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# WITHDRAWAL SHEET

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III. SUMMIT SETTINGS  
AND POINTS TO BE MADE

SUNDAY, JUNE 19

SCENESETTER  
TORONTO ECONOMIC SUMMIT  
SUNDAY, JUNE 19

- Welcoming ceremony, meeting with French President Mitterrand, opening session on economic issues, and working dinner on political issues.

Welcoming Ceremony

- The welcoming ceremony occurs in Nathan Phillips Square in front of the Toronto City Hall. Secretaries Shultz and Baker and other members of the official delegation will join you for the ceremony. You will hold a 15 minute bilateral with Canadian Prime Minister Mulroney immediately following the welcoming ceremony. It will be an opportunity to assure Mulroney that you are mindful of his political stake in a successful Summit outcome. We believe the PM will also wish to discuss the Acid Rain concept paper Secretary Shultz gave to FM Clark last week and the status of your recommendation to Congress on the SSN program.

Mitterrand Meeting

- This will be your first meeting with Mitterrand since his May 15 reelection. We believe the French President will be buoyed by his impressive victory in the Presidential election, although his Socialist Party failed to gain a parliamentary majority in Sunday's legislative election. Mitterrand will be most anxious to talk about your trip to Moscow and to provide you with his goals for his second 7-year presidency.

Heads-only Session on Economics

- This first session of the Summit will be the occasion to set themes for the discussions. Prime Minister Thatcher will lead off with her views on world economic outlook and policy priorities. You will be called upon by PM Mulroney as the second, possibly third, speaker. It is proposed that your statement emphasize the benefits we have all derived from the free market policies since 1981/82; the need to advance the economic policy coordination process; the importance of focusing on structural policies; the correctness of the U.S. debt strategy and the need to make progress in the Uruguay trade negotiations. Points for you to make in your statement follow.

Working Dinner

- Working dinner for Heads of State and Government at the Toronto Hunt Club. Principal opportunity for political discussions, probably on East-West relations. Again, you

will be called upon to make a statement of your views on the Moscow Summit. We anticipate that this session -- like last year's opening dinner in Venice -- will be a rather free-wheeling discussion on the prospects for further improvement in East-West relations and for Gorbachev to implement his bold reform program. Points for you to make follow.

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POINTS TO BE MADE  
AFTERNOON SESSION  
SUNDAY, JUNE 19

GLOBAL ECONOMIC SITUATION

- THE GLOBAL ECONOMY IS DOING WELL. INDUSTRIAL COUNTRY GROWTH IS SOLID -- AND STILL TAKING PLACE WITHOUT A RESURGENCE OF INFLATION.
- TRADE IMBALANCES ARE BEING REDUCED IN MOST COUNTRIES.
- STRENGTHENING OF DOMESTIC DEMAND IN SURPLUS COUNTRIES AND OUR STRONGER EXPORTS ARE NOW WELL ESTABLISHED. THIS WILL ENSURE MORE SUSTAINABLE ADJUSTMENT OF IMBALANCES.
- DEVELOPING COUNTRIES ARE GROWING AT 3-4%.
- EXTERNAL DEFICITS OF MAJOR DEBTORS ARE UNDER BETTER CONTROL, THUS PROVIDING A BETTER FOUNDATION FOR RESOLVING DEBT PROBLEMS ON A LASTING BASIS.
- AS A GROUP, WE HAVE MADE REAL PROGRESS IN IMPLEMENTING THE POLICY COORDINATION PROCESS WE SET UP AT TOKYO. I THINK THE BEST INDICATION OF THE EFFECTIVENESS AND RESILIENCE OF THE COORDINATION PROCESS WAS THE RESPONSE OF OUR GOVERNMENTS AFTER THE OCTOBER STOCK MARKET CRASH.
- WE COOPERATED IN REDUCING INTEREST RATES, ADOPTED MEASURES TO SUSTAIN ECONOMIC GROWTH AND INTENSIFIED OUR EFFORTS IN EXCHANGE MARKETS.
- WE NEED TO MAINTAIN THE MOMENTUM THAT HAS BEEN ACHIEVED AND PROVIDE IMPETUS TO STRENGTHEN THE COORDINATION PROCESS. ONE STEP IS THE ADOPTION OF A COMMODITY PRICE INDICATOR. ALSO NEED TO INTENSIFY EFFORTS AT STRUCTURAL REFORMS.

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- ON DEBT, WHICH I KNOW WE WILL TALK MORE ABOUT LATER, I THINK OUR GROWTH-ORIENTED, CASE-BY-CASE APPROACH IS THE RIGHT ONE. GENERALIZED SOLUTIONS TO THE DEBT PROBLEM OF MIDDLE INCOME COUNTRIES WILL NOT WORK, AND SHIFT RISK ONTO BACKS OF TAXPAYERS.
- I DO BELIEVE THAT THE POOREST COUNTRIES ARE A SPECIAL CASE AND NEED SPECIAL HELP.

TRADE AND AGRICULTURE

- I CANNOT CONCLUDE MY LIST OF POLICY PRIORITIES WITHOUT MENTIONING A SUBJECT WHICH I KNOW HAS POLITICAL IMPLICATIONS FOR ALL OF US: TRADE AND AGRICULTURE. BUT AFTER ALL, WE ARE POLITICAL LEADERS, NOT PROFESSIONAL ECONOMISTS, AND NEED TO SPEAK HEART TO HEART AS LEADERS.
- AFTER THE SECOND WORLD WAR, EACH OF OUR NATIONS SIGNED ON TO A SET OF PHILOSOPHICAL PRINCIPLES PREMISED UPON THE ULTIMATE GOAL OF REMOVING BOUNDARIES, RESTRICTIONS, PREFERENCES AND BARRIERS TO THE FLOW OF PEOPLE, COMMERCE, AND IDEAS. THESE PRINCIPLES WERE SOON MANIFEST IN THE CREATION OF A NUMBER OF INSTITUTIONS INCLUDING THE UN, GATT, IMF AND EUROPEAN COMMUNITY TO PROTECT AND PROGRESSIVELY GUIDE US TOWARD THOSE IDEALS.
- OVER THE YEARS, WE'VE MADE PROGRESS, SOMETIMES IN FITS AND STARTS, BUT WE'RE GETTING THERE. THERE ARE TIMES, THOUGH, WHEN OUR PROGRESS AND THE INSTITUTIONS DESIGNED TO INSURE THAT PROGRESS NEED A SWIFT POLITICAL KICK-IN-THE-PANTS TO GET THEM BACK ON COURSE. NOW IS SUCH A TIME IN THE GATT.

