James A. Baker III mounted another podium on another island across Venice's lagoon to remind American reporters that the seven-tenths goal was an old one adopted by the United Nations years ago, to which the United States attached little importance.

Canada's prime minister, Brian Mulroney, also got the simultaneous build-up, build-down treatment from his peers, who refused to go along with his determined efforts to get them to endorse a tough summit declaration condemning apartheid in South Africa.

Instead, they agreed to let Italy's caretaker prime minister, Amintore Fanfani, follow his reading of the summit's formal declaration with a rambling "summary of political issues" that highlighted South Africa.

While Mulroney was emphasizing at his briefing how the other leaders had joined him in rapping Pretoria, other delegates were pointing out that the statement was made in Fanfani's name and did not commit the other leaders to anything.

"We can't possibly go into depth in these discussions when we come together only for a day or two under this gigantic, manic security," West German Chancellor Helmut Kohl complained at his brief session with reporters.

While the temperate weather and spectacular setting of Venice helped soften its impact, Italian security was intrusive, widespread and intended to impress the security specialists from the six other nations with its efficiency and variety.

Kohl arrived here weakened by splits in his government and by U.S. pressure that led him to abandon his reservations about the U.S.-Soviet intermediate-range nuclear arms control agreement last week.

He spent most of the conference deflecting new pressure to adopt more expansionary fiscal policies, and did not seem to enjoy himself. Equally quiet on big issues was Japanese Prime Minister Yasuhiro Nakasone, who is due to leave office in October.

The other leaders reportedly were careful to avoid references to President Reagan's Iran-contra problems, at least in his presence.

Mulroney played one of the more active roles at the conference, possibly hoping it would help boost the extemely low popularity ratings the polls now give him in Canada.

In addition to pushing South Africa and agricultural reform, he staged a successful preemptive move to limit discussion of the Persian Gulf to diplomatic rather than military action.

Howe gave the closing British press conference because Prime Minister Margaret Thatcher, facing elections on Thursday, flew out yesterday after an overnight visit. Italy has national elections Sunday.

Even less visible was French Prime Minister Jacques Chirac, who shares power with Mitterrand but who apparently concluded that his insistence on sharing the spotlight with the French president last year in Tokyo was a tactical error.

He attended this year's working sessions, but stayed away from the press, leaving the stage to Mitterrand.

The French leader, who can be combative when he feels challenged in international affairs, appeared to follow the implicit live-and-let-live motif of this summit by declining to answer an American journalist's question about whether Reagan had been less assertive at this summit than others.

"That is a story I won't help you write," he said.

And while there was a general air of disillusionment among the leaders about the results "in comparison to what they could have been," as Mitterrand put it, everybody quickly agreed to get together again next year, in Toronto.

External Affairs Canada
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BY LUCIAN PERKINS—THE WASHINGTON POST

Secretaries Shultz, Baker talk past President Reagan as summit ends.

Reagan's Role Reduced, Summit Diplomats Report

Allies Note Decline Since '86 Tokyo Talks

By David Hoffman
Washington Post Staff Writer

VENICE, June 10—President Reagan's performance at he 13th economic summit left he other leaders of major industrial democracies convinced e has rather suddenly begun to how his age and lame duck status and wondering whether he ossesses the energy and initiative to provide active leadership for the alliance, according to European diplomats.

This image of Reagan was einforced in public today as the resident appeared to be nodding off at the reading of the nal economic communique. reasury Secretary James A. aker III and Secretary of State eorge P. Shultz seemed to nudge Reagan to keep him awake. Presidential spokesman Marlin Fitzwater said, "He stayed awake for the whole time, unlike some of his counterparts."

Reagan was also the only leader who spoke from prepared note cards in private meetings. Although Reagan frequently uses such cards, the technique seemed this time to add to the impression that his leadership role had diminished.

On complex issues such as the NATO doctrine of "flexible response" and the impact of eliminating medium-range missiles from Europe, British Prime Minister Margaret Thatcher and French President

See REAGAN, A35, Col. 3

Reagan's Role Reduced, Diplomats Say

REAGAN, From A1

ncois Mitterrand took the lead he opening dinner discussion.

he European diplomats said af- the summit closed today that ' were struck by the change in gan's demeanor from a year ago kyo, when he was at the zenith s popularity at home and played ding role in discussions at the nit table.

s political standing at home shed by the Iran-contra scan- Reagan came here hoping to erate his presidency by demon- ng his ability to guide and in- other democracies.

blicly, he was sanguine and up- declaring today, "It's been a summit." But in private sessions, he was sharply challenged by the leaders of France, West Germany and Japan who criticized the enormous budget deficits of the Reagan years, despite Reagan's claim that he has made progress in reducing them.

Reagan's summit partners also expressed anxiety about the impact on allied defense strategy in Europe of a prospective agreement on limiting medium-range nuclear missiles. They also gave only lukewarm backing to Reagan's initiative for a greater naval presence in the Persian Gulf.

White House officials privately acknowledged the summit was not a high point for the troubled president. "That's just the way the summit goes," a senior Reagan assistant said.

White House officials strained to put a good face on the outcome and they announced Reagan would address the nation Monday on the summit from the Oval Office. They said the speech will also showcase NATO approval—expected to be made final this weekend—of the prospective medium-range missile treaty with the Soviets. As Reagan's first and only arms agreement, the emerging pact has become the one bright spot in his dealings with the allies.

European diplomats said, in contrast to the 1986 Tokyo summit, Reagan failed to make a strong case this year for a number of American positions and seemed preoccupied and distracted during the sessions.

They noted that Shultz and Ba often carried the weight of speakin for the United States on importa matters. In a meeting with Mitterrand today, Shultz intervened t remind the French leader that Reagan had pledged not to negotiat with the Soviets on France's an Britain's separate nuclear forces, White House official said.

Reagan failed to meet even modest expectations raised for the Venice meeting. For example, prior t the summit, Reagan said he woul propose that the seven industri democracies set a goal of eliminating agricultural subsidies by th year 2000. But the final economi communique today did not inclu the proposal.

Treasury Secretary Baker sai the idea was not raised in the plenary meetings because "there wa not sufficient additional support fo putting a fixed date in there."

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REUTER/UNITED PRESS INTERNATIONAL

ry Secretary Baker with President Reagan at summit declaration.

aker Praises Agreement
r Economic Warning System

By Craig Webb
United Press International

asury Secretary James A. Ill hailed the summit leaders' ment yesterday to use eco- reports as an "early warning m" to signal when countries to adjust their economic pol-

tatement signed by leaders of nited States, Japan, West Ger- France, Italy, Britain and a committed their nations to thening the use of economic tors as a sort of thermometer them when a country's econ- was getting hotter or cooler should be.

statement did not list which tors would be used or how tant each would be. But David rd, the Treasury Department in charge of international said "the ones we're going ncentrate on" are economic , inflation, trade balances, nment budgets, monetary ons and currency exchange

e or more of a country's in- s get out of line, the summit nations agreed, they will discuss the situation, U.S. officials said.

"In effect, what this will do is provide us with an economic early warning system to signal the need to consider additional economic policy changes," Baker said. "With this, we now have a political mechanism for promoting action."

Baker, here after the summit, said he considered the summit a success because "I can't think of any major item, on the economic side particularly, that we came here wanting that we didn't get."

He bristled when reporters asked him how he could say that when most of the achievements he cited were mere affirmations of agreements signed since February.

"You shouldn't look for major macroeconomic policy initiatives every two or three weeks or months," he said. "We've just come off of major meetings in Paris in February and at the Group of Seven meeting in Washington in April. And there was a possibility of losing ground here."

The Group of Seven consists of

See BAKER, E2, Col. 5

Baker Praises Summit Plan
For Economic Warning System

BAKER, From E1

the top finance officials of the seven summit nations.

The summit statement prescribes two solutions to the $1 trillion Third World debt crisis. For the poorest countries, many of them in sub-Saharan Africa, the summit leaders suggested that lending countries stretch out their loans to struggling nations, cut the interest rates and give longer grace periods for repayments.

But for the so-called middle-income countries—nations such as Brazil and Mexico, which have some capability of meeting their bills—the summit leaders stuck to the economic formula that has become known as the Baker Plan.

The plan calls on borrowing nations to revitalize and streamline their economies, on lending countries to work through organizations like the World Bank to coordinate loans and on private banks to increase their lending. But the ide has barely taken hold since it wa proposed in October 1985, primarily because private banks have bee hesitant to lend money to nation that cannot repay what they alread owe.

The statement also cited the importance of countries helping others and noted that some international organizations call for countries to give 0.7 percent of thei gross national product as international aid.

Baker said he did not conside the statement to be anything tha binds the United States to that percentage.

"It's our view that you have t look at financial flows across th board in determining developmen assistance," he said. "I think it's ou view, for instance, that treating development aid in a vacuum is no the right approach to take."

SUBJECT/SUJET

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U.S. Analysts Unimpressed With Summit

Communique Goals Called Too Vague

By Martin Crutsinger
Associated Press

The Venice summit's economic agreement was greeted with a big yawn yesterday by U.S. analysts, including one economist who said he'd call it a failure "except nobody was expecting very much."

Leaders of the world's seven largest industrial democracies, ending their three-day summit, pledged to keep closer watch on each other's economies, fight protectionism and work for long-term reductions in government farm subsidies.

Analysts said the joint communique, with its goals of "growth, stability, employment and prosperity," was long on vague promises and short on concrete steps to ease growing threats of another worldwide recession.

Financial markets took the summit in stride. Traders said it produced no surprises, indicating that the dollar would not come under intense downward pressure in coming days.

"The market expected nothing and that is about what they got," said David Wyss, an economist with Data Resources Inc., a Lexington, Mass., forecasting firm.

Some analysts viewed the summit results as a setback for the Reagan administration, which failed to persuade its allies to promise a faster end to farm subsidies. The administration also was thwarted in efforts to strengthen procedures by which the seven summit partners would coordinate their economic policies.

"I would call the summit agreement a failure, except nobody expected very much," said Michael Evans, a Washington economic forecaster.

Lawrence Chimerine, president of Wharton Economics of Bala Cynwyd, Pa., said the summit accord

See REACTION, E2, Col. 1

U.S. Analysts Unimpressed With Summit Communique

REACTION, From E1

would have little impact on the world economy.

"I don't get the feeling that the participants in the summit are as concerned about the very real potential for a worldwide recession occurring in the next year or two," he said.

"As a result, they didn't take the kind of strong steps that could have reduced the risks of a recession."

The summit leaders agreed to strengthen a process of international surveillance that was initiated a year ago at the Tokyo summit. Under this procedure, the finance ministers of the United States, Britain, Japan, West Germany, France, Canada and Italy will meet periodically to review the economic performance in each of their countries as measured by several indicators. These include trade statistics, inflation, interest rates, unemployment and overall economic growth.

If a nation's economy failed to meet its targets, the plan calls for the finance ministers to consider recommending unspecified "remedial actions."

But Treasury Secretary James A. Baker III, chief architect of the surveillance program, failed in an effort to require that the periodic economic forecasts be made public, as a means of exerting more pressure on countries to stimulate their growth.

Economists said that in the year since the surveillance program began operating, it has produced no significant breakthroughs in promoting world economic growth.

"Surveillance is a good idea but there is no teeth in the agreement," Wyss said. "It just says we are going to use a random set of numbers to judge our performance and we will decide ourselves what they mean."

Analysts said the summit communique resorted to vague language because the United States has been unable to reach agreement with West Germany and Japan on what is needed to spur sagging economic growth.

While the United States has been pressing these two industrial giants to do more to stimulate their economies to help reduce huge U.S. trade deficits, Japan and the Europeans have countered that the Reagan administration hasn't done enough to reduce massive U.S. budget deficits.

The federal deficit hit a record $220.7 billion last year. U.S. analysts say a growing share of the deficit was bankrolled by foreign investors, robbing other countries of capital they need to promote their own growth.

"You can't expect West Germany and Japan to stimulate their economies if they are sending all of their spare cash over here to finance our deficits," Evans said. "The problem of getting the economy back on track rests in our own backyard."

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Summit Backs Coordinated AIDS Research

Reuter

VENICE, June 10—The leaders of the seven industrial democracies today endorsed coordinated research by their countries to find a cure for AIDS.

Until now, only the United States and France have been actively sharing their AIDS research—and that cooperation came only after a bitter lawsuit involving scientists from both countries over who first isolated the virus.

"The heads of state or government welcome and support joint action by researchers in the seven countries," the leaders said in a summit-ending statement read by the host of the meeting, Italian caretaker Prime Minister Amintore Fanfani.

The leaders of the United States, Britain, West Germany, Japan, France, Canada and Italy also agreed that the Geneva-based World Health Organization was the best forum for drawing together the many and varied international efforts on a worldwide level to combat AIDS.

Until a cure is found for the disease, which breaks down a person's immunities, the leaders said the best way to combat acquired immune deficiency syndrome was to educate the public about its dangers and how it is transmitted.

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World AIDS Fight Is Urged in Venice

By JOHN TAGLIABUE

Special to The New York Times

VENICE, June 10 — Leaders at a seven-nation economic summit meeting today declared AIDS "one of the biggest potential health problems in the world," and they called for international cooperation against it through the World Health Organization.

They also adopted a statement pledging the seven nations to "continue their fight against illegal production and distribution of drugs," and in their final declaration they welcomed study of the "ethical implications of developments in the life sciences."

Drugs, biotechnology and acquired immune deficiency syndrome were among many topics discussed by the leaders, but their inclusion in final statements reflected growing concern about their potential for social and economic disruption.

The statements on drugs and AIDS were not included in the group's formal declaration, but in separate statements issued by the Italian Prime Minister, Amintore Fanfani, the conference chairman. Such statements reflecting the leaders' views are often used to address topics not strictly economic.

'Full Support' Promised

The leaders called for broad international cooperation in studying means to prevent and treat AIDS, pledging themselves to a maximum effort to strengthen "existing organizations by giving them full political support and by providing them with the necessary financial, personnel and administrative resources."

"The World Health Organization is the best forum for drawing together international efforts on a worldwide level to combat AIDS, and all countries should be encouraged fully to cooperate with the W.H.O. and support its special program of AIDS-related activities," the statement said.

The leaders welcomed a British proposal for an international conference on public education about the disease. But they also cautioned that measures to curb the spread of AIDS be "in accordance with the principles of human rights," and welcomed a French proposal to create an international committee to deal with ethical issues raised by the disease.

The leaders discussed AIDS at a time when experts are expressing growing concern about its social and economic effects on developing regions such as Africa, which is perhaps hardest hit by the disease.

"In places like sub-Saharan Africa, the disease knows no genders and no economic stratification," an American official said.

The statement, adopted at the urging of all the nations, said, "In the absence of a vaccine or cure, the best hope for the combat and prevention of aids rests on a strategy based on educating the public about the seriousness of the AIDS epidemic, the ways the AIDS virus is transmitted, and the practical steps each person can take to avoid acquiring or spreading it."

It urged broader exchange of information about national education campaigns.

Drug-Dependent Countries Cited

The statement on drugs also reflected concern about the potential for economic disruption in countries whose economies are dependent on the export of narcotics, particularly at a time of agricultural changes, a major topic on the summit agenda.

The statement called for the eradication of drug crops and their "replacement with other types of production, which will further the aims of social and economic development."

Italian officials said President Reagan, in his first meeting with Prime Minister Fanfani on Monday, stressed the need for countries reliant on drug exports to shift from "drugs to flowers."

Mr. Fanfani reportedly replied that programs used in the past to wean economies such as Turkey's from drugs could be applied in Latin American nations like Bolivia, whose economies are under similar dependency.

Concerning biotechnology, the leaders have sponsored conferences on the ethical implications of research into genetic engineering since 1984, when a first such gathering was held in Japan.

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DATE June 11

Summit Ends Without New Moves to Aid Dollar, Avert Recession or Trim Deficits

By Walter S. Mossberg
And Philip Revzin
ff Reporters of The Wall Street Journal

VENICE, Italy—The leaders of the in- strial world ended their economic sum- it meeting here without pledging any ecific new actions to stabilize the dollar, nd off world recession or curb the huge S. budget and trade deficits.

The seven governments had warned for eks that the meeting would largely con- e itself to reaffirming existing agree- nts, and that the greatest need was for tion to carry out those pacts. But their e-page communique didn't include any m pledges that the nations will do bet- , and papered over continuing splits on st of the major economic issues.

The best the leaders could do was to ept vague language calling on their fi- nce ministers to propose "additional ap- opriate policy measures" in the future if orld economic growth is insufficient." t officials of West Germany and Japan, countries where growth is most ded, immediately said this didn't re- n them to take any new economic ac- s.

President Reagan will hold a half-hour vised news conference here at 8 a.m. T today and will address the nation m the White House Monday evening, a te House spokesman said. Both the n conference and the speech are ex- ed to focus on the economic summit ting.

retary Baker's View

Yesterday, Treasury Secretary James er told reporters that "I think we've n progress—clear progress on a number fronts." And he added that "I can't k of any major item on the economic , particularly, that we came here want- that we didn't get."

But the economic communique, like the tical statement issued Tuesday, med to reflect faltering U.S. leadership the group. U.S. goals were minimal, and key issues the positions favored by the gan administration were watered n. The U.S. came in for criticism of its get deficit and French officials re- ed that President Reagan didn't speak ll in yesterday's final plenary session, ch was devoted to economic matters.

an Emerges Unscathed

y contrast, Japan, which at one time ed likely to be a whipping boy here, rged unscathed, largely because of a billion stimulus package announced before the summit. Japanese Premier hiro Nakasone was said to be "very sed" with the summit, because Japan 't heavily criticized, and a Japanese for recycling part of the country's e surpluses to the Third World was sin- out for praise.

n the dollar, the leaders, as expected, ed themselves to reaffirming the ement reached by finance ministers of seven nations at the Louvre in Paris February and in Washington last l, to try to stabilize world currency s around their current levels. The munique trotted out the now-familiar al formulation that "further substan- shifts in exchange rates could prove nterproductive."

e statement also reaffirmed Secretary Baker's plan for easing the debt problems of "middle-income" Third World nations, largely in Latin America. It repeats Mr. Baker's formula of trading economic reforms for new commercial bank lending or other financing methods that banks may choose from a "menu" of options. These options include new forms of direct investment, which the communique encourages debtor nations to make possible.

The leaders also adopted a French proposal to negotiate by year's end a plan to increase aid to the poorest debtor nations, mainly in Africa.

Economic-Coordination Plan

As expected, the leaders blessed their finance ministers' plan for a more formal system of economic coordination involving the use of selected economic indicators to monitor each nation's performance. The non-binding plan isn't a direct currency-stabilization measure, though the communique mentioned that exchange rates would be one of the indicators used, and Mr. Baker said that, by better coordinating economic policy, the plan would also help stabilize exchange rates.

If a nation failed to meet its previously agreed targets under the indicator plan, the communique said "consideration of remedial actions" might be required. But the process would be kept secret, contrary to American wishes.

The summit leaders also endorsed a finance ministers' plan for new negotiations during the current trade talks in Geneva, Switzerland, aimed at phasing out agricultural subsidies. The communique gave another boost to the trade talks overall, and condemned protectionism.

The summit communique ackowledged that solving the central problem of huge Japanese and West German trade surpluses and the big U.S. budget deficit "will be a long and difficult process," and repeated calls for Japan and Germany to stimulate home demand, and for the U.S. to cut its deficits.

But the communique left open the question of whether West Germany and Japan need to do more than they have already pledged to spur flagging growth. The West Germans insisted throughout the meeting that they had reached the limits of what they could do without overheating their economy and reigniting inflation. Spokesmen repeatedly cited figures showing that the German economy is beginning to rebound after a bad first quarter.

"Germany was able to show that it is in the business of aiding and increasing world growth," Chancellor Helmut Kohl said.

As for whether his country would need to do more, Mr. Kohl added: "There isn't the slightest reason for anybody to make comments about Germany." He said the communique language about possible new measures was "a precaution against the unlikely event that growth slows down more."

The Japanese, too, deftly slipped out of any possible new commitments. Michihiko Kunihiro, chief cabinet counselor for external affairs, said Japan's expansionary program showed its commitment to growth, and he added that reaffirming the Louvre accord didn't mean the yen needed to stay at the new, higher levels it has reached since last February. "We read the word current in a longer-term context," he said. "Not too long ago the yen was much lower."

Indeed, the Japanese will be able to sell the summit agreement to their home audience as possible relief for the effects of the soaring yen. "For the first time in history, all the leaders have explicitly agreed to adjust exchange rates consistent with economic fundamentals," Mr. Kunihiro added. He said this meant the yen could fall somewhat, as the Japanese hope.

In the sessions, Mr. Nakasone and Mr. Kohl raised the issue of U.S. budget deficits. President Reagan argued that progress is being made on the deficit and stuck to his pledge to veto tax increases. But the communique contained several references to reducing large fiscal deficits, though without mentioning the U.S. by name.

On a number of points, the U.S.—normally the agenda-setter at summits—either took a back seat, or was forced to accept language it opposed, or to water down positions it favored.

The debt discussions were dominated by Japan and Europe. A Japanese plan to "recycle" part of its huge trade surplus to poor nations formed the centerpiece of the leaders' debt talks. The French and the British had also proposed specific plans to sharply increase aid flows to poor African nations through the International Monetary Fund, to stretch out loan repayments, and in some cases to offer lower interest rates on loans.

On debt-recycling, the communique embraced the idea of cutting interest rates on government loans to the poorest nations, a point the U.S. had opposed.

The communique didn't mention President Reagan's proposal, contained in a speech televised across Europe from Venice, to eliminate all agricultural subsidies by the year 2000. Secretary Baker said the goal was never even proposed by the U.S. for inclusion in the communique, "perhaps because there was not sufficient additional support for putting a fixed date in there." The agriculture language also left out references the U.S. had supported to putting farm-trade talks on a fast track. France and Germany have steadfastly opposed splitting agricultural issues from other trade matters.

The U.S. also lost on the seemingly minor point of whether to mention in the final document a target, first stated in 1970 and never fulfilled, that industrial nations would devote 0.70% of their gross national product to foreign aid. The U.S. currently devotes 0.24% of its GNP to aid, and according to French officials, Secretary of State George Shultz argued unsuccessfully for two hours yesterday to delete any mention of the old target figure.

Ellen Hume
Contributed to this article

SUBJECT/SUJET

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DATE June 11

White House Hope For a Strong Mien Founders at Summit

* * *

Leaders Laud Japan for Plan On Its Economy, But Fail To Back Reagan's Goals

By Ellen Hume

Staff Reporter of The Wall Street Journal

VENICE, Italy—White House officials had high hopes that President Reagan would be seen at the economic summit as a formidable world leader, proving by word and deed that he hasn't been weakened by the Iran-Contra scandal.

But when the summit ended here yesterday, there was little evidence they had succeeded. The leaders' joint communique and private comments failed to offer clear support for Mr. Reagan's specific policy goals on foreign and economic fronts.

As they arrived here for the summit last week, Mr. Reagan's advisers believed that he brought two trump cards with him, issues on which the other leaders would express their solidarity or at least their appreciation: arms control and the Persian Gulf. But he never had a real opportunity to play either card. When the final communique was read yesterday, the country singled out for praise wasn't the U.S.—it was Japan, which staged a preemptive political strike before the summit, with its bigger-than-expected stimulus package.

And instead of winning accolades, Mr. Reagan heard an earful about the U.S. budget deficit and what some felt was a belligerent U.S. stance in the Persian Gulf.

Even before the summit began Monday, U.S. officials had determined that the allies wouldn't agree to a detailed joint plan for protecting the Persian Gulf. Mr. Reagan had expected to raise the issue at the Monday dinner, but was sidetracked by the allies' animated speculation about Soviet leader Mikhail Gorbachev and their concerns about arms control. Instead of boosting Mr. Reagan by praising his leadership on arms control, the leaders debated with him past midnight about whether a new North Atlantic Treaty Organization defense policy must be developed.

As the leaders discussed Third World debt yesterday, Mr. Reagan was hardly more effective in leading the debate.

A French official claimed with some astonishment that Mr. Reagan "did not open his mouth" at the two-hour session. He said that instead, the U.S. case was presented by Secretary of State George Shultz during a contentious two-hour debate over how to measure nations' foreign aid contributions. Allan Wallis, undersecretary of state for economic affairs, disputed this account. "In any case," he concluded, "the three (Mr. Reagan, Mr. Shultz and Treasury Secretary James Baker) were conferring throughout."

The president wasn't confronted about the Iran-Contra scandal directly, according to his aides. But he didn't escape it entirely, either. The congressional hearings were piped into many hotel rooms and the working quarters of the press here via Cable News Network. The scandal and Mr. Reagan's diminished influence at home, including his loss of GOP control of the Senate, clearly affected the allies' expectations for his effectiveness, particularly on trade measures at home.

But White House officials insisted vigorously last night that this wasn't the case. "The president is still strong .... We're still looked to for leadership. And, if I may say so, the president has provided that leadership here at the summit," Treasury Secretary Baker said in an interview on Cable News Network.

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SUBJECT/SUJET

PUBLICATION New York Times

DATE June 11

Venice Talks Conclude in a Mood Of Satisfaction but Little Progress

By R. W. APPLE Jr.

Special to The New York Times

VENICE, June 10 — The 13th conference of the major non-Communist industrial nations ended today with a sober appraisal of the world economy and a series of generalized proposals to deal with persistent problems like unemployment and protectionism.

Although little new ground was broken on political or economic questions, all participants proclaimed satisfaction.

Leaders of the seven nations — Britain, Canada, France, Italy, Japan, the United States and West Germany — spent their last working session on economic questions and then issued a long communiqué dealing with such questions as trade, coordination of economic policies, debt relief for sub-Saharan Africa, exchange rates and agriculture. [Text, page A16.]

No breakthroughs were made and none were claimed. But President François Mitterrand said "a few advances" had been made on the long road toward alleviating some of the world's economic problems.

In other statements, the leaders took a tough line on South Africa and promised heightened international cooperation in coping with the AIDS epidemic and with drugs. [Page A12.]

U.S. Had to Settle for Less

The United States, which came to this three-day summit meeting with the amplest agenda for action, had to settle for much less specific commitments than it had sought.

But Treasury Secretary James A. Baker 3d called the conference a success and said, "It compares favorably with past summits." He described the absence of "a major contretemps" as a good sign, not a "detrimental" one.

