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Collection Name WHITE HOUSE OFFICE OF RECORDS MANAGEMENT
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Withdrawer

DLB 3/16/2020

File Folder FO006-12 (497530-499999)

FOIA

F16-011

Box Number FO006-46

BIERGANNNS

173

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
244840	PAPER	ENGAGING THE ALLIES ON THE PERSIAN GULF SECURITY	2	ND	B1
244841	CARDS	TALKING POINTS, RE: PERSIAN GULF	1	ND	B1
244842	PAPER	TALKING POINTS [RE; PERSIAN GULF]	2	ND	B1
244843	PAPER	ENGAGING THE ALLIES ON PERSIAN GULF SECURITY	2	ND	B1

The above documents were not referred for declassification review at time of processing

Freedom of Information Act - [5 U.S.C. 552(b)]

B-1 National security classified information [(b)(1) of the FOIA]

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

4177

C.F.
497530
FD006-12
C0001
FG006-16

June 2, 1987

ACTION

MEMORANDUM FOR FRANK C. CARLUCCI

FROM: ROBERT B. OAKLEY *RO*

SUBJECT: Building Allied Support for Gulf Policy:
Background and Talking Points for President's
Use at Venice Summit

Attached is our revision of State's background paper and talking points for the President's use at the Venice Heads of State dinner. To prepare the ground for the Summit, Presidential messages will be sent to Allied leaders this week explaining our policy and the importance of greater Allied support. Our embassies will follow up with more detailed presentations. We are also circulating to Allied capitals a draft joint statement for issuance at the Summit, which would underscore Western determination to end the Iran-Iraq war and protect freedom of navigation for non-belligerent shipping.

The President will outline our approach at the Summit dinner, emphasize that we have thought through our policy carefully and are prepared to stay the course, and appeal for limited but tangible contributions from the Allies to enhance the security of non-belligerent shipping in the Gulf. George Shultz will then follow up in more detail with his counterparts. We face an uphill battle in overcoming Allied doubts about our policy and staying power--we need to be patient, and to cast as wide a net as possible in seeking tangible signals of Allied support.

PO Cockell and Sommer *POS** concur.

RECOMMENDATION

That you approve inclusion of the attached background paper and talking points in the President's briefing materials.

Approve _____ Disapprove _____

Attachments

- Tab I "Engaging the Allies on Persian Gulf Security"
- Tab II Talking Points and Cards
- Tab III Levitsky-Carlucci Package

BY NAME *dr* DATE 3/28/2020

~~SECRET~~

Declassify on: OADR

NSC 8704177

**Ermarth also concurs*

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244840	PAPER ENGAGING THE ALLIES ON THE PERSIAN GULF SECURITY	2	ND	B1

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244842	PAPER TALKING POINTS [RE; PERSIAN GULF]	2	ND	B1

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United States Department of State

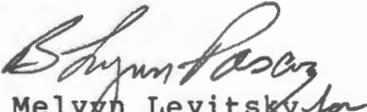
Washington, D.C. 20520

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Attachment

June 1, 1987

MEMORANDUM FOR MR. FRANK C. CARLUCCI
THE WHITE HOUSESUBJECT: Presidential Strategy Paper and Talking Points
on Engaging the Allies on the Persian GulfRequested paper and talking points for the President's use
at the Venice Summit are attached.
Melvyn Levitsky for
Executive SecretaryAttachments:
As statedUNCLASSIFIED UPON REMOVAL
OF CLASSIFIED ENCLOSURE(S)

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244843	PAPER ENGAGING THE ALLIES ON PERSIAN GULF SECURITY	2	ND	B1

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ACTION OFFICER:

Oakley

DUE:

ASAP

Prepare Memo For President

Prepare Memo Green to Peterson / Murr

Prepare Memo For Carlucci / Powell

Appropriate Action

Prepare Memo _____

to _____

CONCURRENCES/COMMENTS*

PHONE* to action officer at ext. _____

FYI

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Batjer

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Kelly, J.

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Smith

Cohen

Linhard

Sommer

Collins

Mahley

Sorzano

Danzansky

Major

Steiner

Dean, B.

Mathews

Stevens

Donley

McNamara

Tahir-Kheli

Douglass

Oakley

Thompson

Ermarth

Paal

Tice

Farrar

Platt

Tillman

Flower

Porter

Tobey

Fortier

Pugliaresi

Grimes

Reger

INFORMATION

Green

Pearson

Secretariat

Carlucci (advance)

Powell (advance)

COMMENTS

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Return to Secretariat

dh-3/20/2020

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UNCLASSIFIED

RECEIVED 02 JUN 87 11

TO CARLUCCI

FROM LEVITSKY, M

DOCDATE 01 JUN 87

KEYWORDS: PERSIAN GULF

VENICE SUMMIT

SUBJECT: PRES STRATEGY PAPER / TALKING PTS ON ENGAGING ALLIES ON THE GULF

ACTION: PREPARE MEMO FOR CARLUCCI DUE: 02 JUN 87 STATUS FILES WH

FOR ACTION

FOR CONCURRENCE

FOR INFO

OAKLEY

BURNS

ROSS

BATJER

TAHIR-KHELI

COBB

COCKELL

KELLY, B

GREEN

COMMENTS

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PERSONAL MEMORANDUM

TO: Ambassador Yeutter

DATE: May 22, 1987

FROM: Senator Frank Murkowski

SUBJECT: VENICE SUMMIT AGENDA ITEMS

I strongly urge that the following be on the Venice agenda:

1. Trans-Pacific Fiber Optics Cable:

Progress is being made for U.S./British consortium to participate in a new trans-Pacific fiber optics cable, in competition with the Japanese telecommunications monopoly KDD. The President and Prime Minister Thatcher should keep the pressure on at the summit.

2. Kansai International Airport and Public Works in Japan:

Japanese bureaucracy may not be hearing Prime Minister Nakasone's message to open Kansai to U.S. participation. Attached article shows the problem, albeit Japanese Embassy later clarified.

3. Coal Exports to Japan:

Prime Minister Nakasone resisted purchasing U.S. coal because of cost. As attached letter to the Prime Minister shows, Alaska's sub-bituminous coal (world's largest deposit at tidewater) is highly competitive at \$48.18 per ton.

4. Natural Gas Exports to Japan:

Given the 1983 energy accord, export of Alaska LNG is an unfinished agenda item from previous summits/meetings. Export of 14 million tons of Alaska LNG equates to 340,000 barrels of oil or Japan, with annual trade deficit offset of \$3 billion. A presidential finding (pending now with Energy) to permit LNG export is urgently needed before the summit.

We must not overlook leveraging these issues at the summit, in view of our commitment to keep Japan's oil lifeline open in the Persian Gulf (by reflagging Kuwaiti tankers). Japan is the principal beneficiary with little or not contribution in return.

Venice summit is the best opportunity we've ever had to make progress on these items.