- MY FRIENDS, WE'VE HAD A RATHER SEVERE BOUT WITH PROTECTIONISM IN THE U.S. THIS YEAR, AND MY VETO OF THE TRADE BILL, DESPITE BEING SUSTAINED, MAY BE POLITICALLY COSTLY TO MY PARTY. NEVERTHELESS, IT WAS THE RIGHT THING TO DO, AND I'D DO IT AGAIN. BUT PROTECTIONISM IS NOT CURED IN THE U.S. AND ELSEWHERE; IT MAY BE TEMPORARILY IN REMISSION, BUT IT'S NOT GONE. IN MY VIEW, THE MOST POTENT MEDICINE WE CAN ADMINISTER IS A GOOD DOSE OF PROGRESS IN OUR MULTILATERAL NEGOTIATIONS.
- WE'VE TOLD THE WORLD WE'RE GOING TO DEFY THE ODDS AND FINISH THIS URUGUAY ROUND IN FOUR YEARS. BASED UPON THE TOKYO ROUND EXPERIENCE, THE WORLD DOESN'T BELIEVE US. IN THE ABSENCE OF EFFECTIVE INTERNATIONAL RULES, PEOPLE TAKE THE LAW INTO THEIR OWN HANDS AND PROTECTION BECOMES THE ORDER OF THE DAY.
- THE PROTECTIONISTS WILL BE WATCHING THE DECEMBER MID-TERM REVIEW, HOPING THAT IT WILL BE INCONCLUSIVE, SHOWING NO TANGIBLE PROGRESS. WE CANNOT ALLOW THAT TO HAPPEN. WE'VE GOT TO PLACE OUR COLLECTIVE POLITICAL MUSCLE BEHIND THAT MEETING AND SET STRONG EXPECTATIONS FOR PROGRESS.
- ONE SUBJECT THAT WE MUST URGENTLY ADDRESS IS AGRICULTURE. NOT ONLY ARE THE SUPPORT PROGRAMS IN THAT AREA BUDGET-BREAKING, BUT THEY HAVE SO DISTORTED THE PRINCIPLES OF FREE TRADE, THAT WE ARE CONSTANTLY BICKERING OVER AGRICULTURE-RELATED DISPUTES AND NEGOTIATING POSITIONS, SO MUCH SO THAT OUR PEOPLE ARE WORRIED THAT THEY MAY THREATEN OUR CLOSE POLITICAL RELATIONS. WE CANNOT ALLOW THIS TO GO ON.

- WE KNOW WHERE OUR DESTINATION MUST BE ON THIS FARM QUESTION, AND IT SEEMS TO ME THAT, AS THE MID-TERM REVIEW APPROACHES, WE OUGHT TO BE READY TO TELL OUR PEOPLE TO WORK HARDER TO FIND A WAY TO GET THERE. WE ALL HAVE RESPONSIBILITIES TO OUR FARMERS, BUT THEY CAN BE MET WITHOUT THE HEAVY COSTS WE'RE FORCING OUR SOCIETIES TO PAY.
- (IF RAISED) WE DON'T PRECLUDE SOME SHORT-TERM MEASURES, BUT ONLY IF THEY GET US TO AN AGREED DESTINATION: MARKET SIGNALS. YOU CAN'T ASK A PERSON TO MAKE A DOWN PAYMENT ON A HOUSE WHEN WE HAVEN'T AGREED ON EITHER THE PURCHASE PRICE OR THE COST OR TERM OF THE MORTGAGE.

RESPONSIBILITY SHARING

- ANOTHER AREA WE SHOULD DISCUSS THESE NEXT TWO DAYS IS OUR MUTUAL RESPONSIBILITY FOR ENSURING WESTERN ECONOMIC AND POLITICAL SECURITY. OUR DEFENSE PEOPLE TALK ABOUT BURDENSARING, BUT THAT FITS INTO A BROADER CONCEPT THAT I CALL "RESPONSIBILITY SHARING." WE ARE ALL STRONG -- POLITICALLY AND ECONOMICALLY. WE MUST WORK TOGETHER TO BRING THESE STRENGTHS TO BEAR IN PURSUING OUR SECURITY INTERESTS THROUGHOUT THE WORLD.
- THERE ARE TWO AREAS WHERE WE CAN WORK TOGETHER NOW:
- o TO SUPPORT THE EMERGING DEMOCRATIC GOVERNMENT IN THE PHILIPPINES;
  - o TO SUPPORT THE RECONSTRUCTION OF AFGHANISTAN.
- I HOPE WE CAN AGREE TO HAVE OUR FOREIGN MINISTERS WORK TOGETHER ON THESE TWO.

DRUGS

- FINALLY, I WOULD MENTION THE WAR ON DRUGS. WE ARE FIGHTING THE WAR ON ALL FRONTS. I KNOW YOU ARE TOO. ILLEGAL DRUGS ROB US OF OUR YOUNG PEOPLE AND CHALLENGE OUR POLITICAL AND ECONOMIC VITALITY. IF WE WORK TOGETHER, WE MAY HAVE GREATER SUCCESS IN GETTING AT THOSE WHO PROMOTE ILLEGAL DRUGS AND THOSE WHO USE THEM.
- BRIAN, THESE ARE MY INITIAL THOUGHTS ON THE ISSUES WE SHOULD TALK ABOUT HERE.

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POINTS TO BE MADE  
EVENING SESSION  
SUNDAY, JUNE 19

- U.S.-SOVIET RELATIONS ARE IN BETTER SHAPE NOW THAN AT ANY TIME IN THE PAST DECADE, PERHAPS IN THE ENTIRE POST-WAR PERIOD.
- FROM THE OUTSET OF MY ADMINISTRATION -- AND PARTICULARLY FROM THE FIRST SUMMIT IN GENEVA IN NOVEMBER OF 1985 -- WE'VE SOUGHT TO ESTABLISH A BALANCED FRAMEWORK FOR SUPERPOWER RELATIONS THAT WOULD ENDURE, AND BE CARRIED ON BY SUCCEEDING ADMINISTRATIONS. BY AND LARGE, WE THINK WE HAVE BEEN SUCCESSFUL.
- THE MOSCOW SUMMIT ADDED ANOTHER IMPORTANT BUILDING BLOCK IN ESTABLISHING AND REGULARIZING WAYS TO SOLVE OUR PROBLEMS WITH THE SOVIET UNION. WE'LL CONTINUE TALKING TO THE SOVIETS ON REGIONAL ISSUES, ARMS REDUCTION, HUMAN RIGHTS AND BILATERAL EXCHANGES DURING THE REST OF THIS YEAR AND INTO 1989 AND BEYOND.
- BEFORE I GO INTO GREATER DETAIL, LET ME MAKE CLEAR MY THINKING ABOUT WHY WE HAVE COME THIS FAR. IT'S BECAUSE THE WEST HAS STOOD TOGETHER. BECAUSE WE HAVE SHOWN STRENGTH. BECAUSE WE HAVE BEEN UNITED AND RESOLUTE. AND OUR FUTURE SUCCESS IN DEALING WITH THE SOVIETS CAN ONLY COME IF OUR DEMOCRATIC ALLIANCE DOES NOT SLACKEN ITS EFFORTS OR ITS COHESION.
- LET ME ALSO SAY A WORD ABOUT WHAT'S GOING ON IN THE SOVIET UNION. I BELIEVE THAT GORBACHEV WANTS TO REFORM THE SOVIET

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ECONOMY, BUT HE CANNOT DO IT QUICKLY -- AND HE MAY NOT SUCCEED AT ALL.