Sir Geoffrey Howe, the British Foreign Secretary, for whom this was the ninth such meeting, termed the conference "very businesslike."

Asked tonight as he appeared on ABC News what was the most important development at the conference, Howard H. Baker Jr., the White House chief of staff, responded, "I think the most important thing is there are probably no surprises."

Frank C. Carlucci, the national security adviser, said the political talks produced "all that we sought."

Unlike some of his counterparts,

Venice Talks Conclude in Mood of Satisfaction but Little Progress

Continued From Page A1

President Reagan held no news conference. He will remain in Venice an extra day and meet with reporters Thursday before flying to West Berlin and Bonn on Friday and then on to Washington.

Venice produced idyllic weather — a sunny, breezy day with one of the storied, pale-blue Adriatic skies — for the final day of the gathering. The church and bell tower of San Giorgio Maggiore, on the island where the sessions were held, stood out as crisply as in a painting by Canaletto.

But there were widespread grumblings about this conference among the participants — about the number of people involved, about a lack of informality and, especially, about the overwhelming security apparatus assembled by the Italians, in large part to meet American requirements.

'Gigantomanic Security'

Chancellor Helmut Kohl of West Germany bemoaned what he called the lack of opportunity for "deeper conversation" and ascribed it to "this gigantomanic security operation."

Mr. Mitterrand struck the same note, commenting on "an excess of ritual" and remarking with his characteristic understated humor, "We continued to be so very numerous and one felt oneself so very well protected here."

On the American side, W. Allen Wallis, Under Secretary of State for Economic Affairs, charged that the French had an almost "quasi-religious" dislike of summit conferences.

Most of the participants appeared to take particular satisfaction from the fact that they had not been pressed much by the others.

Hideo Watanabe, Japan's spokesman, said his country was "grateful that there has been nothing that can be called Japan-bashing," adding, "That is as it should be."

Japan had feared it would come under attack for not doing enough to cut its huge trade surplus. German officials expressed gratitude that neither the United States nor anyone else had renewed demands that Germany stimulate more rapid economic growth and thus act as a "locomotive" for the other European economies.

By all accounts, Mr. Reagan and his chief aides made little or no effort to push either the Japanese or the Germans on these issues. Nor did they push for specific language on political questions such as the Persian Gulf.

A senior official of one of the European countries said of the President, "He was a pussycat here."

A typical point on which Mr. Reagan gave way was the elimination of agricultural subsidies. In a speech only last Friday, he had said he would push for language in the communiqué binding the seven countries to reaching that goal by 2000.

Treasury Secretary Baker conceded that the President had not done so, and the communiqué, mainly because of German resistance to doing more, simply reaffirmed the agreement to a slower process approved in May by the Organization for Economic Cooperation and Development.

Mr. Baker saw the highlight of the meeting, from an economic point of view, as the formal adoption of new methods for coordinating policies.

He said they "now have a political mechanism for promoting action" on economic issues. But the communiqué represented a compromise. It said six newly defined "performance indicators," such as exchange rates and growth rates, would be used only "to determine whether there are significant deviations from an intended course that require consideration of remedial actions."

The French had wanted to go much further, with a trigger mechanism that would have automatically instituted changes in policy if the indicators gave evidence of trouble. The United States had wanted a trigger that would automatically convene a meeting of the seven nations' finance ministers. Neither was successful.

On third-world debt, as well, the French had to settle for less. As a goad to the United States to spend more on aid to developing countries, France had wanted to mandate a spending level for all seven countries of seven-tenths of 1 per cent, more than twice what they say the United States now spends. The figure is mentioned in the communiqué, but it is not endorsed.

The nations concluded in a generally somber though optimistic review of the world economy that the correction of trade imbalances, with some countries running large deficits and some, large surpluses, "will be a long and difficult process" in which "exchange rate changes alone will not solve the problem."

But Mr. Kohl, the leader of one of the "surplus countries" that are supposed to "strengthen domestic demand," said at his news conference that "anyone who came to Venice expecting the Germans to play the locomotive now knows that this will not occur with us and with me."

Mr. Reagan, leader of one of the "deficit countries" pledged to reduce the deficits, said happily in an aside to reporters that he had not felt any pressure to make a more rapid or more concerted assault on the deficit. "No," he said, "we've been able to show the extent to which we're reducing it."

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warning

THE FAILURE of the Venice summit has made no visible dent in the complacency expressed in its communique. Everyone has agreed on policy co-ordination—even though only Japan is actually doing anything about it—the Louvre accord on exchange rates is in good order, West Germany is forecasting stronger growth, and we are soldiering on with the debt problem. Everything, by implication, will gradually come right.

This is not a mood which will survive an open-minded reading of the annual report of the Bank for International Settlements, which makes it plain, in clear and even witty language, that the world economic situation is deteriorating and fraught with grave risks, and points the way to safer ground.

The central bank governors, whose collective wisdom it is supposed to represent, are no doubt familiar with the report. It should be obligatory reading for any ministers or senior officials who have not yet seen it. They may find that it entails some quite painful revision of fixed ideas, but in a literary sense the task should be almost a pleasure.

The risks are so familiar that they need only be listed briefly: a disorderly collapse of the dollar, a retreat into protectionism and a cumulative world recession, and quite possibly all three.

Buck-passing

What the BIS stresses is that the present strategies, relying on monetary policy and exchange market intervention, cannot for long reduce these risks unless they are supported by policies which the market sees as likely to set the world on a path back to equilibrium. This is because there is no evidence that lower interest rates will offset the effect of declining demand in the high-exchange rate surplus countries, while intervention against the wind of market sentiment has limited credibility. It can buy time only for as long as the market believes that the time is being used constructively.

The current debt strategy is also designed to buy time, and the BIS detects "signs of fatigue" with it among both bankers and debtors. While the time has been used to some purpose in terms of debt reconstruction and the development of new policies for recovery, these measures will work only if the world market is growing at a reasonable rate. Meanwhile monetary policy in the US is partly paralysed by the risk of imposing any further burden on the debtors.

The solution, according to the central bankers, must involve an active use of fiscal policy. The surplus countries should be stimulating demand for purely selfish reasons; their economies have slowed sharply, and they face rising unemployment. The US should be taking active steps not only to cut its fiscal deficit, but to stimulate personal saving. Recent evidence suggests that the private sector in the US is doing much more to reduce that national tendency to overspend income than the Government has yet achieved.

The stress on enlightened self-interest rather than the rhetoric of co-ordination is shrewd; as the report points out, the attempt to harmonise policies often ends in misunderstanding and irritation—and, we might add, a great deal of co-ordinated buck-passing.

Starker language

The message will still be unpopular in many quarters, because fiscal rectitude is a general objective and has all too often been over-simplified to mean deficit targeting as the primary aim of policy. This can have a deadly effect when growth and revenues fall short of expectations and governments respond with deflationary measures.

As the BIS argues, one purpose of abandoning fine-tuning in a period of high inflation was to restore the cutting edge of fiscal policy. This is a pointless exercise if the weapon remains unused when it is needed.

Ministers may be tempted to see the whole report as an exercise in buck-passing by the central bankers and cling to their doctrines. They should ask themselves instead one simple question: do the facts support the BIS's gloom over growth; and if they do, how can confidence be restored?

Because the question is one of confidence, rather than of filling some measured hole in world demand, the required policy changes could prove quite modest; as the report argues, once a change of trend is visible, so that private capital flows will willingly finance the remaining imbalances, the correction can proceed, quite slowly and calmly.

There is dangerously little time, however, to initiate it. It can only be hoped that this report—and others, yet to be published, which may put the warning in starker language—will create the sense of urgency at the September IMF meetings which was so lacking in Venice.

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12 June 1987

INTERNATIONAL Herald Tribune
Published With The New York Times and The Washington Post

The Seven and the Gulf

The summit meeting in Venice is being described as a disappointment for the United States, which wanted a more demonstrative endorsement of its Gulf policy. But leave aside that it was imprudent for the administration to publicize its hopes in this matter in advance. It was even less prudent not to anticipate that the allies would be sobered by the stunning secret turn that American policy toward Iran and terrorism had taken during the last few years. For the allies now to embrace Mr. Reagan's policies as though he had not raised the deepest doubts about his credibility was never in the cards. Bungles have a cost.

But what about the allies? Are they as detached as depicted in some quarters? The issue is relevant to the effectiveness of American policy and to the support for it likely to come from Congress, which tends to view allied cooperation as the standard by which it should measure out its own support for the Reagan initiative. The evidence available at Venice was not cheering.

But the evidence available in the Gulf is different. The United States is not alone there, as the more alarmist congressional sentiment suggests. The British and French have warships there. The U.S. government, to keep itself from looking isolated and reactive, exaggerates the extent of allied cooperation. But some in Congress, putting a strategic gloss on jitters, minimize it.

Besides, the Russians are now in the Gulf. This cuts several ways. The Soviet Navy has made a historic leap into a region from which it has been the Western strategic purpose for a century or more to exclude a Russian presence. This leap created an absolute requirement for any would-be great power to offset the new Soviet presence — not to be careless, but to act. Instinctively and intellectually, the allies understood this large requirement; that is why, nervous as they may be about Mr. Reagan, they accept his "reflagging" of Kuwaiti ships. Some in Congress have not yet understood, and focus less on the rationale than on the risks.

Not out of any love for America, but in pursuit of its own interests, the Kremlin, in moving its fleet into the Gulf, is reinforcing goals held by the West: free navigation, containment of Iran, a negotiated end to the war. The administration is unaccustomed to finding itself with even so scanty and partial a convergence of interests with Moscow as this. But the tactical uses of this convergence are there to be applied. It makes the U.S. intervention marginally safer, and gives Russians and Americans incentive to see the other succeed. The administration, which needs to build international and domestic support for a sound policy, would profit from making the point.

— THE WASHINGTON POST.

Quiet Progress on Terror

A major move against international terrorism lies buried deep in the sonorous Venice declaration. The leaders of the seven industrial powers pledged to impose aviation sanctions when a country refuses to extradite or punish hijackers. If the leaders mean what they quietly promise, commercial air flights to offending states should cease "immediately."

That is a lawful weapon with a cutting edge. Unsheathing it helps atone for the failure at Venice to renew last year's call for banning arms sales to states supporting terrorism. Washington violated that policy with its arms sales to Iran, which must explain why Secretary of State George Shultz chooses to shrug off the missing renewal.

Iran flagrantly scorns civil aviation treaties adopted at The Hague and Montreal, which call for a total embargo of countries sheltering hijackers. Tehran has not extradited or punished those who hijacked a Kuwaiti airliner to Iran, where two Americans were killed in December 1984. Yet the same mullahs piously invoke international law in protesting the arrest in Britain of an Iranian diplomat charged with shoplifting. High time to enforce international aviation treaties and suspend all flights by European and Japanese carriers to Iran.

The embargo weapon works. At their Bonn meeting in 1978, the seven also adopted a tough statement on aviation sanctions. They then privately threatened enforcement unless Libya ceased sheltering hijackers. At least for a while, Libya stopped. But Europeans have been reluctant to put lucrative air routes at risk, and allied solidarity vanished last year when the Reagan administration pleaded for air sanctions just before its strike at Tripoli.

An air embargo is easy to impose. It is a widely endorsed penalty that fits the crime. The Venice seven can now show that they mean business by using it.

— THE NEW YORK TIMES.

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Full-scale criticism of South Africa blocked by Britain

Fn Tin
11 Jun

BY PHILIP STEPHENS

WESTERN LEADERS yesterday made a brief critical reference to the apartheid regime in South Africa, but Britain blocked a full statement on the issue.

At the end of the seven-nation economic summit in Venice, Mr Amintore Fanfani, the Italian Prime Minister and host at the meeting, said that the leaders viewed the situation in South Africa with "particular concern."

In remarks agreed with the other heads of state and government, Mr Fanfani added: "We agree that a peaceful and lasting solution can only be found to the present crisis if the apartheid regime is dismantled and replaced by a new form of democratic, non-racial government."

The criticism of Pretoria, contained in Mr Fanfani's general summary of the summit stand on a wide range of political issues, fell short of the detailed declaration sought by a number of governments.

Senior officials from several delegations said that the British Government refused to agree to a separate statement on South Africa. Sir Geoffrey Howe, Britain's Foreign Secretary, denied that Britain had been isolated. He said that other governments shared his view that it was the wrong moment to launch any initiative so soon after the whites-only election, when the South African Government was likely to be part larly unreceptive.

According to the offici Canada and the US had b during the past two mon prepared drafts which they l hoped might form the basis a separate statement at summit.

The European Communit political directors had a discussed a draft declaration guiding principles for West's relations with Pretor This had focused on the p eminent need to disman apartheid, to establish the equ treatment for all Sou Africans under the law, a the need for respect of hum rights.

At one stage, the US rais the possibility that its draft a the European version could merged to provide a "Veni declaration." US enthusias however, was said by t officials to have waned co siderably after Britain made i opposition known.

At the summit, Canada co tinued to argue forcibly for separate text, but was forced t accept the smaller declaratio contained in the general pol tical summary.

Mr Brian Mulroney, Canada' Prime Minister, said that th compromise was not "a perfec response," but it was nonethe less important that the issu had been addressed by th seven leaders. A failure to sa anything would have sent th wrong message to Pretoria.

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UNCLASSIFIED/NONCLASSIFIE

Financial Times 12 Jun 87

Summit leaders endorse ministerial Gatt meeting

BY PETER MONTAGNON, TRADE EDITOR

INDUSTRIAL leaders at the Venice summit gave a discreet but firm push to the Uruguay round of multilateral trade liberalisation talks by endorsing the concept of a ministerial meeting in the course of the negotiations, according to trade diplomats in Geneva.

"We consider that it would be useful to have, as appropriate, in the course of the negotiations, a meeting of the trade negotiating committee at the ministerial level," the leaders said in their communiqué published at the end of the Venice summit.

Diplomats said this has increased the likelihood of a full-scale ministerial meeting in the second half of next year to review progress in the four-year Uruguay round.

Such a meeting, which has long been under consideration at the General Agreement on Tariffs and Trade in Geneva, would provide impetus for negotiators to come up with some concrete proposals. The Gulf talks were launched at Punta del Este, Uruguay, in September last year.

The idea is in line with other sections of the communique which suggest that agreements reached on a provisional or definitive basis could be implemented prior to the formal conclusion of the negotiations.

The communique endorsed the recent Organisation for Economic Co-operation and Development call for world agricultural reform, but left in qualifications referring, for example, to concerns such as food security and employment.

The US said before the summit it would seek a clear statement of support from heads of state for agricultural reform, while some other countries, notably France, Germany and Japan had not wanted to go further than the OECD ministerial agreement.

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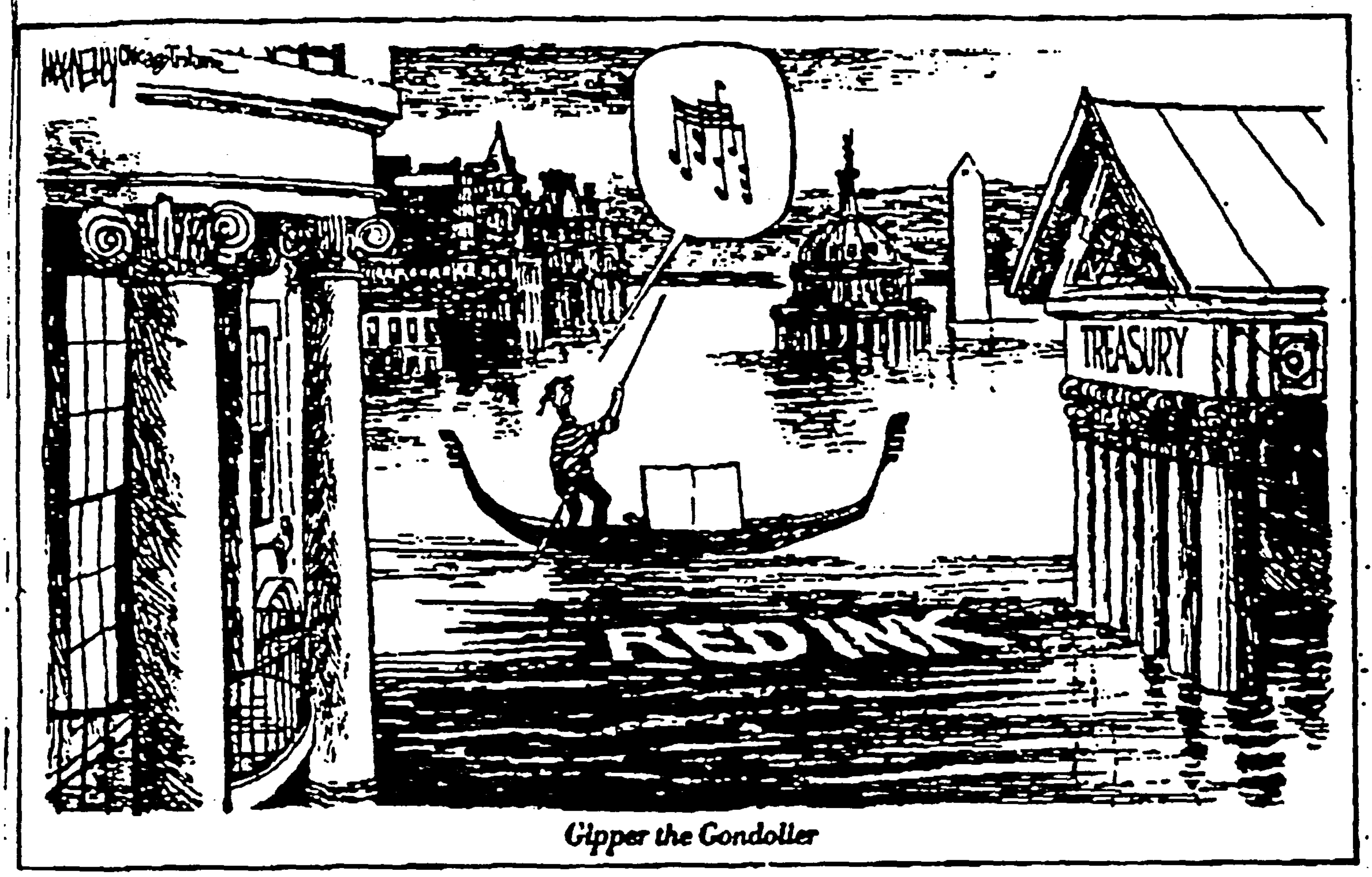

Gipper the Gondolier

Venice Was a Bust; Now Here's What Must Be Done

By Roger Altman

NEW YORK — True to expectations, there was no progress at the Venice summit meeting. Despite an intellectual consensus on the grave dangers of standing still, and even on solutions, nothing happened. This means the government-to-government negotiating process has broken down, and at the worst possible time.

The untenable imbalances on trade, payments and debt are finally beginning to take their toll. World growth is slowing ominously, and there is talk of a global recession. The steps that would avert it cannot wait two years until a new American president is installed and ready to lead. There is no alternative but to switch international economic negotiations onto an entirely new track.

At other crucial moments in modern history, enlightened leaders have turned to special envoys to break such stalemates. Franklin Roosevelt used Harry Hopkins and Averell Harriman on supersensitive war-planning matters, Richard Nixon had Henry Kissinger on China and President Reagan turned to Alan Greenspan on Social Security.

In the same spirit, and with the same sense of urgency, leaders in Washington, Tokyo and Bonn should now call in new negotiators.

True, the two summit meetings preceding the one in Venice were also do-nothing affairs. There, to excuse inaction, the leaders pointed to continued growth. But that does not wash anymore. The United States and Japan have slowed to a crawl, the West German economy contracted last quarter and the Third World is sliding into economic chaos.

This disappearing growth and the extreme trends in international debt suggest that we are headed for real trouble. The United States continues to run annual balance-of-payments deficits of about $150 billion, raising its external debt to $240 billion, the world's largest. Total debt of the five largest developing nations also is growing unchecked and stands at $320 billion. Worse, credit flows to these debtors are beginning to weaken. Foreign capital is pulling back from financing U.S. budget deficits just as American banks and others are cutting off new credit to the developing world.

America and other chronic borrowers are careening toward the type of debt-driven adjustment that hit Mexico. Like any debtor, the United States and the developing world must service their external debt. But, with less foreign credit, it must increasingly be serviced from earnings, not new borrowing.

In international trade terms, earnings mean trade surpluses. But the only route to surpluses is to decrease consumption and imports and step up investment and exports. Diminished consumption is another term for the bitter experience of lowering one's standard of living. Americans would not be the only ones hurt. The economies that have been living off exports, including Japan's and West Germany's, would drop as their foreign markets dry up. Taken together, this would mean global recession.

The time for study has passed. Here are five elements of a solution:

- Washington must move on its budget deficits, thereby slowing its debt accumulation, lowering real interest rates and spurring investment.
- Japan, sitting on the world's biggest capital surpluses, must become financier to the developing world. It should pour capital into the World Bank and other multinational development agencies and sharply increase bilateral aid. West Germany should make proportionate commitments.
- West Germany and Japan must undertake larger domestic-stimulus programs to promote imports. This would prod growth in the United States, the rest of Europe and Latin America.
- Washington and Tokyo should lead a new and tougher fight against protectionism. Self-defeating moves like semiconductor dumping and the Gephardt trade amendment would be stopped.
- Washington, Bonn and Tokyo should commit themselves to a more stable international monetary regime. The recent coordination on currency reference zones would be institutionalized.

The new negotiators would not need huge staffs and elaborate conferences. Harry Hopkins often negotiated alone with Churchill and Stalin, and the Greenspan group negotiated a Social Security package in two weeks. They would, however, need full backing of their heads of state and legislatures.

To provide it, Mr. Reagan and the congressional leadership should join together to select the American representative and a small bipartisan group to advise him. Tokyo and Bonn would do the same. America's man should be Paul Volcker, the country's only real economic leader.

These envoys should be given a timetable — two months, say — and promised a fast legislative track on any agreement. It is a tall order. But when the stakes are colossal and the solutions understood, there is room for a historic breakthrough.

The writer, assistant secretary of the U.S. Treasury from 1977 to 1980, is managing director of Shearson Lehman Brothers. He contributed this comment to The New York Times.

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Reagan will 'galvanize' trade talks PM says

A1-27

By Val Sears Toronto Star

VENICE — President Ronald Reagan has promised to "galvanize" the United States Congress into acting on free trade, Prime Minister Brian Mulroney said yesterday.

"That is the commitment I received from the president," Mulroney said after a post-summit meeting in the garden of Reagan's hotel.

Mulroney arrived in Ottawa last night after the three-day summit ended but did not speak to reporters.

The Prime Minister said in Venice the separation of powers between the U.S. administration and Congress sometimes makes negotiations more difficult for Americans than Canadians.

American demand

He said that was why he continued to press Reagan to keep pushing Congress toward achieving a free-trade pact between their two countries.

"It is important that we keep reminding them so as to galvanize that congressional and administration support, which is what we are doing today, and that was the commitment I received from the President."

The 40-minute meeting, between Mulroney and his advisers and Reagan and his staff, took place in the sunny garden of the Cipriani Hotel on a Venezian island.

There was some confusion about who had requested the meeting but the two leaders spent the entire time talking about free trade.

Mulroney said, among other things, they had discussed the American demand for unfettered investment in Canada.

"But there was no trade-off discissed," the Prime Minister said.

At a photo opportunity later,

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Stop sending mixed signals on free trade, U.S. told

C1-27

By Adam Mayers Toronto Star

Americans want Canada to open the door to foreign investment, but they fail to admit they are equally protective of their national interests, says former Liberal finance minister Donald Macdonald.

While U.S. free trade negotiators have been saying one thing, their Congress has been doing the opposite, Macdonald, now co-chairman of the Canadian Alliance for Trade and Job Opportunities, said yesterday.

"From the statements of American spokesmen and in the press flurry in Canada 10 days ago, one would have the impression that it is only Canada which maintains control of foreign investment," he said.

"The truth is both countries have lists of specific exceptions to the freedom of investment, and it is obvious that any trade agreement would have to commence by recognizing those limitations exist and will continue to do so."

Macdonald's group is funded by Canadian businesses and favors a free trade agreement. The two countries must reach some kind of deal by Oct. 1 to ensure congressional approval in 1988.

Macdonald told the Canadian Manufacturers' Association annual meeting that the restrictions on foreign investment proposed in a congressional trade bill — including examination of mergers, acquisitions, joint ventures and licencing — make Canadian efforts seem tame by comparison.

At the same time, U.S. trade negotiators have been urging Canada to drop its foreign investment barriers, he said.

In another area, Macdonald said it would be harder to change non-tariff barriers, such as the attitude reflected in the current Buy American campaign, than it would be to drop tariffs and duties.

"If we expect to be treated fairly by the U.S. authorities, then we are going to have to give American suppliers the same rights to our markets."

Agriculture should be set aside during the negotiations, Macdonald said, because the "economic welfare of those involved in the farming community is a social question which requires attention in a much broader spectrum than trade negotiations alone."

It would also be unfair to include food processing industries when their raw materials are maintained at an inflated cost, he said.

The grain trade should be included, however, because it is an international commodity.

Macdonald told reporters after his speech that the big question in the talks remains whether a satisfactory mechanism to solve disputes can be put in place.

He said any arbitration procedure must be taken out of the political arena and placed in a nonpartisan, objective forum binding on both countries.

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Reagan to 'galvanize' trade talks, PM says

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Mulroney had to prompt Reagan to answer some shouted questions.

Asked if the two were "close" on negotiations, the President hesitated.

"The negotiators are," whispered Mulroney.

"The negotiators are at that now," said the president, adding: "I made it plain in our meeting in Canada, that I am in full support of his free trade proposal."

The two leaders met in Ottawa April 5 and 6.

Mulroney told reporters later that Washington was impressed by the urgency of negotiations and he was confident the two sides would reach a successful conclusion.

4 months left

He emphasized he was not negotiating with the President — Canadian free trade negotiator Simon Reisman and his American counterpart, Peter Murphy, will be talking again in Ottawa next week.

There is less than four months left before a deadline to settle on a free trade deal. Congress has set a deadline of Oct. 1 for negotiators to present a draft agreement for ratification.

Mulroney said protectionism is the "bane of our existence" and added: "You saw what happened to Japan."

The United States recently slapped a higher tariff on Japanese microchips.

