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# CRIME & DRUGS

## Crime and Drugs

*Handling. The UK fought to put drugs on the agenda; Japan added the reference to amphetamines. No opposition: US scepticism about the conference fell away once we explained what it was about (they had feared it might spark a legalisation debate).*

**Key Points**

- Glad we are returning to tackling **drugs** this year - believe G8 must show leadership in this area. Experts have agreed a good package of measures on:

  - restricting illegal trade in chemical precursors – the key ingredients of drugs like heroin and cocaine;
  - tackling the increasing threat from synthetic drugs, including amphetamines: know this is a particular problem for Japan;
  - working harder on assets confiscation – there should be no hiding place for traffickers or the proceeds of their crime;

- Pleased you support conference in the UK in February on the **Global Economy of Illegal Drugs**. Purpose will be to help equip policy makers/law enforcement agencies with better understanding of drugs markets and their weaknesses.

- Thesis is that we need to think about cartels and traffickers as successful global multinationals run by entrepreneurs making rational business decisions. Understanding the market helps law enforcement agencies take actions that recover the proceeds of crime; reduce financial incentives for traffickers; and drain the lifeblood of the industry.

- Conference would include law enforcement officials; financial institutions (public and private) and international experts in the field. Questions they will address include:

  - how to disrupt drug traffickers' networks by penetrating their illegal markets;
  - how can taxation be better used to remove criminal proceeds and drain the lifeblood of the industry;
  - what kind of legislation is required to better target the proceeds of crime and remove the profit motive;
  - how does assets seizure compare as a disincentive to trafficking compared to more traditional interventions (product seizure threat of imprisonment);

**Additional Points**

- Must use our influence to ensure **UN Transnational Organised Crime Convention** concluded and implemented this year.

- Information society has potential to bring great benefits; but also opportunities for criminals. Can work together – through Lyon Group – to tackle **high tech crime**. Some difficult domestic issues: tackling hi-tech crime vs preserving privacy.

- Dover disaster highlighted the emerging threat of **people trafficking**

## Crime and Drugs – Background

1. **Handling.** We have largely set the agenda on drugs – the communique text drawing on a UK paper which focussed on key areas for G8 activity to complement other international efforts: i) stifling the illegal trade in precursor chemicals (used to make cocaine, heroin etc); ii) more cooperation to tackle synthetic drugs (the Japanese are particularly concerned about amphetamines); iii) additional work on assets confiscation; related to iv) a new markets based approach to tackling the global economy of drugs. i) and ii) will be taken by G8 and other experts in a meeting in Japan with UK as co-chair, iii) will largely be taken on by the G8's Lyon Group, and iv) will be the subject of an international conference in the UK early next year. The UK conference will follow similar principles to the recent PIU report on tackling the proceeds of crime. The UK conference proposal, and FCO/PIU/Keith Hellawell initiative, is aimed at better understanding how illegal markets function and sharing analysis of how to disrupt them. We want to strengthen the capacity of governments to identify and exploit vulnerabilities in the illegal drugs market.

2. US objected at the last moment to our proposal to have a conference on the economics of the global drugs industry – their objection based largely on a misunderstanding of the proposal and a belief that it might fuel debate within their domestic lobby about legalisation of soft drugs. [However, now we have clarified our intentions they now backed down and agreed the conference.]

3. G8 work on crime has been focussed on the UN Transnational Organised Crime Conventions and its three Protocols on firearms, alien smuggling and trafficking in human beings. G8 influence has been important in shaping the development of these instruments. They set out criminal offences in specific areas such as organised criminal activity and illicit manufacture and trafficking of firearms and also provide for enhanced mutual legal and law enforcement co-operation. The aim is to complete the negotiations by late 2000. It may be necessary to delay one or two of the Protocols in order to ensure that there is sufficient negotiating time in the UN for the Convention.

4. Work in the G8 Lyon Group and a high profile meeting of regulators, law enforcement officers and industry representatives in Paris in May have taken forward the agenda on high tech crime. Firming up international action to tackle it is a top priority for future Lyon Group meetings. There is a reference to the crime aspects in the Okinawa IT Charter.

5. For the future, we have pushed for the G8 to get in early and play a full part in shaping the proposed UN instrument on corruption. The G8 Lyon Group will be mandated at Okinawa to take this work on.

## Toward a 21st century of deeper peace of mind

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### Crime and Drugs

Everyone deserves a life free from the threat of crime. Rapid globalisation has opened up new opportunities for pursuing more fulfilling lives. But it has also created new room for criminal exploitation, challenging the basic rules of our social, economic and political systems. We reaffirm our support for the adoption by the end of 2000 of the United Nations Transnational Organised Crime Convention and three related Protocols on firearms, smuggling of migrants and trafficking in persons for the establishment of an effective legal framework against transnational organised crime (TOC). We are particularly concerned to fight against those who organise and take advantage of illegal immigration and human trafficking. We appreciate the work undertaken by the Lyon Group in the fight against TOC, and request them to report back to our next meeting. We also endorse the results of the Moscow G8 Ministerial Conference on Combating Transnational Organised Crime.

We must take a concerted approach to high-tech crime, such as cyber-crime, which could seriously threaten security and confidence in the global information society. Out approach is set out in the Okinawa Charter on Global Information Society. Taking this forward, we will promote dialogue with industry, including at the joint Berlin meeting in October. We welcome the results and the momentum created by the Government/ Industry Dialogue on Safety and Confidence in Cyberspace in Paris, and look forward to the second High-level meeting on High-tech Crime with industry to be held in Japan.

We reaffirm our concern at the increasing global threat posed by the trafficking and use of illegal drugs. We remain committed to reducing

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demand in our own countries, and to countering the threat from the production and trafficking of illicit drugs globally. We will work with other countries, the UN system and other groups to reduce both supply and demand. We will support regional initiatives to end narcotics production and trafficking. We urge universal implementation of the conclusions of the 1998 UN Special Session on countering the world drugs problem. We are also committed to strengthening international co-operation to:

- combat the illicit diversion of precursor chemicals for the production

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of illegal drugs;

- address the growing new threat from amphetamines and other synthetic drugs, and will convene an ad-hoc meeting of drugs experts by the end of this year;

- accelerate the pace of work on asset confiscation;

- examine, by means of an international conference hosted by the UK, the global economy of illegal drugs.

Financial crime, including money laundering, poses a serious threat to our economies and societies. We hereby declare our commitment to take all necessary national and international action to effectively combat financial crime, in line with international standards.

We renew our commitment to combat corruption. We stress the need for transparency in government in this regard, and call for the ratification and effective implementation of the OECD Anti-Bribery Convention by all signatory parties. Working with other countries, we will prepare for the launch of negotiations in the United Nations on a new instrument against corruption, and instruct the Lyon Group to pursue work on this issue. We look forward to the Second Global Forum to be hosted by the Netherlands as a continued response to our call at Birmingham.

Enhanced investigation and prosecution of crime required enhanced judicial co-operation. We direct our experts to find ways to do so.

We must assist capacity-building efforts in the more vulnerable jurisdictions to strengthen their criminal justice systems, in order to prevent criminal groups from threatening their social, economic and

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political structures and exploiting them as loopholes in the global framework to fight crime.

We must also protect vulnerable groups and the young in the fight against crime, and provide particular care for the victims of crime. We reaffirm the need for effective co-operation among competent authorities and for measures to be taken in co-operation with civil society.

FOOD
SAFETY

## Biotechnology and Food and Crop Safety

*Handling: Sherpas may not have been able to agree on the International Panel and this discussion may be critical. You may need to defend our proposal against French attempts to broaden it into a talking shop for everyone, covering all issues; and against US attempts to restrict its scope or challenge its permanence.*

- Jacques put **GM food** on our menu at Cologne. Debate between our officials since then has contributed to much better understanding between us of the issues.

- But public debate concerns me. People must have confidence in food they eat. Concern in the UK has focussed particularly on GM foods and the environmental impact of GM crops. Vital to address these (i) for public peace of mind and (ii) future success of biotechnology.

- **Edinburgh OECD conference** started to get debate back onto a rational basis. Highlighted the importance of this issue for **developing countries**: they are potentially more vulnerable to the risks; and more needful of the opportunities of this new technology. Must engage them fully.

- Convinced that **Independent Panel** of eminent scientists is right way to ensure public debate is properly informed by science; must be founded on principles of: scientific expertise; inclusiveness; transparency and independence.

- Science is developing extraordinarily rapidly. Panel will help build consensus on what the science does and does not tell us. Will **not** set global rules. But will help develop the shared international understanding of the science we need.

- **UN** should facilitate the Panel; fits with Kofi Annan's plans; understand he is interested. This necessary for public credibility and developing country confidence. Secretary General can decide which parts of the system to mobilise.

**Defensive Lines to take on supplementary questions:**

*Panel should include all stakeholders including civil society? (from France/Italy)*

- Panel should comprise most eminent international scientific experts, representing the full spectrum of scientific opinion. But must also have credibility with the full range of stakeholders in civil society as well as government; and will need arrangements for dialogue with wider range (industry, consumers, governments): eg – through publishing deliberations on the Web; through seminars etc.

- reputable scientists nominated by NGOs and consumer groups should not be denied a place on the Panel - provided they are prepared to take place in a rational, science-based discussion of the issues.

- our aim is not to ignore or devalue the legitimate broader concerns (beyond science) which exist, but to provide a common foundation from which these can be addressed.

- NGOs and other stakeholders must be fully engaged from the outset, for example in setting up the Panel. The Panel must have credibility with all these groups.

- Panel will need itself to set up arrangements to consult with the full range of stakeholders.

*Who would select the Panel? (US)*

- An open and transparent process is essential. The UN Secretary General should lead this.

*Panel should be limited to ad hoc arrangements or undefined, limited " process"? (US)*

- An ad hoc arrangement, dealing only with narrow issues, would have minimal impact on the public debate. It would not be able to pre-empt public concerns with authoritative scientific advice as new issues emerge or to command a sufficiently high profile.

- A limited process or one-off event such as another conference will not meet our objectives – will look like more G8 prevarication on an issue of major international concern (to go with "inaction" on HIPC, Climate Change, Trade Round). We should aim to make a firm commitment to a Panel now.

- Can accept a sunset clause - a review of the Panel five years from its establishment. [could be prepared to lower to three years from establishment]

## Food Safety - Background

**1. Handling.** We are close to agreement on our key proposal for establishment of an independent scientific expert panel on GM food and crops. We are treading a fine path between those that want an inclusive debate addressing the full range of public concerns (ethical, social, economic, as well as scientific) and the minimalist agenda of those anxious not to encroach on regulatory processes crucial to their industry.

2. **Germany, Russia, Japan, Canada**, and the **Commission** are now behind our proposal. **Italy** remains sceptical, based on their negative views on the future of GM technology generally. **France**, despite Chirac's assurance of support he gave you last month, is continuing to look for wider participation to address issues beyond the science (ethical, social, etc.). This is not acceptable to the **US** who will accept only a science based Panel and are angling for an ad hoc arrangement, for example a conference of experts, to consider specific issues.

3. At the time of writing Sherpas are working to resolve these differences. There are many subtleties to the way our model for the Panel is organised. Giving way on apparently trivial points could easily move us away from our objective of a Panel which informs the public debate and builds confidence in GM foods and crops.

4. In response to Chirac's proposal at Cologne for a World Food Safety Council, Heads agreed a programme of work by OECD on "biotechnology and other aspects of food safety" of which the Edinburgh Conference on GM food safety earlier this year was a part. The UK has lead G8 thinking on follow up, our main proposal being a Panel building on the principles which made Edinburgh a success: scientific expertise, inclusiveness, transparency, and independence, and drawing on the model of Intergovernmental Panel on Climate Change. Our model of a Panel facilitated by the UN system would have ownership of developed and developing countries alike, and include a broad based spectrum of scientific opinion and expertise to address GM food safety and crop safety. The Panel's self-determining, roving mandate, providing continuing authoritative scientific opinion on areas of consensus, disagreement and gaps in global scientific understanding, would be crucial to gaining public credibility and confidence.

5. Other proposals covered in the Communique refer more to food safety generally and include support for Codex and its standard setting role, and agreement to strengthen policy dialogue, striking a balance between OECD and WHO/FAO roles to satisfy all the interests of G8 partners. Only the Panel proposal remains to be agreed.

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## Life Science

### *Biotechnology/Food Safety*

Maintenance of effective national food safety systems and public confidence in them assumes critical importance in public policy. We are committed to continued efforts to make systems responsive to the growing public awareness of food safety issues, the potential risks associated with food, the accelerating pace of developments in biotechnology, and the increasing cross-border movement of food and agricultural products.

The commitment to a science-based, rule-based approach remains a key principle underlying these endeavours. The on-going work in international fora to develop and refine such an approach needs to be accelerated. In particular, we attach strong importance to the work of the CODEX Alimentarius Commission (CAS), the principle standard-setting body in food safety, and encourage its Ad Hoc Intergovernmental Task Force on Foods Derived from Biotechnology to produce a substantial interim report before completion of its mandate in 2003. We also support the efforts of the CAC's Committee on General Principles to achieve greater global consensus on how precaution should be applied to food safety in circumstances where available scientific information is incomplete or contradictory.

Policy dialogue, engaging all stakeholders and including both developed and developing countries, must be intensified to advance health protection, facilitate trade, ensure the sound development of biotechnology, and foster consumer confidence and public acceptance. The report by the OECD Ad Hoc Group on Food Safety and the work of the Task Force on Novel Foods and Feeds and the Working Group for the Harmonisation of Regulatory Oversight in Biotechnology represent a useful step in this direction. We welcome the further work agreed by OECD ministers. We note with approval that the OECD will continue to undertake analytical work and to

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play an effective role in international policy dialogue on food safety, maintaining its engagement with civil society and seeking to share its work in this area with countries outside the organisation's membership. Drawing on its comparative advantages, the work of the OECD will effectively complement the activities of other international organisations, in particular the FAO and WHO. We also encourage the FAO and WHO to organise periodic international meetings of food safety regulators to advance the process of science-based public consultations.

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In pursuing this dialogue we will pay particular attention to the needs, opportunities and constraints in developing countries. We will work to strengthen our support for their capacity building to harness the potentials of biotechnology, and encourage research and development as well as data and information sharing in technologies, including those that address global food security, health, nutritional and environmental challenges and are adapted to specific conditions in these countries.

Open and transparent consultation with and involvement of all stakeholders, supported by shared scientific understanding is a key component of a credible food safety system. Building on the success of the OECD Edinburgh Conference, we offer to work closely with the UN and other relevant international organisations, scientific academies and expert bodies toward establishment of an independent international panel for inclusive, science-based consideration of emerging issues in respect of developments in biotechnology and food and crop safety. We propose that, drawing on the IPCC (International Panel on Climate Change) model, the self-standing independent panel would be facilitated by the UN system and would help integrate the best scientific knowledge available into the process of international consensus building.

# ENVIRONMENT

## Environment

*Handling. Key interventions here are renewable energy – our public-private task force idea agreed; and forests - Canada might still be opposing language on domestic procurement practices.*

**Key Points**

**Renewable Energy**

- Two billion people in developing countries have no electricity. This is a huge barrier to overcoming health, education and poverty reduction barriers. Clearly cannot close digital divide without access to electricity.

- Development goals dictate that we must tackle this problem. But massive expansion of traditional energy incompatible with our sustainable development – particularly climate change – goals. Renewable energy is key to providing developing world with electricity in an environmentally sustainable way.

- Now is the time for us to harness the energy of the private sector and remove barriers to innovation and enterprise. We must make the challenge to business, International Financial Institutions and other stakeholders to work together to identify the barriers and solutions to making a step change in the expansion of renewable energy use.

- [Business central to solving this problem. Therefore pleased Shell Chief Mark Moody Stewart has taken up our offer to co-chair the group with Italy]

**Forests/ Illegal Logging**

- G8 Action Plan recognises the importance of forests as a key natural resource and the increasing pressures they are under. But our domestic practices under the microscope. Procurement policy must promote sustainable forest management wherever possible; and deter and deter trade in illegally harvested timber.

**Additional Points – as necessary**

**Climate change**

- Climate change is possibly the greatest environment threat facing the world today. Kyoto Protocol was a historic agreement; developed countries for the first time taking on targets to reduce emissions. Now have to work to bring it into force.

**Greening Export Credits**

- Working towards common environmental guidelines for export credit agencies within the OECD is an important goal as part of our pursuit of sustainable development. It is essential for the G8 to continue to lead internationally on this issue.

## Environment – Background

**Renewable Energy**

1. This UK initiative emerged from a No 10 consultation with NGOs and other stakeholders on the G8 in December 1999. Its agreement should show that the UK government's commitment to participation and transparency can lead to concrete action at the highest level. All G8 countries support this initiative. Italy has been particularly in favour. Germany has, at the last minute, expressed concerns that the initiative should not duplicate the work of the Commission on Sustainable Development.

2. There will be two stages to the initiative. The first - to be launched at Okinawa- will call on key high-level stakeholders to come together in a taskforce to identify barriers and solutions to increasing the use of renewable energy, especially in the poor communities. Introducing renewable energy in rural areas gives opportunities for education through lighting and use of IT and improved health by reducing the use of polluting fuels. The taskforce will report to G8 Heads and Sherpas in early 2001. The second stage - to take place later in 2001- will turn these proposals into G8 actions for agreement at Genoa.

3. [The task force will be co-convened by a public sector representative from Italy and a private sector representative from a major energy company. We have offered Japan the initial opportunity to nominate the private sector convenor, but hope they will eventually accept a UK nominee.]

**Forestry/ Illegal Logging**

4. **Handling** We have proposed language on Government procurement of timber. This is aimed at addressing the problem of illegal logging through domestic action. Canada and Russia are likely to resist this, for fear of adversely affecting their own timber exports. We should continue to push for inclusion, as being crucial for the credibility of the G8 Action Programme.

5. The Report on Implementation of the G8 Action Programme on Forests is presented in the form of 'highlights' in each of the five focal areas (illegal logging; monitoring and assessment; national forest programmes; protected areas and private sector) followed by a conclusion and individual country reports. There is increasing civil society interest in the Action Programme, especially illegal logging (Greenpeace, World Wildlife Fund, Environmental Investigation Agency, Friends of the Earth have all made representations).

**Climate Change**

6. There is generally a divide between the EU and other developed countries (who are more cautious). Both Germany and France believe that the current communiqué text is too weak, and the French have told us that Chirac intends to speak. We should discreetly support - we do not want to be seen to be weakening the EU's position, but we are also keen to avoid embarrassing the US in particular.

7. The EU has called for the Kyoto Protocol to enter into force by 2002, but any deadline, as well as references to the Protocol's implementation, are likely to be strongly opposed by the US and Canada. We can strongly support any reference to the importance of domestic action by G8 countries to reduce emissions. It is vital that we show developing countries that the leading industrialised countries are serious about tackling climate change at home.

8. Key decisions about the Kyoto Protocol are due to be taken by the Sixth Conference of the Parties (COP6) to the Climate Change Convention in The Hague in November, which is likely to be crucial in determining whether or not Kyoto enters into force. The G8 Summit could help prepare the ground for COP6 by reaffirming the commitment of G8 leaders to resolving outstanding issues, and to taking domestic action to reduce greenhouse gas emissions. In particular, Heads could underline their resolve to see CoP6 create the conditions for the ratification and entry into force of the Kyoto Protocol as soon as possible.

**Greening Export Credits**

**9.** The US has been pressing for guidelines based on Multilateral Development Bank (MDB) standards. This would be to commit to the establishment of 'common standards' as opposed to the existing agreement on 'common guidelines'. This would go beyond the current G8 mandate and risk jeopardising the fragile consensus within the OECD by pushing the process too hard too soon.

**10.** The most proactive countries within the OECD are the US, UK and Canada. France, Japan and Germany are now playing their part in fostering agreement, but are clearly suspicious of the underlying US desire to define 'guidelines' as applying ex ante qualitative and quantitative standards. Italy have been largely silent. Although we should support moves to bring the OECD mandate in line with the G8 mandate, there are sensitivities within the OECD forum to the G7 countries dictating action.

**11.** In 1999 the UK acted unilaterally to introduce an environmental screening process for export credit projects based on a screening questionnaire. This process is to be further developed. You, and Cabinet colleagues, recently endorsed ECGD's Mission and Status review (not yet publicly announced by the Secretary of State for Trade and Industry), This said that ECGD should continue to press for standards of assessment to be raised multilaterally, with ECGD being up at the level of the best of other Export Credit Agencies.

**Maritime Safety**

12. Oil tanker safety was suggested as a G8 topic by France following the December 1999 oil spill off the French coast. Chirac will speak on this.

13. The International Maritime Organisation (IMO) is the best forum for the development of new international maritime safety and counter-pollution standards/procedures. It is for the IMO rather than G8 to take concrete action to ensure that standards are adhered to/reinforced as necessary. Any action proposed must be compatible with this.

**Biosafety Protocol**

14. The **Cartagena Protocol on Biosafety** was adopted in Montreal on 29 January. It will provide an international framework for biosafety in the transboundary movement of living modified organisms (LMOs– genetically modified organisms which have the potential to propagate, such as seeds). The lack of any international regulation in this field had been raised as a concern, particularly by developing countries. The Protocol will help counter the possibility of unacceptable threats to biodiversity posed by growing trade in LMOs.

15. At the fifth meeting of the Conference of Parties to the Convention (COP5) on Biological Diversity, held in Nairobi in May, 68 Parties signed the Protocol, including 14 EU states. The US, Japan, Canada and Russia are not yet among the signatories. Whether or not they sign, they will seek to be involved in the Protocol's implementation because of the importance it will have for traded agricultural products.

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**Environment**

We must all work to preserve a clean and sound environment for our children and grandchildren. We welcome the results of the G8 Environment Ministers' Meeting in Otsu. We also welcome the conclusion of the Cartagena Protocol on Biosafety, and encourage the parties concerned to work for its early entry into force.

We will endeavour with all our partners to prepare a future-oriented agenda for Rio+10 in 2002. We are strongly committed to close co-operation among ourselves and with developing countries, to resolve as soon as possible all major outstanding issues, with a view to early entry into force of the Protocol. To that end, we are determined to achieve a successful outcome at COP6, in order to achieve the goals of the Kyoto Protocol through strong domestic actions and the effective use of the flexibility mechanisms.

Working together and with existing institutions to encourage and facilitate investment in *the development and use of* sustainable energy, underpinned by enabling domestic environments, will assist in mitigating the problems of climate change and air pollution. To this end, the increased use of renewable energy sources in particular will improve the quality of life, especially in developing countries. We therefore call on all stakeholders to identify the barriers and solutions to elevating the level of renewable energy supply and distribution in developing countries. We invite stakeholders to join in a Task Force to prepare concrete recommendations for consideration at our next Summit regarding sound ways to better encourage the use of renewables in developing countries.

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We fully endorse the conclusions of our Foreign Ministers regarding sustainable forest management. In this regard, we attach particular importance to projects that help indigenous and local communities practice sustainable forest management. We will also examine *how best we can combat illegal logging, including export and procurement practices.*

Export credit policies may have very significant environmental impacts. We welcome the adoption of the OECD work plan to be completed by 2001. We reaffirm our commitment to develop common environmental guidelines, *drawing on relevant MDB experience,* for export credit agencies by the 2001 G8 Summit. *We will cooperate to reinvigorate and intensify our work to fulfil the Cologne mandate.*

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Strengthening international maritime safety is vital for the protection of the ocean environment, a global heritage. We will jointly co-operate with the International Maritime Organisation (IMO) to improve maritime safety. We endorse efforts by the IMO to strengthen safety standards, in particular for ships carrying dangerous or polluting cargo, and to verify implementation and enforcement of the application of international standards by flag States. We also endorse efforts by coastal states to enhance safety of navigation and protection of their marine environment through the use, where appropriate, of IMO-adopted routing and reporting measures. We encourage the early achievement of these goals.

We welcome the IMO efforts to pursue practical reform of current international regimes on maritime pollution, in particular the 1992 Convention on Civil Liability for Oil Pollution Damage and the 1992 IOPC Convention with respect to, inter alia, better compensation.

HUMAN
GENOME

## Human Genome

*No priorities here – main objective is to endorse sentiment of earlier joint Blair-Clinton declaration on mapping the human genome. But argument may emerge in negotiating language over the extent to which gene patent policies should be harmonized. We are in the middle of the pack and therefore quite relaxed about the outcome.*

### Additional Points

- Recent publication of the rough draft of the human genome, a good moment for G8 leaders to:

    - endorse the importance of this scientific breakthrough;
    - to highlight the importance of public access to the raw fundamental data on the human genome;
    - to emphasis the need to adopt policies that maximises the benefits of this research in terms of better healthcare products.
    - to acknowledge the importance of encouraging continuing scientific research by allowing patenting of innovations of the human genome sequence.

## Human Genome – Background

1. **Handling.** There have been tensions in agreeing communique language [and negotiations are still ongoing at Sherpa level]. The US wants minimal references to intellectual property whilst the French and Italians want to harmonise patenting policies in this field. We have supported the Commission who have brokered a compromise text.

2. This issue was included in the G8 Summit as a result of your joint Statement with President Clinton on Human Genetic research to ensure that discoveries from the human genome are used to advance human health. The Statement:

   - emphasised the potential for huge advances in healthcare of this research;
   - encouraged scientists engaged in this work to release their information into the public domain as quickly as possible; and
   - recognised that patent protection will be important if companies are to fund adequate research to develop new gene-based products.

3. The recent announcement by the Human Genome Project on the completion of the rough draft of the human genome sequence reinforced the need to get policies right. The communiqué endorses the UK/US Statement and stresses the importance of international co-ordination on post-genome research and intellectual property rules.

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***Human Genome***

Advances in life science continuously improve our quality of life. Opening new medical frontiers points to unprecedented opportunities for the benefit of humankind and will have to be achieved taking account of principles of bioethics.