-- HE'S ALSO MAKING POLITICAL CHANGES, THOUGH THEIR EXTENT IS LESS CLEAR. MEANWHILE, THE SOVIET UNION WILL REMAIN A POTENTIALLY DANGEROUS ADVERSARY ABROAD AND A CONTROLLED SOCIETY AT HOME.

-- SO WE IN THE WEST CAN'T LET OUR GUARD DOWN. THE DIVISION OF EUROPE REMAINS. SOVIET TROOPS STAND IN THE MIDDLE OF GERMANY, FACING WEST. SOVIET FORCES ALSO STAND MENACINGLY, FACING EAST ASIA.

-- WE MUST CONTINUE TO APPROACH OUR ECONOMIC RELATIONS WITH THE SOVIETS CAREFULLY, ON THE BASIS OF MUTUAL ADVANTAGE, ON COMMERCIAL TERMS, WITHOUT SUBSIDIES, AND WITH DUE REGARD FOR OUR NATIONAL SECURITY INTERESTS.

#### REGIONAL ISSUES

-- LET ME RETURN TO THE MOSCOW SUMMIT AND GIVE YOU SOME DETAILS, ON REGIONAL ISSUES. THE SOVIETS CONTINUE TO SPEAK OF THE GROWING OPPORTUNITIES TO RESOLVE REGIONAL CRISES, BUT IN MOST CASES THE CONCRETE DISCUSSIONS PROVED DISAPPOINTING. OF COURSE, WE DON'T EXPECT TO SOLVE THESE CONFLICTS WITH THE SOVIET UNION, BUT WE DID HOPE FOR CONSTRUCTIVE SOVIET POLICIES.

-- AFGHANISTAN REPRESENTS A GREAT TRIUMPH, AND WE ACKNOWLEDGED MR. GORBACHEV'S BOLDNESS IN FACING UP TO REALITY THERE. WE AND THE SOVIETS AGREED THAT AFGHANISTAN WAS A POSITIVE PRECEDENT FOR THE RESOLUTION OF OTHER REGIONAL CONFLICTS. WE INDICATED WE EXPECT THEIR WITHDRAWAL TO PROCEED ON

SCHEDULE, BRINGING PEACE TO THE REGION AND SELF-DETERMINATION TO AFGHANISTAN.

- WE JOINED THE SOVIETS IN WELCOMING VIETNAM'S RECENT COMMITMENT TO REMOVE SOME OF ITS TROOPS FROM CAMBODIA. WE ALSO NOTED THAT A SOLUTION WOULD REQUIRE THE WITHDRAWAL OF ALL TROOPS AND A DIALOGUE BETWEEN PRINCE SIHANOUK AND VIETNAM.
- WE DISCUSSED THE PROSPECTS FOR PEACE IN SOUTHERN AFRICA. THE SOVIETS AGREED TO JOIN US IN POINTING TO SEPTEMBER 29, WHICH IS THE TENTH ANNIVERSARY OF UN SECURITY COUNCIL RESOLUTION 435, AS A TARGET DATE FOR RESOLVING SOUTHERN AFRICAN ISSUES. THIS IS A POSITIVE STEP.
- WE HAD NO SUCCESS ON OTHER REGIONAL ISSUES, SUCH AS THE PERSIAN GULF OR MIDDLE EAST PEACE PROCESS. WE PRESSED GENERAL SECRETARY GORBACHEV TO HELP AVERT A MAN-MADE FAMINE IN ETHIOPIA, BUT WE RECEIVED NO ENCOURAGEMENT.

#### HUMAN RIGHTS

- ON HUMAN RIGHTS, MY INTENTION WAS TO GIVE IT A HIGH PROFILE AT THE SUMMIT. AND WE SUCCEEDED.
- IN CONCRETE TERMS, THE SUMMIT SEEMS ALREADY TO HAVE HAD SOME EFFECT. MANY REFUSENIK CASES HAVE BEEN RESOLVED. SOME ADDITIONAL POLITICAL PRISONERS HAVE BEEN RELEASED. WE WERE ALSO TOLD THAT LEGISLATION MAY SOON BE ENACTED WHICH WILL REPEAL LAWS USED TO DENY FREEDOM OF EXPRESSION, EXPAND OPPORTUNITIES FOR THE PRACTICE OF RELIGION, AND RELAX EMIGRATION RESTRICTIONS.

- IT IS CLEAR THAT SOME INTERESTING THINGS ARE HAPPENING TODAY IN THE SOVIET UNION. SOME OF THE IDEAS BEING CIRCULATED FOR THE SOVIET PLENUM -- ON GUARANTEES FOR AN INDEPENDENT JUDICIARY AND ASSURANCES ON THE RIGHT TO ASSEMBLE AND DEMONSTRATE -- MAY ADDRESS THE STRUCTURAL BASIS OF SOVIET HUMAN RIGHTS ABUSES.
- I WAS DEEPLY IMPRESSED BY THE SOVIETS I MET IN MOSCOW -- THE STUDENTS, RELIGIOUS LEADERS, REFUSENIKS, ACTIVISTS, WRITERS AND OTHERS -- AND BY THEIR YEARNING FOR SOMETHING BETTER. I REGARD MY PUBLIC REMARKS AS A CRUCIAL PART OF MY VISIT. QUOTING SOLZHENITSYN IN MOSCOW WAS QUITE A MILESTONE.

ARMS CONTROL

- THE MOSCOW SUMMIT WAS, OF COURSE, THE VENUE FOR THE EXCHANGE OF INSTRUMENTS OF RATIFICATION OF THE INF TREATY. WITH THAT EXCHANGE, THIS HISTORIC TREATY ENTERED INTO FORCE.
- ON ARMS REDUCTION, WE MADE SOME SOLID PROGRESS ON START. WE TABLED OUR POSITIONS ON MOBILE MISSILE VERIFICATION AND ALCMS, AND THE SOVIET RESPONSE WAS, ON THE WHOLE, POSITIVE. IMPORTANT ISSUES REMAIN, AND WE WILL KEEP PLUGGING AWAY AT THEM.
- IN DEFENSE AND SPACE, SHARPER DIFFERENCES REMAIN. THE SOVIETS ARE STILL TRYING TO CRIPPLE SDI, AND THEY HAVE NOT YET AGREED TO CORRECT THEIR ABM TREATY VIOLATIONS.
- WE ALSO SIGNED MINOR AGREEMENTS ON BALLISTIC MISSILE LAUNCH NOTIFICATION AND NUCLEAR TESTING. I AM HOPEFUL THAT WE ARE ON TRACK TO NEGOTIATE IMPROVED VERIFICATION PROCEDURES FOR

EXISTING NUCLEAR TESTING TREATIES SO THAT THESE TREATIES CAN BE RATIFIED.