Mulroney said he would not sign a free trade deal unless it was fair to Canada

The economic summit here attended by the leaders of seven Western industrial democracies ended Wednesday by calling for greater world efforts to fight AIDS — stressing that the battle should be done "in accordance with the principles of human rights."

Meanwhile, in Venice, officials yesterday ordered checks into possible damage to the city's monuments as a result of the seven-nation summit, Reuters News Agency reports.

Officials said vibration from police helicopters may have dislodged marble from the Doges' Palace.

Palace Superintendent Umberto Franzoi said he had collected shards that had fallen from the pink and white marble facade of the building, seat of Venetian leaders when this majestic lagoon city was a powerful maritime republic.

"We suspect the damage was caused by the vibrations produced by police helicopters when they flew low over the area of St. Mark's Square," Franzoi told reporters.

He said he was sending the pieces away for analysis.

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Bungle in Venice

Prime Minister Mulroney nearly fell flat on his face in Venice over South Africa. This was predictable and could have been avoided.

The much-heralded Mulroney initiative last April was at first designed to enlist the support of the leading industrial nations to promote a peaceful end to apartheid. The original plan was to send a summit mission to South Africa to try to accomplish what the Commonwealth Eminent Persons Group (EPG) failed to do — promote a meaningful dialogue between Pretoria and recognized black leaders.

Power-sharing was the aim, the abolition of apartheid the starting point. Co-operation was to be the means to that end.

What made this different from the Commonwealth try was the proposed sponsorship of the visiting team. The industrial nations have tremendous economic and financial clout and stakes in South Africa. If they offered their collective good offices, President P. W. Botha could hardly refuse.

The idea, then, was an excellent one. But Mulroney's first task was to make sure that the political will was there on both sides.

What went wrong? Obviously the principal players were not persuaded. They might have been wrong, but domestic preoccupations argued against participation.

Prime Minister Margaret Thatcher had an election on her hands. West German Chancellor Helmut Kohl didn't want to upset his business community at a time of economic recession. President Reagan has Irangate and the credibility of his leadership on the front burner.

In brief, and sadly, there was nothing in it politically for the elected leaders of the Western industrial world. So they weren't prepared to take a chance for South Africa, or for Brian Mulroney.

When the prime minister's soundings went sour, and Botha did not encourage them, he should have cut his losses and dropped South Africa from his Venice agenda. There would be other opportunities.

But no. Just prior to the summit, Mulroney said he still wanted to raise the subject but — and here was his big mistake — he switched his tune from co-operation to condemnation. He called for tougher sanctions against Pretoria. He didn't even mention the mission idea.

Before he went to Venice, Mulroney knew that there was opposition among his peers to a reference to South Africa in the final communiqué. But he still pressed the issue, for his own reasons.

The result was last-minute agreement to an oral reference by the summit's president in his final statement calling for the dismantling of the apartheid regime and its replacement by a democratic non-racial one.

A victory? For Mulroney? For South Africa? Nothing much for anyone.

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U.S. doubts trade issues resolved by October

WASHINGTON (CP) — The deadline for negotiating a free-trade deal between the United States and Canada is looming with major differences unresolved and political tensions mounting, top Reagan administration officials warned Thursday.

U.S. Trade Representative Clayton Yeutter and Peter Murphy, the administration's chief free-trade negotiator, said an agreement is still possible but negotiations are coming down to the wire with major differences on key issues unresolved.

"I'm not convinced the task is an impossible one," Yeutter told the U.S. Chamber of Commerce. "(But) it's going to be very difficult to bridge those gaps between now and October."

Negotiators have missed a June deadline for reaching a first draft and now are working against an October deadline for submitting the guts of an agreement to the U.S. Congress.

At a separate private briefing for U.S. senators and their aides, Murphy raised the possibility of politics thwarting a deal in the end even if a balanced economic package was negotiated.

On the Canadian side, he noted Prime Minister Brian Mulroney's sharp decline in public popularity, raising questions about whether this could weaken his resolve to go the distance, according to Senate aides who attended the briefing.

On the U.S. side, he cited growing political pressure on the administration and Congress to protect U.S. industries from foreign imports, the aides said.

While Yeutter and Murphy made their Washington rounds, Mulroney and U.S. President Ronald Reagan repeated their personal support for the initiative in Venice where they had attended the annual economic summit meeting of the seven major industrial democracies.

After a 40-minute private session with Reagan, Mulroney told reporters there is still a "long way to go" but prospects for reaching a free-trade accord remain good.

Yeutter said the next couple of months are crucial and that U.S. negotiators plan to table "definitive, concrete, tangible" positions on virtually every issue at the negotiating table by the end of the month.

He said he hopes Canadian negotiators would do the same so the two sides have something concrete from which to work.

The aides also quoted Murphy as saying that while he remains hopeful an agreement can be nailed down, it won't be the end of the world if it doesn't happen.

The aides said Murphy pointed out the two countries had been trading successfully without a trade agreement until now.

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Farm leaders feel summit a letdown on subsidies

BY GEOFFREY YORK
The Globe and Mail

WINNIPEG

Prairie farmers should be concerned that no deadline for reducing or eliminating international farm subsidies was set at the Venice summit despite the rhetoric there, an agricultural economist says.

Agreement among the leaders of the seven major Western industrialized nations on the importance of reducing subsidies to farmers "didn't go far enough," said Clay Gilson of the University of Manitoba.

Entering the summit, Prime Minister Brian Mulroney was anxious to persuade the other leaders to reduce or eliminate the subsidies. U.S. President Ronald Reagan proposed the payments be done away with by the year 2000.

But the final communiqué from the meeting did not include a deadline or timetable.

"It certainly is a concern," Mr. Gilson said. "Farmers were hoping that the Prime Minister would get a specific timetable. They'll be saying, 'How long will this go on before it's resolved?' "

Costly subsidies to farmers in Europe and the United States have increased production and driven down the price of grain, seriously damaging the Prairie grain industry.

The leaders did head off disaster by generally agreeing on the importance of reducing farm subsidies, Mr. Gilson said. That is encouraging because it shows that Europe recognizes the need to take action.

Prairie farm leaders said they were not surprised that the leaders failed to set a deadline.

"There's going to be a lot of hard times for Canadian farmers before an agreement is reached," said Art Macklin, vice-president of the National Farmers Union. "We can't wait until the year 2000."

However, Mr. Macklin praised Mr. Mulroney for getting agriculture on the agenda. International recognition of the subsidy problem is the first step toward a solution, he said.

Paul Sim, senior policy analyst for the Western Canadian Wheat Growers Association, said the agreement in principle on the need to cut subsidies "has to be viewed in a positive light."

The summit showed there has been significant progress in fighting the problem in the past two years, he said, adding that the Europeans would not have admitted two years ago that it existed. "The lack of a specific time frame is a bit of a concern, but it's not surprising."

Ray Howe, first vice-president of the Saskatchewan Wheat Pool, said the agreement in principle is "good news for Canadian farmers."

But he warned that progress on cutting the subsidies will be "relatively slow." In the meantime, Ottawa must help Prairie farmers, Mr. Howe said. "Perhaps the year 2000 isn't an unrealistic goal. And a lot of farmers can't survive to the year 2000 without a lot of help."

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Wilson sees some progress despite summit's circus act

PETER COOK

VENICE

Sitting in a deck chair in the gardens of the Isola di San Giorgio, swilling mineral water at the end of a strenuous day of summiteering, Finance Minister Michael Wilson is prepared to make random observations about the seven-nation summit circus that will bivouac in Toronto next year.

First, he agrees that he doesn't like it much.

If these gatherings of beads of state and foreign and finance ministers are to achieve much, then it is the informal discussions that are most helpful.

Instead, the summits have developed into high theatre, attended at Venice by a press corps of 3,000. Inevitably, political issues have crept in and become more prominent, although Mr. Wilson, a veteran of three summits, maintains that they are still fundamentally "economic" meetings as they were conceived to be.

Even if he doesn't like the shindig surrounding it all, he holds out little chance that, next year, things will be much different.

Nevertheless, Mr. Wilson is happy about the surprisingly strong performance of the Canadian economy. Since the major countries began using International Monetary Fund statistics on growth, unemployment, inflation, monetary policy, balance of payments and so on to monitor each other's performance, Canada has been doing well.

The key number is the expansion of the gross domestic product. Fast GDP growth means you are not just helping yourself by creating more jobs, but also helping other countries by taking in more imports.

Last year, Canada was the fastest-growing major economy — and, to judge from recent figures, it may rise to the top spot this year. However, there are weaknesses, Mr. Wilson admits, notably the size of the budget and current account deficits.

Looking at Canada's recent economic record, he makes a comparison with Britain under Margaret Thatcher where growth has kept going at a fairly sustained rate. Both governments have been doing things to encourage supply-side growth, he says.

In Canada's case, he cites cutting the deficit, freeing up the energy sector, encouraging foreign investment and providing tax-based incentives to investment — and, still to come, measures such as deregulating financial markets and transportation, further privatization of Crown corporations and tax reform.

For some reason, he says, supply-side measures have got a bad name. In fact, they may be the key to getting more growth out of the economy.

All this leads up to the larger issue of whether the world economy will keep growing fast enough. Mr. Wilson is an optimist. He thinks enough countries have made the right moves, including Japan with its latest package of $42-billion (U.S.) worth of stimulative measures, and says there is no sign that a recession lies ahead.

Obviously, it would be better to see an average of 3 per cent-plus growth in the major economies, considered a norm for keeping unemployment from getting worse and international trade from shrinking.

But, if that is not being achieved now, it may be because the various economies are catching their breath, he says.

One of the messages he has been trying to get across is that it is not enough to co-ordinate policy in the Group of Seven or concentrate on the Big Three — the United States, Japan and West Germany.

Now that an arrangement has been worked out for getting closer policy co-operation among the major countries, it should be extended to 10 countries, and perhaps 24.

In addition, the focus should shift from short-term measures to the medium term. If this is done, there will be more stability in the global economy and in the financial markets. Governments will be aware of what the problem is — a shortfall of demand in their economy, say, or a misalignment of their currency relative to others — and take corrective measures.

If the system works effectively, it will act as an early warning signal of trouble ahead, Mr. Wilson says.

Another need is to bring newly industrialized economies such as those in South Korea, Taiwan and Hong Kong, into the process. They are running up large surpluses, sometimes on the basis of currencies that are undervalued. And this adds to instability in foreign exchange markets.

If all this sounds like a panacea for the problems that the world has encountered since Washington ended the U.S. dollar's link with gold and since currencies began to float, Mr. Wilson admits it does have its limitations.

Tremendous progress has been made at this year's meetings of finance ministers in Paris, Washington and Venice on developing a common position and making a commitment to consult and act together.

But whatever is agreed to is bound by the politics of the moment.

Countries that are reluctant to take action or simply say that public opinion will not allow such action still have the right to set policy and go their own ways. And Canada, with its mouse-and-elephant relationship with the United States, presumably does not want it any other way.

As Mr. Wilson sees it, what has been agreed to is that the major countries will listen to each other and consider the impact their economic policies have on other nations.

That might not stop financial markets jumping around, or going bananas over prospects for the U.S. dollar or whatever. But, in Mr. Wilson's view, it is progress.

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Summit's economic pursuits merely produce trivial results

RONALD ANDERSON

The widespread indifference to the failure of the economic summit in Venice this week shows as clearly as anything the public's loss of confidence in the ability of nations to take charge of their own destiny. No one — not even, apparently, the leaders of the seven industrial countries who participated in the annual ritual — expected great decisions, so there was little disappointment over the outcome. The trivial results of the summit, though, should be cause for concern.

The world is not yet in a state of economic crisis, but serious and difficult problems have been emerging and have been allowed to accumulate since the mid-1970s. The charade in Venice raises troublesome questions about the competence and commitment of the leaders of the industrial nations in managing the world order.

Every country is preoccupied with its own narrow concerns, and national leaders seem unable to set aside local concerns in the interests of global growth and stability. The meaning of the gathering in Venice evidently is that the ominous drift of the past several years will continue.

The problematic state of the world order is described succinctly by Mario Kakabadse of the Paris-based Atlantic Institute for International Affairs in a new study, International Trade in Services: Prospects for Liberalization in the 1990s. He expresses deep pessimism over the prospects for the new round of trade negotiations under the General Agreement on Tariffs and Trade — the so-called Uruguay Round — and observes that, in recent years, there has been a serious erosion of confidence in the GATT system.

Dr. Kakabadse worries that the international economic background — which provided the context for the pointless little meeting in Venice — is not favorable for the launching of a new trade round, essential though it is for the GATT to be reinforced in the interest of supporting a global economic recovery.

"Over the past decade," he said, "persistent slow growth, rising unemployment and the commitment of governments to accept responsibility for employment levels and for the survival of particular industries have led to increasing protectionism mainly in the form of domestic or non-tariff border measures.

"The result of protectionism, subsidies and support for weak industries has been more disputes; weaker rules and further erosion of the multilateral trading system. During the 1980s, protectionist pressures have been intensified by the large and growing imbalances in the world economy, most clearly illustrated by the U.S. deficit and the decline in American competitiveness as a result of the overvalued dollar."

These festering problems were discussed at the summit, but evidently without any sense of urgency or discernible commitment to the objective of working out practical and acceptable solutions.

The leaders promised in their final communiqué to increase co-ordination in economic policies — a crucial requirement in view of the deteriorating health of the world economic system, but seemingly nothing more than empty words in the context of the summit pageantry.

Dr. Kakabadse, in his sober appraisal of the risks surrounding the trading system, calls for a genuine political commitment to the objective of making the Uruguay Round succeed despite all the obstacles. "This means not only a commitment to begin the negotiations, but also a commitment to a timetable to bring the talks to a conclusion sooner rather than later. Domestic and international political consensus is the prerequisite for the successful negotiation of international commitments."

So far, there is no consensus on even the most basic parts of the negotiating agenda. All that is certain is that the new GATT round will be long and difficult. It probably will be acrimonious. Dr. Kakabadse notes that the Tokyo Round lasted from 1973 to 1979, and it was considerably simpler than the Uruguay Round, which is intended to extend the GATT rules to agriculture and the service sector.

Establishing a fair and stable framework for regulating trade in goods is difficult enough — so difficult, in fact, that serious questions are being raised about the capacity of the liberal trading system to solve major trade issues. Dr. Kakabadse cites estimates that, at present, well over half of world trade is subject to quotas, orderly marketing arrangements and a variety of other non-tariff barriers.

Extending the coverage to intellectual property, high-technology trade and traded services adds troublesome new complexities. For example, although traded goods are shipped across borders, many services can be delivered only on the spot. Protectionism in services, therefore, means restrictions on foreign investment. "New rules for services," says Dr. Kakabadse, "will have to deal with the question of the right of establishment in the customer's country and will touch upon the sensitive issue of a country's autonomy to make its own foreign investment rules."

Difficult and time-consuming though it will be to liberalize trade in services, Dr. Kakabadse maintains, the Uruguay Round will not succeed unless progress is made in bringing a much larger part of world trade, including trade in services, under GATT principles. He cautions that progress in services may well be blocked by the problem of reconciling the protectionist demands of troubled industries with the need for greater economic efficiency. To succeed, he says, several major powers must throw their support behind moves to liberalize trade in farm products, steel, textiles and pharmaceuticals. These are among the areas where trade frictions are most intense. More than platitudes from the summit will be required to overcome the problems.

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Cominco unit seeks probe into steel dumping claims

BY JENNIFER HUNTER
The Globe and Mail

VANCOUVER

Union and management representatives from Western Canada Steel Ltd. — owned by Cominco Ltd. — say their company is being hurt by steel dumped from the United States and Mexico, and they are taking this complaint to Ottawa next week.

Western Canada Steel has filed a complaint with Revenue Canada against three companies — Nucor Steel Corp. of Charlotte, N.C.; Salmon Bay Steel Corp. of Seattle and Siderugica de Guadalajara of Mexico — which have been selling steel in Vancouver.

Western Canada Steel president John Willson said the companies have been selling "at a price that gives them a net revenue less than they would get at home."

Revenue Canada has accepted the complaint, and Western Canada Steel is hoping a Government tribunal will be appointed later this summer to look into the matter. However, Mr. Willson and members of the union, the Canadian Association of Industrial Mechanical and Allied Workers, are going to Ottawa to impress politicians that "Canada should be tough on people doing these things, as tough as the U.S. is."

What makes Western Canada Steel particularly vulnerable to imports is its position on the West Coast, Mr. Willson said. "Once you have the steel already on the high seas it's very cheap to bring it into the docks around Vancouver." He said many boats unloading steel have already stopped at ports in the United States, and it is an inexpensive hop to Vancouver.

Unfortunately, Western Canada Steel itself cannot take advantage of its coastal location to sell steel abroad. "Although we are on the seaboard and would love to send steel offshore we are unable to," Mr. Willson explained. "We're on the Fraser River and can't find a cheap way of getting the steel to the high seas."

Western Canada Steel has been feeling the financial pinch for the past five years, and while Mr. Willson expects a profitable second quarter it will be the first profit the company has shown since October, 1982.

The company, with sales of $80-million a year, is a small fry compared with Stelco Ltd. and Dofasco Ltd. But it is the only steel producer in British Columbia.

It makes steel from scrap, putting the scrap through two rolling mills to produce reinforced steel. In the early 1980s, Western Canada Steel upgraded its Vancouver mills, and that has added to its financial problems. The company, which also owns mills in Calgary and Hawaii, is carrying a debt of $52-million as a consequence of the upgrading.

Vancouver-based Cominco, trying to rationalize its business, has put it on the auction block.

The debt from the upgrading would not have been so onerous, Mr. Willson said, if the steel market had remained buoyant. But the mill in Vancouver is operating at only 50 per cent of capacity.

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PM tells Reagan of trade concerns

BY JEFFREY SIMPSON
The Globe and Mail

VENICE

Prime Minister Brian Mulroney acknowledged yesterday that "a host of things remain unresolved" in the free-trade negotiations with the United States.

Emerging from a 40-minute meeting with President Ronald Reagan, Mr. Mulroney expressed concern about possible congressional reaction to a free-trade deal.

"We're concerned that the separation of powers (in the U.S. political system) makes it more difficult for them than for us," Mr. Mulroney told reporters after the two leaders met in the garden of the hotel where Mr. Reagan stayed during this week's seven-nation economic summit.

For his part, Mr. Reagan said merely that the trade negotiations retain his full support. He also quipped that he has to be careful about Canadians these days, since the Toronto Blue Jays have taken over first place in the American League's eastern division.

It was the second high-level meeting between Canada and the United States at the Venice summit. Before the summit began, Finance Minister Michael Wilson and U.S. Treasury Secretary James Baker conferred. They, too, spent most of their time discussing free trade.

Some reports from the Wilson-Baker meeting suggested that

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Trade talks discussed

● From Page One

both sides were working toward an implicit trade whereby Canada would yield on investment controls in exchange for U.S. agreement to establish a powerful bilateral dispute-resolving body.

But Mr. Mulroney denied any such trade off. "We're not at a point of saying there are two outstanding issues," he said.

The two meetings reflect Canada's continuing concern that the trade talks are bogged down with the October deadline fast approaching, by which time any free-trade deal must be submitted to the U.S. Congress.

The last two trade sessions in Ottawa and Washington did not go as well as the Canadians had hoped, according to those familiar with the talks. By meeting Mr. Reagan again yesterday, Mr. Mulroney was trying to impress on the Administration the Canadian Government's concerns.

After his meeting, Mr. Mulroney left Venice for Ottawa on a Canadian Forces Boeing 707 after a quiet sendoff at Marco Polo airport, Canadian Press reported.

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Days dwindling down

BY·JEFFREY SIMPSON

VENICE

Prime Minister Brian Mulroney returned to Ottawa last night, the Meech Lake constitutional deal pocketed, tax reform forthcoming and a clock ticking louder with each passing day.

Only about 14 weeks remain before the American Congress must receive a proposed free trade deal with Canada. The Congress will then have three months to chew over the deal before accepting or rejecting it.

The last two sessions of the trade negotiations — the next begins on Monday — have been hard going. The negotiators have brushed aside the pebbles and cleared away some rocks, but most of the major stumbling blocks remain strewn across the road. And this precarious state of affairs largely explains why Mr. Mulroney yesterday met U.S. President Ronald Reagan and got him to declare yet again his support for the negotiations.

You could see some of the stumbling blocks in the communiqué of the Venice summit. It spoke about reducing barriers to "trade-related investment," to intellectual property and to trade in services.

These are all areas the Americans want changed within the international trading system, largely because they believe they will benefit most from liberalized rules in these areas. They are also areas where the Americans want action from Canada in the free trade negotiations.

In any Canada-U.S. trade deal, Canada stands to benefit disproportionately because the U.S. market is so much larger than ours. That means the Americans need the deal — presuming they do need it, of course — for reasons other than its intrinsic merits. They need it as symbol to their other trading partners of the future direction of the world trading system. And this, in turn, requires them to get from Canada a liberalization of our rules on intellectual property rights, services and investment.

When Mr. Mulroney spoke yesterday of a "host of things unresolved," he wasn't kidding. For their part, the American negotiators have not been forthcoming on some of what Canada considers to be major stumbling blocks. Indeed, the last negotiating round, despite headlines to the contrary, was dominated by Canadian complaints about American hesitation.

These include American restrictions on investment, the powers of a bilateral tribunal to resolve trade disputes and, more generally, ways of exempting Canada from the effects of American trade laws.

In the great miasma of the American system, the Congress looms as the largest obstacle to any deal. The Reagan administration keeps saying all the right things; the President even included a reference to free trade in his State of the Union address. It's just that Mr. Mulroney fears both that the administration's attention tends to flag, and that if a deal is struck, the administration won't pull out all the stops on Capitol Hill to get it passed.

The approaching advent of a steamy summer in the two capitals, and the attendant departure of the politicians, can only cast a certain pall over the negotiations. The negotiators will slog on toward the October deadline, but political attentions will probably be drifting.

Indeed, even mentioning October is decidedly misleading, since the negotiators will know long before then whether a deal is at hand or whether both governments had better start drafting their explanations for failure.

Mr. Mulroney's Government can always walk away from the negotiations, claiming it gave free trade the old college try. Sucess, however, would be politically sweeter, which is why in the luxuriant garden of the Cipriani Hotel, with the glories of Venice at his feet, President Reagan smiled his way through yet another Canadian plea to make the negotiations succeed.

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Chemical New York adds $1.1 billion to reserves to cover Third World loans

Associated Press

NEW YORK

Chemical New York Corp. says it is adding $1.1-billion (U.S.) to its reserve for bad loans, becoming the latest major U.S. bank to admit it expects big losses on loans to developing countries.

Chemical, the fourth-largest U.S. bank holding company, said the addition will give it a second-quarter loss of about $1.1-billion and a loss for the year of about $710-million.

It indicated it is taking the step because of similar moves other big banks, including Citicorp, BankAmerica Corp. and Chase Manhattan Corp., and because of uncertainty over how global economic conditions will affect the debtor countries' repayment ability.

"We have carefully examined our loan-loss reserve position in light of recent announcements by other major financial institutions and believe an increase is appropriate at this time," said Walter Shipley, Chemical's chairman and chief executive.

Citicorp, the biggest U.S. bank holding company, last month became the first major U.S. bank lender to the Third World to make a major addition to its loan-loss reserves for covering those loans. It added $3-billion to its reserves and said it expected to post a $2.5-billion second-quarter loss as a result.

The most recent of the big banking companies to take the step was BankAmerica, which late Monday announced it was adding $1.1-billion to reserves to cover potentially bad Third World loans. BankAmerica, which lost $855-million over its past two fiscal years, said it expects a $1-billion second-quarter loss because of the addition to reserves.

In boosting reserves, the banks have stated they do not plan to use the entire amount for writing off foreign loans as uncollectable. However, the huge additions are seen as admissions that billions of dollars in Third World loans will not be collected or will have to be disposed of at a loss.

Nevertheless, the reserve additions generally have been seen as positive steps by shareholders and investors, because any future losses can be taken from the reserve, rather than from current profits.

Shares of Chemical, which disclosed its reserve addition after the close of trading, were up 87 cents to $44.75 on the New York Stock Exchange.

Like other banks that have recently raised reserves, Chemical indicated it will continue paying its common stock dividends.

The $1.1-billion reserve increase includes an $80-million reserve increase at Texas Commerce Bancshares Inc. in Houston, which merged with Chemical on May 1.

Chemical indicated that the addition will increase its total allowance for bad loans to about $2.1-billion, or about 4.1 per cent of total loans outstanding.

The total reserve amounts to about 25 per cent of its $5.9-billion in loans outstanding to developing countries that have restructured their loan payments to creditor banks.

Chemical stated that its second-quarter loss included $80-million in previously deferred tax benefits that now cannot be realized in the near term.

It expects to gain income from tax benefits stemming from the reserve addition, as well as asset sales, the deferred tax benefits and profit from its basic businesses.

"Chemical is well positioned to carry out this action of strengthening its reserves while at the same time continuing to meet its strategic business objectives," Mr. Shipley said.

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Brazil asking for delay of payments owed to IMF

Associated Press
WASHINGTON

Brazil is asking for a delay in its payments to the International Monetary Fund, something the fund has never permitted in its more than 40 years, an official familiar with IMF operations says.

"The fund has nothing in its mechanisms to provide for a delay," said the source, who spoke on condition that he not be identified.

Fund officials, following their usual practice, refused to offer any public comment on the request.

The fund — owned by 151 governments, including Canada — was created originally to keep currencies stable among all its members, rich and poor. In recent years, it has devoted almost all its effort to packaging loans for poor countries, in return for promises from their governments to change their economic policies so that they would be in better shape to repay.

Payments of interest and principal owed to the fund are traditionally a priority for debtor governments — they have been more willing to make governments and private creditors wait for their money. The IMF has traditionally followed a strict policy of refusing new talks with governments that fall too far behind in their payments.

Brazilian Finance Minister Luiz Carlos Bresser Pereira said he hoped the fund would suspend the payment of what his country owes in the second half of this year. Brazil has been paying the IMF about $1.1-billion (U.S.) a year in principal and interest.

And its debt to the fund comes to about $4.75-billion, out of a total debt of $108-billion, the largest in the Third World.

In February, Brazil suspended payment of about $68-billion in debt to Canadian, U.S., European and Japanese banks, contending that its shrinking foreign trade surplus made it unable to continue meeting payments without seriously depleting reserves.