The announcement of the nearly complete mapping of the human genome, a momentous discovery in itself, constitutes a further dramatic and welcome step in this development.

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We consider this mapping to be [*the common heritage of humanity/ critically important for all humanity*] and call for the further rapid release of all raw fundamental data on human DNA sequences as such. We also emphasise the importance of pursuing the post genome-sequence research on the basis of multilateral collaboration.

We recognise the need for a balanced and equitable intellectual property protection for gene-based inventions, based wherever possible on common practices and policies. We encourage further efforts in relevant international fora to achieve broad harmonisation of patenting policies of biotechnological inventions.

# AGEING

## Ageing population

*No UK priorities here. At the Presidency's request the UK prepared an ageing paper, but its really about Japanese domestic presentation: Okinawa has the oldest population in Japan.*

**Additional Points**

- People living longer, and retiring from the labour market earlier, often involuntarily. Unchecked, this trend will have significant social and economic consequences, particularly for reduced national income, a growing dependent population, and increased social costs - both pensions and health care.

- Strongly support active participation of older people in the labour market. This is a priority for the UK Government. We are promoting a fundamental change in culture in regard to older workers.

- UK policy includes a range of initiatives specifically aimed at enabling older people to stay in, or re-enter employment and to use their skills to benefit the wider community

## Ageing - Background

1. The Communiqué language is based on an original UK paper ('Economic and Community Activity Among Older People') prepared in response to a request from the Japanese at an early stage of the preparations for Okinawa to develop some ideas on the topic of an ageing population.

2. There was some slight tension caused by last-minute French efforts to delete references in the Communiqué text to removing disincentives for people below retirement age to stay in the labour market. However, the language is now agreed.

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## 7 Ageing

8 The progressive ageing of our populations compel us to rethink the
9 conventional concept of a three-stage life cycle of education, employment
10 and retirement. As the vitality of our societies increasingly depends on
11 active participation by older people, we must foster economic and social
12 conditions, including IT-related developments, that allow people of all
13 ages to remain fully integrated into society, to enjoy freedom in deciding
14 how to relate and contribute to society, and to find fulfilment in doing so.
15 The concept of "active ageing", as articulated at the Denver Summit,
16 remains our guiding principle in this endeavour.

17 The central challenge is to promote a culture that values the experience and
18 knowledge that comes with age. To this end, we will:

19 - Make further efforts to remove inappropriate disincentives for people
20 below retirement age to stay in the labour market;

21 - Counter age prejudice in employment;

22 - Encourage life-long learning so that people can remain active through
23 the accelerated transition toward an information society;

24 - Pursue healthy ageing policies that permit a continued high quality of
25 life;

26 - Seek to increase relevant cross-national research, including
27 comparable longitudinal surveys;

28 - Engage with the private sector and civil society in promoting older
29 people's participation in community and volunteer activities.

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1 In pursuing these objectives we attach continued importance to
2 international co-operation and policy dialogue, and encourage the OECD
3 to continue its work in this area.

4 We look forward to the upcoming meeting of G8 Labour and Social
5 Affairs Ministers in Italy in November.

# REFERENCES

# G8 SUMMIT
# PARTICIPANTS

**G7/8 SUMMIT PARTICIPANTS**

| | Heads of Govt. | Finance Ministry | Foreign Affairs | G8 Sherpa | G8 Political Director | Finance Sous-Sherpa | Foreign Affairs Sous-Sherpa | G7 Finance Deputy | G7 Deputy Deputy |
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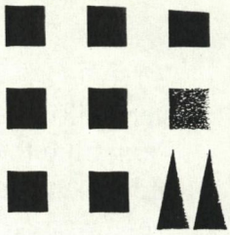
| **USA** | Bill Clinton | Larry Summers | Madeleine Albright | Lael Brainard | Tom Pickering | Mark Sobel | Al Larson | Timothy Geithner | Caroline Atkinson |
| **Russia** | Vladimir Putin | Alexei Kudrin | Vladimir Ivanov | Andrei Illarionov | Georgi Mamedov | | Georgi Petrov | | |
| **EU** | Romano Prodi | Mira Solbes | Chris Patten | Armando Varricchio | Guy Legras | Giovanni Ravasio | Bernhard Zepter | | |

# COLOGNE
# COMMUNIQUE

# G8 COMMUNIQUÉ KÖLN 1999



1. We, the Heads of State and Government of eight major democracies and the President of the European Commission, met in Köln for the 25th Economic Summit. On the threshold of the new millennium we discussed growing opportunities as well as forward-looking solutions to the challenges facing our nations and the international community.

2. Globalization, a complex process involving rapid and increasing flows of ideas, capital, technology, goods and services around the world, has already brought profound change to our societies. It has cast us together as never before. Greater openness and dynamism have contributed to the widespread improvement of living standards and a significant reduction in poverty. Integration has helped to create jobs by stimulating efficiency, opportunity and growth. The information revolution and greater exposure to each others' cultures and values have strengthened the democratic impulse and the fight for human rights and fundamental freedoms while spurring creativity and innovation. At the same time, however, globalization has been accompanied by a greater risk of dislocation and financial uncertainty for some workers, families and communities across the world.

3. The challenge is to seize the opportunities globalization affords while addressing its risks to respond to concerns about a lack of control over its effects. We must work to sustain and increase the benefits of globalization and ensure that its positive effects are widely shared by people all over the world. We therefore call on governments and international institutions, business and labor, civil society and the individual to work together to meet this challenge and realize the full potential of globalization for raising prosperity and promoting social progress while preserving the environment.

## I. Getting the World Economy on Track for Sustained Growth

4. Since we met last year in Birmingham, the world economy has faced major challenges. Progress has been achieved in addressing the crisis and laying the foundations for recovery. Policy steps aimed at supporting growth in the major industrialized countries and important policy actions leading to stronger performance in some emerging markets have improved the economic outlook. A number of substantial challenges still remain. We therefore renew our commitment to pursue appropriate macroeconomic policies and structural reforms. These will contribute to more balanced growth in the world economy, thereby reducing external imbalances.

5. The world economy is still feeling the effects of the financial crises that started in Asia two years ago. Without an open, rules-based world trading system and the beneficial flows of goods and services it encourages, the countries affected would be having much greater difficulty recovering from these crises and stabilizing their economies.

6. We welcome the outline agreements recently reached by Russia with the IMF and the World Bank and look forward to their speedy implementation as a further important

step in Russia's reform program. Once an IMF agreement is in place, we encourage the Paris Club to act expeditiously to negotiate a debt rescheduling agreement with Russia. In order to support Russia's efforts towards macroeconomic stability and sustainable growth, we encourage the Paris Club to continue to deal with the problem of the Russian debt arising from Soviet era obligations, aiming at comprehensive solutions at a later stage once Russia has established conditions that enable it to implement a more ambitious economic reform program.

7. We agreed to intensify our dialogue within the G8 structures on the longer term social, structural and economic reform in Russia. To this end, we have instructed our personal representatives to ensure the overall continuity and cohesion of the work among the G8 on this subject. Particular emphasis should be given to concrete areas of cooperation such as small business development, strengthened cooperation with regions, health, the social impact of economic transformation. We agreed to deepen our cooperation on law enforcement, fighting organized crime and money laundering, including as they relate to capital flight.

## II. Building a World Trading System That Works for Everyone

8. The multilateral trading system incorporated in the World Trade Organization (WTO) has been key to promoting international trade and investment and to increasing economic growth, employment and social progress. We therefore renew our strong support for the WTO and our commitment to an open trade and investment environment. We call on all nations to resist protectionist pressures and to open their markets further. We encourage those states not yet members of the WTO to join it, by accepting its principles.

9. Given the WTO's vital role, we agree on the importance of improving its transparency to make it more responsive to civil society while preserving its government-to-government nature. We pledge to work for a successful ministerial meeting in Seattle in order to launch the new round. We will also seek a more effective way within the WTO for addressing the trade and environment relationship and promoting sustainable development and social and economic welfare worldwide.

10. We therefore call on all nations to launch at the WTO Ministerial Conference in Seattle in December 1999 a new round of broad-based and ambitious negotiations with the aim of achieving substantial and manageable results. All members should have a stake in the process. We encourage all members to make proposals for progress in areas where developing countries and in particular least developed countries can make solid and substantial gains; all countries should contribute to and benefit from the new round. An effective new round of trade negotiations should help pave the way for the further integration of the developing countries into the world economy. In this context we reaffirm our commitment made in Birmingham last year to the least developed countries on improved market access. We also urge greater cooperation and policy coherence among international financial, economic, labor and environmental organizations.

11. Because trade is increasingly global, the consequences of developments in biotechnology must be dealt with at the national and international levels in all the appropriate fora. We are committed to a science-based, rules-based approach to addressing these issues.

## III. Designing Policies for More Employment

12. One of the most urgent economic problems is the high level of unemployment in many countries. We reaffirm the importance of intensified international cooperation and enhanced efforts at the national level to design the right policies for more employment. To strengthen the foundations for sustainable growth and job creation, we strongly emphasize a two-tiered approach:

- promoting structural reforms to enhance the adaptability and competitiveness of our economies and to help the long-term unemployed to return to the labor market;
- pursuing macroeconomic policies for stability and growth and ensure that monetary and fiscal policies are well balanced.

13. The greater the adaptability of our economies, the greater the likelihood that economic growth will result in more employment. We therefore strongly support the elimination of structural rigidities in labor, capital and product markets, the promotion of entrepreneurship and innovation, investment in human capital, reform of the tax/benefit systems to strengthen economic incentives and encourage employment, and development of an innovative and knowledge-based society.

14. We also endorse the G8 Labor Ministers' conclusions at their conference in Washington last February, namely to provide social safety nets that support employment, to prevent long-term unemployment by early action, to facilitate job search by offering labor market information and employment services, to promote lifelong learning and new forms of work organization, to ensure equal access to the labor market for all workers, including job entrants and older workers, and to take forward the social dialogue.

## IV. Investing in People

15. Basic education, vocational training, academic qualifications, lifelong upgrading of skills and knowledge for the labor market, and support for the development of innovative thinking are essential to shape economic and technical progress as we move towards a knowledge-based society. They also enrich individuals and foster civic responsibility and social inclusion.

16. In support of these goals, we agree to pursue the aims and ambitions set out in the Köln Charter.

17. Adaptability, employability and the management of change will be the primary challenges for our societies in the coming century. Mobility between jobs, cultures and communities will be essential. And the passport to mobility will be education and lifelong learning for everyone.

18. To this end, we support an increase in exchanges of teachers, administrators and students among the nations of the Eight and with other nations and invite our experts to identify the main obstacles to increased exchanges and to come forward with appropriate proposals before the next Summit. We call upon the Organization for Economic Cooperation and Development (OECD) and the United Nations Educational, Scientific and Cultural Organization (UNESCO) to study how different countries are attempting to raise education standards, for example by looking at best practices in the recruitment, training, compensation and accountability of the teaching profession internationally. We commit ourselves to explore jointly ways to work together and through international institutions to

help our own countries as well as developing nations use technology to address learning and development needs, for example, through distance learning.

## V. Strengthening Social Safeguards

19. As the process of globalization has gained momentum, it has brought with it important social and economic progress. At the same time, rapid change and integration has left some individuals and groups feeling unable to keep up and has resulted in some dislocation, particularly in developing countries. We therefore need to take steps to strengthen the institutional and social infrastructure that can give globalization a "human face" and ensure increasing, widely shared prosperity.

20. Social security policies, including social safety nets, must be strong enough to encourage and enable individuals to embrace global change and liberalization and to improve their chances on the labor market, while enhancing social cohesion. We recognize that faced with financial constraints, it is vital to strike a sustainable balance between social support programs and greater personal responsibility and initiative.

21. We are convinced that the countries most seriously affected by the recent economic and financial crises will sustain a speedier recovery if they create and improve the necessary social infrastructure. It is therefore particularly important to maintain investment in basic social services during times of crisis. Budgetary priorities and flexibility should enhance the quality of social infrastructure and investment.

22. Democracy, the rule of law, good governance and respect for human rights and for core labor standards are further indispensable prerequisites for social stability. The development of well-functioning and corruption-free institutions that are cost-effective, transparent and accountable to the public must complement the process of liberalization.

23. We call on the International Financial Institutions (IFIs) to support and monitor the development of sound social policy and infrastructure in developing countries. We commend actions already being taken in this regard. We urge the International Monetary Fund (IMF) to give more attention to this issue in designing its economic programs and to give particular priority to core budgets such as basic health, education and training to the extent possible, even during periods of fiscal consolidation. We welcome the efforts of the World Bank, in collaboration with the UN, to develop principles of good practice in social policy and their work to strengthen partnerships with borrower countries through the comprehensive development network. We invite the World Bank and the IMF to work together to develop a set of policies and practices that can be drawn upon, by donors and borrowers alike, in the design of adjustment programs that ensure the protection of the most vulnerable.

24. We support improved exchange of information, including analysis of the cost and benefits of social safety nets, within the UN, the OECD, and in other appropriate fora on the design and implementation of social reforms.

25. We commit ourselves to promote effective implementation of the International Labor Organization's (ILO) Declaration On Fundamental Principles and Rights at Work and its Follow-up. We also welcome the adoption of the ILO Convention on the Elimination of the Worst Forms of Child Labor. We further intend to step up work with developing countries to improve their capacity to meet their obligations. We support the strengthening of the ILO's capacity to assist countries in implementing core labor standards.

26. We also welcome the increasing cooperation between the ILO and the IFIs in promoting adequate social protection and core labor standards. We urge the IFIs to incorporate these standards into their policy dialogue with member countries. In addition, we stress the importance of effective cooperation between the WTO and the ILO on the social dimensions of globalization and trade liberalization.

## VI. Deepening the Development Partnership

27. Developing countries are essential partners in a globalized world. We are committed to working with them, especially with the poorest countries, to eradicate poverty, launch effective policies for sustainable development and develop their capacity to integrate better into the global economy, thus benefiting from the opportunities offered by globalization.

- We will continue to provide substantial support and assistance to developing and transition economies in support of their own efforts to open and diversify their economies, to democratize and improve governance, and to protect human rights.
- We will strive gradually to increase the volume of official development assistance (ODA), and to put special emphasis on countries best positioned to use it effectively.
- To ease future debt burdens and facilitate sustainable development, we agree to increase the share of grant-based financing in the ODA we provide to the least developed countries.
- Non-governmental organizations also have an important role to play.
- While international assistance and debt relief are clearly important, their positive effects depend on sound national efforts towards economic and structural reform and good governance, where the private sector and civil society are able to play productive roles.
- We intend to step up work with developing countries and multilateral institutions to improve developing country capacity to exercise their rights and meet their obligations in the global trading system so as to ensure that they derive the full benefits of liberalized trade and thus contribute to global economic growth.
- We call on the UN and the IFIs to help developing countries mobilize sufficient means for social services and basic infrastructure and continue to support and to mainstream democratization, good governance and the rule of law into country development strategies.
- We reaffirm our support for the OECD mandate to finalize a recommendation on untying aid to the least developed countries. We call on OECD members to bring this effort to a successful conclusion as soon as possible.

28. We reaffirm our commitment to contribute to the achievement of economic and social development in Africa, Asia and Latin America. We will review the situation in that regard every year, on the basis of reports by the IFIs and the relevant regional development banks, on the alleviation of poverty.

## VII. Launching the Köln Debt Initiative

29. We have decided to give a fresh boost to debt relief to developing countries. In recent years the international creditor community has introduced a number of debt relief measures for the poorest countries. The Heavily Indebted Poor Countries (HIPC) framework has made an important contribution in this respect. Recent experience suggests that further efforts are needed to achieve a more enduring solution to the problem of unsustainable debt burdens. To this end we welcome the 1999 Köln Debt Initiative, which is designed to provide deeper, broader and faster debt relief through major changes to the HIPC framework. The central objective of this initiative is to provide a greater focus on poverty reduction by releasing resources for investment in health, education and social needs. In this context we also support good governance and sustainable development.

30. We are aware that new proposals will require additional substantial financing. While several means of financing are under consideration, credible progress in identifying additional funding possibilities is needed, and we stand ready to help with financing solutions. In this context we recognize the importance of fair burden sharing among creditors.

## VIII. Redoubling Efforts to Protect the Environment

31. To underscore our commitment to sustainable development we will step up our efforts to build a coherent global and environmentally responsive framework of multilateral agreements and institutions. We support the outcome of the G8 Environment Ministers' meeting in Schwerin and will expedite international cooperation on the establishment, general recognition and continual improvement of environmental standards and norms. We agree that environmental considerations should be taken fully into account in the upcoming round of WTO negotiations. This should include a clarification of the relationship between both multilateral environmental agreements and key environmental principles, and WTO rules.

32. We agree to continue to support the Multilateral Development Banks in making environmental considerations an integral part of their activities and we will do likewise when providing our own support. We will work within the OECD towards common environmental guidelines for export finance agencies. We aim to complete this work by the 2001 G8 Summit.

33. We reaffirm that we consider climate change an extremely serious threat to sustainable development. We will therefore work towards timely progress in implementing the Buenos Aires Plan of Action with a view to early entry into force of the Kyoto Protocol. In particular, we encourage decisions on the operation of the Kyoto mechanisms and on a strong and effective compliance regime. We underline the importance of taking action to reduce greenhouse gas emissions through rational and efficient use of energy and through other cost-effective means. To this end, we commit ourselves to develop and implement domestic measures including under the UN Framework Convention on Climate Change. We also agreed to exchange experience on best practices. We will also promote increasing global participation of developing countries in limiting greenhouse gas emissions. We welcome the action already taken by developing countries and stress the need to support their efforts through financial mechanisms, the development and transfer of technology, and capacity-building. We note the important role that the Clean Development Mechanism (CDM) can play in these areas. We also welcome the intention

announced by some developing countries in Buenos Aires to undertake further commitments to abate their greenhouse gas emissions.

## IX. Promoting Non-proliferation, Arms Control and Disarmament

34. Strengthening the international non-proliferation regime and disarmament measures is one of our most important international priorities. We intend to build a broad international partnership on expanded threat reduction to address security, arms control, decommissioning and non-proliferation requirements while reducing risks to the environment. This will build on efforts currently being undertaken and planned by G8 countries and others. We are committed to increased resources for these purposes and encourage all other interested countries to join us.

35. We recognize the continuing need to protect and manage weapons-grade fissile material, especially plutonium. In past years, G8 countries have worked on the issue of managing weapons-grade nuclear material no longer required for defense purposes. We affirm our intention to establish arrangements for the safe management of such fissile material. We strongly support the concrete initiatives being undertaken by G8 countries and others for scientific and technical cooperation necessary to support future large-scale disposition programs. We invite all interested countries to support projects for early implementation of large-scale programs and urge establishment of a joint strategy. We recognize that an international approach to financing will be required involving both public and private funds, and we will review potential increases in our own resource commitments prior to the next G8 Summit.

36. We are deeply concerned about recent missile flight tests and developments in missile proliferation, such as actions by North Korea. We undertake to examine further individual and collective means of addressing this problem and reaffirm our commitment to the objectives of the Missile Technology Control Regime (MTCR).

37. Effective export control mechanisms are essential for achieving a broad range of our arms control and non-proliferation objectives. We will continue to look for ways to strengthen these mechanisms. At the same time we stress the role of the Nuclear Suppliers' Group in preventing nuclear proliferation.

38. One year after the nuclear tests by India and Pakistan, we reiterate our concerns and reaffirm our statement from the Birmingham Communiqué. Recent missile tests have further increased tension in the region. We encourage both countries to follow first positive steps already undertaken by joining international non-proliferation and disarmament efforts and taking the steps set out in UN Security Council resolution 1172.

## X. Tackling Global Challenges

39. In many countries, violent conflicts and civil wars continue to be an obstacle to making good use of the opportunities of globalization. Effective crisis prevention and management must address the root causes of these conflicts. These causes include the political manipulation of ethnic tensions, economic and social inequality, and extreme poverty as well as the absence of democracy, the rule of law and good political and economic governance. They are often exacerbated by human rights violations, environmental degradation, scarcity of resources, rapid population growth and the rapid spread of diseases.

40. In order to improve our ability to prevent crises, it is necessary, consistent with the principles and purposes of the UN Charter, to:

- enhance the capacity to recognize and address the potential for conflict at an early stage. Risks and causes of violent conflicts must be more effectively monitored and the information shared to forestall them;
- ensure that our security, economic, environmental and development policies are properly coordinated and are conducive to the prevention of violent conflict. We will, in our dialogue with other countries and international institutions, work to coordinate our policies;
- recognize the important role the United Nations plays in crisis prevention and seek to strengthen its capacity in this area;
- monitor systematically military expenditures in the larger context of public expenditure patterns and in the macroeconomic context for growth and development;
- encourage and support the efforts of regional organizations and arrangements to expand their jurisdictional and operational ability, in accordance with international law, to help control and resolve conflict in their area;
- promote a free press, establish fair electoral processes, help improve the democratic accountability and functioning of legislatures, of judicial systems and of the military and the police forces, and improve human rights monitoring and advocacy.

41. We are concerned at the continuing global spread of AIDS. We reaffirm the need to continue efforts to combat AIDS at the national and international level through a combined strategy of prevention, vaccine development and appropriate therapy. We welcome and support the coordinating and catalytic role of UNAIDS in the fight against AIDS. We call on co-sponsors and other partners to cooperate in the formulation of clear goals, strategies and initiatives at both the global and regional level.

42. We also pledge to continue our national and international efforts in the fight against infectious and parasitic diseases, such as malaria, polio and tuberculosis, and their drug-resistant forms. In particular we will continue to support the endeavors of the World Health Organization and its initiatives "Roll Back Malaria" and "Stop TB". We call on governments to adopt these recommended strategies.

43. In light of the increasing importance of issues concerning food safety we invite the OECD Working Group on Harmonization of Regulatory Oversight of Biotechnology and the OECD Task Force for the Safety of Novel Foods and Feeds to undertake a study of the implications of biotechnology and other aspects of food safety. We invite OECD experts to discuss their findings with our personal representatives. We ask the latter to report to us by the next Summit on possible ways to improve our approach to these issues through international and other institutions, taking into account the reflections underway in other fora.

44. We welcome the growing recognition by the international community of the damaging effects of all forms of corruption and the coming into force of the OECD Anti-Bribery Convention in February 1999. We hope that more countries will ratify the Convention. We applaud the results and planned follow-up of the international conference on anti-corruption efforts, attended by over 80 countries including all G8 partners, and the

OECD conference on anti-corruption efforts, both held in the United States in February 1999. In the context of the UN Crime Convention, we urge that acts of corruption involving public officials be made criminal offenses.

45. We will sustain the momentum of international efforts to combat transnational organized crime and the threat it represents to political, financial and social stability worldwide. We commend the work of the Senior Experts Groups on Transnational Organized Crime and on Terrorism and urge them to continue their work, in particular for an early conclusion of the negotiations of UN conventions and protocols on organized crime. We also call for more rapid progress of negotiations on the UN Convention on the Financing of Terrorism. We ask the two expert groups to report back to us next year. We reaffirm our commitment to tackle the drug issue, in particular through active implementation of the conclusions of the 1998 UN General Assembly Special Session on the World Drug Program. We welcome the upcoming Ministerial Meeting on Crime to be held in Moscow this fall.

46. We renew the commitment we made at the 1996 Moscow Summit to safety first in the use of nuclear power and the achievement of high safety standards worldwide. In this regard, we attach great importance to the results of the Nuclear Safety Convention peer review meeting and to the International Atomic Energy Agency Conference on Strengthening Nuclear Safety in Eastern Europe.

47. We reaffirm our commitment to strengthen cooperation in the field of nuclear safety. We welcome the concerted efforts to address the Year 2000 computer problem ("Millennium Bug") in this area. With regard to the Nuclear Safety Account, we continue to attach great importance to full and timely implementation of the grant agreements.

48. There has been real progress since the Birmingham Summit in tackling the "Millennium Bug". But there is still much to do. We will maintain vigorous programs of action to ensure our own Year 2000 readiness and to minimize the potential impact on our countries and on the world as a whole. We urge all other governments to do the same. In these efforts, high priority should be given to the key infrastructure sectors – energy, telecommunications, financial services, transport and health – as well as to defense, the environment and public safety. Public confidence will be crucial and will depend heavily upon transparency and openness as to the state of preparation in critical sectors. Governments, international organizations, infrastructure providers and information technology suppliers will need to ensure a regular flow of reliable information to the general public. It will be important, as the date approaches, for responsible bodies to have in place contingency plans to cope with system failures that may occur in the most sensitive areas despite intensive preparations. We urge third countries to do the same. We will maintain close cooperation among ourselves and with others on this as well as other aspects of the problem. We shall convene a special G8 conference on contingency planning later this year.

**Next Summit**

49. We have accepted the invitation of the Prime Minister of Japan to meet in Okinawa (Kyushu) on 21-23 July next year.

# G7 STATEMENT

# G7 Statement

## I. World Economy

1. Since we met last year in Birmingham, the world economy has faced major challenges. However, we note with satisfaction the recent improvement in market confidence and in the prospects for growth of the world economy as a whole. Continued strong growth in the United States, important policy actions to promote recovery in Japan, the successful launch of Economic and Monetary Union in Europe, a general non-inflationary environment and progress with respect to financial and economic stabilization in East Asia as well as in Latin America are encouraging developments. But a number of serious challenges remain, and continued action remains essential.

2. To turn these developments into stable and sustainable economic growth, we need to pursue balanced macroeconomic policies supportive of domestic demand and investment while preserving price stability. This will contribute to achieving more balanced growth among our economies and thereby reduce external imbalances. Some of our countries, to enhance employment opportunities and reap the potential of their economies, need to reinforce macroeconomic policies with strong structural measures aimed at improving market-based incentives for all economic actors. Such structural measures will be a prerequisite for enhancing employment growth and improving the environment for investment.