BILATERAL ISSUES

- WE WERE PLEASED WITH DEVELOPMENTS AT THE SUMMIT IN THE BILATERAL AREA. WE AGREED TO EXPAND DRAMATICALLY OUR PEOPLE-TO-PEOPLE EXCHANGES WITH A NEW PROGRAM FOR AMERICAN AND SOVIET HIGH SCHOOL STUDENTS.
- IN MOSCOW WE ALSO RENEWED AN EARLIER CULTURAL AGREEMENT AND AGREED TO DISCUSS THE ESTABLISHMENT OF CULTURAL AND INFORMATION CENTERS IN EACH OTHER'S CAPITAL.
- WE ALSO SIGNED AT THE SUMMIT AN AGREEMENT ON COOPERATION ON TRANSPORTATION SCIENCE AND TECHNOLOGY, A NEW COMPREHENSIVE FISHERIES AGREEMENT, AND OTHER AGREEMENTS.
- WE ACCOMPLISHED A LOT IN MOSCOW, BUT WE ALSO WENT THERE TO GENERATE NEW MOMENTUM FOR THE REMAINING MONTHS OF THE ADMINISTRATION. WE DID THAT, AND IT IS CLEAR THAT, COMING OUT OF MOSCOW, THE PACE OF THE RELATIONSHIP WILL NOT LET UP.
- AS I SAID AT THE OUTSET, OUR POLICY HAS SUCCEEDED BECAUSE IT REFLECTS A WIDE CONSENSUS IN MY COUNTRY ON THE NEED TO BE STRONG AND THE NEED TO NEGOTIATE; ON A CERTAIN DEGREE OF CAUTION AND SKEPTICISM ABOUT A LONG-STANDING ADVERSARY; AND A CERTAIN DEGREE OF HOPE ABOUT SIGNIFICANT CHANGES TAKING PLACE.

MONDAY, JUNE 20

SCENESETTER  
TORONTO ECONOMIC SUMMIT  
MONDAY, JUNE 20

- Plenary sessions, working luncheon, signing of U.S./Japan Science and Technology Agreement and meeting with Prime Minister Takeshita, "informal" session on long-term issues, working dinner.

Morning Session

- Opens with reading and approval by Heads alone of political text completed overnight following Sunday's working dinner. Canadian Foreign Secretary Joe Clark will read statement to press following lunch.
- This is followed by plenary discussion with finance ministers and foreign ministers of main economic issues, including international economic policy coordination and structural reform, debt, and newly industrialized economies (NIEs).

Working Luncheon

- Working luncheon for Heads and Foreign Ministers at L'Hotel. Opportunity to continue political discussion, following up on issues raised at dinner on Sunday as well as addressing regional issues.

Afternoon Plenary Session

- Completion of discussion of main economic issues, mainly trade and agriculture.

Science and Technology Signing Ceremony

- You will sign with Prime Minister Takeshita the U.S./Japan Science and Technology Agreement, which will be followed by a brief meeting.

Informal Session on Long-term Issues

- Heads will meet alone at Hart House, University of Toronto, to discuss issues of long-term interest. Mulroney hopes to foster maximum give-and-take. He will ask you to open discussion. This is the occasion for you to define your economic legacy, highlighting the importance of flexible, market-based economies on the successful management of the U.S. and world economies over the past seven years and in responding to the challenges of the future. Points for you to make are behind the next page.
- President Mitterand may highlight need for educational reform.

Working Dinner

- Working dinner for Heads at Hart House, University of Toronto. Discussion could center on issues raised during informal session or on political issues.

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POINTS TO BE MADE  
INFORMAL SESSION  
MONDAY, JUNE 20

DISCUSSION OF FUTURES ISSUES

- I WANT TO THANK BRIAN FOR THIS OPPORTUNITY TO GET TOGETHER INFORMALLY TO SHARE OUR THOUGHTS ON FUNDAMENTAL ISSUES THAT OUR NATIONS WILL FACE OVER THE LONGER TERM. THREE OF US HAVE BEEN TOGETHER SINCE MY FIRST ECONOMIC SUMMIT, JUST DOWN THE ROAD AT MONTEBELLO. PERHAPS I CAN BE FORGIVEN A GLANCE BACK AT THE SITUATION WE FACED THEN.
- IN THE SPRING OF 1981, INFLATION WAS STILL RUNNING OUT OF CONTROL, HAVING REACHED DOUBLE DIGITS IN MOST OF OUR COUNTRIES. GROWTH WAS STYMIED AND UNEMPLOYMENT WOULD SOON REACH CRISIS LEVELS. THE DEBT PROBLEM WAS LURKING OVER THE HORIZON.
- WORSE, THERE WAS A GROWING CRISIS OF CONFIDENCE IN THE WEST'S MOST FUNDAMENTAL VALUES. SOME SAID OUR FREEDOMS WERE A LUXURY WE COULD NO LONGER AFFORD.
- WE HAD TO FIND A WAY TO RESTORE CONFIDENCE SO THAT THE INITIATIVE AND CREATIVITY OF OUR PEOPLE COULD ONCE AGAIN PROPEL US.
- LOOKING BACK, WE CAN BE PROUD. INFLATION HAS BEEN CUT IN ALL OF OUR COUNTRIES, ALTHOUGH SOME OF US CAN STILL MAKE PROGRESS IN THIS AREA. GROWTH HAS BEEN RESTORED, ALTHOUGH I REMAIN CONCERNED ABOUT THE CONTINUED HIGH UNEMPLOYMENT IN EUROPE.
- ONE OF THE KEYS TO OUR SUCCESS HAS BEEN AN ALMOST UNPRECEDENTED LEVEL OF COOPERATION. FOR EXAMPLE:

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- WE HAVE IMPROVED THE MECHANISMS FOR COORDINATING OUR ECONOMIC POLICIES. AS A RESULT, WE CAN LOOK FORWARD TO ENHANCED STABILITY OF THE WORLD FINANCIAL SYSTEM AS INTERNATIONAL IMBALANCES CONTINUE TO BE REDUCED.
  - WE HAVE LAUNCHED A NEW ROUND OF TRADE NEGOTIATIONS, PROVIDING THE IMPETUS FOR DEALING WITH MANY TOUGH ISSUES, INCLUDING AGRICULTURE.
  - WE HAVE WORKED TOGETHER CONSTRUCTIVELY TO DEAL WITH THE INTERNATIONAL DEBT PROBLEM, THROUGH WE STILL HAVE MORE TO DO ON THAT FRONT.
  - WE HAVE STRENGTHENED COCOM SO THAT, EVEN IN A TIME OF IMPROVING EAST-WEST RELATIONS, WE DO NOT HAVE TO SPEND MORE TO DEFEND AGAINST OUR OWN TECHNOLOGY.
- THE COOPERATION THAT PRODUCED THESE RESULTS IS DUE IN GREAT MEASURE TO A REMARKABLE CONVERGENCE IN OUR THINKING ABOUT ECONOMIC POLICIES. THE LEXICON OF ECONOMIC POLICY HAS CHANGED NOTICEABLY SINCE MONTEBELLO.
- I THINK WE ALL AGREE THAT A COMPETITIVE MARKET SYSTEM IS ESSENTIAL TO PROVIDE STRONG INCENTIVES FOR INDIVIDUALS AND BUSINESS TO WORK, INVEST, AND PRODUCE.
  - FOR GOVERNMENTS, THIS MEANS KEEPING TAX RATES AS LOW AS POSSIBLE AND STRUCTURING TAXES TO MINIMIZE DISINCENTIVES.
  - IT MEANS CURBING THE GROWTH OF GOVERNMENT AND PUBLIC SPENDING.
  - IT MEANS REMOVING BARRIERS AND DISTORTIONS IN OUR ECONOMIES THAT RESULT FROM A HOST OF GOVERNMENT POLICIES, INCLUDING SUBSIDIES TO INDUSTRY AND AGRICULTURE.

- IT MEANS RESISTING PROTECTIONISM ARE SEEKING A MORE OPEN SYSTEM OF WORLD TRADE.
- IT ALSO MEANS THAT GOVERNMENT MUST PLAY A CONSTRUCTIVE ROLE IN SUSTAINING INVESTMENT IN EDUCATION AND IN BASIC SCIENTIFIC AND HEALTH RESEARCH.
- EVIDENCE OF THIS CONVERGENCE IN THINKING IS CLEAR IN A MULTITUDE OF WORLD FORUMS, SUCH AS THE GATT, THE IMF, THE WORLD BANK, AND INDEED IN THESE ECONOMIC SUMMITS THEMSELVES.
- EACH OF US HAS DRAWN FROM THE EXPERIENCE OF THE OTHERS IN REVIVING OUR OWN ECONOMIES. WE IN THE UNITED STATES, FOR EXAMPLE, HAVE LEARNED A GREAT DEAL ABOUT PRIVATIZATION FROM BRITAIN, FRANCE AND OTHERS.
- AND I MUST SAY THAT I LOOK ON THIS CONVERGENCE OF POLICIES AS A SOURCE OF POLITICAL SUPPORT. FOR EXAMPLE, I'M HOPING THAT EVEN IF THEY WON'T LISTEN TO ME OR TAKE NOTE OF AN ECONOMIC EXPANSION UNPARALLELED IN PEACETIME RECORDS, SOME OF OUR JOURNALISTS WILL LISTEN TO WHAT MRS. THATCHER'S CHANCELLOR OF THE EXCHEQUER SAID ABOUT TAXES NOT LONG AGO: "THE REASON FOR THE WORLDWIDE TREND TOWARD LOWER TOP TAX RATES IS CLEAR. EXCESSIVE RATES OF INCOME DESTROY ENTERPRISE, ENCOURAGE AVOIDANCE AND DRIVE TALENT TO MORE HOSPITABLE SHORES OVERSEAS. AS A RESULT, FAR FROM RAISING ADDITIONAL REVENUE, OVER TIME THEY ACTUALLY RAISE LESS. BY CONTRAST, A REDUCTION IN THE TOP RATES OF INCOME TAX CAN, OVER TIME, RESULT IN A HIGHER, NOT LOWER YIELD TO THE EXCHEQUER."

-- LET ME NOW TURN TO THE MAIN QUESTIONS BEFORE US -- WHAT CHALLENGES WILL WE FACE IN OUR JOINT "VENTURE TO PROGRESS" AND HOW CAN WE PREPARE TO MEET THEM?

-- I BELIEVE OUR NATIONS WILL FACE TWO PARTICULARLY IMPORTANT CHALLENGES:

- o THE CHALLENGE OF RAPIDLY ADVANCING TECHNOLOGY THAT IS CONTINUALLY CREATING NEW PRODUCTS AND PRODUCTION TECHNIQUES;
- o AND THE CHALLENGE OF AN INCREASINGLY INTEGRATED WORLD ECONOMY.

-- THESE CHALLENGES ARE NOT NEW. IN FACT, MUCH OF THE PROSPERITY WE HAVE ENJOYED IN THE POSTWAR ERA RESULTS FROM TURNING CHALLENGES CREATED BY ADVANCING TECHNOLOGY AND ECONOMIC INTEGRATION INTO OPPORTUNITIES.

-- IN MY OWN EXPERIENCE, I'VE SEEN FIRSTHAND THE EFFECTS OF ADVANCING TECHNOLOGY. BEFORE I ENTERED POLITICS, MY OWN CAREER WAS IN INDUSTRIES CREATED BY ADVANCES IN TECHNOLOGY -- RADIO AND THE MOVIES.

- o I REMEMBER WHEN I RETURNED TO HOLLYWOOD FROM THE ARMY. BEFORE THE WAR I HAD ACHIEVED THE STATUS SYMBOL OF ALL CONTRACT PLAYERS. I COULD SAY, "I QUIT AT SIX O'CLOCK." WHEN I GOT BACK, I DECIDED I'D BETTER REESTABLISH THIS RIGHT FROM THE START. THE FIRST DAY OF SHOOTING, I SOUGHT OUT THE FIRST ASSISTANT. I SAID, "I THINK WE SHOULD GET ONE THING STRAIGHT. I QUIT AT SIX O'CLOCK." HE SHOT BACK. "WELL, YOU'RE GOING TO BE PRETTY LONESOME THAT LAST HOUR. WE QUIT AT FIVE." IT SEEMS THAT DURING THE WAR, WITH REVENUES FLOWING LIKE

MILK AND THE GOVERNMENT MILKING OFF MOST OF THE PROFITS THROUGH AN EXCESS PROFITS TAX, A CERTAIN LOOSENESS IN STANDARDS HAD CREPT IN. EVERYONE FIGURED PRODUCTION COSTS WERE 90 PERCENT GOVERNMENT MONEY, SO WHY NOT SHARE THE WEALTH. THEY STARTED LEAVING EARLY.