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Reagan alarms markets, sending aides scrambling to calm currency dealers

BY TOM RAUM
Associated Press

VENICE

U.S. President Ronald Reagan startled financial markets yesterday when he said there could be "some lowering" of the U.S. dollar, but White House aides quickly scrambled to assert that the U.S. position remains unchanged in favor of a stable dollar.

The dollar fell against most major currencies in foreign and U.S. trading immediately after Mr. Reagan's remarks, but rebounded somewhat after his aides sought to reassure currency markets with a clarifying statement.

At a news conference the day after the economic summit ended, Mr. Reagan was asked if he thinks U.S. interest rates should remain low to help fight inflation, or should be forced higher by the Federal Reserve Board to help support the declining dollar.

He responded: "Well, frankly, most of us believe that the dollar should remain stable. It could be within reason that there could still be some lowering of the value in relation to other currencies."

That was the zinger.

Treasury Secretary James Baker and other U.S. financial leaders had taken great pains in recent months to state that the dollar had fallen enough, after plunging almost 50 per cent against other major currencies since mid-1985.

In fact, the summit's final communiqué included a declaration that "further substantial shifts in exchange rates would be counter-productive."

Minutes after Mr. Reagan's news conference, his aides told reporters that the President wasn't trying to "talk down" the dollar.

A senior official, who spoke on condition that he not be identified, said Mr. Reagan went to his hotel suite after the news conference, turned on the television and saw a reporter talking about the President driving down the dollar.

According to this official, Mr. Reagan promptly telephoned White House press secretary Marlin Fitzwater and ordered him to set the record straight. Mr. Fitzwater quickly relayed word to the media.

"There was no intention to drive the dollar down further," he said. "He wants stability in the dollar. Period."

Asked what the President meant when he mentioned "some lowering" of the dollar, Mr. Fitzwater replied: "He was referring to other forces."

By then, the dollar was already declining on foreign exchange markets, where speculators are extremely sensitive to any possibility of a shift in Government policy.

The dollar was trading at 1.7920 West German marks within minutes of the remark, down from 1.7965 two hours earlier, and slid to 142.55 Japanese yen from 142.75. At the close of trading, after Mr. Fitzwater's explanation, the dollar had rebounded to 1.7954 marks but had dropped further to 142.50 yen.

The dollar is particularly sensitive to remarks by U.S. officials, partly because the Reagan Administration, until recently, had used such tactics to seek a deliberate lowering of the dollar.

U.S. officials did so in the hope that a weaker dollar would improve the record $166-billion (U.S.) annual trade deficit by making imports more expensive and U.S. goods more competitive abroad.

However, the lower dollar began rekindling inflation in the United States and created havoc in the export-driven economies of Japan and West Germany.

At a Feb. 22 meeting in Paris, the United States joined the other major Western industrial nations in agreeing to support the dollar at current levels — and to stop trying to "talk it down further."

Since then, the Federal Reserve Board and other central banks have spent millions in foreign exchange markets, a process known as intervention, in an attempt to prop up the dollar and keep it from sliding further.

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● L'industrie de la bière et le libre-échange

Le gouvernement pourrait

OTTAWA — Les représentants de l'industrie canadienne de la bière en ont marre de se faire "péter la broue" par une industrie américaine férocement concurrente, plus puissante et moins taxée, et qu'un accord de libre-échange rendrait encore plus menaçante.

par Roger Clavet
courriériste parlementaire

C'est ce qu'a confié hier au DROIT un porte-parole de l'Association des brasseurs du Canads, Howard Collins, qui soutient même que plusieurs des 20,000 emplois directement reliés à l'industrie canadienne de la bière pourraient être menacés dans l'éventualité d'une libéralisation du commerce avec les Etats-Unis.

L'Association des brasseurs du Canada, dont le siège social est à Ottawa et qui regroupe 14 des plus grandes compagnies de bière au pays, affirme que cette industrie, en raison d'une réglementation gouvernementale trop sévère, ne peut concurrencer les producteurs de bière américains.

"Les gouvernements provinciaux, avec la bénédiction du fédéral, contrôlent la vente de la bière sur leur territoire. Nous devons nous conformer aux restrictions des provinces si nous voulons produire la bière à un prix compétitif dans chacune des provinces. Conséquemment, toute notre industrie est construite sur une base provinciale, avec une profusion de petites usines, tandis qu'aux Etats-Unis, l'industrie fonctionne sur une base nationale", note Howard Collins, directeur des communications à l'Association des brasseurs du Canada.

se faire "brasser"

Selon M. Collins, le gouvernement fédéral pourrait faire sa part en offrant aux compagnies canadiennes des exemptions fiscales plus généreuses. Les différents niveaux de gouvernement touchent annuellement $3.3 milliards de recettes fiscales puisées de la fabrication et de la mise en marché de la bière au Canada.

A titre d'illustration, M. Collins a noté que 39 usines répondaient aux besoins actuels du marché canadien de la bière. "Comparativement, ajoute-t-il, une seule usine américaine peut absorber jusqu'à 75% de la totalité du marché canadien. Règle générale, les amateurs canadiens de bière sont trois fois plus taxés que les consommateurs américains".

Ventes

M. Collins constate qu'avec des ventes de bière légèrement en hausse en 1986, soit une progression de 2.8% pour un total de 20.3 millions d'hectolitres, le marché canadien de la bière stagne plus ou moins, compte tenu surtout d'une diminution sensible de la consommation per capita.

Avec une moyenne de 80 litres de bière par habitant, le Canada se classe au 15e rang d'une liste de 32 pays industrialisés, loin derrière l'Allemagne de l'Ouest qui, avec ses 145 litres par habitant, continue de dominer le groupe de pays férus de houblon.

En 1986, l'industrie canadienne de la bière a réalisé un chiffre d'affaires de $8.8 milliards! Malgré ses cris d'alarme, cette industrie aura peut-être beaucoup de mal à convaincre le gouvernement du danger qu'elle puisse bientôt être mise en bière...

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Mulroney dénonce l'attitude des négociateurs sur le libre-échange

GILLES GAUTHIER
envoyé spécial de La Presse

VENISE, Italie

Le premier ministre Brian Mulroney a dénoncé hier, à la suite d'une rencontre avec le président des Etats-Unis, M. Ronald Reagan, l'attitude des représentants qui négocient le libre-échange canado-américain.

«Il faut que les négociateurs comprennent, si ce n'est pas encore le cas, que c'est un problème sérieux, compliqué et urgent, et que nous voulons qu'ils se comportent en conséquence», a déclaré M. Mulroney, après les entretiens qu'il a eus hier à Venise avec le chef de la Maison-Blanche, au lendemain du Sommet économique.

Le premier ministre a aussi demandé à M. Reagan d'exercer des pressions sur le Congrès et l'Administration afin qu'ils appuient pleinement les négociations.

M. Mulroney s'est dit d'avis qu'il est plus difficile pour le chef du gouvernement américain que pour le premier ministre canadien de faire valoir son point de vue aux autres instances gouvernementales et d'assurer le suivi nécessaire. Et ce à cause du système politique de ce pays, qui est fondé sur la division des pouvoirs.

«Il est important que nous le leur rappelions de façon à galvaniser l'appui du Congrès et de l'Administration. J'ai recu un engagement en ce sens du président aujourd'hui», a dit M. Mulroney.

Au cours de la rencontre d'hier, les deux chefs de gouvernement ont, a ajouté M. Mulroney, cerné les problèmes, se sont entendus sur les principes et sont convenus de préciser davantage leurs instructions aux négociateurs.

«Nous avons parlé de l'implication du président et de la haute direction de l'Administration et ce, afin de provoquer, dans les délais qu'il nous reste, un résultat heureux.»

«M. Reagan réalise, poursuit M. Mulroney, qui est rentré au Canada après la rencontre, qu'il s'agit d'une négociation extrêmement difficile et complexe, et qu'on est loin de l'avoir terminée. Il y a encore une foule de sujets qui demeurent en suspens. Il reste encore beaucoup de chemin à parcourir.»

On a notamment discuté hier du mécanisme de règlement des différends et de son importance dans le projet global qui doit être soumis à la fin des négociations. La question des investissements a également été abordée.

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Après la promenade

Après Venise, Toronto. Le prochain sommet des sept pays les plus industrialisés se tiendra à Toronto, Ontario. Ce sera le 14ᵉ.

Le bilan de la 13ᵉ rencontre, qui vient de prendre fin à Venise, est optimiste ou pessimiste selon l'humeur des évaluateurs. Ou selon leur objectivité? Ou selon leur science?

Mercredi soir, on pouvait noter une nette différence de ton entre M. Jacques Parizeau et tel correspondant de la radio, M. Parizeau se montrant plus positif que son collègue, présent comme lui dans la ville italienne. À un ancien ministre, le don du réalisme.

Les résultats, on peut les évaluer sous un double aspect: aspect politique et aspect économique. En principe, seul devrait compter l'angle économique. Or, depuis quelques années, la rencontre prend l'allure d'un forum politique.

La présence massive des médias est peut-être pour quelque chose dans ce qu'on a appelé abusivement un «détournement» du sommet vers des objectifs politiques. Quoi qu'il en soit, les avocats des causes politiques n'ont pas remporté cette annee des succes sans mélange.

M. Mulroney, par exemple, n'a pas remporté, avec le dossier de l'Afrique du Sud, le succès qu'il se reconnait ou qu'on lui reconnait dans son plaidoyer pour une politique plus raisonnable en agriculture. Le chancelier Kohl d'Allemagne fédérale et Mme Thatcher, à ce qu'on dit, cachent difficilement leur agacement devant les répétitions du premier ministre canadien, infatigable zélateur de la croisade contre Pretoria.

La France et le Japon semblent satisfaits d'une conférence dont ils attendaient peu. En ce qui concerne Washington, on parle volontiers d'échec. Étant donné les faibles espoirs qu'avait suscités une rencontre condamnée au départ à l'insignifiance, la déception ne peut pas être bien grande.

On l'a dit au début, il n'y a aucune originalité à le répéter, la plupart des participants étaient, pour des raisons diverses, dans un état comateux.

Il est vrai que les États-Unis voulaient un discours tonitruant sur le golfe Persique, assorti de menaces à l'Iran. Ils doivent se contenter de l'expression de voeux pieux.

En revanche, de Reykjavik, où se sont donné rendez-vous les ministre des Affaires étrangères des pays de l'Alliance atlantique, émanera une réponse aux propositions de M. Gorbatchev qui traduira ce minimum de solidarité entre les Alliés, que M. Reagan souhaite ardemment.

Il reste à se demander si ces rencontres annuelles entre riches conservent encore un sens. Il semble qu'elles soient très profitables aux participants eux-mêmes. Considération qui les justifie amplement.

GUY CORMIER

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Renouveau rural

Le premier ministre Brian Mulroney a remporté quelques modestes succès au sommet économique. En fait, tout était modeste au sommet, à l'exception de Venise, la perle de l'Adriatique.

La petite phrase qu'il a pu placer dans le communiqué final au sujet de l'agriculture est importante car elle consacre la volonté des grandes puissances industrielles de mettre de l'ordre dans le marché agricole mondial. Or, les pays qui déstabilisent ce marché étaient à Venise et c'est à eux de prendre les mesures nécessaires.

La Communauté européenne, les États-Unis et le Japon pratiquent des politiques outrancières de soutien à l'agriculture dont le résultat est la surproduction. Les prix mondiaux ont ainsi baissé au niveau où les agriculteurs les plus productifs ont de la peine à joindre les deux bouts. Par ailleurs, les pays sous-développés ont tendance à importer trop de céréales alors qu'ils pourraient les cultiver eux-mêmes au grand bénéfice de leur développement économique et de leur équilibre financier.

C'est ainsi que l'agriculteur européen reçoit $580 pour une tonne de soya, alors que le prix mondial est de $195 la tonne. De grands producteurs de soya comme le Brésil ne peuvent pas supporter une concurrence aussi injuste.

Le Canada est à la tête d'un groupe — comprenant aussi l'Australie, l'Argentine, le Brésil, l'Uruguay, la Thaïlande et la Nouvelle-Zélande — qui veut sévèrement limiter les subventions à l'agriculture. Les trois grands fautifs ne sont pas entièrement réfractaires à l'abolition de politiques qui leur coûtent trop cher. Ils ont toutefois beaucoup de peine à entreprendre les réformes qui s'imposent à cause de la résistance politique de leurs agriculteurs. Il était donc important que le Canada leur rappelle les engagements encore très vagues qu'ils ont pris de geler le niveau des subventions pour ensuite les abaisser de façon substantielle.

En quarante ans, le GATT a réussi à créer un climat très libéral dans le commerce des produits manufacturés, mais il n'est jamais parvenu à en faire de même pour le commerce agricole. Or, le groupe de pays dont fait partie le Canada veut que les négociations actuelles dans le cadre du GATT trouvent aussi une solution à ce problème qui affecte le niveau de vie de milliards de gens.

Le Canada et ses compagnons de route peuvent demander, exiger, supplier et menacer autant qu'ils veulent, rien ne se fera tant que les trois grands blocs économiques ne se décideront pas d'agir.

La diplomatie canadienne fait du bon travail en remettant constamment le sujet sur le tapis mais, si elle veut convaincre, elle doit faire preuve de plus d'imagination.

Un des moyens pour le Canada de participer plus activement à la recherche d'une solution serait d'examiner le problème de l'utilisation des terres cultivées qui ne seront plus nécessaires pour l'agriculture des pays industrialisés si les marchés internationaux deviennent plus libres. Ces terres doivent être mises en banque en attendant qu'on en ait de nouveau besoin, mais il faut le faire sans dépeupler les campagnes. Il faut donc trouver d'autres moyens de les utiliser et de les amender de façon rentable, que ce soit par le reboisement, l'introduction de nouvelles cultures qui ne déstabilisent pas les marchés internationaux ou la création de parcs pour la chasse et le tourisme.

Frédéric WAGNIÈRE

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Technology gap called urgent national problem

By JAY BRYAN
of The Gazette

The technology gap between Canada and other major trading nations is "an urgent national problem of major proportions," the Economic Council of Canada says in a report made public yesterday.

The report on innovation and job creation, based on more than two years of research, concludes that Canadians' standard of living could be jeopardized unless government, business and labor make a national commitment to speed up the introduction of new technology in industry.

Business and labor leaders said they largely agreed with the council's recommendations for improvements to Canada's educational system, more consultation between management and labor and better support for workers displaced by industrial restructuring.

"I totally agree with what they are saying," said Laurent Picard, chairman of a major federal study on Montreal's economic development prospects.

The Picard report, made public last November, said encouragement of high-technology industry should be a key part of Montreal's development strategy.

Quebec, with its many small, labor-intensive manufacturers, is vulnerable to the disruption brought by new technology, said Picard. But it is also particularly well-placed to benefit from it because of the flexibility and entrepreneurial verve shown by the province's young entrepreneurs, he said.

"I believe Canada simply does not have a choice" about embracing technological change, said Branko Matic, chairman of Matrox Electronic Systems Ltd. of Dorval. "Either we will move ahead or we will fall behind our competitors."

That comment echoed one of the main themes of the council's report: that if Canada is to maintain its high standard of living, it does not have the luxury of deciding whether to accept the disruption and job loss that will come with new labor-saving machinery and techniques.

400 employees now

But there is also good news: the belief that technology destroys jobs is a myth, the council's research indicates. While jobs will be lost in many areas because of new technology, more jobs will be created in other areas, and the new jobs will tend to be better-paid.

Matrox is one example of how technology can be a job-creator. Matic said the company, which makes specialized computer systems, has grown to 400 employees from 50 six years ago.

But Matic said he has grown skeptical about the sincerity of governments' commitment to technological innovation. "It's like apple pie and motherhood. They say they are all for it, but the results are not there."

Matic noted that Prime Minister Brian Mulroney came into office promising to boost Canada's feeble national effort in research and development, but the Mulroney government has actually slashed federal spending on research.

Labor leaders agree

Labor leaders said they agreed with the council's assertion that labor doesn't really oppose technological change so much as the imposition of such change without consultation.

"Unions are not against new technology. On the contrary. We have to introduce new technology," said Monique Simard, first vice-president of the Confederation of National Trade Unions.

But there are problems, she said. "What is certainly true is that generally employers do not adequately inform unions or employees of their plans. That is a big problem," she said.

Fred Pomeroy, president of the Communications and Electrical Workers of Canada, said he agreed with the council's stress on the need for better-educated workers and better government programs to help displaced workers.

"We've got too many people dropping out of school," he said. "They're not going to be employable" in an economy dominated by information-processing rather than assembly-line jobs.

As well, Pomeroy said, "we just don't have adequate government programs for retraining to get people into another line of work," which makes workers more apprehensive about how technology will affect them.

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Summits show Canadians refreshingly different

We're a small nation without any real clout that makes others look at what they'd ignore

Richard Gwyn

VENICE — As power-players go. Canada doesn't really belong at the annual economic summits.

Our gross national product. the total value of goods and services a country produces. is two-thirds that of the next-smallest member. Italy. Our population is less than half that of two the next smallest. Britain and France. Our currency scarcely circulates beyond our own borders. unlike the deutschmark. yen or the real dollar of the United States.

We trade a lot. but largely in raw materials. which don't really count.

Had the summits remained. as they began in 1975. an occasion for strictly economic navel-gazing, our presence at them would have been an embarrassment. The other nations would have tolerated us. but they would also have patronized us in the manner practised by the heavyweight members of the "G-7" international financial group that we recently got ourselves invited into.

Instead. the summiteers spend as much of their time talking about politics as about economics. Because all of them are politicians. the kind of topics that make the headlines. such as arms negotiations and terrorism and even AIDS. come naturally to them. The intimidating abstractions of debt and currencies and trade do not come so easily.

In the new-style summits. we still are a source of embarrassment. But we are a creative source. We say things that need to be said but would not be raised if we weren't present.

Pierre Trudeau began this tradition. Joe Clark continued it at the Tokyo summit, the one summit he attended as prime minister. Brian Mulroney is perpetuating the practice.

It's the Canadian style — or the way we do things because we cannot help but do them that way — and for which of course Lester Pearson was the original source.

Being this way doesn't make ours a better society than the others. We are as comfortable and as affluent as the other summit members. and are far more secure from military or terrorist threats than are any of them.

But we are different. Our consciences run against the grain of our contentment in a way that those of the more realistic — or more cynical — Europeans. or the self-absorbed Japanese, do not.

It was therefore purely and predictably Canadian for us to have expended so much effort on the topic of South Africa during a summit held at a time when many economists are sending up agitated signals that a financial crash looms.

None of the others really wanted to hear about South Africa. After the recent electoral triumphs of the white right-wingers in that country, few here or anywhere can think what to do to change conditions there.

British Prime Minister Margaret Thatcher gave Mulroney : hard. dismissive stare when he raised the subject at a dinner meeting. West Germany's Helmut Koh quashed conversation on the topic at the next morning's session.

As Mulroney admitted at his post-summit news conference. his raising of the topic "did not raise much enthusiasm in some quarters."

The effort certainly didn't produce a grand victory. The six other leaders refused Mulroney's proposal for a formal declaration on the need for change in South Africa. But they did accept his argument that, as he later said in public. "the failure to say anything would be the most powerful message (of encouragement) that could be sent to Pretoria."

So, as a gesture. summit chairman and Italian Prime Minister Amintore Fanfani listed South Africa. along with the Pacific islands (for the benefit of France), South Korea and the Middle East. among the "other" political topics the group had worried over.

The same Canadian conscience prompted *Mulroney's attention* here to the long-neglected problem of the debt-devastated African na-

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tions in the drought belt below the Sahara.

The prime minister tabled a detailed proposal for international financial assistance for those countries, as did also France and Britain. And he gave credibility to his message by telephoning Zambian President Kenneth Kaunda and then reporting to his colleagues that 60 per cent of Zambia's national income is now spent on interest payments.

The victory this time, while still not grand, was consequential. The seven committed themselves to drafting a detailed assistance program by the end of this year.

On South Africa, we in fact achieved little. On African debt, the contributions of France and Britain were as consequential as our own.

The Canadian characteristic instead was consistency. Summits come and go, but at each of them we are usually alone in talking about those who aren't around the table, the world's poor and less fortunate.

We also had our say on all the summit's heavyweight subjects, from debt management to fighting trade protectionism to co-ordinating international economic policies.

No doubt our interventions were sound and sensible, although it is likely the collective economic decisions that actually were taken by the summit leaders would have been taken anyway.

Toronto Star

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The prime minister tabled a detailed proposal for international financial assistance for those countries, as did also France and Britain. And he gave credibility to his message by telephoning Zambian President Kenneth Kaunda and then reporting to his colleagues that 60 per cent of Zambia's national income is now spent on interest payments

The victory this time, while still not grand, was consequential. The seven committed themselves to drafting a detailed assistance program by the end of this year.

On South Africa, we in fact achieved little. On African debt, the contributions of France and Britain were as consequential as our own.

The Canadian characteristic instead was consistency. Summits come and go, but at each of them we are usually alone in talking about those who aren't around the table, the world's poor and less fortunate.

We also had our say on all the summit's heavyweight subjects, from debt management to fighting trade protectionism to co-ordinating international economic policies.

No doubt our interventions were sound and sensible, although it is likely the collective economic decisions that actually were taken by the summit leaders would have been taken anyway.

Toronto Star

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Scale down the party

The Venice summit produced the usual motherhood declarations, weasel-worded pledges and reaffirmations of policies.

Matters were made worse by a worse-than-usual logistical circus occasioned by the thousands of officials, security people and journalists there.

Still, the meeting was not a waste of time. It gave the leaders of the seven largest industrial democracies and the European Community a chance to argue and try to reach common positions. And it forced politicians to look beyond their own borders to the international perspective.

There were a few modest reasons for satisfaction. But even those silver linings were not without their grey clouds.

The leaders adopted a cool-headed approach to the Persian Gulf, affirming the principle of freedom of navigation and calling for a negotiated end to the Iran-Iraq war. They rejected apparent American pressure for a more belligerent statement. But they did not promise to stop selling arms to the combattants.

Prime Minister Mulroney could take some pleasure in the statement on agricultural subsidies, which amounted to a reaffirmation of an earlier pledge to refrain from escalating the agricultural trade war. But the apparent difficulty in getting the summit leaders to agree even on that much, and the lack of a time-table for reform, do not bode well.

Mr. Mulroney also could be pleased that he put apartheid on the summit's agenda. But the best he could muster from his colleagues was a bland statement that was not part of any official declaration.

The summit confirmed progress that has been made on the mutual surveillance and co-ordination of national economic policies. And its declaration included recognition of the need to tackle environmental problems, including acid rain. Washington take note.

But many summit declarations were a tired old song. The leaders blasted protectionism and terrorism. They tactfully told Washington to reduce its budget deficit and told Japan and West Germany to stimulate their economies. And they noted the need for various structural economic reforms. No one should expect any major change to result.

The summits originally were relatively informal events. They have evolved into much more complicated gatherings.

Canada should try to make next year's Toronto summit less of a staged circus than Venice was. Summits are not apt to bring salvation, whatever their scale. Still, making them smaller and less formal would build on their strengths.

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Libre-échange

Mulroney sert un sérieux avertissement aux négociateurs

PIERRE APRIL

VENISE (PC) — Le premier ministre Brian Mulroney, à l'issue de sa rencontre de 40 minutes avec le président américain Ronald Reagan, hier matin à l'hôtel Cipriani, a lancé un sévère avertissement aux deux négociateurs Simon Reisman du Canada et Peter Murphy des Etats-Unis de cesser de se traîner les pieds et de négocier sérieusement.

« Ca veut dire, a-t-il déclaré, qu'il faut que les négociateurs comprennent, si ce n'est pas encore le cas, qu'il s'agit-là d'un problème sérieux, compliqué et urgent et que nous voulons qu'ils se comportent en conséquence. »

M. Mulroney a refusé d'admettre qu'il avait effectivement négocié avec le président Reagan, pas plus qu'il y ait eu négociation entre le ministre des Finances Michael Wilson et le secrétaire américain au Trésor, James Baker, plus tôt cette semaine.

« Il n'y a pas eu de négociations, a-t-il dit, entre Wilson et Baker, pas plus qu'entre moi et le président Reagan. »

Le premier ministre a ensuite un peu précisé la nature de cet entretien. « On a cerné les problèmes, a-t-il ajouté, on s'est entendu sur des principes et nous avons également convenu que nous allions préciser davantage nos instructions aux deux négociateurs. »

Les grands principes, le chef du gouvernement canadien n'a pas voulu les énumérer, il s'est contenté de dire que dès lundi, mardi et mercredi, les négociateurs se rencontreront à Ottawa.

M. Mulroney a ensuite repoussé les allégations voulant que le Canada serait prêt à céder au chapitre des investissements américains au pays contre un mécanisme spécifique de règlements des différends commerciaux.

« Il n'y a pas eu d'échanges, a-t-il indiqué, ultimement nous allons ou nous n'allons pas conclure un accord exhaustif de libre-échange qui sera soumis à l'attention des deux partenaires. »

M. Mulroney a ensuite exprimé sa confiance de voir une entente se concrétiser d'ici l'échéance d'octobre. « Mais nous avons encore beaucoup de chemin à parcourir », a-t-il dit.

Le premier ministre a admis que la question des investissements et du mécanisme de règlement des griefs étaient importants. « J'ai analysé au cours de la rencontre, a-t-il confié, cette partie du problème et l'ensemble des éléments qui se retrouveront dans le document final ».

M. Mulroney a ensuite précisé que le président Reagan considérait lui aussi l'urgence d'agir. « Il a réalisé, a confié le premier ministre, qu'il s'agit d'une négociation extrêmement difficile et complexe et que c'est loin d'être terminé ».

M. Reagan a expliqué que la séparation des pouvoirs dans le système politique américain rendait une conclusion heureuse difficile, puisqu'il appartiendra au Congrès d'accepter le marché ou de le rejeter, en octobre prochain.

Pour le premier ministre, il n'est pas question de changer la date d'échéance et de risquer que le Congrès américain soit appelé à négocier le document final item par item.

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The Venice summit

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Almost every proposal adopted contained some rider that let one or more of the parties off the political hook back home or left open some future option more to one's liking.

They wanted one of their number's record deficit reduced, but would not name the United States as the "offender"; set out to develop new ways of looking at economic indicators, but got agreement only with a pledge to keep data confidential, which neatly eliminated one avenue of future pressure.

The instability of world agricultural markets was a major point of contention, the Germans winning out in the end by getting the seven to adopt a proposal to negotiate a condition devoid of deadlines.