Identical memoranda to:

Senator Baker
Secretary Baker
Secretary Hodel
Secretary Herrington
Secretary Baldrige
The Honorable Frank Carlucci

UNITED STATES TRADE REPRESENTATIVE
WASHINGTON, DC



FROM: The United States Trade Representative

DATE: May 26, 1987

TO: ✓ N. Risque

M. Smith, B. Wilson, J. Frierson

ACTION:

- | | |
|--|---|
| <input type="checkbox"/> Please prepare reply for my signature | <input type="checkbox"/> For your comment or recommendation |
| <input type="checkbox"/> Please discuss with me | <input type="checkbox"/> Please handle |
| <input type="checkbox"/> Please reply directly | <input type="checkbox"/> For your information |
| <input type="checkbox"/> For your files | |

REMARKS:

Stucky should:

- 1. Find out what USTR wants us to do, if anything... NOTHING*
- 2. Did they share this with anyone else? YES. THE NSC, WHICH IS WHOEVER IT SHOULD GO.*

THE JAPAN ECONOMIC JOURNAL

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Takeuchi: "I don't think U.S. contractors have been doing enough in Japan to impress."

Kansai shunning foreign firms

Phase-Two airport contracts to be handed to Japanese

By Nobuo Takahashi

JAPAN ECONOMIC JOURNAL STAFF WRITER

As the Japan-U.S. controversy over the participation of foreign firms in the construction of the ¥1 trillion New Kansai International Airport near Osaka continues to simmer, Yoshio Takeuchi, president of the company overseeing the airport construction, again stressed that there are certain areas where Kansai International Airport Co. (KIAC) cannot yield to U.S. demands.

It will be difficult, Takeuchi said in an interview with *The*

Japan Economic Journal, for foreign firms to join Phase-Two of the airport project (involving construction of the terminal building and runways), mainly because the work requires hiring and management of Japanese construction workers. "It would be more realistic for interested foreign contractors to join hands with their Japanese counterparts if they wanted to become prime contractors in the Phase-Two work," Takeuchi said.

American officials and industry people criticize KIAC policy of a designated bidding system,

which may exclude foreign firms and withholding information to U.S. firms. Some U.S. Congress members, moreover, are demanding that Japan should assure American firms an opportunity to participate in the Phase-Two of the airport works as prime contractors whose participation will be 100% on its own.

Takeuchi, formerly director-general of the Transport Ministry's Ports and Harbors Bureau, was not very responsive to the idea that KIAC award a set portion of airport contracts to foreign firms.

"That could be a possibility worth considering, but it is not our job to think about it - it's the Government's," he said.

Takeuchi joined with Construction Ministry officials in taking a dim view about foreign firms going it alone in participation in the airport project. In a recent interview, Kimihisa Ogawa, director of the ministry's contractors division, said that there have been a number of cases in which Japanese and foreign firms have jointly undertaken construction projects overseas. "I think this

(Continued on Page 4)

Heat forces automakers to seek out new partners

By Katsuro Kihomoto

JAPAN ECONOMIC JOURNAL STAFF WRITER

Prospects of growing competition in the world car market have driven Japanese automakers to seek new international tie-ups, pointing to a major realignment in the

with AB Volvo will prompt other Japanese car makers to diversify their present tie-up strategies, according to industry analysts.

On the heels of the Nissan-Ford agreement announced May 1, Fuji Heavy Industries and Volvo decided to join

Joint short-term interest juggling unlikely to halt \$ fall: analysts

U.S. deficit cut, Japan home demand boost the keys

By Yo Makino

JAPAN ECONOMIC JOURNAL STAFF WRITER

Many observers of the Tokyo financial markets remain skeptical about the effectiveness

Sanwa Bank's international treasury department, says that the interest-rate coordination is "nothing but a temporary action to play for time."

A similar view is offered by

Japan Development Bank, was induced by "the sheer size" of the U.S. credit markets. Japanese institutional investors, with their pockets bulging with cash amounting to about ¥80

Kansai—

(Continued from Page 1)

approach will be the shortcut for foreign contractors to take part in the Kansai International Airport project," Ogawa added.

Regarding the designated bidding system, which KIAC adopted in inviting bids for Phase One (involving sea reclamation and construction of a man made island in the waters off Osaka), Takeuchi refused to change the system in spite of the strong U.S. criticism. "There are so many contractors in Japan that it will be simply impossible for KIAC to get the job done through open bidding."

Under the designated system for awarding public-works contracts, the Japanese Government identifies contractors it thinks are reliable and invites them to bid. The U.S. Government and construction industry officials have complained that the system enables the Japanese Government and KIAC to effectively shut out foreign firms from bidding. The Heritage Foundation, a Washington think tank which often has a strong influence on White House policy, said in a recent report on the Kansai Airport issue that U.S. firms with no experience in Japan are not designated.

Against the Heritage's criticism, Takeuchi said KIAC does not necessarily require foreign firms to have experience in the Japanese market. "If they have expertise in airport construction overseas, they may

qualify," Takeuchi said.

Takeuchi said he believed that the seminar KIAC held in October 1986 to explain the designated bidding system as well as details of the airport project enhanced U.S. firms' knowledge of the system. "It would be unreasonable for them (foreign firms) to demand that the bidding method be changed."

Takeuchi, however, emphasized that by the time Phase-Two work starts in 1990, KIAC will come up with measures to assure foreign firms that its bidding for Phase-Two jobs will be undertaken in a goldfish bowl, that is, in an understandable manner.

Takeuchi also insisted that KIAC now can provide more information than before to foreign firms on request through an international public relations division established in late April.

While showing his readiness to increase the "transparency" of KIAC's operations, Takeuchi took U.S. contractors which have been critical of KIAC to task. If U.S. firms really want to win airport contracts, he stressed, they have to demonstrate the required enthusiasm and the necessary preparedness.

"I don't think U.S. contractors have been doing enough in Japan to impress with their presence and capability," he said. Toshio Endo, director in charge of Kansai International Airport at the Transport Ministry, also was doubtful of American firms' zeal in participating in the airport project. In an interview, Endo said,

"Few of them (foreign firms) so far have bothered to obtain Japanese licenses to operate as contractors, much less to establish offices in Japan," he complained.

"There isn't much voice coming from the U.S. industry, but Congress is vocal, instead," he said.

Takeuchi suggested that offering consultancy could be one of the areas of the airport project where foreign firms can actively participate. "We have already begun seeking consulting services from a number of foreign airport authorities, including the Port Authority of New York. In the next stage we will consider soliciting similar services from private consulting firms, including those from foreign countries," he said. (Bechtel Civil Corp. of the U.S. has already signed a ¥30 million contract with a group of six Japanese firms to design the terminal building.)

"Inviting foreign consultant firms to join in of course does not mean that KIAC will give them carte blanche in terminal building construction, unlike the cases of airport construction in some countries, such as in the Arabian Peninsula," Takeuchi said.

Asked for comment on the views expressed by Takeuchi and the Transport Ministry officials, an executive of Japan Construction Contractors, Inc. said he doubted that foreign firms will be able to participate in the project on a major scale. "They can probably join in at best in supplying construction machinery and equipment and offering consulting services."

'Difficult' for foreign firms to win Phase-Two contracts

Following is a summary of comments by Yoshio Takeuchi, president of Kansai International Airport Co. in the interview with *The Japan Economic Journal*.