- WITHIN A FEW YEARS, THOUGH, HOLLYWOOD HAD TO SHAPE UP. IT FACED A NEW CHALLENGE FROM A NEW TECHNOLOGY, NOT UNLIKE THE CHALLENGE MANY OTHER INDUSTRIES FACE TODAY. THAT NEW TECHNOLOGY WAS CALLED TELEVISION.
- BETWEEN 1950 AND 1960, EMPLOYMENT IN THE MOTION PICTURE INDUSTRY FELL BY ONE-QUARTER.
- HOWEVER, THE U.S. GOVERNMENT DID NOT STAND IN THE WAY OF THE DEVELOPMENT OF TELEVISION IN ORDER TO PROTECT RADIO AND THE MOVIES.
- BY LAST YEAR, MOTION PICTURE EMPLOYMENT (INCLUDING PRODUCTION FOR TELEVISION) HAD RISEN NEARLY BACK TO ITS 1950 LEVEL.
- EMPLOYMENT IN RADIO AND TV BROADCASTING INCREASED MORE THAN 300 PERCENT BETWEEN 1950 AND 1987, SURPASSING MOTION PICTURE EMPLOYMENT.
- THESE EMPLOYMENT GAINS DO NOT INCLUDE ALL OF THE PEOPLE, EVERYWHERE IN THE WORLD, WHO PRODUCE THE TV'S AND RADIOS AND STEREOS AND VCR'S USED BY AMERICAN CONSUMERS.
- INCREASED GLOBAL ECONOMIC INTEGRATION ALLOWED AMERICANS TO TAKE ADVANTAGE OF HIGH QUALITY CONSUMER ELECTRONIC PRODUCTS MADE IN JAPAN, KOREA, TAIWAN, AND ELSEWHERE, WHILE THE UNITED STATES DEVOTED ITS RESOURCES TO

PRODUCING OTHER PRODUCTS (INCLUDING MOVIES AND TV PROGRAMS EXPORTED TO OTHER COUNTRIES).

- WE ALL KNOW THE INCREDIBLE POWER OF THIS NEW TECHNOLOGY. WHEN EACH OF US LEAVES THIS ROOM, WE WILL BE FOLLOWED BY HORDES OF REPORTERS AND CAMERAS. THEY WILL TRANSMIT REPORTS HOME, NOT THROUGH THE MILES AND TONS OF WIRE CABLE THAT THEY ONCE USED, BUT SIMPLY BY BOUNCING SIGNALS OFF OF SATELLITES. SOME OF THEM MAY HOOK UP WITH THOSE SATELLITES USING DISH ANTENNAE THAT WILL FIT ON TOP OF A TRUCK.
- ONE AUTHORITY HAD THIS TO SAY ABOUT JUST ONE FIELD OF NEW TECHNOLOGY, MICROELECTRONICS: "THE ENTIRE INDUSTRIAL REVOLUTION ENHANCED PRODUCTIVITY BY A FACTOR OF 100. THE MICROELECTRONIC REVOLUTION HAS ALREADY ENHANCED PRODUCTIVITY IN INFORMATION-BASED TECHNOLOGY BY A FACTOR OF MORE THAN A MILLION -- AND THE END ISN'T IN SIGHT YET."
- TECHNOLOGY HAS HAD MUCH THE SAME IMPACT ON OTHER HIGH GROWTH INDUSTRIES. FOR EXAMPLE, I'M TOLD THAT THE NUMBER OF WORKERS IN SECURITIES BROKERAGES HAS INCREASED BY A FACTOR OF 4 SINCE 1960, WHILE THE VOLUME OF STOCK TRADING HAS INCREASED BY A FACTOR OF 40.
- THE SECURITIES INDUSTRY ALSO PROVIDES AN EXAMPLE OF THE IMPACT OF INCREASING GLOBAL INTEGRATION.
  - o DURING LAST AUTUMN'S STOCK MARKET TURBULENCE, THE TECHNOLOGY OF COMMUNICATIONS AND INFORMATION PROCESSING ALLOWED DECISIONS BY MANY THOUSANDS OF INVESTORS, AFFECTING LITERALLY HUNDREDS OF BILLIONS OF DOLLARS, TO BE IMPLEMENTED WITHIN HOURS, IF NOT MINUTES.

- o THE EFFECTS OF SUCH DECISIONS WERE FELT WITH EQUAL SPEED IN NEW YORK, TOKYO, LONDON, FRANKFURT, PARIS, MILAN, AND HERE IN TORONTO.
- WE CAN ALSO SEE GLOBAL ECONOMIC INTEGRATION IN TRADE PATTERNS. BOEING ASSEMBLES 767 AIRCRAFT IN SEATTLE WITH AIRFRAME PARTS FROM ITALY AND JAPAN, AND WITH ENGINES ASSEMBLED IN OHIO USING PARTS FROM FRANCE, ITALY, WEST GERMANY, AND SWEDEN.
- IT IS TRUE WITH BOTH FINANCIAL MARKETS AND WORLD TRADE: WE COULD NOT PREVENT THIS INCREASING INTEGRATION OF OUR ECONOMIES, EVEN IF WE WANTED TO. IF GOVERNMENTS ERECTED BARRIERS, THE MARKET WOULD FIND SOME WAY AROUND THEM.
- MY ADVICE ON HOW BEST TO MEET THE TWIN CHALLENGES OF ADVANCING TECHNOLOGY AND ECONOMIC INTEGRATION CAN BE SUMMARIZED IN JUST TWO WORDS: "COOPERATION" AND "FLEXIBILITY".
- THE COOPERATION WE HAVE ALREADY ACHIEVED WILL NEED TO BE CARRIED TO A HIGHER, MORE MATURE, LEVEL AS WE PREPARE FOR THE FUTURE.
  - o IN FINANCIAL AFFAIRS, WE MUST PUT SPECIAL EMPHASIS ON IMPROVING THE POLICY COORDINATION PROCESS CARRIED ON BY OUR FINANCE MINISTERS.
  - o IN TRADE MATTERS, WE WILL NEED TO WORK TOGETHER TO ASSURE A SUCCESSFUL CONCLUSION OF THE URUGUAY ROUND. WE HAVE DISCUSSED DURING THE PAST TWO DAYS SOME OF THE DIFFICULT DECISIONS THIS WILL REQUIRE.
- COOPERATION WILL ALSO BE ESSENTIAL IN STRENGTHENING THE ECONOMIC SIDE OF OUR SECURITY RELATIONSHIPS. OUR DEFENSE MINISTERS HAVE TALKED MUCH ABOUT DEFENSE BURDENSARING.

THIS IS IMPORTANT, BUT REALLY OUR SECURITY ALLIANCES GO BEYOND DEFENSE EXPENDITURES. OUR SECURITY RESPONSIBILITIES CANNOT BE MET WITHOUT A STRONG AND GROWING WORLD ECONOMY.