3. More specifically:

- In North America, macroeconomic policy should aim at maintaining the conditions for balanced growth.
- In the euro area, it is important to pursue an appropriate mix of macroeconomic and structural policies aimed at strengthening prospects for improved growth and higher employment.
- In the United Kingdom, economic policies should continue to aim at fostering non-inflationary growth.
- In Japan, it is still essential to implement stimulus measures until domestic demand-led growth is restored and to pursue structural measures to enhance the economy's efficiency and competitiveness.
- Emerging market economies have made considerable progress, and the foundations for a renewal of growth have been established in a number of countries. While much remains to be done, currently improved prospects owe much to the policy action taken by these economies, supported by the International Monetary Fund (IMF), the World Bank and bilateral assistance. They also require a supportive international environment characterized by solid aggregate G7 domestic demand and open markets.

4. It is our conviction that an increasingly open and integrated world economy will offer expanding opportunities and shared benefits for all its members. In light of our special responsibility for the world economy, we pledge to continue close cooperation to foster worldwide economic growth. Leaders in other countries also share responsibility for promoting global growth and financial stability, and we urge them to pursue policies that contribute to these objectives. The international community will stand ready to support countries pursuing strong policies in the face of difficult economic challenges.

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## II. Strengthening the International Financial Architecture

5. In the increasingly integrated world economy, the challenge is to promote global financial stability through national action and enhanced international cooperation.

6. The financial crises of the past two years in Asia, Russia and Latin America have revealed key weaknesses in the international financial system, including weak policies and institutions in many developing countries and an inadequate focus on risk on the part of banks and investors in industrialized countries. In our statement on the world economy of 30 October last year, we identified some actions already taken to address these problems and a number of key areas where further reform was required. Since then, important progress has been made in a number of these areas. We welcome the report from our Finance Ministers published today highlighting this progress and recommending further steps. Taken together, we believe these recommendations represent a significant strengthening of the international financial system which will help reduce the risk of financial crises and make it easier to manage future crises effectively.

7. We attach particular importance to the following measures:

A. *Strengthening and reforming the International Financial Institutions (IFIs) and arrangements*

This does not require new institutions, but the existing institutions to adapt to meet the demands of today's global financial system. The IMF and the World Bank have the central role in the international economic and financial system, and in facilitating cooperation among countries in these fields. We welcome:

- the establishment of the new Financial Stability Forum to enhance international cooperation and coordination in the area of financial market supervision and regulation;
- the strengthening and reform of the governance structures of the IFIs, inter alia by giving the Interim Committee of the IMF a permanent standing as the "International Financial and Monetary Committee", and by further improving IMF surveillance and programs;
- the commitment to work together to establish an informal mechanism for dialogue among systemically important countries, within the framework of the Bretton Woods institutional system.

B. *Enhancing transparency and promoting best practices*

This will enable market participants to make informed judgments about risks and provide greater incentives for policy-makers to implement sound policies. We call for:

- rapid development and completion of internationally agreed codes of transparency and standards of best practice, both for the public sector and where appropriate for private financial institutions. In addition, priority should be given to the provision of more timely and comprehensive data on capital flows. Steps should be taken to improve the quality and timeliness of public disclosure of direct material exposure to Highly Leveraged Institutions (HLI's) and of relevant information by HLI's;
- compliance with these codes and standards, in particular through enhanced surveillance and publication of the results in the IMF's transparency

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reports and compilation of the various financial and economic policy standards and best practices into a common reference such as a compendium on international financial and economic policy standards;

- enhanced transparency of the IFIs through greater release of IMF and World Bank documents, and further steps to undertake internal and external evaluation of their functions.

C. *Strengthening financial regulation in industrialized countries*

Creditors must be induced to act with greater discipline and encouraged to assess more prudently the risks associated with their lending. We call for concrete action to:

- improve risk assessment and risk management, including through the Basle Committee's proposed revisions to the Capital Accord;
- address the implications of Highly Leveraged Financial Institutions for supervisors and regulators, including through improved transparency;
- encourage offshore financial centers to comply with internationally agreed regulatory standards and to cooperate more effectively in the fight against money laundering.

D. *Strengthening macroeconomic policies and financial systems in emerging markets*

The recent crises have demonstrated the need for emerging market borrowers to strengthen their policy framework and financial systems if they are to reap the full benefits of integration into the international financial system. In this respect, we encourage:

- emerging economies to strengthen their financial systems as they carry out a careful and well-sequenced approach to capital account liberalization, and to avoid excessive reliance on short-term capital borrowing;
- emerging economies to maintain appropriate and sustainable exchange rate regimes backed by a consistent macroeconomic and a robust financial system reflecting the economic circumstances of countries. The policies of the IMF need to be focused on promoting this objective more effectively;
- the IMF and the World Bank to enhance their cooperation in providing advice and assistance to emerging economies on strengthening financial systems.

E. *Improving crisis prevention and management, and involving the private sector*

In a world of increasingly open capital markets we need to shape expectations so that private-sector creditors know they will bear the consequences of the risks they take, and to reduce the risk of financial market contagion. We call for:

- support through the IMF's new Contingent Credit Line (CCL) for countries pursuing sound and sustainable policies but potentially affected by financial market contagion;
- greater use of market-based tools to involve the private sector in forestalling and managing crises, including through stronger efforts to broaden the use of collective action clauses in sovereign debt contracts, as

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well as better communication and cooperation between emerging market countries and their creditors;

- agreement on a broad framework for involving the private sector in crisis resolution, which sets out in advance principles, considerations and a broad range of tools for actions as described in our Finance Ministers' report;

F. *Promoting social policies to protect the poor and most vulnerable.*

Social policies are the cornerstone of a viable international financial architecture. Economic development and reform must benefit all members of society.

- The poor and most vulnerable must be better protected from the burden of adjustment in times of crisis.
- The international community must work with governments and national authorities to foster investment in people through education, health and other basic social needs, which are the foundations for long-term development.

The IFIs and other organizations must make these objectives an essential part of their policies.

8. We believe the full implementation of these initiatives and reforms will make a significant contribution to enhancing the stability of the world financial system. We ask our Finance Ministers to take them forward urgently in close cooperation with other countries, the IFIs and the private financial community.

## III. Köln Debt Initiative

9. One of the most critical challenges confronting the international community as we approach the new millennium is to ensure that heavily indebted poor countries pursuing sound policies, and that demonstrate a commitment to reform and poverty alleviation, are not crippled by the burden of debt. The Heavily Indebted Poor Countries Initiative (HIPC Initiative) has made an important contribution towards this objective. The time has come to go further. We therefore call for an expanded initiative that will provide faster, broader and deeper debt relief. We strongly believe that this will promote the goals of poverty reduction, sustainable development and good governance. It should also reinforce the incentives for reform and growth, while enhancing the prospects for access to private credit in the future.

10. The Köln Debt Initiative should be built on an enhanced framework for poverty reduction, developed by the IFIs in consultation with other institutions and with civil society. This is critical to ensure that more resources are invested in health, including AIDS prevention, education and other social needs, which are essential for sustainable development.

11. We welcome and endorse the Report of our Finance Ministers on the Köln Debt Initiative. The proposals contained in this report will lead to a deeper debt reduction through more ambitious targets, faster debt relief through greater flexibility in the timing of delivery of agreed debt relief packages, and a stronger focus on early cash flow relief by the International Financial Institutions. We also ask the Paris Club and other bilateral creditors to forgive commercial debt up to 90 % and more in individual cases if needed to achieve debt sustainability, in particular for the very poorest among these countries. In addition to these amounts, we call for full cancellation on a bilateral basis, through various options, of Official Development Assistance (ODA) debt. For poor countries not qualifying under the HIPC

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Initiative, the Paris Club could consider a unified 67 per cent reduction under Naples terms and, for other debtor countries, an increase of the existing limit on debt swap operations.

12. If implemented, the debt stock of countries possibly qualifying under the HIPC Initiative would be reduced, from some US $ 130 billion in nominal terms (US $71 billion in net present value) remaining after traditional debt relief, by an additional US $ 50 billion in nominal terms (US $27 billion in net present value). These measures, together with forgiveness of debts arising from Official Development Assistance, of which up to US $20 billion in nominal terms are owed to G7 countries, would reduce the overall debt stock by more than half, lowering the debt service burden significantly and freeing resources for priority social spending.

13. We recognize that these changes will entail significant costs, in particular arising from debt owed to the IFIs. We are prepared to support a number of mechanisms to meet these costs recognizing the importance of maintaining an adequate concessional lending capacity by the IFIs:

- To meet the IMF's costs, the Fund should mobilize its resources, while maintaining an appropriate level of reserves, through the use of premium interest income, the possible use of reflows from the special contingency account or equivalent financing, and the use of interest on the proceeds of a limited and cautiously phased sale of up to 10 million ounces of the IMF's gold reserves.
- The Multilateral Development Banks (MDBs) should build on the work they have begun to identify and exploit innovative approaches which maximize the use of their own resources.
- The costs to the IFIs will also require bilateral contributions. We have pledged substantial contributions to the existing HIPC Trust Fund. We will consider in good faith contributions to an expanded HIPC Trust Fund.
- In meeting the costs, we call for appropriate burden sharing among donors taking into account all relevant aspects, including the magnitude and quality of ODA already extended and past ODA forgiveness, and recognizing the contributions of countries with high ODA loans outstanding relative to GDP.

14. We would welcome efforts by the private sector to reinforce the objectives of this initiative, including through contributions to a Millennium Fund to help finance debt relief.

15. On the basis of this framework, we call on the IFIs and the Paris Club to provide faster, deeper and broader debt relief, to work with the HIPC countries to ensure that three quarters of eligible countries have reached their decision point by the year 2000, and to assist the very poorest countries to embark on the HIPC process as soon as possible. Concrete proposals should be agreed by the time of the next Annual Meetings of the IMF and the World Bank.

## IV. Nuclear Safety/Ukraine

16. We renew our commitment to the successful implementation of the Memorandum of Understanding (MoU) between the G7 and Ukraine. We welcome Ukraine's renewed firm commitment to the closure of Chernobyl on schedule by the year 2000. Our overriding goal is the closure of the Chernobyl power plant by the agreed timetable.

17. We note that significant progress has been made in carrying out the Shelter Implementation Plan to secure the environmental safety of the sarcophagus covering the remains of the destroyed Chernobyl reactor. To date, contributions to the Chernobyl Shelter Fund total US $393 million, including US $50 million from Ukraine. We have agreed that the G7 will help ensure the continued financing and the progress in the work under the Shelter Implementation

...

Plan. We call on concerned governments and private-sector donors to join us in this effort. To this end, we plan to hold a pledging conference before the next summit.

18. We reaffirm our commitment to assist Ukraine, within the context of the MoU, in mobilizing funds for energy projects to help meet its power needs. To date, projects have been agreed totaling over US $746 million. In addition, in the field of nuclear safety US $485 million have been granted, not including the Shelter Implementation Plan. We look to the Government of Ukraine to accelerate the fundamental reforms in the energy sector, including improvements in cash collection and privatization, to encourage financially viable investments in power generation and distribution and in energy efficiency. We commend the steady work that has allowed Ukraine, the European Bank for Reconstruction and Development and EURATOM to enter into the final phase of negotiations on loans to complete two reactors at Rivne and Khmelnitsky[1]. We call on the parties to take the necessary steps to provide for an early agreement on loans for safe, cost-effective, and financially and environmentally sound projects.

## V. Financial Crime, Harmful Tax Competition and International Tax Evasion

19. In order to secure the benefits of the globalization of financial markets and the introduction of new information technology, the fight against financial crime must remain a priority of national and international policy. We reaffirm our concerns regarding problems raised by underregulated and noncooperative jurisdictions, including many offshore financial centers, in the fight against money laundering and other financial crimes.

20. We welcome the work of the G7 Finance Ministers' on financial crime and regulatory abuse. We will be promoting the Key Principles they have drawn up for improving the exchange of information between supervisory authorities and enforcement authorities, throughout the world as standards to which all countries should aspire.

21. We welcome and support the work of the Financial Action Task Force on Money Laundering (FATF) to identify jurisdictions which fail to cooperate effectively in the international fight against money laundering and thus facilitate the laundering of proceeds from corruption and organized crime. The FATF should take concrete steps to bring offshore financial centers and underregulated and noncooperating jurisdictions into compliance with the 40 recommendations against money laundering and to protect the international financial community from the adverse impact of those that do not comply. We call upon our Ministers of Finance, in coordination with other Ministers, in particular with Ministers of Justice and the Interior, to coordinate the development and implementation of complementary positions regarding offshore financial centers and the FATF's work on non-cooperative jurisdictions in the various fora where these issues are being addressed.

22. We welcome the establishment of the OECD's Forum on harmful tax competition and the actual start of implementing the guidelines and recommendations adopted by the OECD with respect to the harmful effects of unfair tax practices. We strongly endorse the current work program of the Forum, in particular the efforts to identify tax havens. We also support the Forum's intention to engage in a dialogue with jurisdictions identified through this process. We urge that this work be given a high priority. We also note the ongoing work to implement the code of conduct within the European Union.

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[1] In this context, we take note of the fact that Chancellor Schröder, during his visit to Ukraine on 8 and 9 July of this year, intends to consult with President Kuchma on non-nuclear alternatives to these projects.

23. We welcome the progress made by the OECD's Fiscal Committee and the FATF to explore further the links between tax evasion and avoidance and money laundering, and in particular to ensure the effective flow of information to tax authorities without undermining the effectiveness of anti-money laundering systems. We encourage each group to continue working on their respective responsibilities.

24. We urge the OECD to continue to address the barriers limiting effective exchange of information between tax authorities, in particular those which arise from excessive bank secrecy rules.

strictly to respect the provisions of the April 26, 1996, understanding and to contribute actively to the work of the monitoring group in South Lebanon.

We equally underline the importance of resuming the multilateral track of the peace process and encourage the working groups and steering group to pursue their activities, supporting the bilateral negotiations and enhancing regional cooperation and economic integration.

We remind all parties that sustained economic development and improved living standards for the Palestinian people are real factors in securing peace and enhancing stability in the region.

We are convinced that peace and security and the fulfillment of the rights of all the people of the Middle East, including the Palestinians, are vital to a lasting. just and negotiated settlement that provides for the Palestinians to live as a free people on their own land.

**Jordan**

We welcome King Abdullah's reaffirmation of Jordan's long-standing support for the Middle East Peace Process. We are committed to enhancing stability by supporting Jordan's economic reform during this critical period. We recognize the importance that Jordan attaches to alleviating its debt burden and call on the international community to provide economic assistance, including, where appropriate, debt relief.

**Nigeria**

The G8 warmly welcomes Nigeria's return to civilian rule and democracy. It recognizes that the strong backing of the international community will be needed to help the new government implement the necessary political and economic reforms. The G8 will assist positive change in Nigeria by continued support for democracy and human rights, good governance, transparency and accountability and the reduction of poverty.

**Kashmir**

We are deeply concerned about the continuing military confrontation in Kashmir following the infiltration of armed intruders which violated the Line of Control. We regard any military action to change the status quo as irresponsible. We therefore call for the immediate end of these actions, restoration of the Line of Control and for the parties to work for an immediate cessation of the fighting, full respect in the future for the Line of Control and the resumption of the dialogue between India and Pakistan in the spirit of the Lahore Declaration.

**Cyprus**

The Cyprus problem has gone unresolved for too long. Resolution of this problem would not only benefit all the people of Cyprus, but would also have a positive impact on peace and stability in the region.

Both parties to the dispute have legitimate concerns that can and must be addressed. The members of the G8 are convinced that only comprehensive negotiations covering all relevant issues can do this.

The members of the G8, therefore, urge the UN Secretary-General in accordance with relevant UN Security Council resolutions to invite the leaders of the two parties to negotiations in the fall of 1999. They call upon the two leaders to give their full support to such a comprehensive negotiation, under the auspices of the UN Secretary-General.

In accepting this invitation, the two parties/leaders should commit themselves to the following principles:

- No pre-conditions;
- All issues on the table;
- Commitment in good faith to continue to negotiate until a settlement is reached;
- Full consideration of relevant UN resolutions and treaties.

The members of the G8 undertake to give their full and sustained backing to the negotiating process and hope that it will prove possible for its outcome to be reported to the meetings of Heads of State and Government at the OSCE Summit this November.

# G8 STATEMENT ON REGIONAL ISSUES

# G8 Statement on Regional Issues

## Kosovo

We welcome the decisive steps already taken and now underway to end violence and repression in Kosovo, to establish peace and to provide for the safe and free return of all refugees and displaced persons to their homes. In this regard, we particularly welcome the adoption on June 10 of United Nations Security Council Resolution (UNSCR) 1244, and commend the intensive efforts of our Foreign Ministers and others, including the Special Envoys of the European Union and the Russian Federation, to restore peace and security.

We reaffirm strong support for the international civil and security presences in accordance with UNSCR 1244. We welcome the leadership of the United Nations in the international civil presence, and pledge to collaborate closely to ensure the United Nations' success in carrying out its complex mission. We also welcome the agreement reached between NATO and Russia on the international security presence, and the relevant Military Technical Agreement. In that regard, we insist that all parties to the conflict in Kosovo respect the cease-fire and fully abide by the terms of UNSCR 1244 and the Military Technical Agreement concerning the withdrawal of all Yugoslav and Serb military, police, and paramilitary forces from Kosovo and the demilitarization of the KLA and other armed Kosovo Albanian groups.

We expect all residents of Kosovo to contribute to the creation of a democratic, multi-ethnic Kosovo. The return of refugees and displaced persons to their homes, and the assurance of security for all persons including Serb and all other minorities in Kosovo will be high priorities of the international community. To ensure the wellbeing of the refugees and displaced persons, their return must be undertaken in a safe, orderly, and organized fashion. We will work cooperatively with each other, the United Nations, the European Union, the OSCE, and other international organizations to facilitate safe return including demining.

We will fully cooperate with the work of the International Criminal Tribunal for the Former Yugoslavia. We affirm our commitment to a meeting of the international donor community in July to address short-term humanitarian and other needs for Kosovo, and a subsequent meeting in the fall after a full assessment of needs has been developed pursuant to the assistance coordination process chaired by the European Commission and the World Bank.

We stress the importance of the civil implementation and, given the key role the G8 has played in the Kosovo crisis, we invite our Foreign Ministers to review on a regular basis the progress achieved thus far in this process and to provide further guidance.

## South Eastern Europe Stability Pact and Donor Coordination

We welcome the adoption of the Stability Pact on June 10 in Cologne, an initiative of the European Union which will continue to play the leading role. This Stability Pact has launched a process for South Eastern Europe with the objective of a positive mid- and

long-term perspective for the countries in the region to achieve lasting peace as well as political and economic stability. We take note that countries in the region participating in the Stability Pact commit themselves to continued democratic and economic reforms, as well as bilateral and regional cooperation amongst themselves to advance their integration, on an individual basis, into Euro-Atlantic structures. We consider this stabilization process to be one of the major political and economic challenges ahead of us. We declare our readiness to take strong action to achieve all the objectives of the Stability Pact. In regard to the above, the Federal Republic of Yugoslavia must demonstrate a full commitment to all of the principles and objectives of the Pact.

We underline that, in order to achieve the goals of the Stability Pact, the countries of the region bear a primary responsibility. Assistance from outside can help, but not replace the countries' own efforts. Therefore we call on the countries of South Eastern Europe to cooperate with each other and within the international community to develop a shared strategy for stability and growth of the region. In recognition of the principle of fair burden sharing, we also call on the international donor community to undertake the necessary measures in order to give the countries in the region a strong signal of active international support and solidarity and to organize donor conferences as early as feasible.

We welcome the progress made through the chairmanship of the European Commission and the World Bank towards establishing a donor coordination process to develop a coherent international assistance strategy for the region opening the door for all donor opportunities as well as to mobilize additional financial support for reconstruction, regional integration, economic recovery and reform and to promote sound macroeconomic and structural policies by the countries concerned. This process will be guided by the High Level Steering Group, in which the Special Coordinator of the Stability Pact will play an important role.

The High Level Steering Group will be co-chaired by the European Commission and the World Bank and include the Special Coordinator of the Stability Pact, the IMF, the EIB and the EBRD which will be active in the region, plus one UN representative and the Finance Ministers of major donor countries and, where appropriate, Development Ministers.

## Middle East Peace Process

We reaffirm our support for a negotiated settlement in the Middle East, that should be based on the full implementation of existing commitments and on the principles of land for peace, UNSC resolutions 242 and 338, the Madrid and Oslo Agreements, UNSC resolution 425, and secure and recognized boundaries. We welcome recent encouraging statements by the Prime Minister-elect of Israel and call upon all parties to pursue the Middle East Peace Process with resolve, renewed efforts and good faith, leading to a comprehensive, just and lasting peace.

We urge both Israel and the Palestinians to implement fully and promptly the Wye River Memorandum, to combat terror, to fight violence and incitement to violence and to refrain from all activities that prejudge the outcome of the Permanent Status negotiations. We call upon both sides to resume immediately the Permanent Status negotiations. We believe that the parties should set a goal of concluding the Permanent Status negotiations within a target period of one year.

We also call for an early resumption of negotiations between Israel and Syria and Lebanon in order to achieve peace agreements. In the meantime, we urge all parties concerned

**confirming the importance of making operational the approach agreed by our Finance Ministers last April based on the framework we laid out in Cologne.**

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***Reform of the Multilateral Development Banks (MDBs)***

The MDBs should sharpen their focus on poverty alleviation and improve the efficiency of their assistance. **The Comprehensive Development Framework (CDF) and the Poverty Reduction Strategy Papers (PRSPs) should become the basis for programmes that have strong ownership by the recipient countries.**

**All the MDBs should allocate their support increasingly on the basis of borrower performance. Country assistance strategies should take full account of borrowers' policy environments, including governance issues. The MDBs own governance and accountability should also be strengthened.**

**We look to the MDBs to play a leadership role in increasing the provision of global public goods, particularly for urgently needed**

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**measures against infectious and parasitic diseases including HIV/AIDS, as well as environmental degradation.**

***Highly-leveraged Institutions (HLIs), Capital Flows, and Offshore Financial Centres (OFCs)***

We stress the importance of implementing measures recommended by the Financial Stability Forum (FSF).

With regard to concerns about the potential consequences of the activities of HLIs, we agree that the **recommended** measures should be fully implemented and that they will be reviewed to determine whether additional steps are necessary.

**We urge the IMF to conduct a specific assessment of offshore financial centres identified by the FSF as a priority.**

We agree that it remains essential for each country to strengthen the

financial system, choose an appropriate foreign exchange rate regime, and liberalise the capital account in a well-sequenced manner.

*Regional Co-operation*

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**We agree that regional co-operation through intensified surveillance can help contribute to financial stability by strengthening the policy framework at the national level. Co-operative financing arrangements at the regional level designed to supplement resources provided by the international financial institutions (IFIs) in support of IMF programmes can be effective in crisis prevention and resolution.**

# Briefs for Possible Bilaterals during the Prime Minister's Visit to Okinawa

# Contents


- Japan - Mori
- Japanese Inward Investors
- Canada - Chretien
- France - Chirac
- Germany - Schröder
- Russia - Putin
- USA - Clinton
- EU - Prodi

**MEETING BETWEEN THE PRIME MINISTER AND JAPANESE PRIME MINISTER MORI, 20 JULY 2000**

**OVERVIEW**

1. The Prime Minister will have a short bilateral meeting with Mori from 1715-1735 on 20 July.

2. The agenda for the meeting is:

G8 issues (covered in the main pack)
BNFL/Mox Fuel
UK/Japan Youth Exchange Scheme
Japan 2001 Festival
Inward Investment
Japanese whaling
UN Reform

3. Although not on the formal agenda, the Prime Minister and Mori may wish to briefly mention the disappearance in Japan of the young British woman, **Lucie Blackman**, which has attracted a lot of media attention. The Prime Minister could thank Mori for the attention which the Japanese police have been giving the case.

4. The Prime Minister and Mori last met on 4 May at 10 Downing Street. The meeting concentrated on preparations for the G8, and on Russia. Mori sent Leo Blair a large "Kaga" doll when he was born, for which the Prime Minister thanked him by letter. The Prime Minister also wrote to Mori to congratulate him on his re-election, earlier this month.

5. The **UK and Japan** enjoy a close bilateral relationship. Japanese Foreign Minister Kono told the Prime Minister in January that we are Japan's closest partner in Europe. However, France are making great efforts to move into pole position. Chirac, in particular, is a Japanophile. The UK/Japan relationship is underpinned by the UK/Japan Action Agenda which sets out 21 areas of cooperation for the 21st Century, including human rights, the environment, education and trade and investment.

6. There are historic links between the **UK and Okinawa**. In the early 17th Century there was British trading post in Naha, largely used by British ships sailing between Japan, the Philippines and Siam. Will Adams, the first Briton to set foot in Japan, visited Okinawa in 1614 and 1618. All early British visitors to Okinawa seem to have been struck by the politeness and hospitality of the Okinawans. The Prime Minister will visit Chatancho while he is in Okinawa, the site of the rescue of the crew of a British ship, the Indian Oak, in 1840. The crew were looked after with great warmth and kindness by the local people.

7. The meeting with Mori gives the Prime Minister the opportunity to reiterate to the Japanese Government that we welcome the resolution of the **BNFL/MOX fuel issue**. He should also reassure Mori that the UK is committed to the trilateral (UK, France and Japan) approach to nuclear shipment.

8. We hope that the Japanese will agree to the announcement, at Okinawa, of the launch of the **UK/Japan Youth Exchange Scheme**, which is due to begin next spring. The Scheme will provide visas to young people from Japan and the UK to spend a year on a working holiday in each other's country, and is similar to the Commonwealth Working Holidays Scheme.