Canada's attempts to seal a new trading arrangement with the United States could well have been in the back of some minds when the summit seven called for a reduction of protectionist measures that "exacerbate the problems of development and indebtedness." The final communique made no specific references to the mood to the contrary in the U.S. or to Japan's traditional behaviour of selling everywhere while not buying to the same degree.

It was clear that six of the leaders wanted nothing to do with the increasing U.S. tactical presence in the Persian Gulf beyond urging that Gulf shipping lanes be kept open.

The industrial giants may or may not deal with the problem of third-world debt by lowering interest rates, extending grace periods and purchasing goods, one of items brought up by Prime Minister Brian Mulroney. There is little sympathy in the U.S. for the concept, however. The other Mulroney proposal, action on South Africa, simply was not on for the Germans, and the British warned against any new initiatives for the time being. The seven settled for a moral condemnation that somehow seemed to fall short of even the message of hope which Mr. Mulroney wanted to send to young Africans tuned to the airwaves of the world.

If there was any consistency, it was on the subject of AIDS, terrorism and illicit drugs. It is apparent that at the highest political levels there now is a distinct awareness of the health menace of the acquired immune deficiency syndrome. Terrorism remains anathema, and the drug war is to be continued and enhanced, a topical subject back home for Mr. Mulroney in the light of a justice ministry plea before a Manitoba court that Canadians accused of drug trafficking in the United States be extradited.

So, of what immediate vâlue was the summit? Perhaps French President Francois Mitterrand pointed to one clear result: "It's a way of deepening connections." It might also be a stepping stone to more concrete action on many pressing problems.

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Il faut s'engager dans le libre-échange avec prudence, dit le président du CPQ

CLAUDE TURCOTTE

N'en déplaise au président Reagan et au premier ministre Mulroney, le Conseil du patronat du Québec (CPQ) ne croit pas qu'une entente sur le libre échange entre le Canada et les États-Unis pourra être signée le six octobre prochain. Au lieu de brusquer les événements, il faut plutôt s'engager dans le libre échange « avec prudence », selon l'expression de M. Ghislain Dufour, président du CPQ.

Pour le moment, explique M. Dufour, les gouvernements provinciaux et les entreprises manquent d'informations sur les effets sectoriels du libre échange et il importe d'en savoir davantage avant de prendre des engagements dans un dossier aussi complexe et important. Les pourparlers sont si peu avancés, note le président, que les négociateurs n'ont même pas discuté encore d'un mécanisme pour régler les différends qui vont très certainement surgir.

Le CPQ donne cependant son appui au principe du libre échange avec les États-Unis, mais il favorise « un libre échange prudent », ce qui ne veut pas dire une négociation par secteur, mais une négociation qui tient compte tout de même des répercussions sectorielles ou régionales. M. Dufour mentionne en particulier la situation du Québec qui est bien différente de celle de l'Ontario, qui s'appuie largement sur l'industrie de l'automobile, qui fait en outre l'objet d'un pacte commercial avec les Américains depuis plusieurs années.

On sait très peu de choses sur les conséquences du libre échange. La rumeur veut que le gouvernement canadien ait commandé des études sur ces questions mais les résultats seraient trop négatifs pour qu'on juge avantageux de les rendre public.

Pour sa part, le CPQ se trouve dans une situation relativement inconfortable, en ce sens que certains de ses membres sont très favorables au libre-échange, alors que d'autres s'y opposent fermement, avec toutes les nuances qui peuvent exister entre ces deux poles extrêmes. Quoiqu'il en soit, le CPQ entend consacrer beaucoup d'énergie au libre-échange dans les mois qui viennent, puisqu'il s'agit à ses yeux d'un « dossier majeur ».

Néanmoins, le CPQ, qui tenait hier son assemblée annuelle, entend accorder la première priorité à un autre dossier, celui de la réforme fiscale, que divulguera bientôt le ministre fédéral des Finances. Le CPQ est d'accord dans ce dossier également sur le principe d'une réforme fiscale, dont l'objectif officiel est de transférer aux citoyens les plus démunis de l'argent provenant des plus nantis.

Le CPQ n'est cependant pas convaincu que ce soit l'objectif réellement visé par le ministre des Finances. Il soupçonne en fait M. Wilson de vouloir amener plus d'argent au gouvernement, de manière à tenir enfin sa promesse de réduire le déficit, ce qu'il n'a pas réussi à faire par la stricte compression des dépenses.

Quoiqu'il en soit, le CPQ veut rappeler au gouvernement fédéral de ne jamais oublier que ce sont les entreprises qui créent les emplois. Il lui recommande formement par ailleurs de ne pas procéder à cette réforme en deux étapes, c'est-à-dire une première avant les élections pour annoncer les réductions de taxes et une seconde après les élections pour annoncer les augmentations.

Le CPQ va continuer de s'intéresser à d'autres dossiers qu'il juge très important, notamment celui de l'assurance chômage. L'abandon par Ottawa du rapport Forget le déçoit considérablement et il va tenter de relancer la réforme de l'assurance-chômage, pour faire en sorte qu'elle soit autre chose qu'une forme d'assistance sociale.

M. Ghislain Dufour

Du côté de Québec, le CPQ continue de critiquer le régime de santé et sécurité au travail, qui donne lieu à de multiples abus, selon le CPQ, et qui coûte très cher aux entreprises québécoises, comparativement à la situation qui prévaut ailleurs.

En revanche, dans l'ensemble le CPQ porte « un jugement positif » sur les 18 premiers mois de pouvoir du gouvernement Bourassa, particulièrement en ce qui concerne les négociation dans les secteurs public et parapublic « sans trop de bavures », la place faite à l'entreprise privée et la réduction des dépenses de l'État.

Il reproche au gouvernement libéral de ne pas avoir encore respecté ses engagements en ce qui concerne les amendements à la loi sur les anti briseurs de grève, les obstacles à la sous traitance, la réforme du tribunal du travail, etc.

Comme le veut désormais la tradition au CPQ, on a rendu hommage hier à trois dirigeants d'entreprises en les nommant au Club des entrepreneurs. Les élus cette année sont MM. Paul Paré de Imasco, Jean de Grandpré de Entreprises Bell Canada et Laurent Beaudoin de Bombardier.

Le CPQ a nommé « associations de l'année » l'Association des manufacturiers de bois de sciage du Québec, pour son initiative d'avoir ouvert des maisons de promotion du bois à Milan et à Londres. Il a nommé en outre la Fédération des commissions scolaires catholiques du Québec pour son engagement communautaire dans l'organisation des États généraux de l'éducation ex-aequo avec la Corporation des concessionnaires d'autos du Québec pour l'organisation des jeux olympiques spéciaux d'été pour handicapés intellectuels.

Le prix de carrière, doté d'une bourse de $ 5,000 a été décerné à M. André Raynauld. Des prix de $ 2,500 sont décernés à M. Jean Paul Gagné, rédacteur en chef du Journal Les Affaires, pour la promotion de l'éducation économique et à M. Edmond Bourque, fonctionnaire au ministère de l'Éducation, qui en 1986 seulement a orienté 70 professeurs en disponibilité vers l'entrepreneurship, ce qui a permis de créer 54 emplois et fait épargner aux contribuables $2 millions de taxes versées en salaires à ces professeurs.

Le 1er mai dernier, le CPQ comptait dans ses rangs 123 associations patronales et 420 entreprises, représentant directement ou indirectement les employeurs d'environ 70 % de la main d'oeuvre au Québec. Son budget dépasse légèrement $ 1 million et son personnel compte 15 employés.

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The summit of boredom

Annual economic summits may do a lot for the political fortunes of the leaders of industrial countries and they do give reporters something to write about.

But for the average person in the street — whether it be France or Canada or Japan — the exercises are meaningless.

They are little but platforms for leaders to speak to their own people, a stage for politicians to show themselves as international statesmen. It is a joke.

There are never any meaningful reforms or change that come from these meetings that might alter the world economy or even the economies of individual countries.

Indeed, subjects of discussion extend well beyond economics into areas such as apartheid in South Africa and AIDS. These issues certainly have an indirect effect on economics, but there are certainly more direct issues leaders can discuss.

And while all this hot air is being fanned around the room, more and more money is being spent simply to protect these politicians.

The fact that thousands of security people must be brought to the site would seem to be reason enough to call a halt to these meetings, even if the issue of security is about the only thing that isn't a crashing bore.

About the only "important issue" that has been as boring recently is the free trade talks between Canada and the United States. But even as boring as they may seem at least they may result in some benefit or at least an effect, on the lives of Canadians.

The biggest "breakthrough" at the summit in Venice was the agreement by the seven leaders that reform of agriculture subsidies should be undertaken.

Of course, there is no plan for reform, no idea who will do what or when, but at least they said they agreed on something.

The fact that was the greatest accomplishment in Venice is a pretty sad indication that little of importance will ever be undertaken at these meetings.

And to think, the next one will be in Toronto. Spare us.

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Just another lost chance

It is clear that the seven-country economic summit now concluded in Venice was primarily a high-level stage from which the government leaders performed to their respective local audiences or electorates. The passing of another summit represents an opportunity lost to set the Western world on a path to economic recovery.

The summit has, unfortunately, degenerated from its original intention in 1975 when then-French-president Valery Giscard d'Estaing invited the United States president and the Western European leaders to discuss the effects of the oil crisis.

This week, the seven government leaders, including Prime Minister Brian Mulroney, searched for words too inoffensive to be rejected by anyone so as to leave the impression that something concrete had been accomplished by virtue of their unanimity. Indeed, they found those innocuous phrases and were able to turn out hollow platitudes on subjects as far-flung as defence of the Persian Gulf, agricultural subsidies, apartheid, drugs, AIDS and Third World debt.

But to what end? U.S. President Ronald Reagan showed he had lost his grip on Western economic matters by failing to convince the summit to endorse a hard-nosed statement against protectionism.

Observers also see Reagan's inability to obtain support for a more strongly worded statement condemning Iranian actions in the Persian Gulf as evidence the president's influence is waning.

Mulroney fared somewhat better, at least from a political standpoint. He wanted agreement on the evils of apartheid and farm product subsidies. After much arm-twisting West Germany was convinced to go along with a one-paragraph oral statement on apartheid which was considerably weaker than Mulroney desired.

The prime minister said the statement at least would indicate to South African blacks their plight was not being ignored. Mulroney is correct that it would have been worse to send a signal of silence, but it is hard to see this as an indication that hard-liners in Washington, London and Bonn have adopted Canada's approach.

It did, however, give Mulroney something to take to the next Commonwealth and francophonie conferences and allow him to claim he carries some influence into the court of the Free World leaders.

As for the subsidies issue, they may have agreed on the necessity to call an immediate truce, but the resolution set no implementation dates. Essentially Mulroney came away with just enough to be able to tell Canadian wheat farmers he took their case to the summit and was given a hearing.

The summit has long since grown beyond its original "economic" intent and now acts as a sort of big-league Western security council at which the leaders can discuss a broad expanse of world issues without having to deal with any of what they consider the meddlesome emerging nations.

But as for huge budget deficits that force interest rates up, lagging U.S. exports, stunted economic growth, a world monetary system that rides a never-ending roller coaster and governments in Tokyo and Bonn that refuse to play their fair part in stabilizing the international economy, there was little said and even less accomplished.

The Venice summit must go down in history as a lost chance to right some of the economic wrongs. While hope may spring eternal, there is little reason to be optimistic that next year's summit in Toronto will accomplish more.

With Mulroney likely facing an election soon after, we can expect a lot of political posturing and likely little else.

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Hope in Venice

Canada is well placed to help grain farmers through tough times thanks to the diplomacy of Prime Minister Brian Mulroney and External Affairs Minister Joe Clark.

Against strong odds. Canada won a commitment from Europe and the U.S. to end the destructive cycle of farm subsidies which have sent agricultural prices plunging. Not only did the the leaders of the seven major capitalist economies commit themselves to freer trade in agriculture. they set a timetable for change.

While the process will take years to complete. it will begin in 1988. Normalcy should be restored to agricultural trade by the mid-1990s.

The Venice summit's commitment to relatively quick change will help the Mulroney government plan relief for hard-hit grain farmers. Canada need not play the subsidy game; prudent and effective short-term help will suffice.

At the same time. all western countries will have to examine the scope of farming: over-production can be controlled only by luring inefficient farmers to pursue other livelihoods. This is of particular importance in West Germany and France. whose farmers are paid hundreds of millions of dollars for growing food that isn't needed.

Even in Canada. rationalization may be needed. Recent government plans to help some farmers move off the land are commendable. It will take careful consideration to ensure a smooth transition. Viable farms must be kept alive. no matter how severe temporary debt constraints may be: some borderline operations may merit saving. Yet some farms might be better off in other hands.

Farming wasn't Ottawa's only success at Venice. Canada also got a declaration calling for an end to apartheid and a transition to democratic government in South Africa. It's significant progress: previously. West Germany had been loath to support any such statement.

The value of diplomacy is sometimes overlooked in a world dominated by the apparently relentless might of superpowers. Yet Canada's performance at Venice shows that small nations can make things happen. This is as much a tribute to the superb work of the External Affairs Department as to the expertise of Mulroney and Clark.

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Jim
KNISLEY

Full marks to Prime Minister Brian Mulroney.

This week in Venice. Mulroney and the Canadian delegation managed to maintain the momentum towards the re-emergence of some form of common sense in the international grain trade.

Mulroney also restrained himself from making some form of Chamberlainesque statement about "peace for our time" and was satisfied with saying the agreement doesn't represent "a quick fix."

Peace. the agreement in Venice isn't. But progress. it is.

It is. however. a funny kind of progress. In effect the agreement. no matter what the words seem to say. is an agreement not to make the situation worse.

This is not as much as many farmers would like to see. but it is more than they had any right to expect. even just a few months ago.

A key phrase in the communique said: "The long-term objective is to allow market signals to influence the orientation of agricultural support by way of a progressive reduction in agricultural support as well as by all other appropriate means."

But it also includes a provision that allows countries. when establishing agriculture and food policies. to consider "social and other concerns. such as food security. environmental protection and overall employment."

It would be easy to scoff and conclude that nothing happened. That would be unfair and untrue.

Getting agriculture on the agenda at the meeting of the leaders of the seven major western industrial nations was an accomplishment. And having the leaders affix their signatures to a document calling for reductions in agriculture subsidies. even if it is over the long term. is a success.

Just two years ago in Bonn the same seven countries (United States. Japan. West Germany. Britain. France. Italy and Canada) got together and a furious wrangle erupted at the mere mention of agriculture.

Particularly adamant were the French. But over the past two years French attitudes have changed — perhaps prompted by the cost of their farm programs and the storm signals that dominate that country's economic forecasts.

Now the hardliners in European agriculture are the Germans. It took a monumental effort to convince them that agriculture should be discussed in Venice and even more lobbying to convince them to sign the final communique.

In all likelihood. it will be the Germans who will put the greatest emphasis on the provision that talks of regard for "social and other concerns."

Britain's Sunday Times said last week: "West Germany has become the leading villain in the European farm ministers' annual meeting in Brussels. France. which used to be cast in this role. is now acting like the damsel in distress."

Germany has moved a little in European talks designed to cut farm subsidies and rescue the European Economic Community's common agricultural program budget. but it is very much the reluctant bride.

The reason is politics.

The ruling Christian Democrats recently lost an absolute majority in a state election and. if they tread too heavily on farmers' toes. run the risk of losing an election in another state in September.

Ignaz Kiechle. the West German agriculture minister. has received the blessing of Chancellor Helmut Kohl and is determined to limit any rollback of subsidies that will hurt farm incomes.

Interestingly. Kiechle. who has become known as "Monsieur Non" in the French press. is fighting cuts that at their worst would be just five per cent.

And the five-per-cent reduction would come from prices that are more than two-and-a-half times higher than Canadians receive.

Meanwhile. Canadian grain producers will suffer a 15-per-cent cut in grain prices Aug. 1.

But Germany has a tradition of supporting inefficient farms that stretches back to the 19th century.

European economists estimate that an efficient European grain farm requires a minimum of 125 acres. Only five per cent of West German farms are that large and in politically important areas. such as Kiechle's home state of Bavaria. the farms are even smaller

However. the West Germans just happen to be the current bad boys. As mentioned. the French were the villains two years ago and next time it could be the Japanese. Americans. Italians or the British.

It will be the internal politics of the major nations that determines how far and how fast progress is made in resolving the current farm problems.

Right now. the political winds are mostly favorable. Let's hope they remain that way.

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FOREIGN AFFAIRS | Flora Lewis

No Vision in Venice

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JUIN 12 1987

VENICE

The seven leaders left the economic summit conference proclaiming how pleased they were with themselves, and in a way it was true. They had come with thunderous warnings of tough talk, especially from the United States. But no one's arm was twisted, no one's toes were trodden on. They came up with banalities and ambiguities to address the issues before them with the least possible friction, and with the least possible content.

"Reagan was a pussycat," said one senior delegate. "He never gets mad." So all the noise about bashing the Iranians if they don't behave in the Persian Gulf, bashing the allies if they don't help, bashing the West Germans and Japanese if they don't pep up their economies faded away in amiability and agreement not to mention the real disagreements there are among them.

President Reagan produced a classic quote about the meaning of the harsh noises on what the U.S. would do if Iran fires on American ships, saying "I've never bluffed since I've been here." But the other leaders said they hadn't even been asked for support of what they clearly considered an undefined U.S. policy in the gulf. "No blank check was asked, none was given," said Canada's Prime Minister, Brian Mulroney.

Secretary of State George Shultz defined U.S. interests in the gulf as though it were a private American lake from which the Russians have to be excluded. But he rested American hopes to end the war on the United Nations Security Council (the same United Nations to which one of his ambassadors wanted to wave bye-bye from New York), where any attempt to impose sanctions on Iran would be impossible without Soviet and Chinese approval. After announcing that a main purpose of American intervention is to keep the Russians out, Mr. Reagan now says that he would welcome Soviet cooperation in the area. On again, off again. Which is it?

There is a strange idea that relations with Moscow can be divided up in categories that do not affect each other. In one area, the U.S. is looking for an arms reduction agreement that could surely change the East-West atmosphere and create many new possibilities for easing tensions. In another, it is deliberately moving the Iran-Iraq war from a very nasty but local conflict that both superpowers would like to see ended to a possible new East-West confrontation.

All this hot and cold, whether among allies or between adversaries, makes for an air of rudderless indecision. there is a sorry contrast with the atmosphere in Moscow, which has much worse problems but a leadership that knows where it wants to go and can stimulate some exhilaration in trying to get there.

When the Russians say they are apprehensive about the buildup of an American fleet in the Persian Gulf, it doesn't seem so much to be about the expression of America's determination to defend the West's interests there but about the danger of spreading hostilities and developing a new hot-point of superpower tension.

They realize that could make it harder to complete the promising new arms agreements. They are eager for a Western response on their new proposals to discuss "military doctrine" and "restructuring of forces" in Europe so as to reduce the risk of war, and nothing has been forthcoming. Now they are showing foreign policy initiative, and the West is dithering.

with the exception of Prime Minister Margaret Thatcher of Britain, who stayed overnight and rushed home to try to get herself re-elected, all the leaders present were in some way lamed, and it showed in their determination to put good appearances ahead of everything else.

Canada's brilliant economic adviser Sylvia Ostry analyzes the difficulties that the Western nations are having in taking the moves they know are essential to bring health to the world economy as a "period of transition." The U.S. can no longer manage it all, but a system for cooperative management hasn't yet been achieved.

An agreement to ignore the real discords.

Something similar is going on in internatioinal political affairs. They know they have to get together, but nobody is really in charge, nobody is setting a clear course.

No doubt it is better in the circumstances that the Western leaders choose to spare each other, at least face to face, than if they were openly quarreling. Perhaps that in itself justifies filling the summit meeting with protocol and emptying it of substance.

But it isn't enough to move the world on to a coherent approach to real and urgent problems, or to deal wisely with the opportunities and snares presented by new Soviet policies.

Nothing bad happened in Venice, except that nothing much happened. □

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Economic Scene

Leonard Silk

After Venice, Still No Unity

"VENICE speaks to us," Jean-Paul Sartre wrote two decades ago. "Her voice is that of a perjured witness, now shrill, now whispering, always marked by periods of silence."

Nothing much has changed in Venice. The summit conference communiqué of June 10, 1987, said: "We warmly welcome the progress achieved by the Group of Seven finance ministers in developing and implementing strengthened arrangements for multilateral surveillance and economic coordination as called for in Tokyo last year." Yet cooperation among the allies was at a low ebb in Venice.

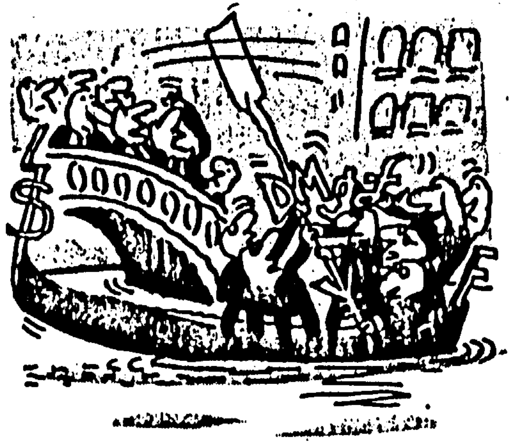
But even a perjured witness sometimes reveals the truth. What did the Venice meeting say?

It said that no agreement yet exists for achieving a stable structure of exchange rates, more balanced trade and stronger economic growth.

The United States' plan for high-level consultations to determine whether nations are living up to their forecasts of economic growth won nominal approval but no commitment from the other countries. West Germany, Britain and Japan forcefully objected to having to modify their policies if their growth forecasts went astray.

In fact, the United States was not calling for forecasts but for growth targets, and those targets were shot down. The United States itself, however, evaded any commitment to targets that it did not like. The Americans resented pressures from the others to do more to reduce the budget deficit, insisting that the deficit was already coming down rapidly enough.

Efforts to coordinate policy objectives without commitments on the actions to achieve them are meaningless. Such efforts do nothing more than continue the quarreling of recent months, in which the United States has tried to put pressure on other governments to grow faster and bring a better balance to international trade, while the others insist that the United States shrink its own budget deficit if it hopes to reduce its trade deficit.



Niculae Asciu

If anything, Venice disclosed that the split among the allies is even deeper than realized. The overriding concern of the West Germans and the Japanese — the two other most powerful economies — is not to spur growth but to restrain inflation, keep their currencies strong, block further dollar depreciation and preserve exports. The Reagan Administration, by contrast, is concerned with pursuing economic growth, shrinking the American trade deficit and the surpluses of others, staving off tax increases, and, with an election year coming up, keeping unemployment in check.

But the Germans, the British and others in Europe seem to have grown comfortable with high unemployment. They contend that their unemployment is a consequence not so much of sluggish growth as of underlying structural factors, such as wage rigidities and inadequacies in job training and investment. Efforts to cure unemployment by force-feeding money into the economy would, they say, only generate inflation. Their doctrine, in a sense, is close to vintage Reaganism.

But American leaders, while officially disowning John Maynard Keynes, remain crypto-Keynesian, stressing short-run fiscal stimulus as the cure for unemployment — particularly for the Europeans — and emphasizing that this would help right the huge trade surpluses of Germany and Japan.

The resistance the United States is meeting is intensified by the conviction of the Germans and Japanese that their own stress on the control of inflation has nurtured their industries and their exports, while the fiscal irresponsibility of the United States has undermined its industries and trade.

The Reagan mystique and the Administration's supply-side economic ideology once had a powerful effect on foreign thinking. But that mystique has been badly damaged by Mr. Reagan's political weakening from the Iran-contra affair, by the persistent budget and trade deficits and by America's growing dependence on foreign capital.

The United States did join the other countries in reaffirming earlier agreements that the dollar has fallen enough. Nevertheless, this summit conference intensified the markets' suspicions that the commitment to defend the dollar has weakened.

Those suspicions were reawakened even before the Venice summit meeting by President Reagan's decision not to reappoint Paul A. Volcker as chairman of the Federal Reserve Board. Mr. Volcker had become the hero of the Europeans and the Japanese as the defender of the dollar.

The Venice meeting was marked by unusual vituperation. It was the first summit conference in which nations told reporters that other countries had lied to them. Also, some agreements or understandings, according to the participants, were kept off the record.

Such secrets, evasions and failures of nations to commit themselves have been defended as prudent, given the underlying conflicts and the lack of accepted leadership by the United States. But prudence has become a synonym for inaction. And another French philosopher said: "We praise prudence without stint, but it cannot insure our smallest undertaking."

VENICE SUMMIT
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NEW YORK TIMES JUN 12 1987

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INTERNATIONAL HERALD TRIBUNE, FRIDAY, JUNE 12, 1987

Europeans See a Weaker Reagan

Suddenly, Allies Question His Energy and Initiative

By David Hoffman

Washington Post Service

VENICE — European diplomats say that President Ronald Reagan's performance at the 13th economic summit meeting left other leaders of major industrial democracies convinced he has rather suddenly begun to show his age and lame-duck status, and wondering whether he possesses the energy and initiative to provide active leadership for the alliance.

This image of Mr. Reagan was reinforced in public Wednesday as the president appeared to be falling asleep during the reading of the final summit communiqué. Treasury Secretary James A. Baker 3d and Secretary of State George P. Shultz seemed to nudge Mr. Reagan to keep him awake. The president's spokesman, Marlin Fitzwater, said, "He stayed awake for the whole time, unlike some of his counterparts."

Mr. Reagan was also the only leader who spoke from prepared note cards in private meetings. Although Mr. Reagan frequently uses such cards, the technique seemed this time to add to the impression that his leadership role had diminished.

On complex issues such as the NATO doctrine of "flexible response" and the impact of eliminating medium-range missiles from Europe, Prime Minister Margaret Thatcher of Britain and President François Mitterrand of France took the lead at the opening dinner discussion.

The European diplomats said after the summit meeting closed Wednesday that they were struck by the change in Mr. Reagan's demeanor from a year ago in Tokyo, when he was at the zenith of his popularity at home and played a leading role in discussions at the summit meeting table.

In public, the president was sanguine and upbeat in Venice, declaring Wednesday, "It's been a fine summit."

But in private sessions, he was sharply challenged by the leaders of France, West Germany and Japan, who criticized the enormous budget deficits of the Reagan years, despite Mr. Reagan's claim that he has made progress in reducing them.