- o WE MUST WORK TOGETHER, SHARING THE RESPONSIBILITY FOR ECONOMIC SECURITY, AS WE HAVE WORKED TOGETHER TO ACHIEVE SUCCESS IN ARMS CONTROL.
- o TWO IMPORTANT COUNTRIES CALL FOR OUR IMMEDIATE ATTENTION -- THE PHILIPPINES (WHERE PRESIDENT AQUINO IS BUILDING A NEW DEMOCRACY) AND AFGHANISTAN (WHICH IS BEGINNING RECONSTRUCTION).
- o WE ALSO HAVE A COMMON RESPONSIBILITY TO COMBAT THE ENERVATING DRUG THREAT. I AM PLEASED THAT WE HAVE AGREED ON THE NEXT COOPERATIVE STEPS TO DEAL WITH THIS THREAT.

-- LET'S KEEP IN MIND WHAT'S AT STAKE HERE. I READ RECENTLY OF ONE EXAMINATION OF THE COSTS OF THE DRUG TRADE NOT TO MY COUNTRY AS A WHOLE, BUT TO ONE CITY. A WAYNE STATE UNIVERSITY STUDY CONCLUDED THAT IN 1985 THE DRUG TRADE COST RESIDENTS OF WAYNE COUNTY -- THAT'S DETROIT, MICHIGAN -- AT A MINIMUM, A STAGGERING \$750 MILLION IN DIRECT AND INDIRECT COSTS. DIRECT POLICE COSTS WERE A RELATIVELY MINOR PART OF THIS. MOST CAME FROM ESTIMATED PROPERTY LOSSES, SUCH AS STOLEN CARS, BURGLARIES AND PURSE-SNATCHINGS. AND THE CALCULATION EXCLUDED COST OF JAILS, PRISONS, COURTS, AND FEDERAL LAW ENFORCEMENT.

-- WHEN I SPEAK OF "FLEXIBILITY," I MEAN PREPARING OUR ECONOMIES TO MEET THE DEMANDS OF THE NEXT CENTURY BY STRIPPING AWAY UNNECESSARY OBSTACLES TO THE INNOVATION AND

ENTERPRISE OF OUR PEOPLE. I BELIEVE STRONGLY THAT THE FUTURE BELONGS TO THE FLEXIBLE. THE CHALLENGES OF THE FUTURE DEMAND THAT WE BE PREPARED TO ADAPT QUICKLY, TO TRAVEL LIGHT. THE BAGGAGE OF SUBSIDIES, HIGH TAX RATES, UNBENDING WORK RULES, AND UNNEEDED REGULATIONS WILL SO BURDEN THE PROCESS OF ADJUSTMENT AS TO STIFLE GROWTH.

- BRIAN AND I HAVE TAKEN A STEP IN THIS DIRECTION IN SIGNING AN HISTORIC FREE TRADE AGREEMENT THAT WILL MAKE CANADA AND THE UNITED STATES THE LARGEST FREE TRADE AREA IN THE WORLD.
- I KNOW, JACQUES (DELORS), THAT THE EUROPEAN COMMUNITY IS PROCEEDING RAPIDLY WITH ITS PROGRAM TO ELIMINATE ALL INTERNAL MARKET BARRIERS AND CREATE A UNIFIED MARKET BY 1992.
- I WANT TO ASSURE ALL OF YOU -- AND I KNOW THAT BRIAN JOINS ME -- THAT THE U.S./CANADA FREE TRADE AGREEMENT IS INTENDED TO HELP US ALL MEET THE CHALLENGES OF THE FUTURE. IT IS NOT INTENDED AND WILL NOT BECOME A MEANS FOR DIMINISHING TRADE OPPORTUNITIES FOR OUR OTHER PARTNERS.

-- FLEXIBILITY WILL ALSO BE CRITICAL IN ANOTHER AREA -- THE REALIZATION OF HUMAN POTENTIAL THROUGH EDUCATION AND RESEARCH. HIGHER-EDUCATED INDIVIDUALS AND SOCIETIES ARE MORE FLEXIBLE AND ABLE TO ADJUST MORE READILY TO NEW OPPORTUNITIES.

- INVESTMENT IN EDUCATION AND IN CREATING NEW KNOWLEDGE WILL BE VITAL TO SUSTAINING ECONOMIC PROGRESS IN THE

FUTURE, PARTICULARLY AS WE KEEP OUR COMMITMENTS TO OUR AGING POPULATIONS.

-- TO ME, THE PROOF OF THE NEED FOR FLEXIBILITY, IS THAT STATIST SOLUTIONS DO NOT WORK IN THE SOVIET UNION, CHINA, AND MANY OTHER COMMUNIST STATES. MR. GORBACHEV AND HIS COLLEAGUES HAVE RECOGNIZED THAT A CLOSED SOCIETY AND ECONOMY ARE A DEAD END FOR ADVANCED DEVELOPMENT. GLASNOST AND PERESTROIKA ARE TESTIMONY TO THE DYNAMISM OF INDIVIDUAL INITIATIVE AND ECONOMIC FREEDOM.

-- MY SIMPLE PRESCRIPTION FOR MEETING THE CHALLENGES OF THE FUTURE -- COOPERATION AND FLEXIBILITY -- IS NOT INTENDED TO MEAN THAT ALL OUR PROBLEMS WILL BE SIMPLE TO DEAL WITH. THEY WILL NOT.

- o NO ONE CAN PREDICT EXACTLY HOW THE CHALLENGES OF TECHNOLOGY AND GLOBAL INTEGRATION WILL CONFRONT US.
- o HOWEVER, I AM CONVINCED THAT THE TASK OF MEETING THE CHALLENGES IN OUR "VENTURE TO PROGRESS" WILL BE EASIER IF WE ORGANIZE OUR EFFORTS AROUND THESE FEW PRINCIPLES.

-- BEFORE I STOP, LET ME ADD SOMETHING THAT I BELIEVE WE SHOULD ALL KEEP IN MIND. IT'S THE FACE OF A PERSON. HE OR SHE ISN'T FAMOUS. HIS OR HER NAME IS NOT LIKELY TO APPEAR IN THE HISTORY BOOKS. BUT HE CARRIES A DREAM IN HIS HEART, AN EXCITEMENT, A DRIVE. AND OFTEN DESPITE OTHERS TELLING HIM HE'S IMPRACTICAL, HE GOES OUT AND DEVELOPS HIS DREAM INTO A BUSINESS. SOMETIMES THE DREAM IS TECHNOLOGICALLY SOPHISTICATED -- AS WERE THE DREAMS THAT BECAME THE APPLE COMPUTER, THE LAND CAMERA, AND THE WANG WORDPROCESSOR. SOMETIMES IT'S AS SIMPLE AS A NEW RESTAURANT ON THE CORNER. BUT WHETHER