9. The Japanese asked for the **Japan 2001 Festival** to be on the agenda. The Prince of Wales has agreed to be co-patron of the Festival. Mori is likely to tell the Prime Minister that the Crown Prince of Japan will agree to be co-patron, too, but that final confirmation of this can only take place in August, when the period of mourning for the later Empress Dowager of Japan has ended. The Prime Minister could let Mori know that the Embassy in Tokyo are planning a small-scale UK festival in 2002, to mark the 100th anniversary of the Anglo-Japanese Alliance. The Prime Minister may be interested to know that Richard Rogers has just been awarded the prestigious Japanese cultural prize, the Praemium Imperiale (also known as the Prince Takamatsu awards).

10. Japan shows no signs of withdrawing her proposal to extend her scientific **whaling** programme, despite the joint UK/US/New Zealand Heads of Government letter to Mori asking Japan to withdraw the proposal, and the Resolution condemning the proposal at the recent International Whaling Conference (IWC) in Adelaide. Clinton will raise the matter bilaterally with Mori in the margins of the G8, and the US have asked the UK to support them. The Prime Minister may wish to tell Mori that he hopes that Japan will rethink.

11. The Prime Minister should reinforce the importance to the UK of Japanese **inward investment** and the Government's commitment to maintain the UK's position as the preferred location for Japanese investment to the EU. The Prime Minister will meet key Japanese investors in Tokyo, shortly before he sees Mori.

12. Although Mori will not raise it at the meeting, the Prime Minister may be interested to know that there has been interest in Japan in the UK press speculation that HMG will meet the Royal British Legion's request for an *ex gratia* payment of £10,000 to each former **Far Eastern Prisoner of War** (FEPOW) or FEPOW widow. The matter is still under review and will be discussed at Lord Falconer's inter-ministerial meeting on Veterans issues on 25 July.

13. We have now formally nominated Sir Michael Weston as a candidate to chair the **2001 UN Small Arms and Light Weapons (SALW) Conference**. The Japanese are also running a candidate, Ambassador Donowaki. Unfortunately the Japanese found out about our plans to nominate Sir Michael Weston through a leak (probably from one of our EU Partners), and protested that we had not warned them in advance. This is unlikely to be raised by Mori, but, if it is, the Prime Minister should say that we were sorry that the Japanese found out about the nomination in this way, that it had been our intention to notify them formally before we put Sir Michael Weston forward, and that we hope that the two candidates can run for the post in a spirit of friendly competition. Colombia are also running a candidate.

14. On **UN Reform**, the Prime Minister should signal our intention that his speech to the UN Millennium Summit include key references to Security Council reform, and that we plan to lobby other states to do likewise.

NEAPD, FCO
July 2000

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SUBJECT: G8 SUMMIT AND JAPAN

SUMMARY

1. For Japan this Summit is important domestically as well as internationally. The economy now improving, but not out of the woods yet. The UK a valued partner at the Summit and more broadly. Bilateral relations basically in good shape, especially with agreement on BNFL. Political dialogue, trade and investment opportunities, scientific collaboration and people to people contacts head a broad agenda.

DETAIL

2. Obuchi conceived The Kyushu-Okinawa Summit as a means to bind historical wounds with Okinawa, to stress the importance of the regions, and mark the turning point into economic recovery. It was also a means to profile Japan as an interlocutor between the developed G8 countries and developing ones in Asia and Africa who would not normally get near the table. These aims say something about Japan's continuing quest for a secure and distinct place in world politics. Vast effort and enthusiasm has been invested, especially by the host localities. A visible success is very important for Mori.

THE ECONOMY

3. Despite ten troubled years, Japan remains an economic powerhouse. The country is more genuinely open than a decade ago, and its society is in the midst of deep and fascinating change. Not all of this is welcomed by the conservative ruling parties. Much of it is the inescapable result of economic forces. Japan has its peculiar problems - an ageing society and at the moment a lack of clear political leadership. But its vitality and resources remain formidable. Japan continues to play the key role in the revival of the Asian economies, and is a loyal and generous partner for the US and Europe on most international political issues.

4. The Government is focussed on domestic economic recovery. At last the signs are more firmly upwards; manufacturing sector confidence back up to 1997 levels; first quarter growth of 2.5 percent; encouraging capital investment figures and a reduction in unemployment. Japan may approach 2 percent growth over this fiscal year.

5. But the recovery is still tentative. Consumer spending remains weak. Demographic trends cast a shadow. More restructuring, deregulation and better supervision of competition are necessary. Total Government debt of around 130 percent of GDP (Dollars 6000 billion) limits the scope for further stimulus. Interest rates will have to rise soon. Tax reform (increase) is being put off until private sector growth picks up momentum. While a return to recession is unlikely, Japan's economy faces more uncomfortable adjustment before it can regain its full strength.

POLITICS

6. The three party coalition led by the Liberal Democrats (LDP) held on to a reduced majority in last month's elections. Mori himself is not highly regarded in the polls or in his party. But he still captains the ship, with support from reliable professionals like Kono (Foreign Affairs), Miyazawa (Finance) and Sakaiya (Economic Planning). The opposition, slightly invigorated after the election, are attacking the Government with charges of corruption and for using public money to support a failing department store chain. The LDP's weakened coalition partners seem to be clinging to nurse.

FOREIGN POLICY

7. The Summit has dominated foreign policy this year. The fundamentals of the relationship with the US remain good. There has been recent progress on US force support issues (including Okinawa bases) and telecommunication interconnection charges (where we and the EU commission have also been active).

8. Korea is the closest issue. The Japanese are not carried away by the meeting of the two Kims, though they agree it is progress. They want to restart their own normalisation talks with North Korea on the right terms. Instability in Indonesia is a big worry for Japan, given the size of Japanese liabilities in the country and region. Hopes of an early peace treaty with Russia have evaporated, though Putin's statement that he would seek an agreement on borders with Japan looks calculated to keep up the Japanese incentive for economic assistance. Putin will return later in the Summer.

9. The EU/Japan Summit on 19 July in Tokyo will anticipate a new agreement on EU/Japan cooperation next year. Kono initiated this by his speech in Paris in January, in which he talked for the first time of upgrading Japan's relationship with the EU as such. So far the Japanese have not produced many ideas for practical follow-up. On the trade side, however, an agreement on mutual recognition of standards in a

broad range of fields could mark an important step forward.

BILATERAL RELATIONS

10. UK-Japan relations are excellent overall. The Japanese Government has greatly valued our help in the lead-up to the Summit. There remains strong interest among Japanese media and opinion formers in the British approach to problems such as reform of government, welfare and education. The UK is quote Japan's partner of choice unquote in Europe (but the French are working hard to displace us). Our common political values, as well as extensive links in investment, trade and finance, provide a strong foundation. Scientific, educational and people-to-people contacts are growing. The two Prime Ministers are to announce the youth exchange/working holiday scheme.

11. The agreements on BNFL/MOX signed in Tokyo today remove a serious shadow from our relationship. BNFL will now be able to resume normal commercial contacts with the Japanese utilities. Japan's need for nuclear fuel reprocessing and services is likely to remain substantial for several years. We and the French remain the only source. We have had recent differences with Japan over untying of aid, whaling, and rival candidatures for the chair of the UN conference on small arms in 2001. These need to be handled carefully. On other environmental, scientific and trade policy matters, however, UK/Japanese dialogue is active and close.

12. Japan continues to offer big opportunities for UK trade and investment. Our exports in 2000 are up almost 12 percent over the same period last year. Larger British companies are beginning to show more interest in investment into Japan, so far in retail, telecommunications and software. We have reported separately on trends in inward investment.

13. A string of Ministerial visits this year has shown our desire to build a real and practical partnership with Japan in many fields. There are more potential gains to be reaped in defence sales, in inward investment and in general Japanese solidarity with Western policy. Over the next year until the Upper House election in July, Japanese politics may become increasingly introverted. We will be extending our contacts with all the main parties. It will repay us, during this transitional period, to keep the level of Ministerial contact as high as possible, not withstanding the understandable domestic political pressures.

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**Yoshiro Mori**

**Japanese Prime Minister (since April 2000)**

Born July 1937.

Graduated from Waseda University in 1960 having studied Commercial Science.

Worked as a newspaper reporter before being elected to the House of Representatives in 1969 from Ishikawa (a rural area on the northern Japan Sea coast). Elected 10 times in total.

Previous Ministerial portfolios: Minister of Education, Minister for International Trade and Industry, and Minister of Construction. He has also held various senior LDP posts, most recently Secretary General (1998-April 2000).

His career was hit by involvement in the Recruit shares scandal in 1989 (from which he acknowledges making almost $1 million).

A close friend of former Prime Minister Obuchi with whom he studied at Waseda University and whom he backed twice in the party leadership contest, Mori was selected as Prime Minister for having been a loyal supporter and worker within the LDP, rather than for policy ability. His main strengths were seen to be his huge network of contacts and his political insider skills. He has relatively little international experience.

Mori's brief spell as Prime Minister has been blighted by gaffes, the most striking of which have been a series of inappropriate references to Japan's imperialist past.

Mori is unusually tall and well-built for a Japanese man of his generation. He likes sport, especially rugby, about which he is fanatical. He runs the Japanese parliamentary rugby team, and played against British parliamentarians in the match organised as part of Festival UK98 in Japan.

Mori was briefly in the UK on 3 May, when he met the Prime Minister for pre-G8 talks, and received a rugby shirt from the Commons and Lords Rugby Team.

Married (to Chieko) with a son and a daughter.

Speaks no English.

**MEETING BETWEEN THE PRIME MINISTER AND JAPANESE PRIME MINISTER MORI: 20 JULY 2000**

Check-list

**GENERAL**

- Congratulations on your re-election.

- Thank you for the "Kaga" doll which you sent to Leo on his birth.

- Condolences on the deaths of the Empress Dowager and on former Prime Minister Takeshita.

- Thank you for the attention which the Japanese police have given the Lucie Blackman case.

**BNFL: MOX DATA FALSIFICATION**

- Welcome the agreement on 11 July between BNFL and Kansai Electric. My Government will work with yours to help where it can to return the fuel to the UK.

- Pleased that the obstacles to business between BNFL and Kansai Electric have been lifted.

- BNFL working on a comprehensive and radical package of changes to its management. We believe they represent the kind of positive response needed to address the problems faced by the company.

**BNFL: NUCLEAR SHIPMENTS**

- Trilateral (UK/France/Japan) policy has been to use 3 routes, UK supports this. But you will know our concerns about use of the Cape Horn route at this time. We should not precipitate actions which might provoke a hostile response. (The Chileans have a navy - the Caribbean countries/South Pacific Islanders do not.)

- Nevertheless we were happy to participate, with France and Japan, in the diplomatic mission to South America, to remind these countries we use that route from time to time and to assess their response.

- Shipments are entirely legal - but we need to recognise sensitivities and maintain dialogue. We therefore need to be as open as possible.

**UK/JAPAN YOUTH EXCHANGE SCHEME**

- Very pleased that we are able to announce the launch of the UK/Japan Youth Exchange Scheme today. These working holidays will give the young people of both our countries the opportunity to get to know each other's cultures first hand.

**JAPAN 2001**

- Delighted that should be able to make announcement next month about co-patronage of Prince of Wales and Japanese Crown Prince. Prince of Wales has confirmed that he is happy to be co-patron.

- Strong HMG support for the Festival - glad that it will bring Japan to wide range of people throughout the UK.

- UK plan a small-scale series of events in Japan in 2002, mostly aimed at young people. 2002 is the 100th anniversary of the UK/Japan Alliance.

**INWARD INVESTMENT**

- Delighted that there were 58 new Japanese investments in the UK last year. We are determined to maintain the attractiveness of the UK business environment to encourage further long-term investment from Japan.

- Japanese investors make an immense contribution to the UK. We value their views on our plans relating to the euro.

- We understand the concerns of some investors over the sterling/euro exchange rate. But our focus has to be on long-term stability, and not short-term fix.

- I regret any embarrassment caused to Japanese companies by the recent leaks of government documents.

**JAPANESE WHALING**

- Thank you for your reply to the joint letter from Bill Clinton, Helen Clark and me.

- We are disappointed that Japan has been unable to withdraw her proposal to extend her scientific whaling programme to two new species of whale. We hope that you will do so as soon as possible.

- As you said in your letter, our views on whaling are very different, and it is important that we discuss them calmly and constructively.

- The International Whaling Commission (IWC) passed a Resolution, by a large majority, earlier this month in Adelaide, asking Japan to withdraw the proposal. Hope Japan will respect this.

If raised:

- Difficult to agree with you that the proposed expansion in whaling is necessary for scientific reasons. The IWC Scientific Committee raised serious concerns about the plan, but were not given the time to consider the issue properly.

- Know that you have invited a group from the UK to Japan for scientific discussions on your whaling proposals. We are considering the invitation - but had hoped to have these discussions at the IWC.

**UN REFORM**

- Security Council reform a priority for the UK, including a permanent seat for Japan.

- Welcome your lobbying of other participants in the Summit, encouraging them to mention Security Council reform. Should create political impetus to reach agreement. We hope shortly to start a parallel exercise and look forward to comparing results.

- Will include reference to the importance of early progress in my speech at the Millennium Summit.

Background

**BNFL: DATA FALSIFICATION**

1. Shipments of MOX fuel began in 1999. The original intention was that there would be two shipments to Japan per year. This has been put on hold following the recent MOX data falsification incident.

2. There have been discussions at Government and company level with the Japanese since the problem first arose. These have culminated in the agreement signed by senior UK and Japanese officials on Tuesday 11 July, in parallel with the conclusion of discussion between the two companies. We have accepted our companies' conclusion that the fuel should be returned to the UK, subject to securing the necessary domestic and international approach. BNFL has agreed compensation/reimbursement to Kansai Electric and it has lifted its moratorium on future business with BNFL.

**BNFL: SHIPMENTS OF MOX FUEL**

3. Under national and bilateral agreements, countries owning spent fuel are obliged to accept the returned waste resulting from reprocessing. British Nuclear Fuels Ltd (BNFL), via their marine arm, Pacific Nuclear Fuels Ltd (PNTL), is contracted to transport this waste. BNFL also transports MOX fuel.

4. The route options between Europe and Japan are the Panama Canal, the Cape of Good Hope and Cape Horn. As the most direct, the Panama Canal is the most regularly used. It has been our practice in concert with France and Japan as equal partners in this trade, to brief coastal state governments before and during each shipment.

5. Like all merchant vessels at sea, under the United Nations Convention on the Law of the Sea, PNTL vessels have the right of innocent passage and freedom of navigation through both territorial waters and Exclusive Economic Zones (EEZs).

6. The next shipment of HLW (HLW6) is due to leave COGEMA's facility at La Hague in October. Our French and Japanese partners are keen to use the Cape Horn route for this shipment. When consulted earlier in June, the Foreign Secretary was against agreeing to use the route: but he did agree to a diplomatic mission to South America to gauge likely reactions to a shipment via Cape Horn.

7. The mission to South America took place from 3 -14 July. It visited Brazil, Uruguay, Chile and Argentina. We are reserving our position on the route of HLW6 until after we have had the opportunity to consider the mission's findings.

**UK/JAPAN YOUTH EXCHANGE SCHEME**

8. We shall announce the launch of the UK/Japan Youth Exchange Scheme while the Prime Minister is in Okinawa. The Scheme will allow British and Japanese young people to spend a year in each other's countries, during which time they will be able to take temporary work without the need for a prior work permit. It closely resembles the Commonwealth Working Holidays Scheme.

**JAPAN 2001**

9. The Japanese are working on a major festival in the UK next year, "**Japan 2001**". It is aimed, in particular, at deepening knowledge of Japan at grass-roots level throughout the UK. The events planned include Japanese-style open-air festivals ("matsuri") throughout the UK, including in Hyde Park, and an interactive Japanese lifestyle exhibition which will tour British schools. The Prince of Wales has agreed to be co-patron of the festival, with the Crown Prince of Japan. This is not public knowledge - we have been told by the Japanese Ministry of Foreign Affairs that the Crown Prince's co-patronage cannot be announced until the mourning period for the late Empress Dowager (the Crown Prince's grandmother) is over, in August.

10. The Prime Minister may wish to mention to Mori that our Embassy in Tokyo are working on a series of events in Japan in **2002**, the centenary of the UK/Japan Alliance. These will be aimed at reaching young Japanese people, and giving them the perception of an innovative, fun, accessible, forward and outward looking UK, which is a source of ideas relevant to Japan. We hope that this will boost tourism, encourage study in the UK, and promote the sales of British goods and services. The Embassy are hoping to make the most of the interest of other countries which will be stimulated by Japan's co-hosting of the 2002 World Cup.

**INWARD INVESTMENT**

11. Comments by some Japanese investors about the high level of sterling against the euro, and the leak of official documents on the matter, have made Japanese investment in the UK a high profile issue recently. However, the IBB Review earlier this month showed that Japanese investment in the UK is still a very good news story. There are 1300 Japanese companies operating in the UK, of which 278 are manufacturing operations (employing 88,000 people) and 163 are research, development and design operations. There were 58 new Japanese investment projects in the UK in FY 1999-2000, up from 43 last year.

12. These new investments included the automotive, electronics , software, internet services and telecommunications sectors. Particular successes were Fujitsu's engineering centre for advanced communications technology in Belfast which created 250 jobs; automotive investment by Toyoda Gyosei in Yorkshire (400 jobs); and investment by Nichirin in the North West (70 jobs).

13. The UK share of Japanese investment in the EU is increasing, and is now 46%, up on the last two years.

**JAPANESE WHALING**

14. Japan's proposal to extend her current whaling programme to include 10 Sperm and 50 Bryde's (pronounced Brooders) whales a year. Sperm and Bryde's whales are commercially valuable and the meat from the programme would be sold in Japan. Japan currently takes a total of 550 Minke whales a year in the North Pacific and Antarctic, exploiting a legal loop-hole which allows scientific whaling, despite the moratorium. The 3-6 July meeting of the International Whaling Commission (IWC) in Adelaide issued a strongly worded (but not legally binding) Resolution asking Japan to withdraw the proposal.

15. The Prime Minister, President Clinton and Prime Minister Clark of New Zealand wrote to Mori at the end of June asking for the proposal to be withdrawn. Mori replied saying that Japan would take note of the view of the IWC Scientific Committee on the proposal. However, Japanese filibustering tactics at the IWC meant that the Scientific Committee were unable to consider the issue in any depth. The Japanese have now invited a team from the UK to visit Japan to discuss the scientific aspects of the proposal. This is being considered, but Ivor Llewelyn, our IWC Commissioner is sceptical about the value of such a visit. The Japanese refused to have a serious scientific discussion at the IWC, and are likely to have made this invitation to take some of the political pressure out of the situation. The US recently refused a similar invitation.

16. The UK strongly supports the current IWC moratorium on commercial whaling. We would like to see a permanent, worldwide ban on commercial whaling. We do not believe that there is any justification for any whaling to take place, other than some subsistence whaling by indigenous people. We would like to see all other forms of whaling (including the "scientific" whaling practiced by Japan) ended.

**UN REFORM**

17. Japan, with our support, has played an active role in New York in pushing for Security Council reform. Like the UK, they favour expansion of the Council's membership from 15 to 24, including new permanent seats for both Japan and Germany. They stepped up their campaign following the US agreement in April to consider a Council of slightly more than 21 members. They are now lobbying around 100 states to express support in their speeches to the Millennium Summit/Assembly for enlargement to include (a) both categories of membership and (b) both developed and developing states. The Prime Minister might mention to Mori that he will underline, in his speech to the Millennium Summit, the UK's desire to see a more modern UN, including a reformed Security Council.

He might also note that we will shortly launch a parallel lobbying exercise in support of these principles, and stress that we should remain in close touch on the outcome of our efforts.

18. The Japanese approach on UN reform is exactly in line with UK policy: Kono and the Foreign Secretary had a meeting of minds on the matter when they met in Miyazaki for the G8 Foreign Ministers' Meeting. Our primary aim for this year is to achieve agreement on the principle of expanding both the permanent and non-permanent membership. We are looking at how this might best be achieved. A General Assembly resolution enshrining this principle is possible. This would need only two-thirds support in the GA, rather than the consensus required in the Open-Ended Working Group. But even this will not be easy. And our efforts will be complicated by US refusal to support any further move on Security Council reform before the Presidential elections.

NEAPD, FCO
July 2000

BACKGROUND BRIEF

# JAPAN

## Basic Facts

**Capital:** Tokyo

**Area:** 378,000 square kilometres (1.5 times size of UK)

**Population:** (1998) 126 million

**Time Zone:** GMT plus 9 (Japan does not have Summer Time)

**GDP:** (1998) US$ 3,049 billion (approx double that of Germany, UK and France)

**Unit of currency:** Yen (£1 = Yen 156 approx)

**Emperor:** Akihito, since January 1989

**Prime Minister:** Yoshiro Mori, since April 2000

## Geography

1. Japan consists of four main islands: (from South to North) Kyushu, Shikoku, Honshu (the main island) and Hokkaido. The land is mountainous and volcanic, and only 17% of the total area is cultivable. Much is wooded. The highest mountain is Mount Fuji (a dormant volcano) at 12,388 feet.

## History

2. A centralised state has existed in Japan since the 4th century. Sophisticated culture began to flourish around the Imperial court in the 8th century. "Shoguns" (military rulers) took power in the 12th century. Contacts with European powers, which first took place in the 16th century, were restricted until Japan's near-isolation ended in the middle of the 19th century with the overthrow of the shogunate in the Meiji Restoration.

3. The new ruling elite set about developing Japan's industrial and military power, and methodically adopted much from the West. Japan's rapid rise led to a war with China in 1894-95 (and the annexation of Taiwan), a successful war with Russia in 1904-05, and the annexation of Korea in 1910. Japan appeared to be becoming a liberal democracy in the 1920s, but the Great Depression led to acute economic problems and military domination. Japanese military expansion in China after 1931 led to friction with Western powers and, faced with an oil blockade, Japan started the Pacific War.

4. The Allied occupation after WWII introduced far-reaching political, social and economic reforms before Japan regained full independence when the San Francisco Peace Treaty came into force in April 1952. By 1955, a strong cooperative arrangement was established between a dominant conservative party, the bureaucracy and business, which successfully implemented policies aimed at rapid industrial growth. This concentrated economic activity in some regions and led to policies aimed at ensuring wealth was redistributed to rural areas.

## Internal Politics

5. Japan is a parliamentary democracy with a constitutional monarch (the Emperor). The parliament, called the "Diet" comprises the House of Representatives (Lower House) with 480 seats (including 180 PR seats) and the House of Councillors (Upper House) with 252 seats. Although budgets and treaties can be passed by the Lower House, all other legislation must be passed by both Houses.

6. The conservative Liberal Democratic Party (LDP) is the dominant party in Japan. It was in power for 38 consecutive years from 1955 to 1993. In 1993, weakened by splits, it fell from power and was replaced by a disparate coalition which in turn collapsed within a year. The LDP participated in the subsequent coalition government, then formed a minority government before regaining a safe Lower House majority by 1997.

7. The LDP lost seats in the July 1998 Upper House elections due to the worsening recession. Prime Minister Hashimoto resigned and was replaced by Keizo Obuchi (former Foreign Minister). Obuchi managed to sideline the main opposition party, the Democratic Party of Japan (DPJ), by forming a coalition with the Liberal Party and Komei Party, providing the LDP with a majority in both houses. The DPJ lost support and elected a new leader (Yukio Hatoyama) in September 1999.

8. At the start of April this year, just after the Liberal Party announced that it would quit the coalition, Obuchi suffered a fatal stroke. LDP Secretary General Yoshiro Mori replaced Obuchi, heading a coalition between the LDP, the Buddhist-backed Komei Party and the (very small) Conservative Party. The coalition came back into power, with a reduced majority (271 seats) in the Lower House elections on 25 June. The number of seats held by the LDP fell from 267 to 233; the DPJ's share increased from 95 to 127 seats. Upper House elections are due by July 2001.

9. Prime Minister Mori remains unpopular, mainly because of a series of embarrassing incidents, most of them involving references to Japan's imperialist past. The opposition are attacking the government with charges of corruption and for using public money to support a failing department store chain. There is speculation as to how long Mori will last, once the Okinawa G8 Summit is over. Foreign Minister Kono is a strong contender for Prime Minister, if Mori goes.

## Japanese Economy

10. Japan, the world's second largest economy, is starting to come out of its worst recession since 1945. Despite ten troubled years, Japan remains an economic powerhouse. The country is more genuinely open than a decade ago, and its society is in the midst of change. Not all of this is welcomed by the conservative ruling parties. Much of it is the inescapable result of economic forces. Japan has its peculiar problems – an ageing society and at the moment a lack of clear political leadership. But its vitality and resources remain formidable. Japan continues to play the key role in the revival of the Asian economies.

11. The government is focused on domestic economic recovery. At last the signs are more firmly upwards: manufacturing sector confidence back up to 1997 levels; first quarter growth of 2.5%; encouraging capital investment figures and a reduction in

unemployment (down to 4.6% in April from a post-war high of 4.9% in March). Japan may approach 2% growth over this fiscal year.

12. But the recovery is still tentative. Consumer spending remains weak. Demographic trends cast a shadow. More restructuring, deregulation and better supervision of competition are necessary. Total Government debt of around 130% of GDP ($6,000 billion) limits the scope for further stimulus. Interest rates will have to rise soon. Tax reform (increase) is being put off until private sector growth picks up momentum. While a return to recession is unlikely, Japan's economy faces more uncomfortable adjustment before it can regain its full strength.

**External Relations**

13. Japan is increasingly active in international diplomacy, and is a reliable and constructive partner for the UK on a wide range of issues including the Balkans, Indonesia/East Timor and the Middle East Peace Process. Japan this year holds the Presidency of the G8 group of major countries, which deals both with foreign policy issues (conflict prevention will be a priority) and economic/social questions. The G8 Summit, which has dominated foreign policy this year, will be held in Okinawa in July.