Mr. Reagan's partners also expressed anxiety about the effect on allied defense strategy in Europe of a prospective agreement on limiting medium-range nuclear missiles. They also gave only lukewarm backing to Mr. Reagan's initiative for a greater allied naval presence in the Gulf.

White House officials privately acknowledged the summit meeting was not a high point for the president. "That's just the way the summit goes," a senior Reagan assistant said.

The White House chief of staff, Howard H. Baker Jr., said Wednesday night that the "most important thing is there are probably no surprises" coming out of the summit meeting.

European diplomats said that this year, in contrast to the Tokyo summit meeting, Mr. Reagan failed to make a strong case for a number of U.S. positions and seemed preoccupied and distracted during the sessions.

They noted that Mr. Shultz and Mr. Baker often spoke for the United States on important matters. In a meeting with Mr. Mitterrand on Wednesday, Mr. Shultz intervened to remind the French leader that Mr. Reagan had pledged not to negotiate with the Soviet Union on France's and Britain's separate nuclear forces, a White House official said.

Mr. Reagan failed to meet even the modest expectations raised for the Venice meeting. For example, before the summit meeting, Mr. Reagan said he would propose that the seven participating nations set a goal of eliminating agricultural subsidies by the year 2000. But the final communiqué Wednesday did not include the proposal, calling instead for more general reforms.

[illegible]

President Ronald Reagan, left, and Prime Minister Brian Mulroney of Canada in Venice following the formal summit talks and before their bilateral meeting.

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UNCLASSIFIED/NONCLASSIFIE

International Herald Tribune.- June 12, 1987 ~~I.H.T. — 12~~

Some in Venice Doubt Value of Summits

By Jim Hoagland
Washington Post Service

VENICE — Britain's urbane foreign secretary, Sir Geoffrey Howe, paused as the end came for the seven-nation economic summit meeting and reflected on whether these gatherings have become a wasting asset.

Sir Geoffrey's considered judgment was that the meetings are a useful exercise in "international group therapy." The leaders of North America, Western Europe and Japan profit from giving each other "solemn assurances around the table that they will try to do better" on economic policy in the coming year, he said.

The Venice meeting, the 13th of the series, provided fewer clear winners and losers than previous gatherings. Because of the accumulation of political and economic burdens carried by these leaders this year, it resembled a reunion of the walking wounded.

NEWS ANALYSIS

In another briefing room across a shaded garden from the British pavilion, President François Mitterrand of France also summed up the summit meeting as an event that has become a necessary evil now that "propaganda has edged out utility" as its primary purpose.

The turning of the meeting into a major international media event "has led the participants to try to show that each one has won something," Mr. Mitterrand said with an air of regret.

In closing press conferences before departing Wednesday afternoon, most of the leaders suggested they were relieved that combat had not been more fierce this year. President Ronald Reagan met with reporters and left Thursday.

Whether by instinct or by premeditation, the official delegations appeared to be determined not to allow their counterparts to look either very good or very bad.

Mr. Mitterrand, for example, won a reference in the final communiqué to a goal of seve
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little importance.

The Canadian prime m

See VENICE, Page

VENICE: *Some Participants Doubt Value of Summits*

(Continued from Page 1)

Brian Mulroney, also got the simultaneous build-up, letdown treatment from his peers, who refused to endorse, despite his determined efforts, a declaration condemning apartheid in South Africa.

Instead, they agreed to let Italy's caretaker prime minister, Amintore Fanfani, follow his reading of the meeting's formal declaration with a rambling "summary of political issues" highlighting South Africa.

While Mr. Mulroney was emphasizing at his briefing how the other leaders had joined him in criticizing Pretoria, other delegates were pointing out that the statement was made in Mr. Fanfani's name and did not commit the other leaders to anything.

"We can't possibly go into depth in these discussions when we come together only for a day or two under this gigantic, manic security," Chancellor Helmut Kohl of West Germany complained at his brief session with reporters.

While the temperate weather and spectacular setting of Venice helped soften the effect of the Italian security, it was intrusive, widespread and intended to impress the security specialists from the six other nations with its efficiency and variety.

Mr. Kohl arrived weakened by splits in his government and by U.S. pressure that led him to abandon his reservations about the prospective U.S.-Soviet intermediate-range nuclear arms control agreement.

He spent most of the conference deflecting new pressure to adopt more expansionary fiscal policies, and did not seem to enjoy himself. Equally quiet on big issues was Prime Minister Yasuhiro Nakasone of Japan, who is due to leave office in October.

The other leaders reportedly were careful to avoid references to Mr. Reagan's problems with the Iran-contra affair, at least in his presence.

Mr. Mulroney played one of the most activist roles at the conference, possibly hoping it would help improve his extremely low ratings in Canadian public opinion polls.

In addition to pushing South Africa and agricultural reform, he staged a successful pre-emptive move to limit discussion of the Gulf to diplomatic rather than military action.

Mr. Howe gave the closing British press conference because Prime Minister Margaret Thatcher, facing elections on Thursday, flew out Tuesday after an overnight visit.

Even less visible was Prime Minister Jacques Chirac of France, who shares power with Mr. Mitterrand but who apparently concluded that his insistence on sharing the spotlight with the French president last year in Tokyo was a tactical error.

Mr. Mitterrand, who can be combative when he feels challenged in international affairs, appeared to follow the implicit live-and-let-live motif of this meeting by declining to answer a question about whether Mr. Reagan had been less assertive at the meeting than others.

"That is a story I won't help you write," he said.

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The Times 12 June 87

TIMES PAST THE TIMES

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THE WAY FROM VENICE

Traditionally, the annual economic summit is mocked as one vast photo-opportunity for the seven leading politicians of the western world – especially those who happen to be trying to get themselves re-elected, and very healthy some of that irreverence is. But the summit, whatever else it is, provides a useful opportunity for the leaders to review the world economic situation and co-ordinate their approach to common economic problems at the highest level.

Aside from the photo-opportunities, it is highly desirable for the leaders of the free world to meet regularly. Not only does it help them to avoid becoming locked into their own rhetoric, it can provide the extra political commitment to make progress on common problems that is simply not available at lowlier gatherings.

Nevertheless, this week's economic summit in Venice has been only one event in a regular chain of high-level meetings on world economic issues. As it happens, the important decisions this year have been taken on other occasions.

At the February meeting of the Group of Seven's finance ministers and central bankers in Paris it was agreed in principle that the United States, Germany and Japan should take appropriate fiscal action to help offset the massive trade imbalance between the US and the two countries in surplus. In the light of this commitment the Group (less Italy) agreed that the current pattern of exchange rates was about right and would be defended.

Six weeks later when the same cast assembled in Washington for the half-yearly meeting of the International Monetary Fund, the dollar/yen rate had dropped sharply and the definition of exchange rate stability had to be adjusted. The fall in the dollar put additional pressure on Japan to convert its pledge in Paris into action. This it duly did with the expansion package announced a fortnight before the summit.

The summit itself, therefore, arrived as a chapter in the story closed. Japanese assurances that the planned packages will indeed be enacted by the Diet must be taken at face value. Pressure on Germany to follow suit di not break surface publicly this week, partl because movements in foreign exchang markets were not forcing the issue. The Louvr accord on exchange rate stability was dul reaffirmed. That is modestly helpful. But there were no new moves which will do anything in the short term to buttress that stability.

In the longer term the Venice meeting may have opened a new chapter by agreeing what are described in the language of summit communiques as "strengthened arrangements for multilateral surveillance and economic co-ordination". Following an initiative at last year's summit in Tokyo, the seven have agreed to set national targets for a series of economic indicators and to meet to review the scope for policy action if they diverge from the planned path.

This will help to sharpen up the concept of co-ordinated objectives for the world economy. But there is nothing automatic about any policy changes if the world economy starts to move off the rails. No country is likely to cede that degree of sovereignty. So whether the new arrangements will open a new chapter or simply provide another footnote to the long-running story of international discussion of economic developments remains to be seen.

Several minor themes were also heard in Venice. The Lawson initiative on reducing the burden of debt on the poorest of the African countries made a little more progress. There was some useful tariff disarmament by the Americans *vis-à-vis* Japan. Sensible things were said about the need to tailor agricultural production more closely to demand.

On the other great issue of economic development – the removal of trade barriers and the liberalization of markets of all kinds – the summit endorsed a list of objectives which Mrs Thatcher must have found gratifyingly in line with British aims over the past eight years: the promotion of competition, measures to improve the functioning of labour markets and the opening up of internal markets. Listing the objectives, however, is one thing: making real progress towards achieving them is another.

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11 June 87

14 THE GUARDIAN

A rather sensible summit

The Venice summit, if only because expectations were so muted, appears to have made useful, modest progress in the economic as well as political arena. What is important is not the communique itself, brimful of the usual pre-cooked platitudes, but the direction in which the seven leading industrialised nations are moving. And they are slowly moving in the commendable direction of increased international co-ordination of policies, whether intervening on the foreign exchange markets to cushion the fall of the dollar or lining up behind the UN for a ceasefire in the Gulf. The summit failed, it is true, to agree low interest loans to sub Saharan Africa and to persuade West Germany to give a kick to its feeble 2.5 per cent annual economic growth. It failed to commit member countries to automatic remedial action if the leading economic indicators start flashing red. But at least the summiteers will meet more regularly to watch for the warning signals. Peer group pressure may not offer the same commitment to action as automaticity, but at least the summit seven are being increasingly locked into solving global problems — like exchange rates, inflation and the balance of payments — on a global scale. The summits are in any case less important than what happens in between. Japan did not offer more concessions in Venice. But Japan is still committed to the £26 billion expansion package already announced which would almost certainly not have emerged without intra summit "peer group" pressure, particularly from America.

The summiteers also agreed to increase the capital of the World Bank and to try to reduce their huge surpluses of agricultural products. Most of the participants seemed to regard this as being no more practical than a bench of bishops denouncing sin. But the difference this time is that they may be swimming with the tide. The hitherto all powerful agricultural lobbies are displaying a new sense of realism as the subsidies mountain threatens to collapse under its own weight. Still, all of these initiatives don't add up to a concerted policy to avert the slowdown in world growth which most forecasters are predicting and do very little to mitigate the ominous problems of the US economy. And this is a slowdown starting from over 30 million unemployed. So progress: but much more needed.

The same, again, on the political front. Pre-Venice expectations were of heavy American pressure for joint naval operations in the Gulf. It did not materialise; or if it did the other participants swung the argument towards the United Nations, where it belongs. The history of mediatory efforts between Iran and Iraq is not encouraging. The UN, the Islamic Conference, and such studied neutrals as the late Olaf Palme, have all hit the rock of Iranian intransigence. That is not, however, an adequate reason for failing to try again. The war itself has altered in character and neither of the certitudes on which Iran pinned its hopes — the success of human wave attacks, the overthrow of Saddam Hussein — has come to pass. It thus became sensible policy for the Venice Seven to put themselves behind Mr Perez de Cuellar's efforts and to go on from there, if need be, to a stronger resolution in the Security Council demanding a ceasefire and a negotiated settlement.

Kuwait, which is the aggrieved party because of Iranian attacks on its ships, has wisely taken Soviet as sell as American protection and is now to ask China to join in, too. Of all the conflicts which have come before the UN few have been so free of immediate big power rivalry. That is the argument for giving the UN the fillip it needs by using it in the manner for which it was created. Another good reason for failing to panic at this stage is that the Silkworm missile, though a nasty tool, is not quite the doomsday weapon of recent mythology. It is inferior to the Exocet that sank the Stark. And, of course, it has not yet been deployed at the Strait of Hormuz.

For the rest, the Seven made plauditory and admonishing noises about relations with the Soviet Union and added new protocols to the action against terrorism which has occupied them at every meeting since Bonn in 1978. Whether those are verbal or substantive remains to be seen. Will a time come when the airlines of states which are soft on terrorism find the skies closed to them? That is the aim, but the difficulties of definition are tremendous. From Bonn, through Tokyo, to Venice, terrorism remains a good subject for declamatory resolve but it won't — like all the problems the world meets briefly to discuss — be put to rout by words.

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Independent 12 Jun 87

Short-term thinking in Venice

THERE WAS enthusiasm as well as deliberate informality about the first in the present series of economic summits of leading Western nations, which was held in the cramped castle at Rambouillet in November 1975 at the invitation of President Giscard d'Estaing of France. In his recent memoirs, *Time and Chance*, the former Prime Minister Sir James Callaghan paints a disarming picture of the French foreign minister working on urgent telegrams at a table in a busy corridor while officials from the British delegation struggled in Napoleon's bathroom.

Each Head of Government was expected to give "a completely candid assessment of the economic prospects of his own country" followed by "an examination of future world difficulties as a whole", while the press was kept many miles away in Paris, so the debilitating convention of political posturing and instant but selective briefing at summits was held to a minimum. Even so, as Sir James, who is an enthusiast for the process, was forced to admit: "It could not be claimed that much was decided at Rambouillet." Instead he lists the virtues of the meeting as education, understanding and a conviction that the problems of recession and unemployment could not be handled in isolation. A belief emerged, he suggests, that "the health of the major industrial nations depended on a co-ordinated strategy".

It was demonstrated in Venice, on a much larger and more formal stage, that this worthy belief still survives — as it surely must in an era of managed exchange rates. But it has become, in part, an incantation to be uttered by the electioneering politician. A gathering of leaders including lame ducks and those fighting election campaigns is not inclined to think long-term. Moreover, many of those involved in the early economic summits, such men as Giscard, Schmidt, Wilson, Callaghan, Carter even, were intellectually interested in the making of policy.

In spite of the economic vicissitudes of the past decade, the current crop of Western leaders have other preoccupations. Apart from the Gulf crisis, terrorism and the meaning of changes in Russia, Aids, drug abuse, the financial crisis at the United Nations and obstacles to "the peace and tranquillity of South East Asia", as well as the possibility that the next Olympic Games "may create a climate favourable to the development of a more open dialogue" between the two Koreas, all figured in official statements. Neil Kinnock was, therefore, not being unduly harsh when he described Mrs Thatcher's flying visit to Venice as providing time for little more than "a sandwich, a photo-session and a sermon". But Mrs Thatcher, for her part, was not being over-cynical. That brief visit was as much a reflection of the importance of the occasion as it was a reflection of the pressure of events at home.

N EVENING STANDARD

18/8

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thony Hilton  City Editor

CITY PEOPLE

Much ado about nothing at the Summit

ARMS CONTROL: we are all in favour. Let's keep the ball rolling on this one.

TERRORISM: we are against it.

THE GULF WAR: stop it and keep the oil flowing.

That's how one German ewsman summed up yester-lay's Summit statement on ast-West relations adding espairingly, how on earth do sell this to my newsdesk?

Other observers were open-y querying if Summits are ecessary. The British Press as guided that the Gulf tuation was not discussed at l at the working dinner for ads of government.

A truly extraordinary sug-stion hard to reconcile with headlines in the American newspapers next day like "Europeans alarmed at tough talk by Reagan aids."

According to a United Press International report, Britain, France, Italy and West German all firmly oppose any pre-emptive strike against Chinese-made silkworm missiles if they are deployed by Iran.

Privately, though, the Americans seem confident that if "push comes to shove" in the Gulf their friends will back them up—particularly Mrs Thatcher.

Sorry, we're closed

HAD Mitterrand been tempted to drop in at the Accademia, a gallery of historic paintings, he would have found a sign reading CLOSED. Scribbled underneath it was "Is Reagan visiting the museum?".

The native Venetians will be pleased when the Summit visitors depart. Their city has been ringed with beretta toting Carabinieri. Marco Polo airport has been closed and the city's gondoliers have been complaining bitterly about lost tourist takings.

Caribinieri jump ship

LEADERS attending the Summit may be staying in some of the world's most luxurious hotels but 600 policemen brought in to protect them refused to sleep on a ferry boat, calling it "filthy." Recruited from other parts of Italy, they had to be moved to hotels or other ships. They said their billets on the ferry were cramped, dirty and lacked proper sanitary facilities.

UNDER THE CLOCK FROM VENICE

by Patrick Weever

IF AMERICAN reporters travelling with President Reagan are not the best informed in the world it is not the fault of the U.S. government.

"They give us so much information it takes two men just to lift it," said one White House correspondent.

The blue leather American volumes, one of them tentatively entitled The Trip of President Reagan to the Venice Economic Summit, Rome, the Vatican, W. Berlin and Bonn is something astonishing. Everything any reporter conceivably might want to know is in its hundreds of pages somewhere.

Ciao Mrs Thatcher

IT WILL take the Italians a long time to forgive Mrs Thatcher for what they see as the discourteous brevity of her visit.

Many insist that she deliberately called the Election to gain maximum publicity from her flying visit to the Summit though this is categorically denied by Downing Street.

A SPOT OF FRENCH INDIGESTION

DESPITE his nation's reverence for good food, the Summit working dinner lasted just a bit too long for French President Francois Mitterrand who apparently excused himself early and went for a walk to see the sights of Venice.

"Of course the French President finds the Summits very useful," said a spokeswoman for him who asked not to be identified by name. It's interesting to meet with people that he knows pretty well for years.

"But according to him he doesn't like very much the way a Summit goes on," said a spokesman. According to the French President such a Summit is too formal. "Mitterrand would prefer something more intimate, not so formal. A little bungalow, talking freely. That is the way he would like the Summit."

Summiteers' public relations people were quick to point out that Mitterrand's early departure merely signalled the easy familiarity of the Western leaders, many of whom are good friends.

Perhaps the most celebrated friendship is between Reagan and Mrs Thatcher. But Reagan is also known to be personal friends with West German Chancellor Kohl, and even Japanese PM Yasuhiro Nakasone called him Ron.

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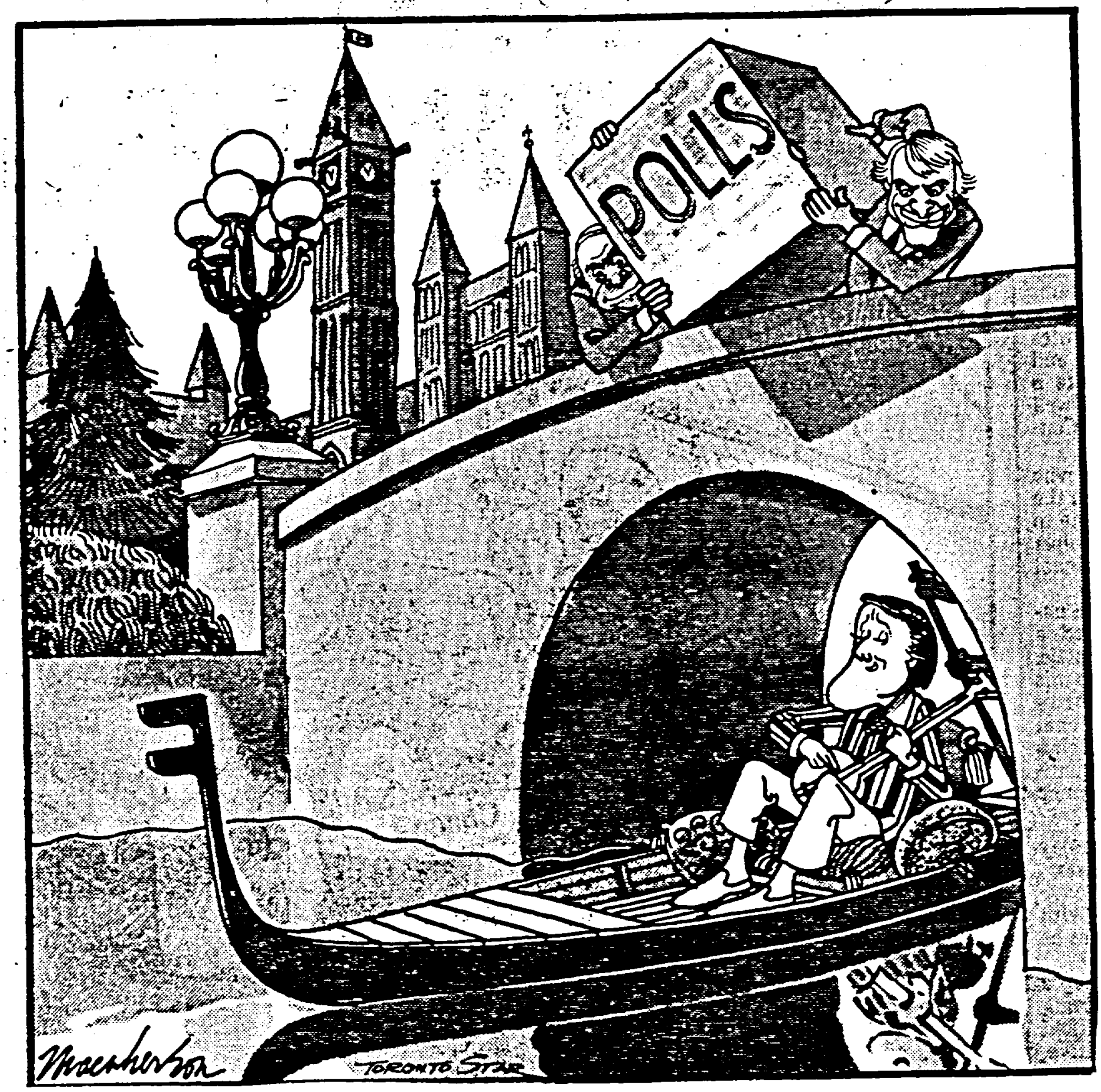
External Affairs Canada
Affaires extérieures Canada

SUBJECT/SUJET

PUBLICATION Toronto Star	DATE June 13



External Affairs Canada
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SUBJECT/SUJET

PUBLICATION Toronto Star

DATE June 13

Toronto stocks shrug off failure of summit talks

By Jack McArthur Toronto Star

Usually excitable Canadian stocks met both Reagan punditry and economic summitry with a vast indifference this week.

They marched sideways, possibly staking a further bet on inflation, but one so tiny it may be illusion.

With Toronto's 300-price index falling 0.1 per cent and holding last week's modest gain, all moves were moderate among its 14 subgroups. But strength in non-precious metals and weakness in financial institutions might be a hint of more inflation.

So might a small $2.50 rise in the price for gold to $456.25 (U.S.) an ounce on the London market. That left precious metals almost unmoved as a group.

The non-precious group is 2.3 per cent higher in one week and 7.5 in two. Its 47 per cent gain this year defies low profits in much of the industry and is said to rest on belief that inflation will get a little worse and prices of resource products will rise most.

There was momentary fright at the failure of the Venice summit of leaders of the big economies to make progress on their problems — of slow growth, trade barriers, erratic currency prices and disagreement about interest rates.

But no one had predicted success at Venice. Markets soon got back on track, just as they did after U.S. President Ronald Reagan said something vague about a possibly lower U.S. dollar.

Any fall by the crushed dollar could mean the use of higher U.S. interest rates to support the currency. That would be badly received. Economies are sluggish enough without being hit by more expensive loans.

Among the week's best winners, B.C. Forest doubled its '86 low as it rose $1.75 to $21, West Fraser Timber won $4.50 to $29 and the Toronto Sun — recently raising the dividend — $2.88 to $23.38, being $4.88 higher in two weeks.

United Siscoe rose another $1.38 to $7.13 as it reshapes itself to be an investment company with a big gold holding. Halifax Developments added $1.50 to $24 and stockbroker Nesbitt Thomson A $1.25 to $15 with news of sharply higher profits and an increased dividend.

Another broker went the other way. Walwyn Inc. fell $1.13 to $7.75 after conclusion of a successful bid for its control by Financial Trustco at $10 per Walwyn share.

Other losers: Signtech, denying it's for sale and falling $1 to $10.88; clothing retailer Grafton A, $1, to $14, and once-soaring Geac Computer, 65 cents to $2.80.

Geac jumped 95 cents last week and is at least 'way above a 65-cent low in '86. The news this week was Helix Investments' plan to come to its rescue with $20 million. As Helix buys control, many new Geac shares will be issued, diluting the ownership of existing stock.

More widely owned are the blue chips or semi-blues in the table. Inco, Imperial Oil, Canadian Pacific, Nova and Teck — a big mix of (mostly) gold and other minerals — clearly would profit from higher resource prices.

Compare their gains so far in '87 with that of 21 per cent for the whole market.

	Week's close	Week's change	So far in 1987
	in dollars		
Seagram	$97.25	+2.63	13.75
Nova A	9.38	+0.50	3.50
Impl Oil A	71.38	+2.63	20.13
Bell	41.63	—1.25	+4.50
Lonvest	24.38	+2.13	—0.25
Power Crp	17.25	—0.50	+1.50
Cdn Pacific	24.25	+0.75	+6.38
Inco	24.63	+1.13	+8.50
Teck B	33.75	+1.75	+9.13

Bell traded without right to a 60-cent dividend. Huge Nova (gas pipelines, chemicals, oil-gas output) will add voting rights to the [illegible] shares. Seagram reported a higher quarterly profit. Lonvest, owner of London Life, rebounded after touching a 53-week low.

However quiet as a group, the gold-related always provide big moves. Campbell Red Lake and Echo Bay lost more than $1, but Viceroy Resource rose $2.38 to $22.13, Glamis $1.50 to $9.50 and fast-expanding Pegasus $1.63 to $27.75. Hemlo Gold agreed to buy into Viceroy and provide major financing.

Explorers had Sikamin Gold adding $1.25 to $6, Getty Resources $1.75 to $12.50 and Exall 41 cents to $1.96. Orofino, a small copper-gold miner, leaped 55 cents to $1.35.

Some depressed junior industrials had Iona Appliances falling 47 cents to $2.38, but Trillium 'Phone Systems rising 65 cents to $3.70 (last year's high was $15.25), and Majestic Electronics Stores adding 50 cents to $4.10 after a $10.13 high last year.

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Editorials

Half a solution for the hungry

At the economic summit in Venice this week, leaders of the world's industrial nations — egged on by Prime Minister Brian Mulroney — talked about agriculture. The final communique spoke of a growing imbalance in supply and demand for agricultural products and called for "a concerted reform of agricultural policies (to) be implemented in a balanced and flexible manner."

But it was Canadian Wheat Board Minister Charlie Mayer who gave the subject a sense of urgency. At another international meeting this week — of the World Food Council, a United Nations advisory body, in Beijing — Mayer noted what he called an "obscene paradox:" Food stocks are being destroyed and food production is being curtailed in some parts of the world, while in others 40,000 children die each day of hunger-related causes and there are more than 5 million malnourished people.