On participation of foreign firms

The project is open to all firms from all countries. But we must choose contractors on the basis of their expertise, technology, financial resources and labor management skills. It seems rather difficult for foreign firms to join in the project by themselves. For example, if they were to act as prime contractors, they would have to find Japanese subcontractors and in order to do so, it would be more realistic for them to join hands with Japanese contractors.

On designated bidding system

Open bidding is unfit for the Japanese construction industry which is crowded with nearly 600,000 contractors. Japanese firms wishing to participate in the Kansai airport project would number 5,000-6,000. Unlike the U.S., Japan does not adopt the bond system (under which contractors are required to put up bonds to compensate for failure to perform the contracted jobs) and an open bidding system could expose KIAC to serious financial

troubles.

On equipment suppliers and consulting services

As to construction machinery procurement, we intend to pick suppliers on the basis of free competition. We are now receiving consulting advice from overseas airport authorities, including those in New York, Paris, Amsterdam, Frankfurt and London. Eventually we may seek the expertise of foreign private consulting firms. Even in such a case, however, we will not give carte blanche to specific consulting firms, Japanese or foreign.

On U.S. criticism

U.S. critics hold that Japanese contractors win \$2 billion worth of contracts annually in the U.S. while American construction companies are awarded few jobs in Japan. However, let me remind them that 80%-90% of U.S. contracts undertaken by Japanese contractors are awarded by Japanese companies erecting production and other facilities. It seems to me that the U.S. criticism is unfair. The U.S. also imposes practices peculiar to it, such as its Buy-American policy requiring contractors in the U.S. to use American products in public works projects.

UNDER SECRETARY OF STATE
FOR ECONOMIC AFFAIRS
WASHINGTON

May 19, 1987

C.F.
49764/3881
FOO06-12

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



SUBJECT: Substantive Preparations for Venice Economic Summit

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

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

On economics, the challenge will be to:

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

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

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

Allen Wallis
Allen Wallis

Attachment: Report of Venice Preparatory Meeting

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DECL: OADR

NSC 8703881

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BY dh NARA DATE 3/20/2020

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Report of Fourth Preparatory Meeting for
Venice Economic Summit
Venice, May 15-17, 1987

I. INTRODUCTION

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

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

II . ECONOMIC ISSUES

(A) Macroeconomic Situation

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

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

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

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

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

(B) Agriculture

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

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

(C) Trade

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

(D) Debt and LDC's

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

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

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

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

(E) Other Issues

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

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

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

III. POLITICAL ISSUES

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

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

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

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

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

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

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

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

A G E N D A

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

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1987 ECONOMIC SUMMIT - OPENING MEETING

VENICE, ITALY

PARTICIPANTS: President Ronald Reagan
Prime Minister Amintore Fanfani
President Francois Mitterrand
Prime Minister Margaret Thatcher
Chancellor Helmut Kohl
Prime Minister Yasuhiro Nakasone
Prime Minister Brian Mulroney
President Jacques Delors
Economic Communities Representative Martens

DATE & TIME: Tuesday, June 9, 1987 - 9:57 AM - 12:08 PM

9:57 AM FANFANI opens Summit.

Texts on Iran-Iraq, terrorism, Gulf available. Any comments?

THATCHER: Happy with East-West and terrorism and Iran-Iraq war -- support effective measures, add enforceable. Means sanctions on arms.

REAGAN: Just, effective and enforceable measures. Someone else (Japan?) supports.

MITTERRAND: Word enforceable has not been discussed so can't agree.

FANFANI: Says just covers enforceable -- moral duty to find right way to enforce.

KOHL: Likes enforceable, not just. The Sherpa statement sound.

FANFANI: Asks Thatcher views. She says unless all agree can't go. Effective implies enforceable.

REAGAN: Some effective measures might be unjust. Doesn't see any concern with either word.

NAKASONE: Enforceable alone rather harsh attitude. Just must be in - reflects value judgment.

MITTERRAND: These summits are economic summits. If must be enforceable, a task for Security Council. Should not pre-empt Security Council.

10:07 AM

THATCHER: Security Council does not always adopt just measures -- neither does an assembly.

REAGAN: Agrees, says UN has degenerated into a debating society.

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Westgate News Waver

MARTENS: Agrees just should be added -- but this not appropriate forum.

FANFANI: Everyone agrees to omit enforceable but what about just? Encourages Security Council to be fair. So let's accept and go on to economy only add word just and let other papers stand.

FANFANI: Wants to go on TV now and read the statement.

THATCHER: Won't world press think us a little bit quick? Start on economic then break for coffee, put out for lunch.

FANFANI: OK.

MULRONEY: South Africa evidently did not receive unanimous support. Can chairman refer to it in closing remarks.

THATCHER: We did that last year, can do it again.

10:17 AM

KOHL: Do not give impression we discussed South Africa unless we really do so. Outstandingly good work by Sherpas but let's turn to economy.

FANFANI: Thought Mulroney satisfied last night. Deferred to riper time and more suitable forum -- e.g., Reykjavik next week.

MITTERRAND: Terrorism was not discussed -- neither was Iran-Iraq war -- but he won't kill it.

10:21 AM Economics

FANFANI: Summarized subjects to be discussed.

NAKASONE: Mixed picture for world economy. Must implement policy coordination and restructuring. Must achieve long-term stability of exchange rates -- Japan with trade surplus has major responsibility but so does U. S. because of the budget imbalance. Six trillion yen program, twenty billion recycling to developing world. One billion government procurement, half billion to sub-Saharan countries.

10:35 AM

NAKASONE: (Continues) Japan often criticized for not fulfilling promises -- he'll see that they do. Exchange rate instability important to Japan. Major causes have been relation between U. S. and Japan.

-- Japan trade surplus

-- U. S. budget deficit

Deficit reduction by U. S. might cause some recession which would hurt LDC's -- industrialized countries must be prepared to help.

KOHL: Have made progress since Tokyo. FRG has been adjusting since end of 85. Growth slowed more than expected because negative effects of lower oil prices took effect sooner than positive effects. More important than new commitments is carrying out those we have already made.

-- Reducing taxes Jan 86, 88, 90.

Total 2-1/2 percent of GNP -- limit of what is possible.

-- Interest rates at historical lows.

10:43 AM

KOHL: (Continued) FRG trade surplus has declined substantially and will go further. Military program expanded GNP 4 percent. Exports rose far less than imports. Proceed along lines laid down by OECD Minister at GATT -- although agriculture very difficult.

KOHL: LDC's -- commodity price problem. Debt problem still serious. Future strategy must treat poorest differently. Replenish IDA -- General Capital Increase as soon as possible.

10:50 AM

REAGAN: Structural adjustment is necessary for sustained, higher level of economic growth and for better balance in our external accounts. Supply side policies important, but need to give these terms more concrete meaning. In US have made substantial progress, e.g., banking, airline, and telecommunication deregulation; deregulation of energy prices; tax reform and cutting government expenditures. Have much more to do in other areas, for instance agriculture. We are spending billions in subsidies to assist small family farms, but much of it flowing to those who don't need it. There are other areas in which we can cut government expenditures.