14. **Japan/US:** The US remains Japan's principal foreign policy and economic partner, and the security relationship is central to Japan's defence policy. There has been recent progress on the difficult issue of host nation support for US forces in Japan. The Diet last year passed legislation related to the revised – and contentious – defence cooperation guidelines, which will, for the first time, define the support Japan will give to the US military in regional emergencies. On the trade side, there has also been progress on telecommunications interconnection charges, on which the UK and EU Commission have also been active.

15. **Japan/Russia**: The dispute over the Northern Territories, a group of islands claimed by Japan but occupied by Russia since 1945, dominates the relationship. Negotiations were re-launched at Japanese initiative in 1997 with the agreed aim of resolving the dispute and signing a Peace Treaty by the year 2000. The two sides agreed last year to establish working groups on territorial and economic issues. But hopes of an early peace treaty with Russia have evaporated, as both sides have well-entrenched positions on the territorial question. Putin will visit Japan in early September.

16. **Japan/Korea:** Japan's relations with Korea have been difficult because of Korean memories of Japanese annexation from 1910-1945. Links with the South have improved since President Kim Dae-jung, during his visit to Japan in September 1998, stated publicly that the relationship should look forwards, not back.

17. Relations with **North Korea** still have to be normalised. There are many long-standing bilateral problems, and more recent problems such as North Korea's firing of a rocket over Japan in 1998. The two sides recently started informal exploratory talks aimed at a greater normalisation of the relationship

18. **Japan/China:** Despite the growth of strong economic links, historical factors are again a major irritant. The Chinese also express unease about Japan's policy on Taiwan and the US-Japan defence cooperation guidelines. The relationship is often portrayed as one of rivalry for regional dominance.

19. **Japan/Asia:** The Japanese economy is by far the most dominant in Asia. Although the Japanese were criticised, particularly by the US, for not doing enough to stimulate domestic demand to help other Asian countries export more to assist them in overcoming the economic crisis, the Japanese have made a major and unparalleled contribution to international aid packages for the countries affected. In the run-up to the Okinawa Summit, Japan has made considerable effort to gather the views of other Asian states so that it can act as the voice for Asia at the Summit.

**UK/Japan Relations**

20. The scope of the bilateral relationship, both governmental and non-governmental , has expanded greatly in recent years. Events of the past two years have reflected this well. The Emperor and Empress of Japan made a State Visit to Britain in May in 1998, the programme for which was designed to highlight the many aspects of the relationship, especially the extensive people-to-people links.

21. There have been many Ministerial visits in both directions. The Prime Minister visited Japan in January 1998 (when he launched the UK98 festival - over 800 events covering commercial, scientific and lifestyle aspects of modern and traditional Britain, which attracted over 5 million visitors), the Foreign Secretary in September 1999 and the Trade Secretary in June 1999. So far this year, the Deputy Prime Minister and the First Minister for Scotland, as well as several junior Ministers, have visited. The Chancellor of the Exchequer and the Foreign Secretary also visited to attend G8 meetings.

22. Prime Minister Hashimoto visited the UK twice in 1998, Prime Minister Obuchi visited in 1999, and Prime Minister Mori visited in May 2000 as part of a tour of G8 capitals. Foreign Minister Kono visited this January (for discussions with the Foreign Secretary and Prime Minister, focused on priorities for the G8). The Foreign Secretary and Kono last met in June 2000, in Damascus.

23. During the Foreign Secretary's visit to Japan in September 1999, he agreed with the Japanese Foreign Minister on the UK-Japan Action Agenda. This provides a framework for taking forward cooperation between the two countries. It reflects in particular the increasing cooperation in non-traditional areas such as the common challenges faced by developed societies as they enter the 21st Century, such as an ageing population.

24. British and Japanese parliamentarians held a parliamentary seminar in London on 10 February. This was the second such seminar – the first was held in Japan in 1998. The UK-Japan 21st Century Group, a high-level non-governmental body promoting the bilateral relationship, held their annual conference in March, focusing on the themes of health and ageing issues and the effects of the IT revolution on the economy.

25. There are strong cultural and educational links between the two countries. Around 100 British cultural organisations – theatres, museums, orchestras – have links with Japan. 16,000 Japanese are in full-time education in the UK, with a further 30,000 – 40,000 visiting for short-term courses. About 55,000 Japanese live in Britain (the third-largest Japanese community overseas), while approximately 14,500 (1997) British people

live in Japan. The Japanese are organising Japan 2001, a major year long festival in Britain next year.

26. While there are no significant bilateral problems, the former Prisoners of War issue remains sensitive. Both the British and Japanese Governments regard the question of compensation under the 1951 San Francisco Peace Treaty as having been settled, and support reconciliation as the way ahead. A public apology for the war-time sufferings of former POWs was made by former Prime Minister Murayama in 1995, and was repeated by Mr Hashimoto on behalf of his Government during the visit by Mr Blair in 1998.

**UK/Japan Trade and Investment**

27. Britain remains an attractive location for Japanese investment, receiving over 40% of Japanese investment in the EU. More than a thousand Japanese companies operate here, of which over 278 are involved in manufacturing (providing employment for about 88,000 people). There are also over 163 Japanese companies carrying out research and development and design work in the UK. Japanese financial and trading firms have a substantial presence in the City of London (the second largest foreign presence). But recently some Japanese investors have expressed concern about the sustainability of their investments in the UK, because of the high pound and the UK's non-membership of the Euro.

28. Japan is the UK's largest export market after the EU and US, and Britain is Japan's ninth largest market. The trade balance is traditionally in Japan's favour. But the UK usually runs a current account surplus, with services, investment income and financial transfers making up the trade deficit.

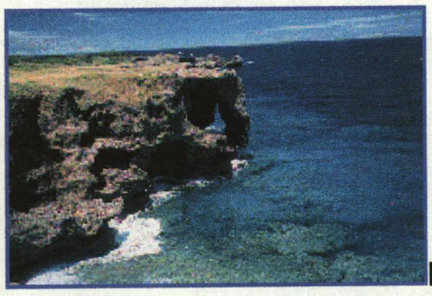
29. The weakness of the yen and depressed domestic demand in Japan resulted in an increase in Japan's trade surplus in 1998 (UK exports dropped by 23% to £3.21bn compared to 1997 figures). But British exports (£3.32bn) and Japan's surplus (£6.2bn) stabilised in 1999. In the first two months of this year, British exports to Japan increased by 11.3% compared with the same period in 1999; imports from Japan were up 4.1%.

30. Main UK exports to Japan include vehicles, pharmaceuticals, electrical machinery and scientific instruments. UK companies that have made significant investments in Japan include BT, Cable and Wireless, ICI, Glaxo, BP. British retailers with a presence in Japan include Boots, Virgin and the Body Shop.

31. The British Government is strongly committed to helping exporters. It opened the British Industry Centre in Yokohama to help businesses test the water. In 1999, the Government opened a trade promotion office in Fukuoka and upgraded the office in Nagoya to a full Consulate. British Trade International plans to run a record 34 trade missions to Japan this year.

32. The British and Japanese Governments work closely together on trade promotion. In addition to Japanese support for British trade promotion efforts, the two governments organise joint trade missions to third countries and encourage third country commercial collaboration (winning, for example, £1.9 billion worth of contracts in Turkey, Oman and Qatar).

# Travel Information


Manza-mou

Okinawa, the southernmost prefecture of Japan, consists of 57 islands which include the Miyako and Yaeyama groups, with the main island of Okinawa as the nucleus. The only prefecture in Japan that is truly subtropical, Okinawa is a southern paradise where colorful flowers of the subtropics bloom the year-round. The sea that surround these islands has an emerald-green sheen, and the resplendent coral reefs are among the world's finest. These natural attractions have given rise to world-class beach resort that cater to sun-loving vacationers.

Okinawa was once a kingdom of its own called the "Ryukyu" regime. During this regal period, the island thrived as a grate trading center through active interrelations with neighbor nations. Okinawa is now a focus of attention with the restored of Shurijyo Castle reviving the glorious history of the Ryukyu Kingdom.(Scheduled flight service is available between Naha and Tokyo [ in 2 hrs. 30 min ], Nagoya, Osaka, Fukuoka and other major Japanese cities. Ferry service is also available.)

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- Studio Park "Ryukyu-no-Kaze" (Yomitan Village)
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- Beach Resorts on the West Coast (Okinawa Island)
- Gyokusendo bunka-mura (Tamagusuku Village)
- Taketomi Island (Taketomi Town)
- Iriomote Island (Taketomi Town)
- Traditional Arts and Crafts


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*Your Japanese explanation is here.*

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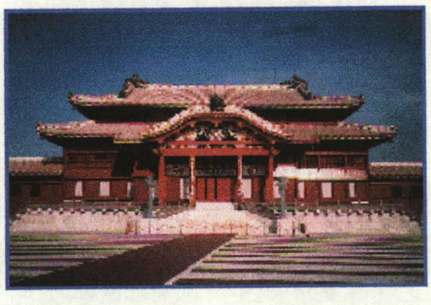
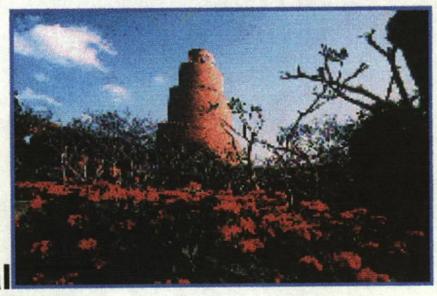
**Shurijo Castle(Naha City):**



- This was the residence of the Ryukyu royal family for about 450 years, since the early 15th century, and shone out as a focus for a brilliant dynastic culture. The Seiden, above all, is its most important structure, as the site where politics and ceremonies were enacted with the King in attendance. Completely restored in November 1992, the Seiden stands imposingly on a hill that commands a panoramic view of Naha City and East China Sea.

**Studio Park "Ryukyu-no-Kaze" (Yomitan Village) :**

This theme park served as the main stage for a highly popular historical drama televised in 1993 as a series. The 4.7hectare site has reproduced the 17th-century splendor of the Ryukyu Kingdom. Visitor can enjoy the culture, taste treats and pleasures of golden-age Ryukyu. (Approx. 1 hr 20 min. by bus from downtown Naha, or approx. 50 min. by car from Naha Airport.)



**Okinawa Commemorative National Government Park (Motobu Town):**

This is Japan's largest national subtropical park, created on the site of the 1975 Okinawa International Ocean Exposition. The site is dotted with various facilities such as the Aquarium, Tropical Dream Center, Okinawa Museum and amusement park, along with tropical plants and the emerald-green sea. ( 2 hrs. 30 min. by bus from downtown Naha.)

**Beach Resorts on the West Coast (Okinawa Island):**

White sand beaches rim the islands of Okinawa and their distinctive coral reefs. The west coast of the main island, in particular, has a number of world-class beach resorts. Marine sports, golf and fishing are some of the options that let you enjoy a tropical holiday. ( 1 hr. to 1 hr. 30min. by car from downtown Naha.)

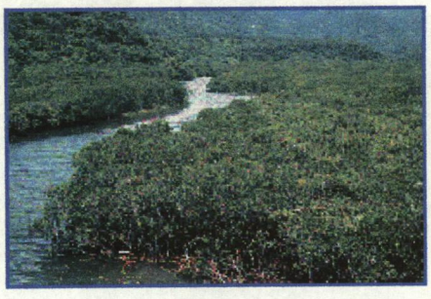
**Gyokusendo bunka-mura (Tamagusuku Village):**

The Gyokusendo stalactite cave, the largest of its kind in the Orient, was discovered in 1967. More than 900,000 stalactites, stalagmites and pillars from the magical architecture of this mysterious subterranean world. ( 50 min. by bus from downtown Naha.)

**Taketomi Island (Taketomi Town):**

This small Taketomi Island of 6.3km$^2$, encircled by an atoll, is accessible by 10 minutes' ferry ride from Isigaki Port. The paths on the island are covered with white sand and lined with peaceful rows of houses accentuated with Sisar gurden lion statues on orange tile roofs and the walls of coral limestone twined with subtropical flowers. Scenery of whole island is just like a huge garden. The scenes of Okinawa from the good, old days are still alive here.

**Iriomote Island (Taketomi Town):**



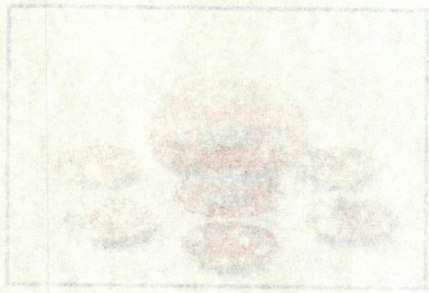
Iriomote Island of approximately 130Km in permeter, located in the west of Ishigaki Island, is the second largest island in this prefecture after Okinawa Main Island. The most part of the island is mountainous area, over 90% of which is covered with tropical and subtropical virgin forest. Most of then are literally the untouched jungle. The climate of Iriomote is much closer to tropical than subtropical. Overwhelming rainfall creates tropical rain forest climate here. It has been long said to be the last land of mystery in Japan, where world-class rare spacies of animals and plants such as "Iriomote lynx", "Serpent eagles", and "Semaruhakogame(turtle)" live even today. Just like the land, the sea around Iriomote Island has the underwater jungle of coral reefs, offering numberless diving spots a bit different from others.

## Traditional Arts and Crafts:

Okinawa's balmy climate and unique history gave rise to traditional arts and crafts of superb quality in various parts of the prefecture. These include pottery, dyed textiles, lacquerware and glassware. Shoppers can also stop at workershops to watch craftwork or to enjoy hands-on experiences.

**Back to Home Page of Okinawa**

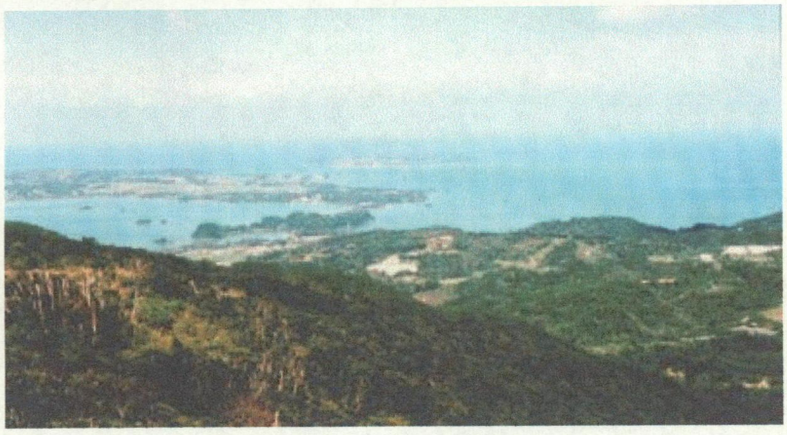
*mail to okinawa@pref.okinawa.jp*



# OKINAWA N@GO City English Page

## About Nago City

Nago City was founded on August 1st, 1970 with the consolidation of one town, Nago, and four villages of Yabu, Haneji, Yagaji, and Kushi.



This made it the ninth city in Okinawa Prefecture. Located in the northern part of the main island of Okinawa, it occupies the third largest land area in the prefecture after Taketomi Town and Ishigaki City. The city is located in a subtropical oceanic environment that is warm and mild with an average yearly temperature of 21.6□, making it one of the cooler regions of Okinawa. The population is 55,324 (current as of June 1, 1999).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- The City Emblem
- Industry

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For more information, contact sami04@plum.ocn.ne.jp

OKINAWA N@GO City

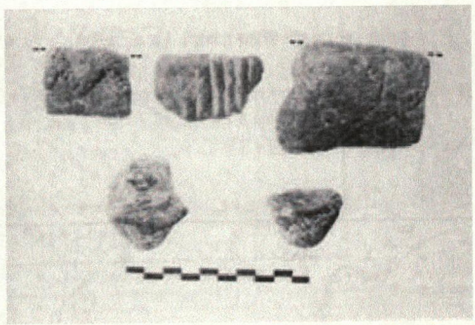
# English Page

## About Nago City

### History 1

#### 1. In the Beginning

When did people first begin living in Nago City? In Okinawa, the oldest archeological remains excavated so far have been in Naha City and are estimated to date back 32,000 years. In Nago City, on the beaches of the Sumiyabaru area, there are ruins dating back 4,500 years.



Earthenware unearthed from the Sumiyabaru Site

Approximately 2,000 to 1,500 years ago human habitation increased in the areas close to the seashore, which can be shown by the shell mounds that have been discovered in these areas. In this period there was no agriculture. The people lived a hunter-gatherer lifestyle, eating fish and shellfish caught from the seashore and fruits and grasses gathered from the hills and fields. In the 12th century, the history of Okinawa entered a great transition. The growing of wheat, rice and other cereals began, iron tools were introduced to the islands and the form of earthenware pottery underwent sudden change. People began to move inland to the plateaus and higher ground to live. This is referred to as the Gusuku Period. In comparison to the central and southern regions of Okinawa, far less numbers of archeological remains have been found in Nago and Yanbaru. Entering the Gusuku Period, we see the emergence of regional chieftains, called *Aji*, who governed local areas. Above these regional chieftains in the northern area ruled the builder of Nakijin Castle, the lord of the northern kingdom of Hokuzan. This was in the 14th century. By this period, the *Ajis* of Hokuzan, as well as the *Ajis* of other regions, had already begun trading with China, which can be shown by the large numbers of Chinese porcelain from this period that have been unearthed in various areas.

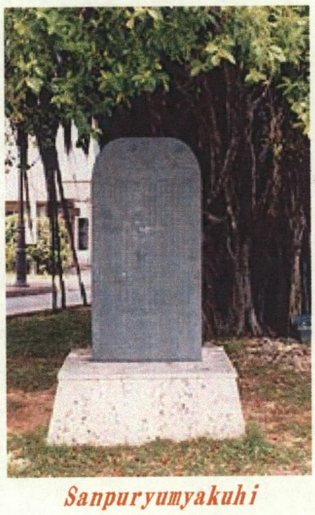
#### 2. From the Hokuzan to the Ryukyu Kingdom

The kings of the northern kingdom of Hokuzan ruled for three successions for over 90-years. In 1416, the central kingdom of Chuzan invaded Hokuzan. The armies of the *Aji* regional chieftains from Nago, Haneji and Kunigami joined with the Chuzan forces and the Hokuzan Kingdom was destroyed. In 1422, the Chuzan king Sho Hashi installed a supervisor for the Hokuzan area and created a system of defenses around Yanbaru. This system of supervision lasted through the 15th century and into the Second Sho Dynasty, until 1665.

## 3. The Early Modern *Magiri* Districts and Villages Farmers

Statue of Nago *Uekata* (Lord) - Tei Junsoku

In 1609, during the rule of the Second Sho Dynasty, the Shimazu clan from Kyushu invaded the Ryukyu Kingdom. From that period on, the political society changed from the ancient Ryukyu kingdom to the Early Modern Period Ryukyu Kingdom. There was no substantial change in the administrative village areas designated *Shima*, but administrative reforms progressed. Around the mid 17th century, the number of tax payment units, - villages (*Shima*), were as follows: in Nago *magiri* - 17 and in Haneji *magiri* -14, a total of 31 villages. This was increased around the mid 18th century to Nago *magiri* -11, Haneji *magiri* -18, and Kushi *magiri* - 13, totaling 42 villages. This figure remained so until the end of the Early Modern period. The *magiri* districts of Nago, Haneji, and Kushi were ruled by both the regional chieftains and the *Uekata*. Among these leaders, one who represented the early modern Okinawan era as a member of the literati, a scholar, and an educator, and who was well known as a saintly *Uekata*, was Nago *Uekata* Tei Junsoku. He received the job as the general regional chief of the Nago *magiris* in 1728. The government district office, called *Bansho*, was at first located in the Jinga forest in Agarie, but was later relocated to the current location of the Nago museum at the end of the 17th century. The farmers of the early modern period grew sweet potatoes for subsistence but were also taxed. The tribute was different according to the region; in Nakagami and Shimajiri they grew sugarcane for taxes, in Yanbaru, with the exception of Nakijin and Iejima, they were obliged to grow rice, and *Ukon* (turmeric) was designated as a special product of the area. In 1735, the repair of Haneji Okawa was implemented as a national project under the reforms of the government minister Saion, which as well as securing the area as a rice producing area, showed the standard of civil engineering in the Early Modern era. *Ukon* was the special product of Yanbaru and by the mid 18th century the area was producing about 13, 000 kin (7,800kg), which was used on the mainland of Japan as a valuable yellow dye. The yellow colour of *Takuan* (yellow pickled radish) actually comes from the *Ukon* grown in Yanbaru. Below the well-known *Himpun Gajimaru* (Giant Banyan tree) there is a stone memorial that was erected in 1750, the *Sanpuryumyakuhi*. On the memorial, it is written that Saion criticized and rejected the moving of the capital from Shuri to Nago and constructing a canal linking Yabu and Kogachi, issues that were being discussed by the Ryukyu government at that time, as this was ill fated according to Feng Shui.



*Sanpuryumyakuhi* (stone memorial)

## 4. The Latter Period Ryukyus and the Development of Nago

In 1872, the Ryukyu *han* (feudal domain), was formed as a Japanese administrative domain. In 1879, this domain was

dissolved by edict of the Meiji government, and Okinawa prefecture was formed. The changes also affected the Nago region and while maintaining some facets of the old regime under the "Preservation of Ancient Customs" policies of the Meiji government, the region advanced toward modernization. The town of Nago, in particular, experienced rapid development. After 1882, regional pivotal facilities such as the post office and hospital were centrally located in Nago. In 1884, it was written in the □Okinawa Prefecture *Chishiryaku*□ that, □the Oganeku area is the Kunigami region's most prosperous area.□ The sea routes to Naha were well established and Nago Harbour became a relay point for the collection and shipping of goods, and travelling people. Many shops also opened one after the other centering around Nago *Odori* road. In the latter part of the Meiji era (1868-1912), to the beginning of the Taisho era (1912-1925), the Prefectural road between Naha and Nago was constructed and rural district roads extended onward into various areas of Yanbaru. Nago became a hub of land transportation as well. Through all this activity the central district of Nago became the central area for Yanbaru□s administration, transportation, education, and commercial functions. The area began to take on its shape, position and role as a town, and its future course as a town was also determined. The basic characteristics of this area have not changed since then. In 1923, the five northern districts of Kushi Village were separated from Kushi Village to become Higashi Village. In February of the following year, the town system was implemented in Nago Village, and Nago Village became Nago Town.

□

## 5. Efforts to Promote Industry

□ Before World War II, apart from transport and commerce in the central district of Nago, Nago□s industries consisted mainly of agriculture and forestry. In 1888, sugarcane agriculture spread into the region, but because of the traditionally high importance attached to rice cultivation, sugar cane did not come into full-scale production in the Nago area until after the war, around the 1960's. The livelihood of the residents of the region with its vast mountains and forests was supported by the forest industry. In about 1877, land reclamation and the growing of indigo plants began, mainly by descendant families of *samurais* who had moved into this region. In the latter Meiji period many people arrived to earn a living by lumbering, charcoal manufacturing and indigo growing in the Haneji Okawa upstream areas and mountains. The estuaries and inlets of the villages were bustling with Yanbaru boats transporting the products. The forest industry was an important business for Nago and Yanbaru until the 1950□s, after the war.

□

## 6. Emigration and Working Outside of the Prefecture

In 1899, there was widespread emigration from Okinawa to North and South America, starting with Hawaii, and then to the Pacific islands and the Philippines. From the middle part of the Taisho era (1912-1926) the number of people leaving the prefecture to find work in mainland Japan increased year by year, mainly being women who went to work in the spinning factories of mainland Japan. The many people who left

for jobs and lives elsewhere outside the prefecture

sent home their earnings and were a great support to the people back home. The largest number of emigrants and people going to work outside the prefecture, from Okinawa, were from Haneji, many going to Brazil and Hawaii. From Nago many people also went to work outside the prefecture and also immigrated, to Hawaii, Peru, the islands of the South Pacific, and the Philippines. In 1935, 19% of the population of Nago had emigrated abroad, amounting to about one in five of the population. Many people left Nago and Haneji for work in mainland Japan, mostly to Osaka, Hyogo, Wakayama, Mie, Kanagawa and Tokyo. The women were mostly employed at spinning factories and the men as factory workers in factories such as the ironworks.

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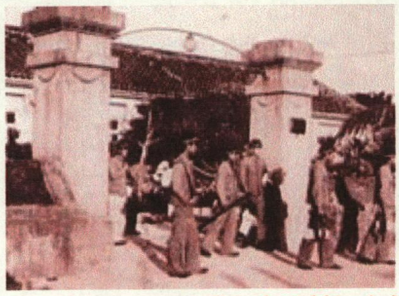
OKINAWA N@GO City

# English Page

## About Nago City

### □History 2

### 7. Toward Development of Education



The Prefectural Third Middle School

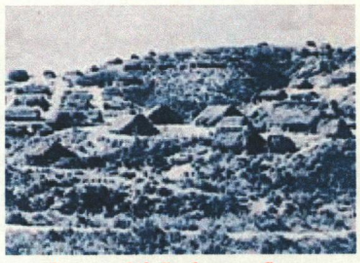
In 1916, the Kunigami Agricultural School, which had produced many human resources, was relocated to Kadena. This was a disappointment for the people of Nago and Yanbaru. The newspaper of the day reported that it was as if □a fire had burned out in the town of Nago□. For the town's development, establishment of a junior high school became an important regional issue. Finally, in 1928, as a result of the activities of the residents of Kunigami-gun, the prefectural third junior high school was established there. In 1930, what had started out in 1920 as the Practical Course Girl's High School was reestablished as the third Prefectural Girl's Senior High School. The prosperity of both schools supported the vitality of Nago Town.