The leaders in Venice endorsed an agreement reached earlier by members of the Organization for Economic Cooperation and Development calling for an end to agricultural subsidies, especially in Europe and the United States. These subsidies encourage overproduction of farm products and distort market prices. The only subsidies tolerated by the agreement would be for farmers, not for crops.

But eliminating agricultural subsidies in the western world is only half the solution to the imbalance of supply and demand mentioned in the Venice communique. Equally important, as Mayer argued in Beijing, is for the developed nations to lower their trade barriers so that Third World countries may sell their goods and earn the money to buy food for their hungry peoples.

In Venice, Western leaders acknowledged the importance of more liberal international trade. In the words of the communique: "Protectionist actions would be counterproductive, would increase the risk of further exchange rate instability and would exacerbate the problems of development and indebtedness."

Fine words, those. What's needed now is firm action internationally, through the General Agreement on Tariffs and Trade, currently in a new round of negotiations, and by individual governments. In Ottawa, instead of being mesmerized by a bilateral free-trade agreement with the United States, the Mulroney government needs to do more to expand our trade with the whole world and especially that part of it where people are hungry and malnourished.

U.S. President Ronald Reagan. For telling a post-summit news conference in Venice that "there could still be some lowering of the value (of the U.S. dollar) in relation to other currencies." The statement, which was at odds with the official summit communique, caused the dollar to plunge in foreign exchange markets until Reagan's aides put out the message that the President didn't really mean what he said. It's certainly possibile that Reagan misspoke himself.

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Parmi les Sept, le Canada pèse bien peu

GILLES GAUTHIER

envoyé spécial de La Presse

VENISE

Le 13e sommet économique des Sept, qui s'est tenu cette semaine à Venise, a permis de constater encore une fois que le Canada est un participant mineur à ces rencontres annuelles, tout comme l'Italie.

Le Canada n'a tout simplement pas assez de puissance sur les plans tant économique que politique pour jouer un rôle significatif.

Un exemple parmi tant d'autres: dimanche dernier, le journal italien *Il Sole 24 Ore* exposait les attentes dans six capitales en prévision du sommet, passant complètement sous silence le point de vue d'Ottawa.

De plus, Brian Mulroney n'a pas une personnalité qui attire sur lui les regards. Son prédécesseur, Pierre Elliott Trudeau, amusait, choquait ou intriguait, mais il ne laissait pas indifférent.

Comme tous les chefs de gouvernement présents à Venise, M. Mulroney était avant tout préoccupé par les répercussions dans son pays des décisions qui se prenaient à Venise.

Questions agricoles

Cette année, il était accaparé par les questions agricoles. Les Etats-Unis et l'Europe versent environ $25 milliards chacun en subventions à leurs agriculteurs et le Canada n'a pas les moyens de participer à cette guerre.

Même s'il consacre $3,5 milliards cette années aux fermiers de l'Ouest, le gouvernement fédéral est incapable de suivre le rythme et assiste à l'érosion des marchés céréaliers extérieurs traditionnels du Canada. La facture sera encore plus élevée l'an prochain car il n'est pas question de relâcher les efforts alors que le NPD est la force politique dominante dans l'Ouest.

Cette saignée de fonds publics pourrait compromettre la lutte au déficit du gouvernement central alors que s'amorcera, dans quelques mois, la période pré-électorale.

Les décisions prises à Venise permettent tout au plus à la délégation canadienne de dire qu'il y a espoir d'accélérer la mise en place des mécanismes de règlements du problème. Elle admet toutefois qu'il faudra plusieurs années avant qu'une solution ne soit trouvée, et ce à la condition que cette guerre ne s'étende à d'autres fronts. Ce que laisse craindre par exemple l'intention de la Communauté économique européenne d'imposer une taxe aux importations d'huiles et de graisses végétales, qui pourrait selon certains coûter près de $2 milliards, et entrainerait une forte réaction des Américains et risquerait selon certains experts de remettre en question les accords commerciaux multilatéraux.

L'apartheid

Le Canada a choisi, notamment en prévision des sommets de la francophonie en septembre et du Commonwealth en octobre, de mettre l'accent sur la dénonciation du régime d'apartheid en Afrique du Sud, thème qui avait aussi l'avantage de ne pas déplaire aux Etats-Unis, dont ils se rapprochent de plus en plus sur tous les plans.

Les efforts du Canada ont complètement échoué, mais ils permettront à M. Mulroney de déclarer aux nombreuses nations africaines qui participeront aux sommets de l'automne qu'il s'est fait leur porte-parole auprès des riches et des puissants à Venise. Il leur dira également qu'une autre grande priorité canadienne était la dette des pays les plus pauvres, particulièrement ceux de la région sub-saharienne.

Ces sommets annuels ont-ils encore leur utilité? En pratique, les réunions que tiennent quelques fois par année les ministres des Finances des pays participants permettent d'accomplir le travail de coordination sur le plan économique. Mais elles n'ont pas le même impact sur l'opinion publique que les rencontres spectaculaires des leaders.

La déclaration économique finale est tellement longue et touffue que chaque délégation trouve dans chacun des chapitres la phrase qui lui permet de dire que le point de vue de son premier ministre, de son président ou de son chancelier a été retenu.

Ces rencontres permettent aussi de réaffirmer la cohésion des grands pays membres de l'OTAN et du Japon face au bloc de l'Est.

Il n'en reste pas moins que la présence de 1 500 journalistes qui épient chacun de leur côté les moindres gestes du dirigeant de leur pays crée des attentes énormes qu'il est souvent impossible de satisfaire même si, dans le cas du Canada par exemple, les objectifs fixés par les stratèges gouvernementaux étaient relativement modestes. M. Mulroney en sait quelque chose.

Après la rencontre de la francophonie à Québec et celle du Commonwealth à Vancouver, Toronto accueillera les «Sept» l'an prochain. M. Mulroney aura eu toutes les possibilités de se donner une stature internationale.

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Les libéraux fédéraux sont de moins en moins chauds pour le libre-échange

■ Si l'on en croit le sentiment qui se dégage d'un colloque tenu hier par le Parti libéral fédéral, la question du libre-échange n'aura pas pour les libéraux, aux prochaines élections, le même caractère d'urgence qu'elle revêt actuellement pour le gouvernement de M. Mulroney.

Résumant les délibérations de ce colloque, qui a attiré quelque 175 militants à l'Université de Montréal, Serge Joyal, président de la commission politique du PLC, a affirmé que le projet de libre-échange actuel soulève beaucoup d'incertitudes.

«Ce qui nous a le plus refroidi, dit-il, c'est l'affirmation de M. Laurent Picard selon lequel le libre-échange ne nous garantit aucunement que le Canada ne deviendrait pas West Virginia». Cet État américain affiche un taux de pauvreté très élevé.

M. Laurent Picard a été commissaire à la Commission MacDonald dont les recommandations ont été favorables au libre-échange. En plus de M. Picard, le colloque du Parti libéral comportait des représentants des milieux agricoles, universitaires, culturels et syndicaux.

«Les Canadiens, a dit M. Joyal, en guise de résumé, ne sont pas prêts à devenir des Américains. On est marié économiquement avec les Américains, mais on ne sait pas trop quel prix il faudrait payer pour en faire un mariage absolu. Ce qui est évident aux yeux de tout le monde, c'est que le Canada ne peut pas mettre tous ses oeufs économiques dans le même panier, qui est le panier américain.»

M. Joyal a rappelé que 80 p. cent du commerce entre le Canada et les États-Unis se fait déjà sous le régime du libre-échange. «Mais, dit-il, il y a une importante réflexion à faire avant de laisser aller les 20 p.cent qui restent.»

Le colloque a mis en évidence, selon M. Joyal, que les implications politiques, sociales et culturelles du libre-échange n'ont pas encore été vraiment débattues. De plus, ajoute-t-il, les mécanismes d'ajustement, de transition et d'arbitrage sont encore totalement inconnus, ce qui fait qu'on en est encore, dans cette question du libre-échange, dans le domaine des hypothèses.

Par ailleurs, le Parti libéral se dirige, précise M. Joyal, vers une redéfinition de la politique commerciale canadienne qui n'est pas uniquement ancrée sur le libre-échange. Le PLC, a affirmé en substance M. Joyal, favorise une approche diversifiée et non une simple approche bilatérale avec les seuls États-Unis. Il faut, dit-il, négocier plus largement avec nos partenaires du GATT, tant en Asie qu'en Europe, plutôt que de s'engager dans le corridor unique que constitue le libre-échange avec les USA.

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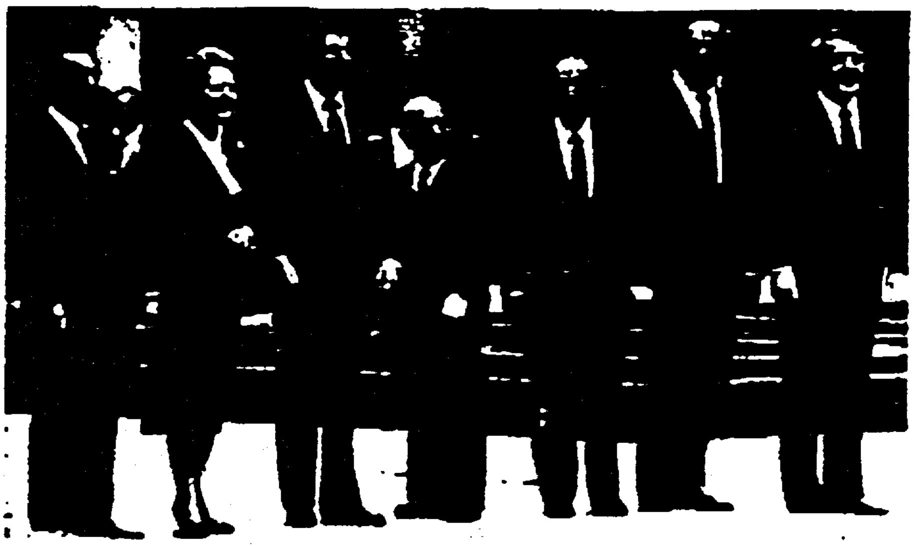
UNCLASSIFIED/NONCLASSIFIE

Deathly in Venice

VENICE



The leaders of the seven biggest industrial countries, pausing between photo-opportunities, have produced yet another "accord" on exchange rates and macroeconomic policy. Their Venice agreement contains just enough substance to avoid being written off as a flop, but not enough to have any effect on their economic policies—altogether, a masterly piece of drafting. After weeks of coaching on what not to expect, the world's financial markets were not unduly surprised or disappointed by this, and officials therefore congratulated themselves for making matters no worse. The trouble is that the world's economic problems loom just as large as they did before the meeting.

The economic backdrop to this thirteenth annual summit was a lot drabber than the scenic one. Forecasters (at the IMF, for example) have been revising their p jections of world growth steadily dov wards since last year. American inter rates are rising. Protectionist feelings running high in Washington. Mr P Volcker, perhaps the only economic anch America has had in its recent sea of tr bles, has resigned as chairman of the F deral Reserve. The dollar has fallen a lo way, yet still looks fragile. World recess cannot be ruled out.

By now the summiteers—and especi the three that matter, President Reag Mr Yasuhiro Nakasone of Japan, and Helmut Kohl of West Germany—mus tired of hearing how easy it would be attack these difficulties. The near-una mous view in the markets (echoed in priv by officials) is that America needs to cu budget deficit while Japan and West Ge many increase theirs. That, according everybody's economic model, would bri trade flows back towards balance a would let the dollar stay roughly where i without the need for higher interest rates America. Given the political will, the su mit might have taken several large steps that direction. Instead, it took a tiny one.

Every year, the G7 countries (the b three plus France, Britain, Italy and Can da) will provide each other with mediu term projections for their economies. The will probably include growth of outp monetary growth, budget and current-a count deficits, and exchange rates. Then will check that these are consistent performance then starts to deviate from t projections, the finance ministers will di cuss what to do about it. There is

Luring sailors to Venice

ROME

At Lepanto in 1571, the Venetian fleet helped to defeat the Ottoman Empire in a victory that blocked the spread of Islam in Europe. Venice's twelfth-century Arsenale, Europe's first mass-production industrial complex, was the shipyard that made the Lepanto victory possible. Now the Aga Khan, spiritual leader to 12m Muslims, wants to buy it, together with a friend, Mr Gianni Agnelli.

The Arsenale's present owner, the Italian Navy, has agreed to turn it over to the civil authorities next year. Some in Venice, where space is scarce, want low-rent housing built inside its fortress-like walls. About 80 acres are on Venice proper; covered docking areas over the water bring the total up to 114 acres.

Moor here

The Aga Khan and Mr Agnelli want to convert the Arsenale into Europe's largest marina; although tourism is the city's main industry, Venice still lacks a proper one. The Aga Khan is already the city's king of tourism. In early 1985, he acquired the CIGA hotel chain which gave him, in Venice alone, the Gritti, Danieli, Europa, Excelsior and Des Bains hotels, packed recently with summiteers.

It is 25 years since the Aga Khan's first Italian tourist venture on a bit of the Sardinian coast that he named the "Costa Smeralda". Three years ago, he promised to invest a further 1 trillion lire ($770m) if expansion were allowed. It was, and the Aga Khan will soon have 504 hotel rooms on the island.

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Who's due to reflate?

UNCLASSIFIED/NONCLASSIFIE

How should governments decide when it is time to reflate their economies? Ever since America began to pile up its huge current-account deficit, friction over trade has hampered the economic-policy debate there and in Japan and West Germany. For political as much as for economic reasons, the three governments have thought it important to close America's trade gap. To do that, President Reagan wants Japan and West Germany to boost their economies. Such conclusions make sense only if governments have first asked themselves a series of other questions.

The table sets out a test for would-be reflaters. The first and biggest question it asks is whether growth in demand, measured by money-GDP, is growing by less than 6% a year. Such a rate seems a reasonable benchmark—enough to leave room for output growth of around 3-4% alongside inflation of 2-3%. If demand is already growing faster than that, speeding it up would pose the threat of higher inflation. If demand is growing at less than an annual 6%, policymakers should consider giving their economies a bit of a push.

As the table shows, money-GDP is growing by less than 6% a year in all three of the big economies. Therefore, according to a not-quite-arbitrary weighting system, they each chalk up five votes for reflation. Another five votes remain to be won, divided between three further questions. Reflation is safer when a country's currency is appreciating: two more votes if the trade-weighted exchange rate has risen by more than 15% over the past 12 months. It is safer if the inflation rate is falling: one vote if producer prices are rising more slowly (or falling more quickly) than a year before. And it is safer if the country has a growing current-account surplus: [illegible] if that is so.

[illegible] the table deliberately asks no questions about unemployment or real growth—not because these do not matter, but because governments cannot directly control them. Policymakers can raise or lower demand by changing interest rates, taxes and public spending: how that demand is allocated between a change in output and a change in prices is out of their macroeconomic hands. And if governments blindly boost demand in pursuit of targets for real growth, they can easily drive inflation out of control. So the table echoes the view that the best policy is simply to keep demand growing smoothly.

Adding up the votes, America scores five—unchanged from last summer when we last did the sums. West Germany's score of eight is also unchanged. Japan's score has fallen from ten to seven because its inflation rate (while negative) is no longer falling, and because its exchange rate is rising more slowly than before. Altogether, though, the case for a modest expansion of demand still seems strong for both Japan and West Germany.

The lower part of the table gives pointers on how to go about it. Monetary growth in Japan and West Germany has not slowed over the past year. Allow for both countries' very low inflation rates, and their real monetary growth is already worryingly fast. On the other hand, both countries tightened their fiscal policies last year. So it seems that looser fiscal policy—which Japan says it is about to deliver, and which West Germany still rejects—is the right way for them to put their money-GDP growth back on track.

On your marks . . .

Indicators	US	Japan	West Germany
Growth in money GDP	4.8†	3.3	5.6
Less than 6% ?	yes	yes	yes
Votes for reflation	5	5	5
Change in trade-weighted exchange rate on year ago	−12.5	+8.1	+9.1
Increase of more than 15%?	no	no	no
Votes for reflation	0	0	0
Inflation rate, producer prices*	+2.7	−6.0	−3.5
Lower than a year ago?	no	no	yes
Votes for reflation	0	0	1
Current-account balance (bn)‡	−$36.8	+Y3,513	+Dm21.3
Bigger surplus?	no	yes	yes
Votes for reflation	0	2	2
Total votes for reflation	5	7	8

. . . get set

Wide monetary growth*	+7.5	+10.8	+7.9
Slower than a year ago?	yes	no	no
Fiscal impulse as % of GDP**	-0.4	-0.1	-0.5
Tighter fiscal stance?	yes	yes	yes
Verdict:	Prefer lower interest rates	Prefer looser fiscal policy	Prefer looser fiscal policy

*12 month rate, latest **Change in budget deficit, 1986 over 1985, adjusted for the business cycle (minus means a smaller deficit). †GNP ‡latest quarter

commitment to action of any kind. With so many targets it will be impossible to hit them all—or to miss them all. So each of the seven will always be able to claim some measure of success. The daftest provision is that the list of relevant economic indicators is supposed to remain secret.

The communiqué made the right noises on trade, farming and debt—re-affirming various commitments made at earlier meetings. On trade, Mr Reagan gave a token gesture of goodwill to Japan, by easing his punitive sanctions against imports of Japanese electronic goods. Mr Nakasone thus escaped the annual ritual of Japan-bashing, thanks to what was regarded as his bolder-than-usual pre-summit package of fiscal expansion, and to his plans for financial-market liberalisation.

The leaders promised (yet again) to let the market have a bigger role in agriculture. They also endorsed (yet again) the "case-by-case" approach on the middle-income debtor countries, while acknowledging the special problems of sub-Saharan Africa. They want the various talks on debt to be concluded this year. That is if a world recession does not make such talks irrelevant in the meanwhile.

Toyota and Volkswagen

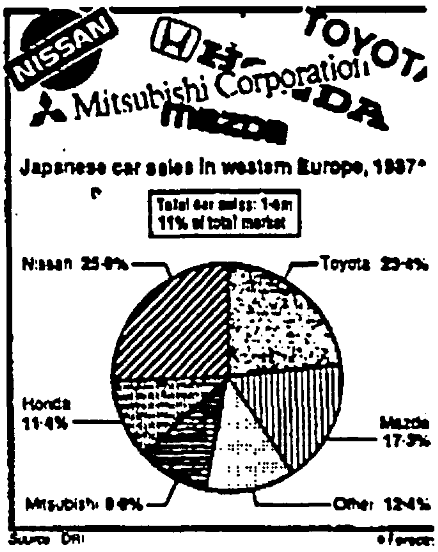
Bumper to bumper

TOKYO AND LONDON

Could Toyota, Japan's biggest carmaker, soon be building cars and commercial vehicles in Europe? That may be one outcome of the secret talks it is conducting with West Germany's Volkswagen. Details are sparse, but both companies have good reasons for collaborating. Since taking over SEAT, Spain's loss-making carmaker, last year, Volkswagen has had plenty of spare assembly-line capacity in southern Europe.

Talks between the two firms seem to be centred for the moment on the possibility of producing around 15,000 Toyota light commercial vehicles a year at one of Volkswagen's plants in West Germany. Though made of Toyota components, some would be sold under the Volkswagen badge. Engines and transmissions would initially be imported from Toyota's plants in Japan. But, in order to qualify as EEC-made and therefore escape import tariffs, some 60% of components going into the vehicles would later come from European suppliers.

In 1986, Japanese carmakers made ju under 12% of new-car sales in Europe, u from nearly 11% in the previous yea Because of a voluntary restraint agreeme that was urged on them by the EEC, no can now rely on increasing their mark share through exports. Last year, Toyo sold 323,000 vehicles in Europe—son



Source: DRI

*Forecast

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LOWE-MARTIN

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IN MY VIEW

BY WILLIAM KEEGAN

Observer
June 14, 1987

The Empress's new clothes

EVENTS may shortly demonstrate that the election was even better timed for the Empress than she thought. The only surprise was that she did not choose Ascension Day itself.

The first thing the Government must do is return to reality, and forget its campaign rhetoric. It inherits, from itself, an economy that is at or near the bottom of the European growth and employment league (from 1979 to 1986), with one of the highest inflation rates in the industrial world.

The recent spurt of growth, which results largely from the re-application of the economic policies of the 1970s — fiscal and monetary expansion, devaluation, that sort of thing — has badly damaged the non-oil trade balance, but the effects continue, for the moment, to be disguised by the North Sea.

More immediately worrying for the Government is the general acceleration in wage inflation in the private sector, and the outbreak of strikes, go-slows and so on in the public sector. According to the *Financial Times*, the industrial relations scene in the country is, even now, not greatly improved from the 1970s. There could be a few problems here.

But I suspect the real threat lies outside. Politicians are fond, when it suits them, of talking as if the British economy were an independent entity, over whose destiny they can have full control, provided they are given office. They are also, when things go badly, equally capable of pointing out that the UK is only a small part of an increasingly integrated world economy, and highly vulnerable to the international trade winds.

The truly interesting economic events during the past month have not taken place in Britain at all. While various partisan voices in this country fantasise about 'economic miracles' and 'a permanent revolution in expectations,' the chassis on which the world economic system runs has been showing disturbing signs of falling apart.

Perhaps the most illustrative symbol of this is the 'resignation' of the single most important figure on the world economic stage during the 1980s — that great national and international public servant — Paul Volcker of the US Federal Reserve Board.

Volcker is one of the few people I have encountered in this business who comes perilously close to heroic status. In a country where greed and self interest were considered the great social virtues long before Mrs Thatcher was thought of, Volcker has run the most important central bank in the world on a salary lower than that paid to a British Prime Minister.

It is no secret in Washington that Volcker would have stayed on at the Fed if he had been asked to do so in the national (even international) interest, and provided President Reagan had given him the reassurances he regarded as necessary on economic policy.

Reagan did not give him those reassurances; nor did he make a serious attempt to dissuade him. Volcker had been arguing that the US was living beyond its means, and that, in addition to the dollar devaluation of the past two years, it needed to cut its budget deficit, and reduce domestic demand, so that production could be transferred to exports, and import saving.

The US budget deficit had led the western world out of recession, but enough was enough; Volcker kept pointing out that the United States was having increasing difficulty in financing both its budget and balance of payments deficits, as the scale of its overseas debts soared. Like any other country in such a crisis, it should be drawing in its horns for a while.

On the way to the Venice summit President Reagan made it plain he was not prepared to contemplate the kind of tax increases—on petrol, alcohol, cigarettes, etc.—that most economists in Washington thought necessary. At the same time the West Germans, despite continual downward revisions to their growth forecasts — now barely 1½ per cent — made it plain that they were not going to take measures to expand their economy. The French, meanwhile, revised their growth forecast down to a little over 1 per cent too.

The Japanese skilfully announced what sounded like a large expansionary package *en route* to the summit; but closer scrutiny suggests a rather smaller package, with tax cuts being balanced by tax increases, and clouds over the size of the planned public works programme.

The Venice summit was meant to be about building on the promises made at the earlier Paris 'Louvre Agreement' in February on currency stability. It was then generally agreed that, to avoid a 'free fall' for the dollar, the United States had to cut its budget deficit, and the other major countries had to take steps to expand.

All the steps since then have in fact been backwards. At a time when the Third World is in dire straits, and unemployment in most European countries still shamefully high, we are already in what economists call a 'growth recession.' That is to say, the 24 member nations of the Organisation for Economic Co-operation and Development are not expanding fast enough to bring unemployment down—and probably too slowly to prevent it rising again.

The kind of sober, unsensational international monetary officials I talk to are now increasingly fearful that we are heading for something much worse than a growth recession: they fear a dollar fall, and a sharp rise in US interest rates—inevitably affecting most other countries. We may be on the verge of a beggar-my-neighbour period when countries refuse to take in one another's dirty washing. And the favourite stock market for early collapse — again, with repercussions around the world — is the heavily overvalued Tokyo market.

There are many people like myself who have been urging greater economic policy co-ordination for some years now; but the kind of short-sighted selfishness that plagues the yuppie world of Thatcher's Kingdom also afflicts policy-makers in individual countries. This could well be the rock on which Mrs Thatcher's illusory economic miracle founders.

I note with interest that Nigel Lawson has got the message, and while using the code phrase 'supply side' measures—is in effect urging Germany to expand demand before a recession in Western Europe knocks him for six.

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Observer June 14, 1987

Base rate cut hangs on sterling

WILLIAM KEEGAN ■ Economics Editor

THE Treasury and the Bank of England are expected to react to any post-election flow of funds into London with official intervention to steady the exchange rate. If the inflow this week becomes overwhelming, the Government may sanction a half percentage point cut in bank base rates to 8½ per cent.

But the first tactic will be to take money into the reserves, and wait to assess the strength of foreign demand for sterling.

Despite all the previous speculation, post-election euphoria was distinguished by its absence from the foreign exchange markets on Friday.

This was not just attributable to the thinning of City ranks on Friday—'their celebrations at home have proved too much for them,' said one City observer. It was principally because market attention focused on the dollar.

The US currency had weakened earlier in the week after President Reagan referred in Venice to the possibility of a further fall. Since one of the main aims of the Venice summit had been to stabilise the dollar, the presidential remark caused a stir.

The dollar recovered after a White House 'correction,' and in response to better US inflation figures on Friday.

But there is widespread disappointment in international financial circles with the outcome of the Venice summit—where no serious new initiatives were taken—and the dollar could well come under further pressure this week.

There is speculation in the City that the Government will formally put the pound into the exchange rate mechanism of the European Monetary System. Although the Chancellor, Nigel Lawson, is attending an EC meeting on EMS in Luxembourg tomorrow, this is to discuss some of the more arcane technical aspects of the mechanism

There is no evidence yet that the Prime Minister has relaxed her opposition to full EMS entry.

While the formal EMS debate remains unresolved, the Treasury and Bank of England are continuing their policy of trying to conduct monetary and exchange rate policy as if the pound were already in the EMS exchange rate mechanism. ■

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Venice summit blew opportunity on economy

History has it that Nero fiddled while Rome burned.

Last week at the Venice summit, the leaders of the West's seven major industrial nations, including Prime Minister Brian Mulroney, tinkered while the world economy remained in trouble.

But, then, these annual summits diverged from their original purpose a number of years ago. Today, the Western world's most important leaders meet not to solve serious global economic concerns but to take advantage of splendid photo opportunities and to make well-publicized statements on current political issues (like AIDS, arms negotiations, South African apartheid and Persian Gulf shipping).