Here are a few examples from your countries. Much has been written lately about cost of land and housing in Japan. Japanese housing apparently costs 7 times workers' income versus 3 times in US, due in part to high land values. This in turn induces excess saving and dampens consumption. Is this related to agricultural subsidies and laws that keep land from being converted from farming to other uses?

In Europe we still see serious labor market rigidities. Labor costs high. Legislation restricts overtime; difficult if not impossible to lay off workers and to close unprofitable plants. This, plus overregulation and lack of financing inhibits people from starting new firms, the main sources of employment growth.

I understand that in Italy banks reluctant to take on new employees to handle volatile levels of stock transactions because they cannot lay off employees when markets slow down.

If US had such limitations, we would never have developed our high tech centers and other new industries.

Primary cause of oversupply and distress in agricultural markets is government farm support policies tied to production. These misallocate and overcommit resources to agriculture, shelter producers from market realities and prevent necessary structural adjustments to stagnating demand and rapidly-increasing productivity.

These policies cost our countries, together, over \$140 billion a year. They also have severe effect on developing countries, many of which depend on earnings from agricultural exports to repay debt and promote growth. Import protection and export subsidies have been necessary to sustain these policies. These trade distortions cannot be reduced unless we deal with the basic problem. Any support to farming must be in ways that do not provide incentives to production.

Summit countries must lead others in Uruguay Round to act together to reduce production-linked support, trade barriers and subsidies. Politically, no country can accept freer trade unless others do too.

I have reviewed language that our hosts have proposed on agriculture. I think it is positive. Important that we go beyond language adopted as OECD. This is an area where we have great responsibility to promote reform.

Several improvements needed. Will leave details to Sherpas. However, of prime importance:

-- We cannot leave Summit with merely "an endorsement" of OECD language; must translate into action.

-- Must ask Trade Ministers to develop expeditiously elements of a comprehensive approach to achieve objectives set forth by OECD. We should have a report at our next Summit.

10:56 AM

MARTENS: Conditions for remedying imbalances have improved. Dominant retardent of growth less in structural maladjustments -- exchange rates now in accord with economic factors.

10:58 AM

Trade imbalances must be smoothed out -- due to differences in rates of growth. Solutions:

- 1) Surplus countries cut export would lead to recession.
- 2) (Missed.)
- 3) Coordination for durable, noninflationary adequate growth. Need concrete credible commitments from this Summit on all subjects on agenda.

Pleas for sound commitments by U. S. for reduction in budget deficit. Four essentials:

- 1) In spite of market stability resulting from Louvre, may again deteriorate.
- 2) Macro policy alone cannot bring prosperity -- structural adjustment needed.
- 3) Balanced growth of economy, trade, keeping markets open.
- 4) Sufficient influx of capital into developing countries.

11:08 AM

THATCHER: Summits have been very important to world economy -- got inflation down, interest rates down. But we must consider current problems U. S. getting budget deficit down, U. S. trade deficit declining. Tremendous benefit of U. S. trade deficit coming to end -- can be devastating. President working to get budget deficit down. Unless U. S. trade deficit picked up by others in for serious trouble. Compliments Nakasone. But in Japan rising value of yen does not lead to influx of imports. Japan's current account surplus in dollars not likely to decline in near term, will rise in long term from investments. Germany -- there is a (slight) hope of growth.

Surplus countries must pick up stimulus U. S. has provided UK budget deficit less than 1 percent of GDP. Trade imbalance because of exports to U. S.

11:16 AM

Agrees with "RON" criticism of European structural maladjustment. Worries that Japan exports to UK will rise as their exports to US decline. Protectionism will be unstoppable if markets not open in other countries. Third world - reduced demand for commodities results from technological change so they need to be able to export food. Can't put on oils and fats tax -- "hypocritical." UK has turned some loans to grants, is cutting interest but what they need is trade not aid. Need investments but this requires protection against confiscation. Banks -- Citicorp reserves a good step. UK banks have been doing; will effect willingness of banks to lend -- and it should. Some LDC's should sell internal assets to help pay debts.

11:24 AM

THATCHER continues. Agriculture policies can't go on. Agrees with "RON" not enough just to reaffirm OECD -- need action. Must act together -- can't take it out of 3rd world with fats and oils tax -- would start trade war with U. S.

11:25 AM

MITTERRAND: Developing countries' debt problems: sources of problems identified. Budget deficits, trade deficits, unemployment, exchange rate instability. Conditions of LDC's worse since Tokyo. Commodity prices down, protectionism up. Flows of fresh money down. Traditional remedies won't suffice. Ivory Coast -- good policies, diverse products but can't service debt. Other countries worse off. We must improve world economic environment.

1) Stimulate growth -- especially surplus countries.

2) Reconstruct international monetary system in such a way as to insure exchange rate stability and low interest rates. Target zones. International monetary system okay until 1971.

11:32AM

MITTERRAND continues.

3) Fight protectionism -- "hypocrisy reigns" including France. Must achieve goals set at Punta del Este.

4) Halt slide in commodity prices -- World Bank should provide funds for countries to diversify.

Must reschedule debt of mid-income countries. Recycling to developing countries via IMF. Time has come for concrete actions. Triple Structural Adjustment Facility of IMF -- easy loan terms. Do without introducing distortions. Debtor countries must take proper steps. Extend rescheduling in Paris Club to 10 - 20 years.

11:30 AM

MULRONEY: Anyone who doubts value of Summits should have heard Thatcher, Kohl, Mitterrand, Reagan last night. "Most impressive and encouraging." Subsidies -- affect his government severely. Deficit was 8 percent of GDP, unemployment 12 percent when this government took over. Now deficit is 5.4 percent of GDP, unemployment is 9 percent.

11:43 AM

Canada in 87 will spend 4 billion dollars on agriculture.

MULRONEY: Recites economic progress of his administration -- but all jeopardized by competitive subsidization. Appreciates Ronald Reagan's remarks. (Sounds desperate.) African debt owed mostly to governments. Should transform to grants. IMF should forgive (at least he seemed to say that). "Dear old Canada ain't going to survive with this agricultural battle going on."

11:51 AM

FANFANI: Tries to draw out Delors.

DELORS says there is always a role for interaction. There are always Cassandras and optimists. World trade slow. Financial markets and exchange rates highly volatile. World Central banks (other than US) have accumulated 75 billion dollars in market stabilization efforts. Must raise rate of growth of international trade now that US not supporting it.

11:56 AM

DELORS: Continued. Must transfer resources to LDC's to help support freedom and democracy. Baker, Canadians, Brits at IMF made good contributions.

FANFANI: Things are changing in the world today. New attitude in Soviet Union shows exaggerated regulation does not yield good results. Was in Central Siberia and found excitement about opening of a small private cafe. He is a scholar and it is of greatest interest to see in all things that have been said today evidence that the world is changing.

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-8-

FANFANI: Must give a clear signal that we understand which way the world is moving. Will allow photographers in, then adjourn.