### 8. The Battle of Okinawa and Postwar Recovery

Nago City Government Office, Kushi Branch Office (1970)

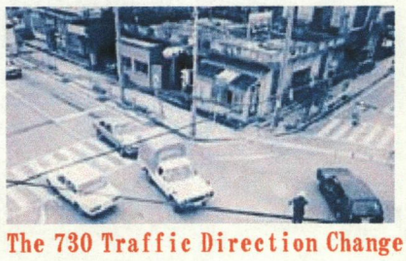
The town of Nago, renowned for its beauty, was reduced to ashes during the Battle of Okinawa. Compared to the ground war that engulfed the mid and southern regions of the island, the damage from the battle was not as severe, but it left deep scars within the people. In late March of 1945, due to the air raids of the US forces, people fled deep into the mountains for safety. At the end of June 1945, together with the rest of the refugees from the mid and southern regions, the people left the mountains and went to refugee camps. The total number of refugees accommodated in the refugee camps of Taira, Sedake, Ourazaki and Kushi exceeded 140,000. The postwar era began with life in the camps. From November of the same year, the people who had returned to their home regions spent their days ploughing their wasted land and building homes. The restoration of the central district of Nago began in January of the following year, 1946, as a district reorganisation project. The framework of the central district of Nago today is based on this work. Also, by the end of 1946, 60% of the houses and 50% of the farmland had been restored. In May 1946, in order to facilitate early reconstruction, Yabu Village was separated from Nago Town and Yagaji Village was separated from Haneji Village.

## 9. 1950-1960


Ourazaki Refugee Camp

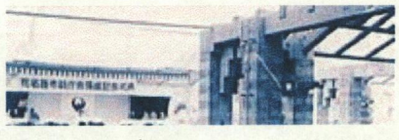
The postwar confusion finally settled down in the late 1950's, but it was also a time of the construction of U.S. military bases. In 1958, the construction of Camp Schwab began on what was the location of the Ourazaki refugee camp, and the mountainous regions of Kushi and Henoko were requisitioned as maneuvering ground for the U.S. military. On Mount Tano, Camp Nike was constructed. (It was reverted in 1972 and is presently the location of *Ikoi-no-mura* Okinawa). In the 1960's the political issue for the citizens of Okinawa was the reversion movement to their motherland, Japan. Meanwhile the region's industry was undergoing great changes. In 1959, with the farm subsidies for sugarcane and pineapple, the lands shifted toward this type of agricultural production with the attendant reduction in rice farming. Large modern factories such as those of Orion Beer, Ryukyu Cement, Hokubu Sugar Manufacturing, and the Keizairen Pineapple Factory began to be constructed in the area. Various shops and offices were also built in the central district of Nago and along the main road. From about 1960, consolidation to become a city became a common task. After 10 years, on August 1, 1970, the town of Nago and the villages of Haneji, Kushi, Yabu, and Yagaji were consolidated into the prefecture's ninth city. Thus Nago City was born.

## 10. The 1970's


The 730 Traffic Direction Change (1978)

The 1970's were a tumultuous period that shook the entire prefecture. Particularly in 1972, as well as the issues surrounding reversion to Japan, the preparations for the Wakanatsu National Athletic Meet and the competition to invite the Ocean Exposition to Okinawa, made for a bustling period throughout the communities of Okinawa. On May 15, 1972, Okinawa was formally reverted to Japan. The new life of Okinawa Prefecture started. In Nago City, in order to establish itself as the urban core in the northern region, the land reclamation of Nago Bay and the construction of Nago fishing port began. In 1973, comprehensive plans and outline proposals were completed for Nago City. These became the guidelines for the subsequent planning of Nago City□s future framework. In 1975, the Okinawa Ocean Exposition was held as a project to commemorate Okinawa's reversion to Japan. A new highway between Ishikawa and Kyoda was also opened to traffic. In 1977, a baseball field was built in the 21st Century Park. In 1978, due to repeated accidents during U.S. military drill maneuvers, the residents' resistance activity against the U.S. military bases became very active. In the same year the driving direction on the roads shifted to Japanese standards with implementation of the 7-30 change. In 1979, the Nago Sewage Treatment Plant was completed.

## 11. The 1980's



If the 1970's can be called a decade of turbulence, then the 1980's should be called the decade of foundational construction. In

the 1960□s, as well as commemorative projects for the tenth anniversary of the formation of Nago City being carried out, numerous new facilities were constructed. Starting with the renovation of the city's market in 1980, as well as the construction of facilities such as the Child Care Center, the new City Hall, Nago Museum, Okita Elementary School, Nago Civic Hall, Nago Fire Station, the Nago City Chamber of Commerce and Industry Building, the Nago City Labor Welfare Center, the Day Service Center, road works, and the creation of parks, were carried out one after the other. With the objective of revitalization and cultural promotion, new events such as the *Shimin Kenko* (Citizens□ Health) Marathon, the Nago City Health Promotion Athletic Meet, the Youth Cultural Festival, *Nago Shimin Geki* (amateur plays by Nago citizens), and the Citizen's Music Festival, were held. In 1985, the city's population reached 50,000. In 1987, the Okinawa Kaiho National Athletic Meet was held, and sumo, kendo, rugby, high school baseball, and bicycle racing took place in Nago. In 1986, Nago City formed sister city relations with Hilo City, Hawaii and in 1988, and friendship relations with Matsuo Village, Iwate. In 1984, damage due to the presence of U.S. military bases, such as the direct hit from a machine gun on a dump truck and the falling of a helicopter door occurred, and in 1987, when a stray bullet hit a taxi the residents of Nago held a protest rally.

Nago City Hall Completion Ceremony (1981)

□

## 12. The 1990's

□ In 1989, the name of the era changed from the Showa era (1926-1988) to the Heisei era, and the 1990□s changed to an age of creating a Nago City well prepared for the 21st century. In 1989, as part of the□□Hometown Creation Project□, the □Nago Uekata *Jyuku* (Learning Group)□ was established. The citizens themselves also played a part in planning for Nago city. In the area of educational and cultural promotion, one of the main pillars of planning for the city, the *Akemio* Exhibition, the Nago Cultural Festival and the Nago Lifelong Learning Promotion Convention were held. Many facilities were also set up. For example, the 21st Century Gymnasium, the Nago City Educational Research Institute and Omiya Junior High School was established, and the Nago City Cultural Association was founded, as part of this effort. The opening of Meio University and the Hokubu Nurse Training School were also exciting developments for Nago City. In 1992, the Hokubu Region Joint Administrative Block Office Union (sectional office union) was established and, in 1993, the *Hokubu* (northern) region was appointed as a □base city□. Work on improving the city's environment in 1993 saw the opening of the Nago Chuo road to traffic through the center of the central district of Nago and the opening of the New Yagaji Ohashi Bridge to traffic. In 1992, the Ryukyu Ayu (a sweetfish) was a topic of conversation as release into the Genka River began. In 1990, friendship city relations were formed with Takikawa City, Hokkaido. In 1997, friendship city relations were formed with Hirakata City, Osaka. The following year, in 1998, sister city relations were formed with Londrina City, Brazil. With the decision

Forming Sister City Relations with Londrina, Brazil

## PRIME MINISTER'S MEETING WITH JAPANESE INWARD INVESTORS

### Objective

Reinforce importance of Japanese inward investment and HMG's commitment to maintain the UK's position as the preferred location for Japanese investment into the EU.

### Points to make

- Greatly value the investments made by Japanese companies in the UK. Make an enormous contribution to our economic well being and in helping to modernise our industrial base.

- Figures announced last month recorded 58 Japanese investments in the UK last year. Determined to maintain the attractiveness of the UK business environment to encourage further long- term investment from Japan

- Committed to delivering economic stability, investing in skills, education and infrastructure, continuing our policy of deregulation, maintaining flexible labour practices and in creating the right culture of enterprise and innovation to enable you and others to invest and grow with confidence.

### Defensive

- Understand the concerns of some Japanese investors over the pound/euro exchange rate. But our focus has to be on long-term economic stability, not short- term fix.

- Also know that many investors are deeply interested in our position on EMU. The determining factor underpinning any Government decision on the EMU is whether the economic benefits from the UK joining are clear and unambiguous.

- What matters for investment is economic stability. Sure you understand that to join EMU without economic convergence would be a recipe for less stability, not more.

- Your views and those of other inward investors are welcome on our plans relating to the euro and will be taking into account in whether to recommend membership – investment is one of the five economic tests

## BACKGROUND - INWARD INVESTMENT FROM JAPAN

- 1300 Japanese companies operating in the UK.
- 278 Japanese manufacturing investment operations in UK
- 163 research, development and design operations
- 88,000 people employed in manufacturing operations
- Despite economic downturn in Japan –

  - 58 projects in financial year ended March 2000 (up from 43 last year)

  Sectors include automotive, electronics, software, internet services and telecommunications. Success includes Fujitsu's engineering centre for advanced communications technology creating 250 highly skilled jobs in Belfast. Also automotive investment by Toyoda Gosei (400 jobs) in Yorkshire, Nichirin (70 jobs) in the North West, Tokai Rika (150 jobs) in Wales and Katsushiro Matex (150 jobs).

  - 40 live projects being tracked by Invest UK

- UK share of Japanese investment in Western Europe increasing – now 46%, up on the last two years (Japan Ministry of Finance, June 2000)
- Japan will remain world's second largest economy for foreseeable future. Equivalent to two-thirds of all Asian economy. Will remain important source of technology and vital potential contributor to the UK's globally orientated knowledge driven economy.

## PRIME MINISTER'S POSSIBLE BILATERAL WITH CHRETIEN

(if raised) EUROPEAN DEFENCE

**Objective**

- to reassure Chretien that Canada can play a part, separate from the USA, in developments on European Defence.

**Background**

1. Canadian Foreign Minister Axworthy lobbied the Secretary of State during the Florence NAC about Canada's role in European Defence. We recognise that Canada is in a special position. She does not want to be lumped together with the US, or excluded from EU/US dialogue on security and defence issues. We recognise the continuing Canadian contribution to international security, including participation in IFOR/SFOR and KFOR. But the Canadians should recognise that, while European Defence is an EU-led process, how it develops will depend crucially on the evolving EU/NATO relationship. Canada can play an important and positive role in that evolution, without requiring a special status vis a vis the EU. Canada would like to be treated as an "honorary European" (ie to have the same status as the Six). That would not be sellable in the EU. But there are a number of things on offer:

- The UK was instrumental in Feira in having Canada singled out as the only non-European specifically mentioned as a country that might be invited to take part in EU-led operations. The EU welcomed Canada's interest.
- CESDP will feature in the twice-yearly EU-Canada Ministerials and the official level meetings.
- Canada, as a NATO ally, would have a veto over the use by the EU of NATO assets and will contribute fully to NATO's work on ESDI, including Berlin plus, which will have an important impact on NATO/EU relations.

2. There are possible "extras" we might be able to offer Canada further down the road, but we have not sought Partners' views on these and should be wary of offering more than we might be able to deliver. Examples include:

- Canadian military liaison to the European Military Staff.
- Invitation to attend Capabilities Commitments Conference, as an observer.
- **Invitation to declare capabilities that might be available for EU-led operations (as some of the Six have done).**

**PRIME MINISTER'S POSSIBLE BILATERAL WITH PRESIDENT CHIRAC**

EU Issues

- **IGC**: vote reweighting (parity with Germany), Commission size, QMV, closer cooperation

- **European defence**: importance of UK/France cooperation, capabilities, structures, Treaty change

- **Charter of Rights**: restricted content, legal certainty, declaratory nature

Enlargement**: maintain momentum, strategic review at Nice**

## PRIME MINISTER'S POSSIBLE BILATERAL WITH SCHRÖDER

Bilateral Relations

1. Germany is our key political and trading partner in Europe, and relations at government level are particularly close. Last year, there were more British ministerial visits to Germany than to any other EU partner. This year, the Prime Minister has already had two informal meeting with Schröder, the last occasion being a dinner outside Berlin on 29 June. The Foreign Secretary had a bilateral with Fischer, mainly on EU issues, on 18 July in the margins of HM The Queen's visit to Berlin to open the new British Embassy building.

2. January saw the launch of UK-Berlin 2000, a public diplomacy campaign by the FCO to underline the depth and breadth of our involvement in Germany. It is designed to show British creativity, energy and practicality through a series of performances, concerts, conferences and seminars. Most but not all of the events are taking place in Berlin.

# PRIME MINISTER'S BILATERAL WITH PRESIDENT PUTIN

Points to make

- Remain committed to partnership we have established between UK and Russia. Look forward to building on recent series of visits by Clare Short, Duma Speaker Seleznev with increased co-operation and links.

- Welcome commitments to reform expressed in your address to Duma and in draft economic plan. Look forward to early implementation. Structural reform essential for sustained economic growth. Particularly important to improve investment climate and ensure that intellectual property rights are respected.

- Important that economic reform is accompanied by democratic progress. Attach particular importance to freedom of media and expression – Gusinsky case has raised concerns in the UK on these issues.

- British companies - BP Amoco and Shell - made huge investments in oil and gas sectors. Kovyktinskoye good for both Russia and BP Amoco as major upstream players in project. BP Amoco's Petro-China joint venture will be critical to unlocking market for Kovyktinskoye gas in China. Hope will have your support. Welcomed your undertaking to CBI Round Table in London to introduce level playing field for business – early implementation essential for investor confidence.

- Important that we can work together on key foreign policy issues: our interests coincide more often than not:

- Milosevic is bad for Serbia and bad for the region. He must go. A public Russian role could be decisive. A change in Belgrade would also make it easier to consider options for Kosovo's future.

- Meanwhile, will continue working with UNMIK in Kosovo, including preparations for local elections this autumn. Believe this best way to get local politicians to take on responsibility.

- Look also for more positive Russian role over Bosnia.

- Healthy NATO/Russia relations, able to withstand differences, in all our interests. Look to you to ensure similar Russian commitment and flexible approach.

- (if raised) NATO enlargement emphatically not a threat to Russia. Central to our thinking that enlargement should not create new dividing lines in Europe.

- Pleased to be able to cooperate in specific areas of security:

- (Separate points to make and background on NMD is attached).

- UK has just announced £12mn over 2001-2004 to help Russia meet obligations to destroy chemical weapons. Our officials should discuss how to take forward in accordance with priorities of Russian programme.

- The disposition of weapons-grade plutonium important for fulfilment of G8-shared non-proliferation and disarmament goals. G8 must maintain momentum by agreeing a schedule of action before next year's Summit. We are committing £70 million over 10 years from a new budget announced this week to deal with nuclear problems in the Former Soviet Union.

- We are concerned about possible transfer of missile technology from Russia to countries of proliferation concern. Hope you can ensure that export controls are strictly enforced, and in the spirit of the Missile Technology Control Regime, that contacts are discouraged between Russian personnel and personnel from other countries potentially involved in WMD programmes.

- Welcome the proposal made by Russia at the G8 Environment Ministers meeting in April to reinvest proceeds from sales of surplus emmissions in projects which benefit the environment.

- Remain concerned about Chechnya, particularly to avoid spillover into wider region – notably Georgia. Condemn terrorism and support Russia's territorial integrity. But do not believe current Russian approach is working.

- Only political dialogue will produce lasting peace. Urge you to start a dialogue with Chechen side as soon as possible.

- International community also has role. Pleased Council of Europe and ICRC are active in Chechnya. OSCE can also contribute. Hope OSCE Assistance Group can return to region as soon as possible, to fulfil its mandate.

- Also important that allegations of human rights abuse are investigated and, where necessary, perpetrators are prosecuted. Not clear that current investigative mechanisms have authority or resources needed to do this.

Background

1. We have been seeking to engage with the new Russian administration and gain Russia as a constructive partner across a range of issues. The key message we have been putting across is that we want Russia as a partner, but need a constructive approach from them, and confidence that they do not see Russian and western interests as automatically divergent.

2. Putin has made a cautious start in government, seeking to consolidate power. He has placed some of his trusted colleagues in key positions, but retained many place-holders from the Yeltsin administration. His priority has been to reassert Moscow's authority over the regions, appointing seven "super-governors", mostly from a military/security background, to monitor/control the elected regional governors. He has also sought to remove the governors from Russia's upper house, sparking strong resistance.

3. On the economic side, the government's economic plan has been long in incubation. Illarionov handed a summary to Sherpas and several draft versions have been circulating in the Russian media. The version handed to Sherpas contains plenty of good ideas for tackling key reform issues. But it lacks the quarterly target dates and proposed legislative instruments included in earlier draft work plans leaked to the press, instead focussing merely on giving dates when measures should be submitted to the government. Nor does the economic plan recognise the need for Government to prioritise its tasks and sell them to a sceptical population. Moreover, the government has made little headway on implementing reforms since Putin's inauguration, although bills are progressing through Duma and Federation Council on tax reform and consolidation of Federal authority over the regions. This partly reflects the nature of Russian politics – Putin's focus has been on building his power base rather than, Anglo-Saxon style, of making his mark in the first 100 days.

4. But there have also been less encouraging signs. The arrest and prosecution of the opposition media magnate Gusinsky appear to be politically-motivated and have raised concerns over Putin's understanding of and commitment to a free press. Putin's address to the Duma on 10 July also said that he would not allow "abuse" of media freedom, opening the door to further interference.

5. BP Amoco are potentially facing a new set of problems in Russia. They have made a major investment in the giant Kovyktinskoye gas field in East Siberia, which is expected to become a major supplier of natural gas to regional markets, China and the Far East. BP Amoco's links with Petro-China, however, seem to have raised Russian fears about the amount of control that BP will be able to exercise on the project. In a conversation

with HMA Moscow on 11 July, Putin's foreign policy adviser suggested that they might need to look at alternative ways of achieving the benefits of the project. HMA pointed out that BP is already working in partnership with Rusia Petroleum and was only seeking to own around 30% of the project in total. He also stressed that if the Russians muscled out BP Amoco, it was highly unlikely that other oil and gas companies would step in; it would also be very damaging for investor confidence, so soon after the Sidanco affair.

6. Shell has recently more than doubled its stake (up to 62.5%) in the Sakhalin II project to develop a number of oil and gas fields (estimated investment commitment of $5bn). The project's main focus is the long-term export of gas to markets in South East Asia, and specifically Japan. The success of the project will depend heavily on Russian government support in facilitating exports and Japan's readiness to give access to the market. Other major projects include a deal with Gazprom to jointly develop Siberian gas resources for the European gas market (estimated at $1bn) and a proposal to establish an international consortium (including Gazprom and Naftogas Ukraine) to lease and manage the vital gas transit system through Ukraine.

7. Although Russia agrees that Milosevic is the main problem in FRY, it will not criticise him in public arguing that public and parliamentary opinion still equates Serbia with Milosevic. There is also still an element of lingering resentment over NATO's action in Kosovo. Russia insists on the importance of the FRY's territorial integrity, and is deeply suspicious that UNMIK's (and the West's) agenda involves Kosovo independence. In international fora Russia still takes up pointless pro-Belgrade positions which annoy other countries in the region and achieve nothing. Their refusal to attend the Bosnia Peace Implementation Council because FRY was not invited reflects this self-defeating policy. They are now arguing for a postponement of the autumn municipal elections in Kosovo because of the security situation for Serbs; our line is that we should use the remaining time to get the conditions right.

8. The key to progress is for Milosevic to go which would make it possible for discuss final status options with the Kosovo Albanians, short of independence; and would also have a positive effect on the Serb part of Bosnia. Russia has recently taken some positive steps, including a public statement of concern about the crack-down on the independent media in Serbia. At the G8 Foreign Ministers' meeting, the Russians signed up to conclusions language expressing concern about the recent changes to the FRY Constitution. A clear public statement that Milosevic should stand down would have a real impact and significantly enhance their standing in the region.

9. George Robertson's February visit to Moscow secured Putin's agreement to re-engagement with NATO on issues beyond the Balkans. Cooperation in the Permanent Joint Council has since inched forward. We have had modestly useful exchanges on arms control and strategy and meetings at Foreign and Defence Minister level for the first time since the Kosovo conflict. But Russia continues to drag its feet on military cooperation. And continued criticism of NATO performance in Kosovo, despite good cooperation on the ground, is an irritant. Russia still sees security and cooperation with NATO as a zero-sum game. Future NATO enlargement is seen as a direct threat, including by Putin. This will put relations to a severe test as the 2002 NATO review of enlargement policy nears. NMD, Chechnya spillover, or developments in the Balkans could also knock relations back off the rails.

10. The Chemical Weapons Convention requires possessors of CW to destroy all stocks by 2007. Russia has the largest stocks, but there is virtually no prospect of it being able to meet the deadline. Russia will need considerable financial assistance to undertake CW destruction. The UK's announcement of financial assistance will therefore be welcome. We have been considering putting some of these funds towards a project at Shchuchye near Perm which has received heavy funding from the US. Continued funding is meeting resistance from Congress because of lack of funding from international partners. Our news should therefore also be welcomed in the US.

11. The 1996 Moscow Nuclear Summit tasked the G8 Non-Proliferation Experts Group to take forward international co-operation on the safe and permanent disposition of weapons-grade plutonium designated as surplus to defence purposes, focussing on the huge US and Russian stockpiles. Both countries are committed to disposing of 50 tonnes of plutonium each. The US will fund its own disposition programme, but the Russians will need assistance with theirs to the tune of around $1.7 bn. The US has agreed to fund the initial stage for which Congress has allocated $400 mn. Both the US and Russia have lobbied G8 partners to commit public funds in support. The 1999 G8 Summit in Cologne recognised that international financing would be required involving public and private funds; G8 partners said they would review potential increases in their own commitments prior to the 2000 Summit. Plutonium disposition within the context of the Crosscutting Review is covered in the main G8 brief.

12. We are concerned about Russian nuclear proliferation. There is a substantial volume of intelligence reporting on Russian involvement in the Indian and Iranian ballistic missiles programme. The assistance is primarily in the form of intangible technology transfer, e.g. consultancy and academic contacts. While this does not contravene the letter of the Missile Technology Control Regime, it is against the spirit.

13. At the G8 Environment Ministers meeting in April, Russia floated the idea that they could make a commitment for the proceeds from sales of surplus emissions reductions to be re-invested in projects which would further reduce emissions. The aim would be to address concerns that Russia's large surplus could undermine the need for developed countries to take domestic action on climate change. To satisfy EU concerns in particular, however, it would need to come in the form of a credible commitment made at the highest level. We hope therefore that President Putin will reaffirm support for this proposal.

14. Fighting continues in Chechnya, with the Chechens mounting raids, including suicide attacks, throughout the republic. There is no sign of an exit strategy. Putin has imposed direct rule but also claims to have devolved power to an interim administration, headed by a moderate Chechen religious leader. But this is not wholly convincing, as the cleric answers directly to Moscow.

15. After months of foot-dragging, the Russians have agreed access for the Council of Europe and the ICRC in Chechnya. But they continue to use security concerns to prevent the return of the OSCE Assistance Group, who helped resolve the last Chechen war, and have a mandate for involvement in the region. When prepared to consider their return at all, the Russians want to limit their activity to humanitarian work, rather than the full mandate, including political activity, which has been agreed in the OSCE (including by Russia). The Russian breach of CFE treaty limits (specifically ACVs) is a further irritant – we have told them we will not ratify the adapted treaty until they are in compliance.

16. The Russians do not seem effectively to be investigating human rights abuse. The commission to investigate abuse under former Justice Minister Krasheninnikov has inadequate resources, access and authority to fulfil its role. Nor has the Presidential Representative for human rights in Chechnya, Kalamanov, produced results in terms of bringing those responsible to justice.

PM'S BILATERAL WITH PUTIN, G8 SUMMIT, OKINAWA, 21-23 JULY

NATIONAL MISSILE DEFENCE (NMD)

**Points to make**

- US decisions may now be delayed, but NMD isn't going to go away;

- Welcome the agreements you reached in Moscow in June. Hope further progress can be made in US-Russian discussions;

- We see a big opportunity for you here. You can trade ABMT modifications to permit NMD for lower START III numbers;

- Ready to consider your own ideas for a joint system. But can't do so without more detail;

- The best way to encourage moderation in US thinking is to help achieve real progress in stopping proliferation.

**Background**

1. The failure of the latest test on 8 July will have reduced the likelihood of President Clinton making a firm decision later this year to proceed with NMD deployment.

2. This will have reinforced the Russians' inclination to play for time, seeking to exploit differences in NATO on NMD, refusing to negotiate seriously until the new US President is in office, and in the meantime hoping NMD will go away. We need to make clear it won't. They need to face the issue and decide how to deal with it.

3. We should argue that NMD presents a big opportunity to Putin, not just a problem. The only way Russia can ensure strategic parity with the US in the medium term is by getting the US to agree to lower numbers than presently envisaged in a START III deal. Agreement to amend the ABM Treaty to permit NMD offers Russia a valuable bargaining chip here.

4. In Helsinki in 1997, Presidents Clinton and Yeltsin agreed on a framework for a START III treaty which would bring further cuts, to 2-2,500 warheads per side. The Russians, whose strategic forces are shrinking anyway for financial reasons, now want to go further in START III, down to 1-1,500 strategic warheads per side. The US have recently hinted that they might be ready to accept that - but would in return demand Russian agreement to amend the ABMT to permit NMD.

5. We should encourage Putin to keep a serious dialogue going with Clinton over the coming months. The results of the June Moscow summit were a start. The joint 'Declaration of Principles on Strategic Stability' represented a step forwards. The Russians acknowledged that there is a growing missile threat, and that it must be addressed.

6. We should also make clear we are ready to discuss Putin's own very sketchy alternative proposal for a joint Russian/European non-strategic missile defence system. Privately, we do not believe there is any substance behind this proposal - Putin did not even raise it himself when he saw Clinton in Moscow. We think this it is simply an exercise in wedge-driving in Europe. But we need to be seen at least to be willing to explore it further, and have said we will are ready do so in the NATO-Russia Permanent Joint Council.

7. Finally, we should deliver a firm message about the need for Russia to play its part in stopping proliferation. That is the only way they are likely ever to moderate US enthusiasm for missile defence.