THE DREAM IS SOPHISTICATED OR SIMPLE, THIS DREAMER, THIS PERSON, THIS ENTREPRENEUR IS THE DRIVING FORCE BEHIND ALL ECONOMIC GROWTH. BECAUSE HE CAN COME FROM ALMOST ANY PART OF SOCIETY, AND BECAUSE HIS IDEAS WILL OFTEN SEEM ECCENTRIC, AT LEAST UNTIL HE'S PROVEN THEM, WE IN GOVERNMENT CANNOT HELP HIM. WE CAN'T EFFECTIVELY TARGET MONEY OR OTHER ASSISTANCE TO HIM. WE CAN ONLY KEEP OUT OF HIS WAY. WE CAN KEEP TAXES LOW, SO THAT HE AND HIS FRIENDS CAN ACCUMULATE MONEY TO GIVE HIS IDEAS A TRY. WE CAN KEEP STIFFLING REGULATIONS LOW, SO WE DON'T STRAIGHTJACKET HIS ENERGIES. AND WE CAN KEEP MARKETS OPEN, SO HE CAN SEEK OUT AS MANY CUSTOMERS AS POSSIBLE WHEREVER HE CAN FIND THEM. IF WE KEEP THIS PERSON, THIS DREAMER IN MIND -- NOT THE BIG CORPORATIONS, BUT THIS "LITTLE GUY" -- IN THE END WE'LL DO THE RIGHT THING FOR THE FUTURE OF ALL OUR COUNTRIES AND OF THE WORLD.

TUESDAY, JUNE 21

SCENESETTER  
TORONTO ECONOMIC SUMMIT  
TUESDAY, JUNE 21

- Final plenary discussion and approval of Communique, Governor General's luncheon, Prime Minister Mulroney's reading of the economic declaration, your press conference and your speech to the Empire Club.

Final Plenary

- Heads of State and Government, together with foreign ministers and finance ministers. Discussion and approval of the Economic Declaration. Any follow-up discussions, last thoughts based on the "informal" long-term issues discussion of the previous evening.

Governor General's Luncheon

- At the Art Gallery of Ontario, this luncheon is a social occasion, including Heads of State and Government, spouses, foreign and finance ministers.

Reading of the Communique

- Prime Minister Mulroney presents the Economic Declaration to the media at Roy Thomson Hall.

U.S. Press Conference

- Joined by Secretaries Shultz and Baker, you will hold press conference at Royal York Hotel.

Speech to Empire Club

- You speak on the importance of the U.S.-Canada relationship. This event is seen by Mulroney as an important event in his (unannounced) reelection bid.

IV. BILATERALS

CANADA

BACKGROUND PAPER  
MEETING WITH CANADIAN PRIME MINISTER BRIAN MULRONEY  
SUNDAY, JUNE 19

POLITICAL OVERVIEW

- Brian Mulroney's political position continues to be tenuous, and his Progressive Conservative Party trails the opposition Liberals in the most recent polls. Mulroney looks to this Economic Summit to bolster his image prior to elections we expect him to call this fall.
- This will be a poignant meeting for you and Mulroney, probably your last as President and Prime Minister.
- Canada shares your desire for a less structured Summit. We can anticipate support for your efforts to eliminate agricultural subsidies from the PM, but he will not want to press hard on any potentially divisive issue that could detract from the image of a successful Summit.

ECONOMIC OVERVIEW

- Canadian economic growth has been impressive, with 3.5% growth, low inflation (4%) and the lowest unemployment since 1981 at 7.7%. Mulroney's administration, like yours, had demonstrated good fiscal management, particularly on tax reform, privatization and deregulation of broad sectors.
- FTA ratification process is underway in Canada. Mulroney will emphasize to you that he needs the agreement to be ratified here this summer so he can push it through his own parliament. We rate the chances of passage in both countries as good.

ACID RAIN

- After the April summit with Prime Minister Mulroney, you asked Shultz to explore with FM Clark a possible compromise on acid rain. Shultz presented Clark our eight point concept paper that offers "to develop an agreed basis for determining specific emissions targets and timetable" as a compromise on Canada's call for specific emissions reductions over a set timetable. You should emphasize the flexibility the compromise language offers both countries in terms of offering the possibility of specific emissions reductions over a set timetable.

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POINTS TO BE MADE  
MEETING WITH CANADIAN PRIME MINISTER MULRONEY  
SUNDAY, JUNE 19

APRIL SUMMIT

- NANCY AND I ENJOYED SEEING YOU AND MILA IN WASHINGTON; GLAD OUR TALKS WERE SO PRODUCTIVE. GOOD TO BE BACK IN CANADA.
- WANT TO CONGRATULATE YOU ON PREPARATIONS FOR THIS SUMMIT. LOOKS LIKE IT WILL BE ONE OF THE BEST I'VE ATTENDED.
- BRIAN, THIS MAY BE THE LAST TIME WE MEET TOGETHER AS PRESIDENT AND PRIME MINISTER. I JUST WANT YOU TO KNOW HOW MUCH I HAVE ENJOYED WORKING WITH YOU. AS I WILL SAY IN MY SPEECH TUESDAY, OURS HAS BEEN A PRODUCTIVE RELATIONSHIP.

ACID RAIN

- I DIRECTED GEORGE SHULTZ TO REVIEW OUR POSITION AND TO GET TOGETHER WITH JOE CLARK. I BELIEVE OUR NEW 8-POINT PROPOSAL SHOWS CONSIDERABLE FLEXIBILITY.
- BUT REACHING AGREEMENT WILL REQUIRE FLEXIBILITY ON BOTH SIDES. AGREE ACID RAIN IS SERIOUS PROBLEM. BUT AS ENVOYS NOTED, IT IS POLITICALLY, ECONOMICALLY AND SCIENTIFICALLY COMPLEX.
- AS YOU KNOW, U.S. CANNOT COMMIT TO FIRM EMISSION REDUCTION TARGETS AND TIMETABLES AT THIS TIME.
- BUT WE ARE PREPARED TO "AGREE TO AGREE" IN FUTURE, AND TO COMMIT NOW TO DEVELOP BASIS FOR DETERMINING SPECIFIC EMISSIONS TIMETABLES AND TARGETS.
- CONTINUE TO BELIEVE AN ACCORD IS POSSIBLE. LET'S TRY TO FIND COMMON BASIS FOR AGREEMENT.

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FREE TRADE AGREEMENT

-- THE FTA IS MOVING NICELY THROUGH CONGRESS. I AM CONFIDENT THAT BOTH HOUSES FAVOR OUR FREE TRADE AGREEMENT AND WILL PASS IT THIS YEAR. YOUR SPEECH TO CONGRESS HAS BEEN HELPFUL IN THAT REGARD. HOW DOES IT LOOK IN CANADA?

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PARTICIPANTS LIST  
MEETING WITH PRIME MINISTER MULRONEY  
TORONTO, JUNE 19, 1988

U.S.

The President  
Tyrus Cobb, NSC (notetaker)

Canada

Prime Minister Brian Mulroney  
Chief of Staff to the Prime Minister Derek Burney