12:08PM

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1987 ECONOMIC SUMMIT - AFTERNOON PLENARY SESSION

VENICE, ITALY

PARTICIPANTS:

President Ronald Reagan
Secretary George Shultz
Secretary James Baker

Prime Minister Amintore Fanfani
Minister of Foreign Affairs Giulio Andreotti
Minister of Treasury & Budget Giovanni Goria

President Francois Mitterrand
Prime Minister Chirac
Minister of Finance Edouard Balladur

Chancellor Helmut Kohl
Minister of Foreign Affairs Hans-Dietrich
Genscher
Minister of Finance Gerhard Stoltenberg
Minister of Economy Martin Bangemann

Prime Minister Yasuhiro Nakasone
Minister of Foreign Affairs Tadashi Kuranari
Minister of Finance Kiichi Miyazawa
Minister of Industry & Foreign Trade
Hagime Tamura

Prime Minister Brian Mulroney
Secretary of State for External Affairs
Joseph Clark
Minister of Finance Michael Wilson

President of European Council Jacques Delors
Economic Communities Representative Martens
Minister of Foreign Affairs of Belgium
Leo Tindemans
Member of the Commission of the European
Communities Willy de Clercq

Sir Geoffrey Howe, Secretary of State for
Foreign & Commonwealth Affairs
Chancellor of the Exchequer Nigel Lawson

DATE & TIME: Tuesday, June 9, 1987 - 3:18 PM -

FANFANI calls on Goria to report for Finance Ministers.

GORIA: Recalls Tokyo establishment of G-7 and duties assigned have made significant progress. Economies have grown, but slower. Have slowed exchange rates (sic). He is reading too fast to cover but we should be able to get text. Commitments at Plaza, Louvre, Washington. Exchange rates within ranges roughly compatible -- usual formula.

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BY 3/20/2020

Using indicators in multilateral surveillance. List a few -- rapidly. We'll have to define objective, etc., etc., etc. Might use rangers as goals. Need pragmatism and flexibility. These are main criteria for selecting indicators. Indicators may change from time to time. No automaticity. Can contribute to greater stability.

3:29 PM

GORIA: (Continued) Must give markets confidence in stability. Report should be absolutely confidential -- could affect markets. Yesterday and today discussed international trade, especially agriculture will not go beyond OECD Ministerial. Might repeat precisely what was said at OECD. Committed to presenting material for communique. Unanimous agreement reached. Have a paragraph to substitute for paragraph 9 in present draft. International debts -- discussion only started regarding poorest of poor. Prepared to reschedule, lower interest rates, and give grace periods. INF directors initiative much appreciated. Everyone showed a will to reach an agreement next fall.

3.37 PM

No discussion of mid-level debtors. Fanfani; Sherpas (?) will polish statement tonight for review tomorrow.

3:39 PM

KOHL: Public expects two messages. East-West relations, and third world debt. Must go further than previous Summits Communique; must say much more than this report does. Find a way to get a statement for tomorrow that goes much further.

FANFANI: Thinks all agree we must say something decisive and precise. Question has important political aspects. Should also discuss agriculture.

MULRONEY: In Jan-Feb was in Zambia and Senagal, talked to Kuada yesterday. 650 - 350 changes in per capita GNP over 4-1/2 years. (Canadian dollars)

External debt grew 67 percent. Per capita investment \$47. Followed IMF but had food riots.

MULRONEY (Continued) and stopped IMF. Aid should be grants not aid; ODA loans should be converted to grants. 60 percent of foreign earnings used to service debts. Endorse Camdessus proposal, Japan to put half the money to triple structural adjustment facility.

3:49 PM

BAKER: Debt problem different for poorest of poor. Approach must be different for mid-income countries problem is growth. Four principles of (Baker Plan) still valid. Debt of least developed countries mostly official debt. US no longer in position to take 60 percent of exports from debtor countries. Thinks there will be new commercial bad flow. But banks after reserving, in position to be firmer.

LAWSON: Backs what Baker said. Need to work toward more market oriented solution. Develop secondary markets. But for LLDC's burden of debt is insupportable. Grants must be conditioned on policy reforms. What they need is not more lending and rescheduling, but debt relief. (Gap)

REAGAN: Have we been neglecting teaching how to farm, how to set private businesses? Using volunteers (Peace Corps).

4:00 PM

CHIRAC: Was for IMF in September take action promptly. Any proposal from Camdessus will be well thought out -- we should endorse.

DECLERQ: Are all initiatives good but should not be scattered -- should be concerted.

HOWE: Reagan point should not be passed over unsupported. Good results from human aid.

CLARK: Also supports volunteers.

HOWE: Not just volunteers.

LAWSON (British): Camdessus proposal good but not enough -- must deal with debt to individual countries and international organizations.

FANFANI: Summarizes -- emphasizing urgency.

NAKASONE: Agrees with Fanfani summary and other remarks. Discuss not just in terms of feelings, make scientific (sic) studies. Various roles -- banks, MDB's volunteers. Japan will grant \$500 million to sub-South African countries. But what is most efficient means of concerting action.

NAKASONE: (Continued) Take supplement IMF as target. Have experts meet, have clear strategy and long-term perspective.

KOHL: Very important subject -- Latin America and Africa. FRG has written off \$4.2 billion DM. This Summit must go out with clear message. Decide direction now, don't wait until September. Must subject ethical quality. It is not the children or the starving who are to blame. Case by case, no across the board. Solutions: There are international organizations to devise methods. Political considerations important. Finance Ministers should draw up a text we can adopt tomorrow. We must do something.

MITTERRAND: Lack practical way to deal with debt. Must give Finance Ministers more specific instructions. Our intentions are varied. Must go further this evening.

4:22 PM

MITTERRAND: (Continued) Are we ready or are we not to put up funds immediately? Let's spend 30 minutes, 15 minutes maybe 5 specifying what Finance Ministers should do.

SHULTZ: Any statement on sub-Sahara Africa must have important dimension beyond funds. Refer to 85 famine. Problem of maldistribution of food still a problem. Africa a continent of plagues. Locusts last year. AIDS of stunning proportions, affect those who agree to manage a plan that centers only on debt (does not dismiss debt problem). Can be seriously incomplete. A lot more to problem than what is in jurisdiction of Finance Ministers.

ANDREOTTI: Talks about financial problems. Write-off would destroy their credits. Has analyzed whether debts for weapons. Weapons bought with cash. Some least developed countries have bled themselves dry buying weapons for cash. Need monetary and surveillance.

4:34 PM

FANFANI: Calls on Gorla -- are Finance Ministers prepared to prepare a paper tonight?

GORIA: Two issues: (1) International cooperation (2) The indebtedness situation. Need to decide on certain initiatives Camdessus proposal good. Paris Club - reached, lower interest, grace. He will assume responsibility to convene Finance Ministers for dinner and prepare a statement to submit to Sherpas before too late.

Regarding middle income level countries. Role of commercial banks. Gorla thinks recent reserving an adverse development.

MULRONEY: Ronald Reagan said communique should go beyond OECD.

GORIA: Conclusions of Finance Ministers not to go beyond OECD, which was compromise.

4:46 PM

GORIA: (Continued) Finance Ministers concluded not possible to do more or less than OECD.