## PRIME MINISTER'S POSSIBLE BILATERAL WITH CLINTON

NATIONAL MISSILE DEFENCE (NMD)

**Points to make**

- what decisions on NMD are you now likely to take, if any?

- If you decide to take action to keep all options open to your successor, getting the presentation right will be key;

- we assume a request to us on Fylingdales & Menwith Hill won't come until/unless your successor has taken a clear decision to deploy - otherwise we'd be put in a tough spot;

- we welcome your efforts to promote dialogue with Allies, and your raising the possibility of sharing technology. Essential that this consultation process should continue;

- also essential to keep trying with Russians, despite poor short-term prospects. I've urged Putin to engage seriously.

**Background**

1. the failure of the latest test on 8 July will have reduced the pressure on President Clinton to make a firm decision later this year to proceed with NMD deployment.

2. The Administration tell us the question now is simply whether the President will in November authorise the letting of contracts, so that preparations can go ahead for ground-breaking work to start at the X- Band radar site on Shemya Island, Alaska next summer, if his successor decides to proceed with this. If these contracts are not let this year, the option of starting work next year will be closed off. That will mean that the Administration's 2005 deadline for having an initial capability in place cannot be met.

3. The international impact of a decision to let these contracts would be heavily dependent on how Clinton chose to present it. If he made clear that this was simply a move to preserve for his successor the option of pressing ahead to meet the original 2005 timetable, and that key decision of principle on NMD deployment would wait until next year, that should be manageable. But if the impression is given that this represents a green light for NMD deployment, some of the potential negative repercussions could flow immediately.

4. Whatever Clinton's decision on the contracts, it seems likely that a firm US decision to proceed with NMD deployment will now have to wait until at least mid-2001. And

Russia will almost certainly continue to stall on serious negotiations on the ABM Treaty until the next US President takes office. It would be very awkward for us domestically, and internationally, if the US were to ask our permission in this interim period for the use of RAF Fylingdales and RAF Menwith Hill for NMD. Some in the Pentagon would still like to do so. We should make clear this would be unwelcome.

5. We should also encourage Clinton to keep trying with Putin. The results of the June Moscow summit may have looked thin, but at least they were a start. The joint "Declaration of Principles on Strategic Stability" represented a step forwards. The Russians acknowledged that there is a growing missile threat, and that it must be addressed. They also agreed to recall that the ABMT is open to modification, in the light of changed strategic circumstances. Though there is little chance of a deal this year, the job of winning the Russians round on NMD needs to continue.

6. We also need to keep discussions going on NMD in NATO. US enthusiasm for these may start flagging. But if we are to get to a position where the Alliance can cope with a deployment decision next year without major difficulties, they need to continue through the autumn.

BALKANS

**Points to make**

- Underline to President Clinton our support for the possible candidature of Sir Paddy Ashdown to succeed Bernard Kouchner as head of UNMIK (Sir Paddy is visiting Kosovo and Montenegro on 17-21 July)

- Value excellent co-operation with the US on Balkans issues. Determined to continue to work together to try to undermine Milosevic (possibly to be taken further at a UK/US/FR?/GE?/IT Ministerial in London on 19 July - tbc)

- Very much hope the next US Administration will stay as involved in the Balkans as President Clinton's has been - any move towards disengagement would comfort Milosevic and cause strains within NATO.

EUROPEAN DEFENCE

**Points to make**

- Thanks for your public welcome for Feira outcome. Good result on involvement of European Allies. Turkey and other European Allies would have more say in ESDP than any other non-EU country has ever had in EU activity.

- Hard going with Turkey at the moment. Still resisting effective EU/NATO dialogue we need to ensure European Defence gets NATO support and in turn supports NATO. Grateful for Jim Dobbin's efforts and those of SACEUR. Many need to look at what more we can do to change minds in Ankara. Strong shared EU/US interest in making Turkey a constructive partner for EU.

JAPANESE WHALING

- Support the US on this issue. Will raise this issue with Japanese PM Mori.

SIERRA LEONE

- Glad that we have been able to work closely with you over Sierra Leone. Attach particular importance to this. Hope that we can continue to work together in critical period ahead;
- Need to strengthen UN Mission to Sierra Leone (UNAMSIL), both in terms of additional resources and through improving its performance hope you will be able to help;
- Also need to help the Government of Sierra Leone extend its area of authority throughout the country. Key to this will be building up the Sierra Leone army. UK taking lead,
- We must also step up international pressure on President Taylor of Liberia to stop support for the RUF

**Background**

1. The UN Secretary General proposed in May that the ceiling for the UN mission to Sierra Leone be raised from 13,100 to 16,500. The US (Holbroeke) has insisted that, without a much tougher mandate for UNAMSIL, Congress will not approve a higher ceiling.

2. The US agree that President Taylor's support for the Revolutionary United Front (RUF) rebels is part of the problem in Sierra Leone. They too are keen to put pressure on Taylor, but do not want to be too tough on him until the issue of UN peacekeepers currently blocked by the RUF in the east of the country is resolved.

3. The US announced US$20 million for Sierra Leone some weeks ago. They plan to spend much of this trying to bring new Nigerian and other ECOWAS troops up to scratch. We have been pressurising them to consider helping existing UNAMSIL troops, as well as the Sierra Leone army.

**BRIEFING FOR PM/PRODI IN OKINAWA**

IGC

- Key message for Prodi is to stay focused on the IGC

Commission reform

- Key message is to keep pushing ahead with reform. We remain fully behind you.

Enlargement

- Agree with you that enlargement should happen in the lifetime of this Commission. Should avoid any procedures (eg new IGC) which might knock this off course.

Lisbon

- Essential to keep up the momentum and stick to timetable. Commission has crucial role in co-ordinating this work eg synthesis report for next spring's follow-up Council..

Social Agenda

- Welcome Commission's recently published Social Action Programme. Must build on the modernising themes of inclusion, employment, employability, and life-long learning that go hand in hand with economic reform. New legislation not the way to go. (The Commission programme is broadly Lisbon oriented, but we know that the French are seeking to strengthen it in a legislative direction.)

When making your statement, please press the "Micro" button（green） of your microphone stand and the red lamp will go on, indicating that the microphone has been activated.

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マイク用取り扱い説明書

Please select a language with the channel selector. The channel selector is located in the left of the receiver.

Please put the earphone on and adjust the volume. The volume control switch is located on the right of the receiver.

Note: Do not cover the crystal with your hands or paper. It cause poor reception.

The channels for the respective languages are follows;

Channel 1: Japanese
Channel 2: English
Channel 3: French
Channel 4: Italian
Channel 5: Thai
Channel 0: Original

レシーバー用取り扱い説明書

Also, of course, conflict diagrams

- debt
- health.
- education / I.T.
- trade // pension architecture
- conflict prevention

**Okinawa G8 Summit** **Prime Minister's Brief**

## Roundtable with Africans / Thai / UN / IT CEOs : Globalisation and the Challenge of Development

### References

A. Personality Reports: President Mbeki, President Obasanjo, President Bouteflika, Prime Minister Chuan;
B. CV of Vernon Ellis and note on Andersen Consulting's work on Digital Divide
C. Multilateral Development Banks' Poverty Report to the G8

### Points to Make

**Debt**

- As you know, deeply concerned about the social and economic impact of unsustainable debt burdens. UK a leading advocate of the debt relief campaign.

- At Cologne we agreed substantive enhancements to HIPC Initiative. Still committed to ensuring that ¾ of eligible countries reach decision point by the end of this year. But concerned that progress has been slow.

- Took time to get the procedure right. But have set up Joint IMF/World Bank Implementation Committee to overcome blockages, and countries now moving through quicker.

- Deeper problem of conflict. 10 of the countries eligible for debt relief under the HIPC initiative currently in conflict. We cannot release resources to fund wars. Our public would not accept it, and it will not help reduce poverty in Africa. But we can fast-track debt relief when conlict has ended, and have committed to doing this.

- Key is make the Poverty Reduction Strategy Papers (PRSPs) work. They will help ensure that resources released from debt service are used on health and education, and create a virtuous circle of development and of public support.

- (**If pressed on new initiative**) Priority is to make existing HIPC work first. Any further relief initiative would have to be based on demonstrating that PRSPs work.

**Globalisation**

- But, important though debt relief is, essential we focus on the bigger picture, as set out in the Global Poverty report before us. Increasing global integration creating new opportunities for development. Advances in science and technology have potential to transform economies and societies. But these opportunities must be open to all – as yet they are not.

- Our responsibilities as leaders to work together to find new solutions. Must ensure all our citizens have fair chance to participate in global economy. And must forge new strategic global partnerships – north/south, public/private - to meet new common challenges.

**Trade**

- Global free trade one such challenge. A key driver of economic growth and poverty reduction. Support launch of new round of trade negotiations, with broad and inclusive agenda, reflecting interests of all WTO members. Want to see assistance to support and manage trade liberalisation as a central element of IFI Poverty Strategies.

- But big global bodies - like WTO - must become more responsive to members' needs, with developing countries able to participate actively and fully.

**Health/Biotechnology**

- Improving health another key challenge. Good health essential to social and economic development, personal and collective advancement. Dramatic new advances in medical science. But clear message at Durban HIV/AIDS Conference last week that benefits of medical advances not being felt by all.

- Must focus on clear targets to reduce infant and maternal mortality rates and provide universal access to reproductive health services.

- And need new innovative global partnerships to make existing drugs more affordable and stimulate the development of new drugs. Building these partnerships a priority on the G8 agenda over the coming year.

- Will announce at Okinawa a doubling of UK funding for communicable diseases and for global efforts to improve accessibility to drugs and technologies and develop new medicines for priority diseases of developing countries.

- Should also make sure developing countries engaged in biotechnology developments – and their impact on food and crop safety and security. Potentially you have much gain; but also need to learn from our experience of trying to get to grips with the risks. Developing countries played key role at Edinburgh GM conference in February. Our Panel proposal would help developing countries keep up to speed with emerging developments in the science.

**Education**

- Basic education a human right and a prerequisite for development. Unacceptable that in the year 2000 more than 113 million children have no access to primary education. We deny them rightful role in global society and doom them to life of ignorance and poverty.

- Must work together to meet Dakar goals. Over past three years UK has committed over £350 million to support development of universal primary education programmes. Must all, as leaders, look to raise priority of education in our societies.

- Potential for exploiting new technologies in education and lifelong learning. As discussed with John (Chambers, CISCO) I launched my "The Imfundo Project: Partnership for Technology in Education". *[Imfundo means means "knowledge, education, learning" in Ndebele and Zulu].* Focus is on Sub-Saharan Africa. Objective: harnessing ideas and resources of private sector to the needs of education in developing countries. Looking particularly at using ICTs in teacher training, thus spreading the impact of the Internet right out into the poorest and most remote of rural primary schools.

- **Information and Communication Technologies**

- Spread of Internet and mobile telephony into poorest parts of the world – and throughout Africa - success story of recent years. Tremendous potential for transforming lives around the world.

- But huge digital divides over access to new technologies. Costs of accessing new ICTs still put them out of the reach of the vast majority. Challenge for us as leaders to make new ICTs more inclusive and more widely affordable.

- Experience points to need to liberalise domestic markets, and develop local capacity and content. But no country can do this alone. Welcome range of new international initiatives to help transfer technical expertise, and address wider public policy issues - including UNDP/ITU trustfund [and UNDP/Andersen's planned collaboration – **only if Vernon Ellis announces the Andersen project first - at this meeting**]. Digital divide is an ongoing priority for G8.

- Great opportunities for us as governments to reinvent ourselves through innovative use of new technologies.

- **(Obansajo's trip to London - if raised)** Look forward to possibly seeing you in London in September.

- **(UK/Nigerian debt – if raised)** UK has taken a forward position in G7/Paris Club on Nigeria's external debt problems; no other creditor has gone further. Need a strong IMF programme in place as first step towards debt treatment.

- **(South African concerns about UK conflict diamonds initiative – if raised)** Today South Africa chairing second meeting of Kimberley Working Group in London. Protecting the interests of legitimate producer states such as South Africa one of our key policy aims. But unless we take robust measures against conflict diamonds the entire industry will suffer.

## Background

1. **Handling:** The roundtable – an unprecedented gathering for the G8 - is designed to bring leaders from the developing world, international organisations and the private sector into the G8 Summit process. Mbeki (South Africa/chair of Non-Aligned Movement), Bouteflika (Algeria/Organisation of African Unity), Obasanjo (Nigeria / chair of the G77) and Chuan (Thailand/Association of South East Asian Nations) will be there throughout. Halfway through, Brundtland (World Health Organisation), Malloch Brown (UN Development Programme), a World Bank official and a number of business leaders from the ICT sector, including Vernon Ellis, of Anderson Consulting, will join you.

2. The Africans will want to talk about debt – perhaps calling for the total cancellation of Africa's debt. ICTs, health and education are on the agenda, within the broader theme of "globalisation and challenges for development". You may wish to draw out some broader priorities for leaders in a globalising world (beyond debt!) and build in references to trade issues and to the importance of improving government.

Debt

3. Heads will review and press for progress on the HIPC initiative at Okinawa. The UK has been always been a leading advocate. At Cologne, we pushed for and obtained agreement to an enhanced HIPC initiative - we pressed for more but there was no appetite for it among colleagues. Nonetheless, the enhanced HIPC initiative will still provide more than twice as much debt relief as the original one. We have also made a significant bilateral contribution to the costs of the HIPC initiative. The International Financial Institutions cannot meet all the costs out of their own reserves. The UK has, therefore, pledged over $350 million to the HIPC Trust Fund – the largest single pledge by a bilateral creditor. Additionally, in December we announced that we would cancel all remaining bilateral debt owed to us by countries that come through the HIPC process. All other G7 countries have now announced additional debt relief.

4. We share African concerns that the initiative is not delivering benefits fast enough. The timetable for getting countries through the process has slipped and we are in danger of missing the targets set at the Cologne Summit. Primarily that ¾ of eligible HIPCs reach Decision Point by end-2000. But the delay is not all the fault of the G7. 10 of the countries eligible for debt relief under the initiative are in conflict. Others are off-track with their IMF economic reform programmes. In both cases we cannot be sure that the released resources will be used to benefit the poor. So one of the pre-conditions for receiving debt relief is that the country must draw up an effective and inclusive Poverty Reduction Strategy Paper (PRSP). This process is taking longer than we expected. The UK has consistently argued that an Interim PRSP should suffice (ie a road map to a full PRSP). At the Spring Meetings of the IMF and World Bank, we also argued for a Joint Implementation Committee to overcome blockages in the HIPC the process; the proposal was accepted. We have also announced that debt relief will be fast-tracked for post-conflict countries.

Globalisation and Poverty

5. At last November's CHOGM, chaired by Mbeki, Commonwealth Heads adopted the Fancourt Declaration on Globalisation, which included the recognition that "Globalisation is creating unprecedented opportunities for wealth creation and for the betterment of the human condition".

6. We see the Report on Poverty Reduction, called for by the Cologne Summit and attached at Ref C, as a key document for ensuring that world attention remains focused on the development targets. Future Summits will receive an annual poverty report from the international financial institutions, which will allow Heads to review progress towards the targets each year: this is a key UK objective. We have also used the Report to reinforce our message to G8 partners on the importance of improving the effectiveness of aid (which includes aid untying).

Trade and Global Governance

7. The WTO's General Council launched mandated agriculture and services negotiations in February and, in parallel, consultations on how to rebuild developing countries' confidence in the WTO. A successful launch next time will require that the necessary political conditions are in place. We believe there is a need to address reform, with an emphasis on consensus building and communication. We see trade openness as key to economic growth and rising prosperity in developing countries. We hope the recent review of the Integrated Framework (for co-ordinating trade assistance to developing countries) will set the basis for closer co-operation between international organisations, including assistance for trade reforms in PRSPs.

8. Many international and regional organisations are seizing on the opportunities of the Internet to improve their accessibility and efficiency. Results are mixed. We and others have reservations that the World Bank's proposed new portal - the Global Development Gateway – is too top-down. But the WTO, UNCTAD, Commonwealth and others are using the Net to set up regional and global trade networks, which could play a useful role in building developing countries' negotiating capacity and confidence. And Internet access to news from global bodies can help developing countries build up their understanding of the issues and bridge conventional barriers of distance and under representation.

Health/Biotechnology

9. Mbeki and Brundtland will be fresh from the 13th International AIDS Conference, in Durban from 9 - 14 July (the first time the Conference has been held in a developing country). Attendees discussed how to overcome cultural taboos about sex and HIV/AIDS. There was also keen debate about vaccines and the prices of antiretroviral drugs (ARVs). Widespread ARV treatment remains expensive, despite agreement in May by five major pharmaceutical companies to reduce the price of ARVs to developing countries.

10. Some developing countries see intellectual property rights (IPRs), and the WTO TRIPs agreement they have signed up, to as a barrier to greater availability of pharmaceuticals at affordable prices. We support innovative public/private approaches to make medecines more affordable, but within current IPR frameworks. We believe TRIPs provides the necessary incentives to pharmaceutical companies for researching and developing products. There are plans for a G8 conference later in the year to look at the question of new public/private approaches to health (although we should not come out with this today until the Japanese do.)

11. We also believe that more affordable drugs are no magic bullet. We pushed for specific, but achievable targets in the Okinawa communiqué, focussing on outputs. Meeting them will require major and sustained commitment from all players, including developing countries, to improve health systems on the ground.

12. The pitch for the International Panel on GM is made because South Africa and Thailand are two of the countries who participated in the Edinburgh Conference and who have supported our proposal for further work in this area. Could help convince others of its value. For the domestic debate, the participation of developing countries is key – even our most hostile media acknowledged at Edinburgh that many developing countries – China, India, S Africa – had a stake in the future of the technology as well.

Education

13. Education is a UK priority. Clare Short attended the World Education Forum in Dakar in April. Dakar resulted in strong political commitment to Education for All (EFA), recognition of the importance of education as part of poverty reduction strategies, and agreement on the need for more investment by governments and the international community in basic education. The Dakar Framework for Action establishes the principle that no country seriously committed to education for all will be thwarted by a lack of resources and calls on bilateral, multilateral and private donors to respond appropriately. UNESCO was given an important role in taking this forward. The UK is committed to the International Development Target of achieving UPE by 2015. Over the past 3 years DFID has committed over £350 million for the development of universal primary education programmes, primarily in sub-Saharan Africa and South Asia.

14. Imfundo was launched in March (the word means "knowledge, education, learning" in Ndebele and Zulu). The initiative will look at the scope for developing public/private partnerships to use ICT to improve the quality of, and widen access to, education in developing countries. A number of pilot projects will be set up to identify and appraise opportunities to use ICT in innovative ways to support education in developing countries. A "knowledge bank" of short papers on various aspects of ICT in education will be produced to assist future project developers in this area. The Initiative will focus on education in Sub-Saharan Africa and will present plans to the Commonwealth Education Ministers meeting in November.

Information and Communication Technologies

15. High level discussion of ICT/development at the 5 – 7 July UN Economic and Social Council (ECOSOC) was surprisingly cordial. Even the G77 seemed ready to accept the central tenet of the G8 Information Society Charter that ICT development will be primarily industry led. Malloch Brown announced at ECOSOC a new UNDP/ITU trust fund to improve developing countries "e-readiness." He is also interested in a role for UNDP in promoting e-government for developing countries. African governments have been particularly slow to embrace the opportunities ICTs represent for improving their own transparency and efficiency.

16. The Charter establishes a G8 Digital Opportunity Taskforce, to work closely with other stakeholders and report its findings and activities before the Genoa G8. The taskforce will consist of one private and one public sector representative from each G8 country and the EC. Subject to your views, Vernon Ellis (Andersen Consulting's representative at the meeting) is likely to be ours. Ref B outlines the work Andersen's are doing on digital divide issues, and flags up their plans for a $5m project with UNDP and others – to be announced at this meeting.

17. We have argued strongly that the DOT.force needs to focus on practicalities and economics. The costs of accessing the Internet in many developing countries are currently prohibitively high for most potential local consumers. In Uganda or Kenya 20 hours of off-peak use is over US$100. The US average is less than $30. The key barriers to bringing down access costs need to be tackled within developing countries, through market liberalisation to increase competition, reduce access costs and attract investment. But some critics, particularly in Africa, argue charges are so high because of market dominance by a few large international internet backbone providers. International telecoms costs typically account for more than half the budget of developing country Internet Service Providers. Consumers inevitably bear the brunt. We have argued for the G8 to identify commitments that we can share with developing countries: developed countries undertaking to promote competition in international markets and put in more public/private money, developing countries to promote competition at home, and build visionary, inclusive national ICT strategies.

Obasanjo

18. Obasanjo is provisionally scheduled to visit the UK on the 11 September, but dates are not confirmed. This follows an invitation issued at CHOGM in November last year. The dates were proposed to the Nigerians in a letter from you to Obasanjo delivered by the Deputy Prime Minister during his visit in June.

19. He may raise bilateral debt. The UK is Nigeria's largest creditor. We are owed around $6bn. Nigeria's total external debt is about $32bn, most of it built up through arrears and penalty interest as previous Nigerian government have failed to honour their obligations. We have said we wish to support the Nigerian democratic government. If Nigeria devoted its resources to economic reform and poverty eradication through an IMF programme, the UK would push for a generous and understanding treatment for Nigeria's debt at the Paris Club group of creditors.

20. The first step is for Nigeria to agree an IMF programme. It will then be able to approach the Paris Club. The IMF programme has taken a long time to agree but

we understand that IMF staff are now close to completing negotiations with the Nigerians. We have encouraged the IMF to ensure the programme is robust with performance criteria which will give Nigeria a demonstrable track record of reform. This will pave the way for a further debt treatment once Nigeria has established its commitment to reform. A weak programme would damage the IMF's, and Nigeria's, reputation and would not provide a track record of reform.

Mbeki's quasi Marshall Plan for Africa

21. At the UK/South Africa Forum in May, President Mbeki discussed privately with you the prospects for Africa and how to generate stability and prosperity. Mbeki's ideas centre on a quasi-Marshall Plan for Africa which includes investment, transfer of capital, development assistance and dealing with the IFI's. Whilst we welcome Mbeki's approach in broad terms, we believe there should be a more balanced political/economic agenda, including good governance and democracy. Mbeki has had similar discussions with Clinton (during the former's State Visit in May), the Nordic countries and, more recently, with EU Heads at Feira. All gave their broad support for Mbeki's principles. No 10 officials are pursuing both with South African and Nigerian Presidential Offices Mbeki's proposal for a small group of senior leaders to take forward his ideas.

Mbeki's Concerns about Conflict Diamonds

22. The South African High Commissioner in London has told us that Mbeki may raise concerns about UK led work on conflict diamonds. We have held up South Africa as an example of how a well-regulated diamond industry can contribute to economic development, and worked closely with them in developing our proposals. You discussed with Mbeki in London in May. Peter Hain wrote to Zuma (South African Foreign Minister) earlier this month, setting out our ideas on a global certification scheme for rough diamonds and an international conference to negotiate such a regime. We have welcomed South African leadership of the Kimberley process, which brings together producer and marketing states with the international industry and civil society. We are hosting the second meeting of the Kimberley Working Group, which South Africa will chair, on 20 July in London.

**OBASANJO, General (Retired) Olusegun**

President wef 29 May 1999.

Born March 1937 in Abeokuta, Ogun State. Egba Yoruba. Catholic.

Educated at Abeokuta Baptist High School. Commissioned in the Nigerian Army (1959). Mons College (1960-61). Royal Engineers Young Officer's Course Shrivenham, and Indian Staff College Course (1965).

Commander Ibadan Garrison (1967-69). Commander 3 Marine Commando (1969-70) and concurrently Chief Engineer. Brigadier (1972). RCDS (1973-74). Federal Commissioner for Works and Housing (January 1975). Promoted Lieutenant General in January 1976.

Became Head of the Federal Military Government (Head of State) February 1976-79 following the assassination of Murtala Mohammed. Restored civil rule under a new constitution in 1979 and retired to run his large farm at Ota, Ogun State.

Following retirement he travelled extensively and took a close interest in international affairs. His African leadership forum attracted world leaders such as Ex-Chancellor Schmidt. He is a former Chairman of the anti-corruption body Transparency International and was a prime mover behind the African Human Rights organisation. He played a leading role as Joint Chairman of Commonwealth Eminent Persons Group, where his views were generally moderate and sensible. He entertained Nelson Mandela at his farm in May 1990. He visited South Africa in August 1990 at Banbangida's behest. Failed in his bid as an African candidate for UN Secretary-General in 1991.

In March 1995 he was detained for alleged involvement in a coup plot to topple Abacha's government. He was subsequently tried and convicted by the (Aziza) military tribunal. He was sentenced to 25 years imprisonment, which was later commuted to 15 years.

He was released from prison in June 1998 within a week of Abubakar's installation. He joined the People's Democratic Party (PDP) and won the Presidential election on 27 February 1999.

Several traditional and legal marriages. One estranged wife was murdered in 1987.

Met the Prime Minister in London shortly after his election in March 1999. Also had talks with him at CHOGM in November 1999.

**MBEKI, THABO MVUYELWA**

President of South Africa since June 1999.

Born Transkei 1942. Left South Africa in 1962. Studied economics at the University of Sussex, graduated 1966 with an MA. 1967-70 worked for the ANC office in London before undergoing military training in the Soviet Union. Became ANC Deputy President in December 1994 and President in December 1997.

Mbeki was the power behind the throne throughout the life of Mandela's Presidency. He is able, intellectual, energetic and impressive, though he can be elusive. Overall a moderate and pragmatic. Not, in contrast to Mandela, a traditionalist: Mbeki has little time for his Xhosa roots, preferring the poetry of Yeates and a glass of whisky.

Since his election as President, Mbeki has worked to create the impression of a government working hard to deliver. He has a firmer hand on his Ministers than Mandela did. Speaks eloquently of the need for an African Renaissance and for better treatment of Africa by the developed world; but equally on the need for Africans to help themselves and for respect of human rights. Understands the need for a pragmatic economic and internal policy to retain international confidence. But suspicious of the press and strong anti-sexist, anti-racist views.