The problem is that there is a dire need for the world's nations to start restructuring the international economic order and, thereby, grapple with the growing monetary and trade imbalances that could produce a major financial collapse.

Instead of talking about symptoms (like agricultural trade subsidies) and tinkering with the present economic system, what the summit leaders should have addressed in Venice is the underlying monetary causes and the need for a new Bretton Woods-type reform.

GORD CRANN

☐ **Gord Crann, a former East York alderman and a former New Democratic Party provincial candidate, is a public affairs consultant in Toronto.**

In July 1944, delegates from 44 allied countries met at a conference in the New Hampshire resort town of Bretton Woods to establish a system for governing the postwar global economy. Important international economic organizations, like the International Monetary Fund (IMF) and the World Bank, were created at Bretton Woods along with a set of rules that governed the world economy for a quarter of a century.

The most important of these rules was the establishment of fixed rates of exchange among currencies and the mechanism that permitted these values to be altered. The Bretton Woods rules provided a stable monetary foundation for the phenomenal growth in postwar global trade.

This system, however, relied upon the United States to take on the primary responsibility for ordering the world economy. The U.S. dollar, due to its fixed convertibility rate into gold, became the international reserve currency.

During the 1960s, the U.S. ran into serious balance-of-payments difficulties as a result of increased industrial competition from Europe and Japan and of military spending on the Viet Nam war, which made it increasingly difficult for the U.S. to perform its leadership role. So, in the early 1970s, the U.S. brought the fixed foreign exchange rate system to an end and ushered in the present system of floating exchange rates.

At the same time as the Bretton Woods monetary system was unravelling, however, new communications technologies were developed that made possible the shifting — at lightning-fast speed — of billions of dollars in private financial transactions on a global scale. Both of these developments led to the growing prominence in international finance of the unregulated Eurodollar market and the private, trans-national commercial banks.

It was through this expanded private and unregulated international economic system that the petrodollar surpluses of the OPEC oil-producing countries were recycled to newly industrializing countries, like Mexico, Brazil and Argentina, after the oil price shocks of the 1970s.

Unfortunately, this unprecedented level of private, commercial loans to developing countries, in combination with the severe recession in the industrialized nations in the early 1980s and the dramatic drop in primary commodity prices that followed, has resulted in the well-known Third World debt crisis.

An even more significant result of the increased privatization and deregulation of international finance is what American management expert Peter Drucker has identified as the loosening of the financial or "symbol" economy of capital movements from the "real" economy of trade in goods and services.

Money has become a dominant commodity itself, rather than merely a symbol by which to measure the sale of goods and services. Moreover, this change in the function of money has created a tremendous speculative force that Professor Susan Strange of the London School of Economics has called "casino capitalism."

Capital movements have now become the driving force of the world economy. Foreign exchange transactions today amount to approximately $35 trillion per year. In contrast, world trade in goods and services is estimated to be only $3 trillion per annum.

International capital movements increasingly dominate trade in the determination of exchange rates and the value of currencies. This distorts the underlying competitive positions of industries and produces external imbalances that generate domestic demands for trade restrictions and increased protectionism.

As Deborah Coyne, a University of Toronto law professor, concludes in a soon-to-be-published paper: "Our international efforts should not only be directed at multilaterally reducing trade protectionism but should be equally directed at reversing the trend to capital liberalization and returning to the public international management of foreign exchange rates."

Canada should be working at getting the world's leaders to negotiate a present-day equivalent to what was produced at the Bretton Woods conference in 1944. From the Canadian perspective, the opportune time and place to make this happen is the Toronto economic summit in 1988.

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World leaders pick Toronto for 1988 economic summit

OLIVIA WARD

Metro

The Russians aren't coming — but the French, Japanese, Italians, West Germans, Americans and British will be in Toronto next summer for the annual economic summit of powerful industrial nations.

Mayor Art Eggleton heard it last week from Prime Minister Brian Mulroney, attending the summit in Venice.

The three-day meeting next June is expected to pump at least $4.5 million into the Metro economy, according to the Metropolitan Toronto Convention and Visitors Association.

The location may be Casa Loma, which police chief Jack Marks favors because it would be easy to secure. "I would probably establish a joint force form the RCMP, Ontario Provincial Police and ourselves," Marks said.

Metro Chairman Dennis Flynn says the news is no news to him — "a little birdie" in Ottawa told him earlier this year to watch for "something big" coming Toronto's way. Flynn has already booked 4,500 hotel rooms for summiteers. Officials expect about 5,000 people to attend, 3,000 of them journalists.

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Venice summit collects faint praise

REUTER PHOTO

Summitry: Prime Minister Brian Mulroney didn't have to wait for diplomatic cables, position papers and office memos to find out what the U.S. and West Germany were discussing. He had a direct line at this Venice summit meal, just listening, with the interpreter between West Germany's Chancellor Helmut Kohl and U.S. President Ronald Reagan making things easy.

After the president and prime ministers had left and the flags were taken down, most summit watchers gave the three days at Venice a token two cheers — one probably for effort alone.

The seven most powerful nations of the western world had agreed on a number of things, out there were many qualifications.

After a strong initiative by Canada's Brian Mulroney, the leaders at the summit urged South Africa to abandon apartheid, but let host country Italy speak for them rather than incorporate it in their final communique. Britain's Margaret Thatcher was skittish about including South Africa in a formal declaration; West Germany's Helmut Kohl vetoed it outright.

Mulroney was pleased: "This is a signal to Africans listening to radios somewhere not to abandon democratic values for violence," he said. "I'm glad that persistence paid off."

The summit seven also called for greater efforts to fight AIDS, but — mindful of the controversial universal-testing issue — warned that all measures should be taken in accordance with human rights.

Beyond that, they patched together several other compromises: general support to the U.S. on the Gulf war, arms control.

And, just as they had at the 1986 Tokyo summit, they called for a reduction of the U.S. budget deficit and asked countries with trade surpluses, notably Japan and West Germany, to stimulate demand for more foreign goods.

The U.S. dollar has fallen far enough, they agreed, and they hoped for an end to protectionism, for closer coordination of their economies.

The final statement promised a speedier timetable on grain subsidy negotiations. That, too, was strongly promoted by Mulroney who had promised Western farmers — suffering in the global subsidy battle — that he would take their case to Venice. It will probably get more prominence at next year's summit, to be held in Toronto.

A quip by President Ronald Reagan summed things up rather neatly: Asked why the summit declaration had no teeth in it, he pointed out that nobody had planned to bite

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VENICE SUMMIT

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NEW YORK TIMES JUN JUIN 14 1987

Summit Does No Harm And Very Little Business

By **JAMES M. MARKHAM**

VENICE

PERHAPS it was the unlucky number, but the 13th meeting of leaders of the seven major industrial democracies last week will probably go down in history as one of the least consequential since Valéry Giscard d'Estaing and Helmut Schmidt first came up with the idea of the annual get-togethers. The world economy is not quite in the parlous state it was in 1975, when the French President and West German Chancellor urged concerted action to deal with the dramatic rise in Middle East oil prices. But it is shaky enough, and the generalities and palliatives proffered in Venice, officials privately concurred, will probably change little.

For President Reagan, Venice was to have been a glittering, telegenic stage on which to demonstrate his leadership of the free world and check the erosion of his authority in Washington. But Mr. Reagan often came across as an amiable and important gentleman taking a protracted and somewhat lonely Italian holiday — his importance demonstrated by an imperial phalanx of security deployed on, over and around Venice's lagoons. While Chancellor Helmut Kohl of West Germany and President François Mitterrand of France strolled through one of the world's most beautiful cities, Mr. Reagan, who had never been here before, did not set foot in the Piazza San Marco. The Europeans found him distracted and passive, reaching frequently for his little note cards for guidance. At a news conference, he suggested that the dollar might sink further, a gaffe that aides rushed to rectify.

On Friday at the wall in West Berlin, Mr. Reagan projected a more forceful image. "Mr. Gorbachev," he said in a rhetorical appeal to the Soviet leader, "open this gate! Mr. Gorbachev, tear down this wall!" On three previous nights in East Berlin, rampaging East German youths, angry at being prevented from hearing British rock groups playing just across the ugly barrier, had shouted the same demand, "The Wall Must Go!" and had invoked the name of Mikhail S. Gorbachev while sparring with the police. But on Thursday night in West Berlin, ultra-leftists violently protested not the Communist-built wall, but the American President's presence.

In Venice, where the Americans had arrived making clear they were seeking allied support for a bellicose-sounding course in the Persian Gulf, they seemed in the end to be talking loudly and carrying a rather small stick. Senior White House officials warned Iran that American planes might take out its Chinese-made Silkworm missiles if they were made operational in the Strait of Hormuz. The Administration also wanted the seven to endorse a ban by the United Nations Security Council on arms sales to Iran and Iraq, if the two combatants refused to negotiate a cease-fire. As Iraq has repeatedly expressed its willingness to stop conflict, the onus would fall on Iran.

But the Europeans, keen on keeping open lines of communication to Iran and fearful of East-West confrontation in the gulf, watered down the White House language. An "enforceable" Security Council resolution became "a just and effective one." At a news conference, Secretary of State George P. Shultz argued testily that "effective" meant what he said it meant — "enforceable." The President called it "a case in semantics." Apparently seeking to cool anxieties, Mr. Reagan acknowledged that the Soviet Union had a stake in "peaceful shipping" in the gulf but he rejected the idea that the two superpowers should act as joint trustees there.

Embarrassing Reminder

On the economic front, in view of political uncertainties or weaknesses in all seven countries, no one really leaned on anyone else in Venice. Reacting to Japan's program to stimulate domestic consumption, the United States partially lifted economic sanctions imposed on Japan, which had been accused of dumping semiconductors at below-cost prices on the world market. But expectations that the Americans might pressure the West Germans to pump-prime their economy came to nothing. Mr. Kohl, seconded by Mr. Mitterrand, insisted that the vast American budget deficit is the world economy's core problem. The moral in Venice seemed to be that until Americans stop living beyond their means, their leaders will be hard put to give economics lessons to others.

The leaders also reaffirmed their intention to coordinate antiterrorist efforts but they delicately refrained from repeating their promise at Tokyo last year of a "refusal to export arms to states which sponsor or support terrorism." The Americans shied from what seemed an embarrassing reminder of the Reagan Administration's clandestine arms sales to Iran.

The seven also expressed their concern about the AIDS epidemic, solemnly placing the subject at the top of the world's agenda. But they merely "welcomed" Mr. Mitterrand's proposal for an international committee on ethical issues raised by AIDS. He was known to be troubled by the growing tendency in the United States, Japan and West Germany toward mandatory testing for indications of the disease.

As for Mr. Reagan's arms-control strategy, White House officials had hoped for a thumping declaration of support but had to settle for more opaque, committee-drafted language. The topic was more seriously treated later by the NATO foreign ministers in Reykjavik. They endorsed a modified version of the Soviet proposal to abolish both medium- and shorter-range missiles. Also in the Icelandic capital, France and the United States seemed to bridge differences on how to deal with East-West negotiations on reducing conventional arms.

The Venice experience again raised the question of whether such meetings are worth the effort entailed in bringing the seven leaders together. Before departing, Mr. Mitterrand voiced his misgivings about these annual media spectacles. But others contended that it does no harm for the leaders to get a sense of what is on one another's minds, to take measure of respective strengths and, as seemed to be the case in Venice, weaknesses. Britain's Foreign Secretary, Sir Geoffrey Howe, summed up this sentiment, asserting the gatherings were, after all, a useful exercise in international group therapy."

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Some plain talk on free trade's future

"A negotiation is not a static thing . . . there are some matters on which we want movement from the U.S. . . ."
External Affairs Minister Joe Clark, May 22, 1987.

VENICE

NOT JUST movement; Canada also needs detailed proposals on what the Reagan administration is prepared to offer us in some key areas.

These include secure access to the U.S. market via a set of North American trading rules, binding arbitration for bilateral trade disputes, and a clear idea of how we can compete on contracts and purchases of the U.S. government.

In addition, there is the vital matter of U.S. administration commitment to passage of a successful Canada-U.S. free-trade deal. How hard is the administration prepared to try, and how many political chips is it prepared to call in when the poker game with Congress enters its final crucial stage?

Those are not idle questions which Brian Mulroney put to President Ronald Reagan and Finance Minister Michael Wilson put to Treasury Secretary James Baker here last week. Joe Clark followed up with Secretary of State George Shultz later in the week, in Reykjavik, Iceland.

This all reflects growing dissatisfaction in Ottawa with the pace and quality of negotiations — to the point where serious reassessment of the entire exercise has already been considered.

Must decide quickly

The economic summit provided the perfect opportunity for a top-level meeting to clear the air, and determine whether or not to continue negotiations; if yes, then how to redirect the exercise along fresh lines.

From the standpoint of Canada's interests, the bilateral meeting was the most important reason for the Venice trip. The summit itself was not pressing for us. But we could not delay a bilateral discussion of the free-trade issue.

Why not? Because Ottawa must quickly decide whether a deal which gives us secure market access to the U.S. is possible, or whether it makes more sense to cut our losses and run. An alternative course, very much second best, is to scale down the shape of a deal.

The Mulroney-Reagan meeting was not a confrontation, nor, as some in the U.S. contingent feared, did it include a request for new American negotiators.

Nor was it expected to reach definitive conclusions. No Canadian principal doubts Reagan's personal commitment to a free-trade arrangement — which he strongly and publicly reaffirmed at the end of the session.

But general endorsement of a free-trade deal, and short-order delivery of a particular kind of free-trade deal, are two different things.

Mulroney's challenge was to explain what Canada needs as a minimum package, and why U.S. negotiating strategy is endangering the talks and placing Ottawa in an intolerable political box.

The Prime Minister, who feels deeply about the issue, and was forceful in his presentation, requested an immediate change in the U.S. approach, I was told.

Under pressure

Starting with bargaining sessions this week in Ottawa, he asked that the U.S. declare clear positions on Canada's key demands so both sides can move quickly into intense bargaining.

The objective, I was told, was the outline of a deal by the end of June at the latest. The Conservative government, under intense pressure and exposure at home, needs to know what it can expect to get, give up, and defend.

The U.S. has the luxury of time, but Ottawa does not. August is probably too late to wait.

To meet the deadlines, it will be necessary for senior White House officials to ride herd on negotiations, make decisions when necessary, provide political impetus, and block attempts by some elements of the administration to place competing agendas on the table.

The U.S. response in Venice was that it is prepared to push the cause, both at the table and after it is submitted to Congress in October.

White House Chief of Staff Howard Baker made it clear that Canada's primary need for a new set of trade rules will be difficult to get by a protectionist-minded Congress. But Baker, a former senator with congressional experience, thinks there is a chance.

Baker will have to be a point man on the trade issue, along with Jim Baker, who heads Reagan's economic policy council, and Frank Carlucci, who heads the national security council.

All three are now fully briefed on the bilateral objective, and Reagan's desire to see it succeed.

Mulroney, Wilson, and Derek Burney, the PM's chief of staff, were all satisfied with events in Venice. But there is still too far to go in too little time to be complacent or congratulatory.

The best that can be said is that Venice marked a good start.

HYMAN SOLOMON *is The Financial Post's Ottawa bureau chief.*

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Brian Mulroney with Japan's Yasuhiro Nakasone and Ronald Reagan

Summit results will take time Wilson says

By Hyman Solomon

VENICE

"WE BELIEVE we have done enough to maintain the recovery in the industrial world, but if we need to do more to avoid a recession, we will act as soon as necessary," Finance Minister Michael Wilson said in an interview following last week's Economic Summit.

Wilson told The Post that he and fellow finance ministers from the seven most industrial nations (G-7) were not happy with current overall real growth of less than 3%.

But policy actions of recent months, including exchange rate measures, have not yet been fully felt in trade and economic sectors, he said.

"A lot has been done and we must give it time to work," Wilson said.

"We will be meeting again in September during the World Bank annual meetings, and we will be taking stock. If necessary, we will meet sooner."

The lack of major summit initiatives to maintain the industrial world recovery in the fifth year of its existence will be read in some financial markets as a failure, certain to be reflected in fresh pressure on the US$, or worse.

Wilson thinks any such interpretation is premature. For example, the new US$43-billion Japanese stimulus package, if implemented this summer, will give that key economy a significant boost.

The U.S. is also expecting its sharply devalued dollar to finally produce real improvement in its trade balance, and help achieve a US$40-billion, or 18%, reduction in this year's budget deficit.

The trade turnaround is already under way, but so far is being reflected only in volume rather than price terms.

West Germany, which has strenuously resisted any acceleration of its planned tax reductions for 1988 and beyond, told fellow summiteers that real growth now exceeds 2% and is accelerating.

Wilson said the summit endorsement of new G-7 monitoring and surveillance measures will keep Germany's feet to the fire even though it is not bound to change policy course if growth remains sluggish.

Constant watch

The economic co-ordination surveillance process, adopted by the G-7 finance ministers in Paris last February, maintains constant watch over an agreed set of member-nation economic indicators, and rings alarm bells if any key ones diverge sharply from forecast direction.

"The finance minister involved will have to explain to us why things aren't going as planned. He [or she] knows we have all been through the same things, and can't be snowed," Wilson said.

"Just knowing we all have to explain our national policies in the broader perspective of how they will impact on others is a positive influence in itself."

The summit economic declaration also called for a fresh round of interest rate reductions, which, given current low inflation, should be achievable with little danger, it was suggested.

Wilson said the reduction would help ensure a continued flow of capital from

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Stakes are high in agriculture trade talks

PETER COOK

GENEVA

The heads of state having departed Venice after delivering a fine-sounding communiqué, it is now up to the international bureaucrats of this city to work out how to disarm the world trading system.

The timing could not be better, or worse, depending on how optimistic, or pessimistic, you happen to be.

The Europeans are snarling about the U.S. trade bill, the Americans are snapping back about the European Community's proposed tax on oil and fats and countries like Canada, caught in the middle, wonder whether the new GATT round of trade talks can save a multilateral trading system built on rules from degenerating into a bilateral one where the big guys always win.

Nowhere are the stakes higher than in agriculture, which is being included in the four-year trade negotiating round for the first time.

Here fine sounding intentions may well be getting way ahead of what can be achieved in a reasonable time frame (not least in the way the issue has been presented in Canada).

All that talk of an early harvest in farm trade talks sounds good. But can it be reaped?

Officials and trade negotiators have their doubts. What the Venice summit came up with was an agreement that the major countries would "refrain from actions which, by further stimulating production of agricultural commodities in surplus, increasing protection or destabilizing world markets, would worsen the negotiating climate and, more generally, damage trade relations." Proposals will also be put forward to bring down subsidies and price supports over time.

That is progress of a kind. The Bonn summit broke up in disarray at the mere mention that the GATT talks should go after agriculture.

However, nothing has been agreed that would end bailouts for farmers. Yes, it is still okay for Canada and anyone else to "stabilize" the incomes of grain farmers. And when the Americans table their blockbuster proposal on reform of agriculture in Geneva next month it will suggest transferring government support to farm incomes rather than providing subsidies to support prices and exports.

That makes more sense than the current system. At present, government aid gives the biggest handouts to the richest farmers.

The aim is to roll back subsidies to the point where a free market in, say, wheat and feed grains starts to operate again.

But have the politicians really looked at how large the distortions are in international markets and how great an economic and social revolution has to occur to get back any semblance of market discipline?

Countries with relatively efficient farm sectors may be prepared to act swiftly. But one has to have doubts about the Europeans whose agricultural policy is a cornerstone of their common market. At the moment, they are revving up to give yet more aid to farmers through an oil and fats tax that was the subject of much villification at Venice.

It is implicit in lowering subsidies that, as they come down, nasty things will happen. One of the most unpleasant will be that the value of land everywhere, and the price of farms, will plummet.

Are governments going to stand idly by while one of their favored lobbies, the farm community, goes through a massive financial upheaval? And if they are not but intend to step in with income support programs instead, will the overproduction of farm products be much less than it is now?

In Canada, the farm issue has often been painted in black and white terms.

The ogres are the Europeans and Americans who poach our markets and keep their farmers in a style that we cannot match. Much time is devoted to comparing our subsidies with theirs to show that we are more sinned against than sinning.

That gives the impression that, if they stopped their evil ways, Canada would regain lost markets and all would be well.

Not so. The situation is more complicated. In fact, Canada's share of world wheat exports has increased to 23 per cent in this crop year from 21 per cent in 1983-84. The problem is that we have a growing share of a rapidly shrinking world market.

Everywhere, there are food surpluses. This is partly due to the absurdities of the rich countries' subsidies; between them, the United States, Europe and Japan blow $80-billion (U.S.) a year on their farmers.

But there are others, some of them once large customers for grain, who are in on the game. Consider the absurdity of Saudi Arabia which chooses, for security reasons, to grow wheat in the desert at 12 times the cost of importing the stuff. Or the Scandinavians who actually give more aid to their farmers than the Japanese.

The surpluses are also there because of huge changes in fertilizer use and crop yields and food production in many parts of the world. Since 1976, both China and India have pushed up wheat output by more than 70 per cent.

If the world is growing and raising too much food, and rich countries are growing and raising much too much food, it is going to be hard to negotiate those surpluses away.

For all the talk of a truce on subsidies and of early harvests, look for farm trade talks to drag on and on and on. And that means countries like Canada will have to ante up new support to stabilize farm incomes.

Once their income is stabilized, farmers will do what they are best at; produce food, add to world food surpluses and raise their own need for more income support.

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Venice summit 'a big yawn' for stock markets

By Heather D. Whyte
Times staff

It's hard for investors to get excited about buying stocks when there's little financial, economic or political news on which to trade.

Take last week, for example. The Venice economic summit was a non-event, interest rates and the United States dollar were little changed and, as a result, the North American stock markets turned in lacklustre performances.

"It was really quite boring," says Tony Yue, a research analyst at Vancouver-based brokerage Pemberton Houston Willoughby Bell Gouinlock Inc. "Investors were just holding off buying or selling."

The lack of interest in equity investing was reflected in the Dow Jones industrial average's less than 1% advance, which came despite the six-day string of record highs posted by the Dow Jones transportation index. Worse yet was the flat line etched out by the Toronto Stock Exchange's 300 index as investors awaited this week's federal government tax reform package.

"The Venice summit last week was a big yawn," says Yue. "It was more political than it was economic and there was nothing concrete on (co-ordinated efforts toward fixing) interest rates and currency levels."

Before the summit, investors hoped that positive economic news would result from the summit. "But it was just more of the same," says John Ing, president of Maison Placements Canada Inc. in Toronto.

The lack of news from the economic summit left investors with little to think about but the future direction of inflation and interest rates. "It left the realization that the inflation bug-a-boo is raising its head at a time when people thought inflation was dormant," adds Ing.

Inflation concerns, however, helped boost international bullion prices late in the week. That, in turn, pushed gold and metals stocks higher and saved the TSE 300 index from posting a loss on the week.

"People are back buying the gold stocks," some of which look attractively priced after correcting about 25% from their recent highs, says Ing. In fact, late-week interest in the commodity-related companies boosted the TSE's metals and minerals index 3.38% and the gold index 2%. Those were the best weekly advances posted by any of the TSE's 14 sub-indexes.

Meanwhile, the TSE's biggest losses went to the financial services and utilities groups. Both indexes fell more than 2% on the week.

Market watchers say fears that the dividend tax credit will be eliminated or reduced took a bite out of the prices of high-yielding stocks. In addition, Yue says the banks continued to suffer as investors viewed unfavorably the soft earnings reports, which mostly resulted from writedowns on offshore loans.

This week's tax reform package created other worries as well. Some analysts speculate that a temporary surcharge will be placed on corporate profits or a business transfer tax implemented on currently untaxed financial services, as the government tries to raise revenues to offset losses caused by lowering individual tax rates.

"After (Finance Minister Michael) Wilson's speech, we might see some action in the Canadian stock markets," says Yue. But for now, he adds, " people just don't know what to do."

MARKET WEEK

Friday noon figures

TSE 300	3727 (-1)
Toronto 35	195.09 (-0.15)
Dow Jones	2377 (+49)
S&P 500	298.73 (+3.64)
Gold	$456(U.S.) (+2.50)
Silver	$7.91(U.S.) (+0.03)
Bank rate	8.58 (+0.08)

Index	week's close	Per cent change from last week	4 wks ago	52 wks ago	1987 High	1987 Low	P/E ratio	Dividend yield%
Toronto 35	194.1	-0.42	-3.42	+24.66	-3.66	+24.4	19.18	2.70
TSE 300	3726	0.0	-2.8	21.2	-4.4	21.8	20.82	2.49
Subindexes are ranked by change from 52 weeks ago, based on Thursday closings								
Golds	8599	2.0	-7.0	109.6	-13.0	61.3	60.64	0.41
Transportation	9064	1.7	-2.6	107.7	-3.8	51.9	25.37	0.75
Integrated Oils	4363	1.4	-4.5	65.5	-5.2	34.2	28.37	2.28
Oil & Gas	4207	0.1	-6.5	61.4	-7.2	38.5	N/A	1.50
Oil & Gas Producers	4348	-0.8	-7.8	58.5	-8.5	42.3	N/A	1.00
Paper & Forest Products	4912	-0.9	1.4	53.7	-14.0	34.5	16.63	2.01
Real Estate & Construction	13257	1.3	-0.9	34.8	-4.5	19.9	48.99	0.88
Metals & Minerals	2925	3.4	-1.0	33.9	-1.7	47.8	61.14	1.36
Management Companies	5505	0.8	-4.2	29.3	-7.9	27.6	26.22	2.10
Pipelines	2881	1.3	-2.2	28.3	-6.7	29.1	18.58	4.89
Banks	2334	-2.4	-0.6	9.3	-12.3	5.9	9.45	4.70
Utilities	2910	-2.2	-0.5	8.9	-4.4	10.8	11.31	5.79
Financial Services	2443	-2.1	-2.1	5.1	-10.2	5.5	10.39	4.04
Consumer Products	5211	0.5	-1.5	4.2	-8.6	30.4	15.91	2.06
Industrial Products	2241	-1.0	-2.9	0.1	-8.5	15.3	26.98	2.14
Communications & Media	6638	1.6	-0.1	-1.5	-8.8	9.3	25.50	1.60
Merchandising	3703	-1.3	-3.0	-3.4	-8.3	11.5	17.13	1.72