REAGAN: Important to go beyond OECD. Prime importance. Translate OECD into proposed action. (Used talking points recently given him).

STOLTENBERG: Agrees with Gloria. If we achieve what OECD called for, it will be enormous step forward.

REAGAN: Quotes former saying "If you are not farming the government you are just not with it."

BAKER: Add a sentence call on Trade Ministers to develop plan to meet objectives of OECD and report to next Summit.

MITTERRAND: Can't refer anything from Summit to another group. Would be an absurdity. France would object strenuously.

4:56 PM

HOWE: Should do everything we can to advance Agriculture solution, so don't wait. Could suggest using tools OECD has developed -- paragraph 14 "and in particular to the updating and improving"

REAGAN: Mexico producing midget cows that use 1/10 as much food, produce 2/3ds as much milk.

MULRONEY: Supports combining statements from OECD with draft communique.

FANFANI: Ready to adjourn.

5:03 PM

LAWSON: Can't be here tomorrow. Evolution of cooperation on development of world economy. Since Tokyo much progress on cooperation. Louvre accord important. Punte del este also important. But faced by major imbalances; Germany and Japan trade surpluses. US budget deficit. Should continue stability of exchange rates. Must adjust economies to the changed exchange rates.

5:07 PM

LAWSON: (Continued) US Federal deficit 60 percent of total for OECD. Main action needed is on supply side, not demand -- in FRG in Japan. Agriculture a supply side. Would help solve unemployment problem. UK growth has not slowed while others are.

STOLTENBERG: FRG surplus has dropped considerably.

REAGAN: Supports supply side approach. Trying to cut deficit. Making gains from 6.3 to 3.9 percent of GNP. Deficit down \$40 billion this year, 18 percent in one year. Total taxes 19 percent GNP, spending 24 percent.

BAKER: Total deficit OECD basis 2.5 percent.

LAWSON: Still 40 percent.

BAKER: Our GNP is 38 percent.

LAWSON: Problem is its massive size.

BAKER: If judge others on percentage of GNP, do us same way.

5:18 PM

NAKASONE: Hope to try tax reform again this year. Maekowa report medium and long term _____ is being carried. Cutting coal production from twenty to ten million tons. Privatized several companies cutting blast furnaces in operation. Structural adjustments proceeding tax cuts of a trillion yen next year. Government procurement will import one billion dollars next year. Direct investment abroad accelerating.

Large increase in imports. Liberalizing finance markets ODA being expended. Not stopping here.

FANFANI: Into next years Summit.

5:25 PM Adjourn.

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1987 ECONOMIC SUMMIT - SECOND PLENARY SESSION

VENICE, ITALY

PARTICIPANTS:

President Ronald Reagan
Secretary George Shultz
Secretary James Baker

Prime Minister Amintore Fanfani
Minister of Foreign Affairs Giulio Andreotti
Minister of Treasury & Budget Giovanni Gorla

President Francois Mitterrand
Prime Minister Chirac
Minister of Finance Edouard Balladur

Chancellor Helmut Kohl
Minister of Foreign Affairs Hans-Dietrich
Genscher
Minister of Finance Gerhard Stoltenberg
Minister of Economy Martin Bangemann

Prime Minister Yasuhiro Nakasone
Minister of Foreign Affairs Tadashi Kuranari
Minister of Finance Kiichi Miyazawa
Minister of Industry & Foreign Trade
Hagime Tamura

Prime Minister Brian Mulroney
Secretary of State for External Affairs
Joseph Clark
Minister of Finance Michael Wilson

President of European Council Jacques Delors
Economic Communities Representative Martens
Minister of Foreign Affairs of Belgium
Leo Tindemans
Member of the Commission of the European
Communities Willy de Clercq

Sir Geoffrey Howe, Secretary of State for
Foreign & Commonwealth Affairs
Chancellor of the Exchequer Nigel Lawson

DATE & TIME: Wednesday, June 10, 1987 - 9:44 AM

9:44 AM - Start

Review Communique chapter by chapter.

Chapter 1 approved.

Chapter 2 paragraphs through 7 okay.

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Authority: NSA/State/Ineas Waivers
BY: dl NARA DATE 3/

Chapter 3 paragraph 8 okay.

Chapter 4 paragraphs 9 - 12 okay.

Chapter 5 paragraphs 13 - 16 okay

Chapter 6 paragraphs 17 - 20 (discussed)

REAGAN: Oils and fats tax - paragraph 20.

FANFANI: What changes?

BAKER: Plea for no oil and fats tax -- would run counter to provisions of paragraph 20.

? (DELORS): Council of Ministers of EC would decide. Not discriminatory, not protection, according to Commission proposal.

KOHL: Against protection or discrimination.

BAKER: Just reminding of our opposition to tax.

FANFANI: So Chapter 6 (17 - 20) okay.
Chapter 7 (21 - 28).

GORIA: Paragraph 22 and 23. 22 - delete second line -- see no feasible alternative. Looks as if we are frustrated. Okay

9:54 AM

GORIA: Continued . . . Paragraph 23 looks as if overlooking developments of last few weeks. Some banks in U. S. (and other countries have declared they are bankrupt (sic). This is obsolete. Change first sentence. "There is also the need for careful considered thought -- " (rest lost).

BANGEMANN: Is a problem. Should not look too closely at private banks -- sentence suggests possible support.

GORIA: Bangemann is correct. Delete first part of paragraph. Start with "In this context

MULRONEY: Thinks Goria wording would suggest to banks that they back off a little.

BANGEMANN: Text well balanced as it is. Why didn't Goria bring this up last night?

GORIA: Because they discussed debt.

BAKER: Kohl absolutely right. We should encourage but not mandate bank lending.

FANFANI: Gorla echoing what he said yesterday.

GORIA: Just said (according to Fanfani) some measures by banks could lend to a list of countries not credit worthy.

10:05 AM

FANFANI: Continued. Maybe strengthen last sentence of paragraph 24.

GORIA: Leave as is -- but he still thinks we give impression things have changed. Chapters 21 - 28 approved except delete "see no alternative to" in paragraph 22.

DELORS: Paragraph 24 may seem to apply to mid-income. Put 24 ahead of present 23.

FANFANI: Says interchange 22 and 24. 22 becomes 23. 24 becomes 22. 23 becomes 24.

MITTERRAND: New paragraph 22. What are shares of the 7 as percentages of their GNP's? Not asking for data now. Welcome Japan's increase but from so low level it does not come to much. The initiative is just catching up.

FANFANI: Says highlighting increased efforts. Do we need detailed list of countries and figures?

MITTERRAND: Not asking just don't disregard. Useful to know but not part of text.

10:15 AM

KOHL: Reacts like Mitterrand.

CHIRAC: Might set sights higher and renew 0.5 percent goal. Japan and U. S. doing only half as much. Should go to 0.7 percent of GDP. Add 2nd sentence. "Most of our countries have previously undertaken considerable effort and we encourage them to do likewise."

FANFANI: Where should it be placed?

CHIRAC: End of 4th indent on page 9. After first sentence.

FANFANI: Asks for wording -- will meet with approval of all concerned.

MITTERRAND: Lots of fuss about nothing. For many years 0.7 percent of GDP goal has been there. France, Germany and Canada best. Should get nod of approval, but France is not asking for that. Should have said we should go to 0.7 percent, etc.

FANFANI: So you want to stay with text?

MITTERRAND: Said exactly opposite.

Deleted paragraph -- it is false.

NAKASONE: Oppose deleting. Japan has done its best -- no objection to mentioning other countries. Please refer to Japanese initiative -- will help explain to Japanese public.

HOWE: Leave text as is. As Finance Minister cut their ODA but now he is Foreign Minister. Text balanced. Sherpas have done good job.

MITTERRAND: Howe not convincing. If sentence left, could not agree. Last sentence misleading. Change essential. Sentence about Japan acceptable only if we have a countervailing statement later.

CLARK: Replace. We encourage all countries in a position -- to continue on track to 0.7 percent.

MITTERRAND: Leave this to later, France and Canada draft something together.

10:37 AM

GENSCHER: FRG has given double the aid of all socialist countries together. The sentence about Japan creates false picture of what western world has done.

ANDREOTTI: We have 0.7 target countries moving toward it with difficulty. Revising GDP to include underground economy lowered Italy's percentage. Proposes a sentence. (Not caught but will distribute.)

SHULTZ: Andreotti statement an improvement. Do not be too attached to percentages. Doesn't measure contribution. Having markets open a contribution. Maintaining military security.

ANDREOTTI: Wording an improvement because no number.

FANFANI: Go to paragraph --

MITTERRAND: Keep first sentence after "Japanese government" add "and other governments." Add a sentence on 0.7 percent. Unambiguous.

SHULTZ: Unambiguous and unacceptable.

10:45 AM

SHULTZ: (Continued) Japanese effort shows they are picking up world responsibilities. No number measures well.

HOWE: Supports Shultz. UK has made massive overseas investments -- much aid to developing countries. Do not pronounce benediction on a particular percentage figure.

MITTERRAND: Will not accept text unless amended.

FANFANI: We're waiting for Andreotti's amendment. Give us yours if you have one.

CHIRAC: Re paragraph 26. Reason developing countries are poor and can't pay on debts is because of commodity prices -- should say something about resolve to stabilize prices.

SHULTZ: What is happening is that structure of demand for commodity has changed. Look at cooper in telecommunication. Fiber optics made out of sand. Copper prices won't go anywhere -- not because of speculation. Raw material prices changed for good.

10:53 AM

Paragraph 28, strike brackets because Mitterrand will be honored at UNGTAD.

BAKER: Paragraph 27 - Opposes mention of September for domestic reasons (end of fiscal year).

BALLADUR: Leave September in. Should do something before September.

BAKER: For US to get funds must get it from Congress. Counterproductive to objective.

BALLADUR: Doesn't say who will do what in September.

HOWE: By next annual meeting of Fund and Bank.

BAKER: Will accept if majority view but will be counterproductive.

CLARK: Autumn.

BAKER: Okay.

(?) Within this year.

BAKER: Okay.

(Paragraphs 29 - 34 accepted. Fanfani thinks it's all environment. 32 okay; 33 okay; 34 okay; 35 okay.)

MULRONEY: Thanks Fanfani and Italian Government.

FANFANI: We have not concluded, just state your invitation.

MULRONEY: Withdraw -- My compliments and extend official warm invitation -- Toronto.

FANFANI: No objections. Also welcomes Mulroney's thanks.

ANDREOTTI: (AIDS) Yesterday Chirac cited a TV show in Ivory Coast saying there are more prevalent diseases in Africa so mention health in general. But that would open future Summits to flood of proposals.

DRUGS. Approved.

(?) Mention receiving messages. Recognize orally.

FANFANI: Okay.

NAKASONE: Korean Olympics. Include in Chairman summary.

ANDREOTTI: Proposed paragraph 24 final paragraph. No formula for measuring contribution. Japan is the innovation that has emerged at this Summit.

MITTERRAND: Can't expect too much credit for what we are doing. "and other governments" missing in English text -- very serious. Okay not to mention 0.7 -- regrets, etc., etc., etc., etc.

MITTERRAND: (Continued) Unfair to mention Japan -- a laggard without mentioning leaders -- Germany, France, Canada, Italian bike race apparently will be won by an Irishman, and Messers Reagan and Mulroney will be pleased.

ANDREOTTI: Like the 0.7 percent government. When set 1989 was date.

HOWE: Don't refer to numerical targets. Original text okay. Opening sentence important, too. Proposes some rearrangements and changed wording.

CHIRAC:

SHULTZ: (I was diverted)

MITTERRAND: Will not vote against, merely abstain if 0.7 percent not mentioned. We operate in a spirit of friendship.

CLARK: Can all agree present levels inadequate. Combine suggestions of Shultz and Howe.

FANFANI: Wait for text. Ask Andreotti to report on regional issues discussed by Foreign Ministers.

ANDREOTTI: Island states
Economic restructuring China
Conditions Korean Peninsula
Philippines
Africa - South Africa
Middle East
United Nations
Drugs

CLARK: Reads statement on South Africa -- attributes it to FRG. Brief -- says represents views of all countries here. Someone from FRG -- merely said I accept, did not draft.

MULRONEY: Canada withdraws the compliment again.

FANFANI: Invokes the Holy Spirit on the text.

11:46 AM - 11:58 AM - Intermission

11:59 AM

(Text read. Do not have copy (do now).)

MITTERRAND: Will approve if 0.7 percent stays in.

SHULTZ: Explains that numbers are very misleading. Real problem for LDC -- U. S. has taken their exports, but U. S. trade deficit is declining. Sums dwarf those involved in the 0.7 percent. Concept of isolating some aid in the 0.7 percent is flawed. Putting number in is misleading. But say (as Mitterrand did) levels of aid are inadequate. The 0.7 percent covers only a small part of foreign aid.

12:04 PM

CLARK: Could refer to target adopted by Development Assistance Committee. We underline the importance of -- gives a text. (Then go to last paragraph of text. I am marking (A))

CLARK: Says his proposal (1) describes efforts as inadequate and (2) recognizes there is aid not in the 0.7 percent.

MITTERRAND: Did not intend to be disagreeable in mentioning 0.7 percent. Has been approved by every country here -- UN, etc. If 0.7 omitted will abstain.

FANFANI: Delete last sentence of (A). Who will approve without the 0.7 percent? No reply.

12:13 PM

MARTENS: For whole EC figure (average) is 0.53 percent. So he has a right to ask the 0.7 be mentioned. Will abstain if not in.

KOHL: Does not understand the fuss. Why not leave the 0.7? It is in all international reports. Everyone knows that. Extensive variations on this theme.

FANFANI: Asks Shultz for his final view.

BAKER: Leave sentence as is: 0.7 percent in brackets, comma, add "but take note that overall financial flows are important to development."

CHIRAC: Say "and" not "but."

SHULTZ: "Terrific idea."

FANFANI: Approved.

12:22 PM

FANFANI: Delete last sentence of (A)

MITTERRAND: I always agree with those who agree with me.

MULRONEY:

Adjourn

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DEPARTMENT OF STATE

Washington, D.C. 20520

March 13, 1987

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03

MEMORANDUM FOR:

Mr. Grant S. Green
National Security Council

SUBJECT:

Alerting NSC on Presidential
Correspondence

Enclosed is the original of a letter to President Reagan from Foreign Minister Giulio Andreotti of Italy which is transmitted for your information.

This correspondence was received in the Information Management Section of the Executive Secretariat on 03/12/87.

Director, S/S-I
Information Management Section
Executive Secretariat
647-3836

Letter to George Shultz from Giulio Andreotti re drug abuse

NSC # 8701814



3706785

*Embassy of Italy
1601 Fuller St. N. W.
Washington, D. C. 20009*

Unofficial translation of the message addressed to the Secretary of State
by the Foreign Minister of the Republic of Italy.

" Dear George,

The excellent collaboration that exists between Italy and the United States and the commitment that our two Governments have shown for some time to the fight against the trafficking and abuse of narcotics, prompts me to draw your attention to the necessity of profitably utilizing the time left before the International Conference on drug abuse and illegal trafficking of narcotics. Due to take place in Vienna, June 17-26 , the Conference will try to ensure new and wider ranging supports against a phenomenon which threatens our society so seriously.

Italy is well aware of the fact that the fight against drug trafficking requires not only moral commitment and valid instruments of law but also the availability of effective programs which can attack the production of narcotics at the roots.

For this reason, during the course of the informal meeting of the donating Countries to the UNFDAC, which took place in Vienna on February 1st last, we announced that we are ready to raise our financial contribution to the programs of the United Nations fund for drug abuse and control up to a total amount of 300 million dollars, to be distributed over a period of several years: a period that should be determined on the basis of the corresponding contributive effort of the other Countries.

Meantime, I find that the Administration too, in its great sensitivity to the problem, is considering the possibility of increasing its own contribution to UNFDAC. In fact, if the United States were to carry out such a plan, the other Countries with a major commitment to the fight against drug abuse might

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be encouraged to raise their own financial contribution. If such a position could be announced as definite at the International Conference in Vienna, it would certainly be a successful element of the Conference itself.

To this end it is my intention through the usual diplomatic channels to inform some of the Governments chiefly concerned in the matter of this additional responsibility which Italy means to assume, in the hope that they too will do the same. In this context, a simultaneous action by the U.S. Government would undoubtedly contribute to reinforcing the sensitivity of these Governments to the need of demonstrating to world public opinion the commitment of all, not only to the prevention and the fight against drug trafficking, but also to the eradication of some of the factors that determine it.

With my sincerest regards,

Giulio Andreotti"

3706785

*Ambasciata d'Italia
Washington*

March 9, 1987

Leen Martijn,

Please find enclosed the letter dated February 17, 1987, addressed to Secretary Shultz by the Italian Foreign Minister, Giulio Andreotti, concerning the next Vienna International Conference on drug abuse and illegal trafficking, together with an unofficial translation.

Please be so kind to convey the letter to the Secretary of State.

With my best regards,

Sincerely,

Paolo Janni
(Paolo Janni)

Mr. Martin VaN Heuven
Director
Western European Affairs
Department of State
Washington D.C.

Il Ministro degli Affari Esteri

Roma, 000173
17 FEB 1987

Caro George,

L'ottima collaborazione esistente fra l'Italia e Stati Uniti e l'impegno che i nostri due Governi stanno da tempo mostrando nella lotta contro il traffico e l'uso degli stupefacenti mi inducono ad attirare la Sua attenzione sulla necesita' di utilizzare proficuamente il tempo che ci separa dalla Conferenza Internazionale sull'abuso di droga e il traffico illecito di stupefacenti, che si svolgera' a Vienna dal 17 al 26 giugno p.v., per cercare di assicurare nuovi e più vasti sostegni contro un fenomeno che minaccia così' profondamente la nostra società'.

L'Italia e' ben conscia del fatto che la lotta contro il traffico di stupefacenti non richiede solo impegno morale e validi strumenti giuridici, ma anche disponibilita' di efficaci programmi che possano contrastare alla radice la produzione di sostanze stupefacenti.

Per questo motivo, nel corso della riunione informale dei paesi donatori dell'UNFDAC, che si e' svolta a Vienna il 1° febbraio corr., abbiamo annunciato la disponibilita' ad elevare il nostro contributo finanziario ai programmi del Fondo delle Nazioni Unite per il controllo e l'abuso di droga fino ad una cifra complessiva di 300 milioni di dollari da distribuirsi lun-

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On.le
George Shultz
Segretario di Stato
Washington D.C.

go un periodo pluriennale: periodo che si ritiene debba essere precisato in base al corrispondente sforzo contributivo degli altri paesi.

D'altra parte mi risulta che l'Amministrazione, nella sua grande sensibilita' al problema, sta prendendo in considerazione la possibilita' di aumentare anch'essa il proprio contributo all'UNFDAC. In effetti, se il Governo degli Stati Uniti dovesse concretizzare tale orientamento, anche gli altri stati maggiormente impegnati nella lotta alla droga potrebbero essere incoraggiati nel senso di aumentare il proprio sforzo finanziario. Un tale atteggiamento sarebbe senz'altro, se potesse essere concretamente annunciato in occasione dei lavori della Conferenza Internazionale di Vienna, un elemento di successo della Conferenza stessa.

A questo scopo e' mia intenzione di sensibilizzare, attraverso i normali canali diplomatici, alcuni dei governi maggiormente interessati al fenomeno su questo sforzo addizionale di cui l'Italia intende farsi carico, nell'auspicio che anche essi possano orientarsi in senso analogo. In questo contesto, una concomitante azione del Governo degli Stati Uniti concorrerebbe senza dubbio a rafforzare la sensibilita' di quei governi sulla necessita' di mostrare all'opinione pubblica mondiale l'impegno di tutti non solo nella prevenzione e nella lotta al traffico degli stupefacenti, ma anche nello sradicamento di alcune delle cause che lo determinano.

Con i miei più cordiali saluti.

Giulio Andreotti

Il Ministro degli Affari Esteri

Roma, 000173
17 FEB. 1987

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Con i miei più cordiali saluti.

Giulio Andreotti

NSC/S PROFILE

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ID 8701814

RECEIVED 13 MAR 87 18

TO SHULTZ, G

FROM ANDREOTTI, GIULIO

DOCDATE 17 FEB 87

LEVITSKY, M

13 MAR 87

KEYWORDS: DRUGS

ITALY

HS

SUBJECT: LTR TO SHULTZ FM FOMIN ANDREOTTI RE DRUG CONTROL

ACTION: PREPARE MEMO FOR CARLUCCI DUE: 14 MAR 87 STATUS S/D FILES WH

FOR ACTION

FOR CONCURRENCE

FOR INFO

MCNAMARA

TILLMAN

COBB

RODMAN

COCKELL

SOMMER

PEARSON

COMMENTS

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ACTION OFFICER (S) ASSIGNED ACTION REQUIRED DUE COPIES TO

C 3/16 Incorporated into Log # 8701811

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