Wife, Zanele, prefers to stay out of the limelight. No children.

12 May 2000

Mr. Gnanendran Esqr.
K3369

BOUTEFLIKA, ABDELAZIZ

Former Foreign Minister to Boumedienne.

Born in 1937 in Oujda (Morocco) of a Tlemcen family. He joined underground in 1956. Served in Wilaya 5 (Oran) and at Oujda. Later Secretary-General of the ALN General Staff in Tunisia. Among the first to join Ben Bella's "Tlemcen Group" in external struggle for power immediately after Independence in July 1962. Acted as spokesman for Colonel Boumedienne. Elected Deputy for Tlemcen to National Assembly in September 1962. Minister of Youth and Sport in Ben Bella's first government. Appointed Minister for Foreign Affairs in September 1963 (the youngest Foreign Minister in the world). Retained his post following the 1965 coup which brought Boumedienne to power.

He travelled extensively. At the UN General Assembly in 1972 he called for the introduction of a New International Economic Order (NIEO) and played an important rôle subsequently when Algeria led the Non-Aligned Movement. Conducted an aggressive foreign policy intended to ensure her leadership of the Arab and Third Worlds. President of the General Assembly in 1974–75, Chairman of the 1975 OPEC Conference in Algiers and of the Arab League Council between March and September 1977. After Boumedienne's death in December 1978, Bouteflika was regarded as one of the main contenders for the Presidency, and as favouring greater economic liberalisation. In March 1979 appointed Minister-Counsellor to the President. In 1983 he lost his post and was investigated by the Cour des Comptes. He is said to have been convicted of speculation and to have had a large fine imposed. Went into exile in Paris 1983. Rumoured to have been pardoned in 1985 and was visible at Algerian National Day reception in November 1985. Attended the FLN Extraordinary Congress in November 1989, as one of the "former leaders of the revolution". Reported to have received the warmest standing ovation given by the Congress. Elected to the FLN Central Committee. Regarded one of the foremost of the "Old Guard" pressure group within the FLN but now something of a spent force.

A bachelor and a reputed womaniser, he is a tiny man with a big moustache and blue eyes. Speaks both French and Arabic well. Not a man on whom it would be prudent to turn one's back.

BRAHIM, CHIBOUT

Minister of Moudjahideen (War Veterans)

Born in 1927 in El Harrouch near Skikda. Trained as a lawyer. Commanded an Army 'Zone' in Wilaya II during the War of Independence. Condemned to death. Became a Wali after independence, then a Deputy in the National Assembly. Was President of the APN's Juridical and Administrative Commission. Appointed to his present post in June 1991, re-appointed by Abdesselam.

Married.

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## CHUAN LEEKPAI

Prime Minister (November 1997)

Leader Democrat Party.

Born 28 July 1938 in Trang (South Thailand). Holds a law degree from Thammasat University. Elected MP for Trang since 1975. Deputy Minister of Justice in 1975 and Minister attached to the Prime Minister's Office in 1976, when he was one of the principal targets of rightist agitation because of his allegedly left-wing views. Acknowledged as leader of the Democrats in the South, he was narrowly defeated in the 1979 party leadership election by Thanat.

Appointed Minister of Justice, Commerce Minister, Minister of Agriculture and Minister of Education in various administrations under former Prime Minister Prem, a fellow southerner..

Having been elected for the sixth time in Trang, he was appointed Speaker of the House of Representatives in August 1986, and performed with impressive tact and skill. Established a statesman-like reputation within the Democrat Party. As Minister for Public Health under the Chatichai Government (1988) his reputation as an honest broker grew, especially with his forthright approach to AIDS in Thailand. Later served as Deputy Prime Minister, then as Agriculture Minister until December 1990, when the Democrats left the coalition.

Chuan Leekpai was elected party leader in 1991. His steady but non-confrontational style during the campaign against the appointment of General Suchinda as Prime Minister ultimately propelled the Democrats to victory in the 13 September 1992 elections and his appointment as Thailand's 20th Prime Minister. Led the longest democratically elected Thai government until July 1995. Earned himself respect both domestically and internationally for his commitment to reform and his lawyer's thoroughness.

He visited Britain in April 1982 as a member of Prem's ministerial party, and as a Category I visitor in 1989. He admires the British democratic model.

Rightly criticised during his 1992-95 term for being slow to make decisions, and as a compromiser. His failure to interest himself sufficiently in finance and the economy was only partly compensated for by the appointment of excellent ministers in these fields. Tended to give Cabinet Ministers too loose a rein. Administration fell in 1995 after a no-confidence debate centred on one of his MP's alleged involvement in a land reform scandal. His political skills are nevertheless undoubted, his personal integrity unchallenged, and he retains the image of an ordinary Thai, not a member of the elite.

Chuan returned to power in November 1997, following the resignation of the government led by General Chavalit. Chuan's second term as PM has reinforced his reputation for being slow to make decisions and for being overly indulgent of tainted colleagues. But he and his government have pushed through important political and economic reforms and Chuan remains popular, particularly in the South and among the Bangkok middle classes. He stands a reasonable chance of returning to power for a third term after the next election (probably in mid-2000) particularly if the economy starts to pick up steam. But changes in the PM

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nomination procedure under the New Constitution (giving a bigger role to MPs in the selection process) may work against him and enable an anti-Democrat coalition to gain power.

Principal hobby is drawing (he famously scribbled cartoons of ASEM leaders at the 1998 summit in London).

Long believed to be single, he unexpectedly revealed in 1991 that he had a young son. The mother is referred to as his wife, but rumours persist that they are not married. She does not live with him or attend official functions.

Although he understands English quite well, he does not speak it fluently, and prefers to use an interpreter at official meetings. Reputation for being a sharp orator, his nick-name in Thai politics is a "razor-tongue coated with honey".

(B)

**ELLIS, Vernon James** International Chairman, Andersen Consulting, since 1999; *b* 1 July, 1947, *s of* Norman and Phyllis Ellis. *m* 1972 Hazel Marilyn Lucas, one *d* , one *s* . *Educ.* Magdalen College School, Oxford; Magdalen College, Oxford, MA PPE (Hons) 1969; FCA. Consultant Andersen Consulting, 1969; Partner 1979; Managing Partner, UK, 1986; Managing Director, Andersen Consulting Europe, Middle East, Africa and India, 1989; Council Member, World Economic Forum, 1999-; Member, Business Advisory Council, Britain in Europe, 1998-; Trustee, Centre for European Reform 1998-; Member, Advisory Council, the European Movement, 1997-; Member, Development Committee, Magdalen College, Oxford, 1999-; Member of Advisory Council, Said Business School, University of Oxford, 1996-; Foundation Board Member, IMD, Lausanne, 1996-; Board Member, Prince of Wales Business Leaders Forum, 1997-; Member, Industry and Commerce Committee, Save the Children, 1996-; Member, ENO Advisory Council for the Bayliss Programme and the Contemporary Opera Studio 1997-99; Chairman of Trustees, The Classical Opera Company, 1996-. *Publications:* Co-author of Britain, Business and Europe (1998), Reconnecting Europe (1999), eEurope Takes Off (1999). *Recreations:* Music, opera, theatre, gardening, wine, cooking, photography. *Address:* Andersen Consulting, 2 Arundel Street, London WC2R 3LT. Vernon.J.Ellis@ac.com

**ANDERSEN CONSULTING WORK ON THE DIGITAL DIVIDE:**

The 'Digital Divide', with many individuals and communities across the world getting little direct benefit from information and communication technologies, is of special relevance to Andersen Consulting and other firms working closely with the new technologies.

While the phrase 'Digital Divide' is popularly used, Andersen Consulting sees the issue more as a matter of enabling those individuals and communities who have so far been excluded to use new technologies to support their economic, social and cultural development. A large part of our business consists of helping clients recognise and then seize the business opportunities made available by these new technologies. Our skills are highly transferable, and we have many young and idealistic people who are eager to help make a difference. We are working with a number of business organisations, including the World Economic Forum and the Global Business Dialogue on e-Commerce to find the best ways in which the firm and the private sector generally can best contribute towards getting those 'digitally excluded' to get real benefit from the new technologies and the opportunities they bring.

Andersen Consulting and individual staff have also been involved in a wide variety of projects to help bring the benefits of the technologies to disadvantaged groups, communities, etc. especially in education - encouraging disadvantaged youth, but also e.g. in web-enabling AIDS professionals to communicate in UNAIDS initiatives. Andersen Consulting was a pioneer in this area with the Cambridge Childcare Project to help single parents into work, and continues to increase its level of commitment to appropriate projects in developed and developing countries alike.

The Andersen Consulting focus on helping the 'digitally excluded' to find the benefits which are relevant to them is a little different from the natural focus of many of the companies which are involved in providing hardware, software and services, which often focus rather more simply on supply and provision – 'connectivity'.

It is expected that at Tokyo the leaders of the G-8 will endorse a "call to action" to the international community on the issues. As an important part of the response to this, it is proposed [Note: news embargoed until 20 July] that Andersen Consulting would be working with the United Nations Development Programme (UNDP) and with input and expertise from a wide range of other organisations including the World Bank and developing countries themselves to mobilise all sectors in the international community to bridge the global digital divide. The mechanism for this is the development of a strategy, targets, an implementation plan and a series of major initiatives for bringing information and communications technology into play for the benefit of communities not yet in a position to take full advantage of them. The approach taken on this has been shared with DfID experts who have similar concerns that the issue should be tackled from a sound developmental standpoint.

Andersen Consulting expects to contribute more than $3 million worth of personnel and other resources to the 12-month project, which with those of UNDP and others would make an initiative of more than $5 million.

The 'Digital Divide' is seen as part of the 'business in society' debate. Andersen Consulting regards the relationship between business and others in society as a key issue, not only for the firm's own operations, but for the success of client companies and business generally. And it is of paramount importance for the communities and economies in which business needs to prosper. In addition to the work specifically on the Digital Divide, Andersen Consulting is working in the Prince of Wales Business Leaders Forum and in other fora to bring these concepts into the heart of companies' operations and thinking. And we are working with business schools and others to bring these concepts to the next generation of business leaders.

Andersen Consulting is an $8.9 billion global management and technology consulting organization whose mission is to help its clients create their future. The firm works with clients from a wide range of industries to bring about far-reaching change by aligning their people, processes and technology with their strategy. Andersen Consulting has more than 65,000 people in 48 countries. The CEO, Joe Forehand, is based in the US. The International Chairman, Vernon Ellis, who will be at the 20 July meeting, is British and is based in London.

African Development Bank

Asian Development Bank

European Bank for Reconstruction and Development

Inter- American Development Bank

International Monetary Fund

World Bank

**G8**
**Okinawa Summit**
**July 2000**

# GLOBAL POVERTY REPORT

July 2000

## EXECUTIVE SUMMARY

Poverty goes beyond lack of income. It encompasses economic, social, and governance dimensions. Economically, the poor are not only deprived of income and resources, but of opportunities. Markets and jobs are often difficult to access, because of low capabilities and geographical and social exclusion. Limited access to education affects the ability of the poor to get jobs and to obtain information that could improve the quality of their lives. Poor health due to inadequate nutrition, hygiene and health services further limits their prospects for work and from realizing their mental and physical potential. This fragile position is exacerbated by insecurity. Living in marginal conditions with no resources to fall back on, shocks become hard or impossible to offset. The situation is made worse by the structure of societies and institutions that tends to exclude the poor from participating in decision-making over the direction of social and economic development.

### Progress and prospects

The last century witnessed major improvements in the health and education status of many, reflected in declining infant mortality rates, increasing life expectancy, and higher literacy rates. However, 1.2 billion people are estimated to still live on less than $1 per day, and almost 3 billion on less than $2 per day. 110 million primary school age children are out of school, 60 percent of them girls. 31 million people are infected with HIV/AIDS. And many more live without adequate food, shelter, safe water, and sanitation.

Poverty in the midst of plenty is one of the central challenges in today's global economy and society. Fighting poverty is both a moral imperative and a necessity for a stable world. In recognition of this, the international community adopted International Development Goals during the 1990s. However progress in meeting these goals has been slow and uneven across regions, while some parts of the world have retrogressed, with poverty increasing in countries of the former Soviet Union, and mortality rates deteriorating in Africa due to the HIV/AIDS epidemic. If trends of the past decade continue or worsen, the International Development Goals are not likely to be achieved. The global community needs to make a concerted effort to accelerate progress and more effectively address the causes of poverty at country and global levels.

### Actions at the country level

The lives of poor people are most affected by actions at the country level. Countries need to get on a path of sustainable, pro-poor growth that provides opportunities for all, a voice in decision-making and protection from shocks.

Achieving sustainable, inclusive and broad-based growth and opportunities requires a sound macroeconomic framework. Policies that promote low inflation, realistic and stable exchange rates, reasonable fiscal deficits, effective integration into the global economy, and private sector activity, are all needed. Investments in the physical and financial assets of poor people are also necessary — adequate schooling and skill development, secured nutrition, preventive health care, rural infrastructure and credit.

Providing a voice in decision-making means pursuing the involvement of poor people and society at large in policy/program design and implementation. Transparency and accountability contribute to a well-informed public debate and result in better policies with wider support. Broad participation can help improve the management of public expenditures by

pushing shifts in resources toward priority areas and avoiding unproductive spending, such as generalized subsidies and excessive military spending. Broad participation may also lead societies to confront issues of social and economic inequality that are obstacles to poverty reduction.

Providing social protection to the poor requires mechanisms to mitigate the impact of local and national crises and to reduce vulnerability. These include subsidies targeted to the poor, public works and "food for work" programs, sustainable, well-designed pension, unemployment and social assistance programs, and severance payments to those laid off during civil service retrenchment or public enterprise reform.

**Actions at the global level**

At the international level, factors such as globalization, the volatility of commodity prices, the availability of knowledge, and flows of private and official capital have a powerful impact on poor countries and their ability to reduce poverty. Advanced countries have an important role to play in contributing directly to the fight against poverty, as well as through the role they play in international organizations.

Actions are needed to ensure that opportunities for poor countries are expanded. Industrialized countries should strive to sustain steady global economic expansion to provide the demand conditions for developing countries and to open their markets more completely to imports from developing countries (especially in agriculture, labor-intensive manufacturing and services), within a rules-based trading system. Donor countries should strive to increase aid flows to the poorest countries and to complete financing for the enhanced HIPC initiative — with aid increasingly targeted at country-driven, poverty-oriented programs. The international community should provide increased support for international public goods, notably for research and dissemination of vaccines for communicable diseases such as HIV/AIDS, TB, and malaria. It should also assist with agricultural advances for tropical and semi-arid conditions. The private sector and research institutions also have a crucial role to play in devoting talent and resources to solving the problems facing poor countries.

Actions are needed to promote global financial and economic stability and help poor countries deal with shocks. Working jointly with governments and the private sector, the International Financial Institutions (IFIs) play a key role in strengthening the international financial architecture to reduce volatility, and to provide mechanisms for managing financial crises when they occur. The international community should also continue to search for ways to prevent armed conflict, and support countries emerging from strife. This calls for substantial technical and financial assistance for demilitarization, demobilization, and rehabilitation, and the restoration of domestic institutional capacity. The industrial countries further need to ensure greater coherence and transparency in their own policies on arms sales.

Actions are also needed to empower poor countries. Development assistance and debt relief must be provided in ways that strengthen ownership and effectively help poor countries help themselves. Donor countries are progressively linking all their assistance to country-driven strategies to reduce poverty, developed with the engagement of civil society, private sector agents, NGOs, donors, and the international community. Poor countries should be given more of a voice in international forums to ensure that international priorities, agreements and standards reflect their needs. IFIs, and other international organizations such as the WTO, should continue to make their strategies and actions fully transparent, and to hold regular dialogue with representatives of civil society, in particular organizations representing the poor.

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**Role of the MDBs and the IMF**

IFIs, including the Multilateral Development Banks and the International Monetary Fund, have a central role to play at the country level, where they provide policy advice, and financial and technical support for long-term country-driven programs, as well as support to deal with shocks. The institutions also provide advice that helps governments create a sound environment for private sector development. They have a key role to play at the global level where they can help shape international rules and ensure the provision of global public goods. These are complex tasks that will require even greater collaboration and stronger partnership than in the past. Poverty reduction strategies now being prepared by countries are providing a framework for enhanced collaboration between governments, IFIs and other external agencies, and civil society.

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Appendix

Poverty Reduction Forecasts
Table 1 Optimistic Scenario
Table 2. Less Optimistic Scenario

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# I. Global Poverty Conditions and Trends

1. Poverty is an unacceptable human condition which does not have to be inevitable. The main goal of development is to eliminate poverty and reduce social imbalances. Sustainable economic growth and appropriate social policies are keys to fighting poverty. At the same time, reducing poverty helps growth by enabling the poor to participate productively in the economy. Yet economic growth by itself does not guarantee success in eradicating poverty. Other important dimensions of poverty, such as quality of life and participation in decision-making, need to be addressed.

2. Leaders of all countries, including the G-8, agreed on International Development Goals (IDGs) to reduce poverty by 2015. The goals are ambitious, but with the efforts and commitment of developing and developed countries, and international development agencies, they can be achieved.[1]

**International Development Goals**

| | Target Year |
|---|---|
| ▪ *For economic well-being:* | |
| Reduce by half the proportion of people in extreme poverty | 2015 |
| ▪ *For social development:* | |
| Achieve universal primary education; | 2015 |
| Eliminate gender disparities in primary and secondary education; | 2005 |
| Reduce by two-thirds the mortality rates for infants and children under 5 and by three-fourths the mortality rates for mothers; | 2015 |
| Provide access to reproductive health services for all individuals of appropriate age. | 2015 |
| ▪ *For environmental sustainability and regeneration:* | |
| Implement national strategies for sustainable development; | 2005 |
| Reverse current trends loss of environmental resources globally and nationally. | 2015 |

## A. Nature and Determinants of Poverty

3. Poverty goes beyond lack of income. It is multidimensional, encompassing economic, social, and governance perspectives. Economically, the poor are not only deprived of income and resources, but of opportunities. Markets and jobs are often difficult to access, because of low capabilities and geographical and social exclusion. Limited education affects their ability to get jobs and to access information that could improve the quality of their lives. Poor health, due to inadequate nutrition and health services, further limits their prospects for work and from realizing their mental and physical potential. This fragile position is exacerbated by insecurity.

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[1] A parallel report also presented at the G-8 Summit in Okinawa, "A Better World for All" discusses in detail progress towards achieving the IDGs. http://www.paris21.org/betterworld.

Living in marginal conditions with no resources to fall back on, shocks become hard or impossible to offset. The situation is made worse by the structure of societies and institutions that tends to exclude the poor from participating in decision-making over the direction of social and economic development.

## B. Recent Trends

4. Globally, the proportion of people living in poverty[2] declined from 29 percent in 1987 to 26 percent in 1998, although the total number of poor remained almost unchanged at around 1.2 billion. The reduction in the incidence of global poverty is attributed to progress made in East Asia, most notably in the People's Republic of China, although progress was somewhat reversed during the recent Asian economic crisis and seems to have stalled in China. The performance in three other regions (Africa, Latin America, and South Asia) shows only moderate or no declines in the incidence of poverty, while the number of people in poverty in these regions has increased. In Sub-Saharan Africa, an additional 74 million people joined the ranks of the poor reaching a total of 291 million in 1998. In Latin America the figure increased from 64 to 78 million;[3] and in South Asia a total of 522 million people live in poverty. Countries in Eastern Europe and Central Asia experienced an increase in both the incidence of poverty and the number of people living below the international poverty line. Here, the incidence rose from 2 percent to 5 percent, translating into 24 million people in poverty.[4]

5. Experience has shown that in countries with lower inequality, growth has a higher impact on poverty reduction. Income inequality within countries has not changed significantly in most regions over the past thirty years, with the exception of countries in the former Soviet Union where negative GDP growth has been accompanied by a large increase in inequality. But differences between countries have increased: the average income of the richest 20 countries is now 30 times that of the 20 poorest countries, as compared to 15 times 40 years ago.[5]

6. Social indicators have improved over the last three decades. Life expectancy in developing countries rose from 55 years in 1970 to 65 years in 1998, but is still far below that of 78 years in OECD countries. Infant mortality rates have fallen from 107 per 1,000 live births in 1970, to 59 in 1998. All regions except Eastern Europe, Central Asia and Sub-Saharan Africa shared progress in this area. Net primary school enrollments improved from 78 percent in 1980 to 84 percent in 1998, and adult literacy rose from 53 percent in 1970 to 74 percent in 1998. However, because of population growth, today there are 41 million more illiterate adults than in 1970.[6] The improvements that have taken place mask differences in performance by region, with Sub-Saharan Africa, South Asia and the Middle East and North Africa falling behind in reducing child mortality rates and in improving net primary enrollment rates. They also mask differences across economic strata. Not surprisingly, the poor generally fare the worst in terms of social indicators, such as illiteracy, malnutrition, ill health (incidence of communicable

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2 That is, people whose level of consumption fell below the international poverty line of $1 per day, in 1993 Purchasing Power Parity terms.

3 This figure rises to 183 million if a poverty line of $2 per day is used, which is more appropriate in the Latin American context. Using that poverty line for all regions yields a number of poor people equal to 2.8 billion, with the largest concentration of poor still in South Asia.

4 *Poverty Reduction and the World Bank: Progress in Fiscal 1999*. World Bank, Washington, 2000.

5 However, inequality in the distribution of world income, which is measured by putting the incomes of all people together, has not increased because of the impressive gains in average incomes in China.

6 *Education for All—The Year 2000 Assessment*, UNESCO, Paris.



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diseases such as tuberculosis and HIV/AIDS), and mortality and morbidity rates. Among this group, women and girls are often the most severely disadvantaged, as evidenced by low school enrollment rates and higher incidence of maternal mortality rates.

7. In a recent study, the poor tell us that insecurity has increased.[7] By and large, poor people feel they have not been able to take advantage of new economic opportunities because of a lack of connections and lack of information, skills and credit. Today's poor work primarily in rural areas and the urban informal sector. They say that life is more insecure and unpredictable than a decade or so ago due to a loss of traditional livelihoods, breakdowns in state and social solidarity, social isolation, increased crime and violence, lack of access to justice, and extortion and brutality from the police. Ineffective and corrupt government institutions add to the problems of the poor.

## C. Outlook

### 1. Income Poverty

8. Two scenarios were developed to assess interim progress against the IDGs by 2008 as an indication of progress that can be expected by 2015. The more optimistic one assumes growth rates in real per capita consumption for each region of between 1 and 5 percent and no changes in inequality. A less optimistic outlook anticipates lower growth rates (between 0 and 4 percent)[8] and an increase in inequality of between 10 and 20 percent. The less optimistic scenario was adopted in light of the recent crises in Russia and Asia, which set back earlier achievements in poverty reduction and demonstrated the volatility in growth rates in developing countries.

9. The assumptions for the optimistic scenario would result in East Asia and the Pacific and South Asia surpassing the 2015 targets (in terms of the proportion of people in poverty), by 2008. Sub-Saharan Africa would still have to reduce the proportion of people living in poverty from 42 to 24 percent. Latin America and the Caribbean, and to a lesser extent, Eastern Europe and Central Asia would make sufficient progress by 2008 so that achieving the 2015 target would be likely. The less optimistic scenario sees increases in the proportion of people living in poverty, so that achieving the 2015 targets would be unlikely anywhere but in Asia. Figures are in Appendix 1.

### 2. Social Indicators

10. IDGs for social development were agreed in four areas: universal primary education; eliminating gender disparities in primary and secondary education; reducing infant and child mortality rates, and providing access to reproductive health care.

11. About 110 million primary-school-age children in developing countries were out of school in 1998.[9] Those who are attending school are not always receiving quality education. The goal of attaining universal primary school enrollment by 2015 is likely to be achieved in East Asia and

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[7] *Voices of the Poor*, World Bank, Washington, 1999. http://www.worldbank.org/poverty/voices/index.htm

[8] Growth rate projections are based on the *Global Economic Prospects and the Developing Countries 2000*, World Bank, 2000; the more optimistic case uses the report's base case growth projections and no change in inequality. http://www.worldbank.org/prospects/gep2000

[9] *Education for All—The Year 2000 Assessment*, UNESCO, Paris.



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the Pacific, Eastern Europe, and Central Asia.[10] Other regions — most notably Latin America — have made good progress in the last decade and could reach the target. In Africa and South Asia the target appears too distant. The IDGs call for equal enrollments of girls and boys in primary and secondary school by the year 2005. However, this target is unlikely to be achieved. Of the 110 million children estimated to be out of school in 1998, 60 percent were girls. The 44 percent gross primary school enrollment rate for girls is estimated to increase to only 47 percent by 2005. The situation is similar for secondary school enrollments, where enrollment rates for girls are only 40 percent, a percentage expected to rise to 47 percent by the target year of 2005.

12. Actual and projected data on infant mortality indicates progress between 1990 and 1998 in all regions. However, reductions in East Asia, South Asia and Sub-Saharan Africa appear too slow to meet the IDG for 2015 (a two-third reduction over 1990 levels). Mortality rates have been declining with rising GDP but, even assuming high GDP growth, infant and child mortality rates would be substantially above the IDG target in 2015. Moreover, keeping infant and child mortality rates in Africa from increasing will be a challenge in a number of countries given the spread of the AIDS epidemic.

13. The IDG of providing access to reproductive health services for all who need it by 2015 is unlikely to be achieved. The use of contraceptives is influenced by many factors, including cultural traditions, religious beliefs and the availability of effective methods at a reasonable cost. The number of women and men in need of reproductive health services will almost double over the next two decades, and achieving this goal will require a combination of increased access to affordable services and stronger education campaigns. Expanding the availability and use of condoms among young people is especially important to control the spread of HIV/AIDS.

## II. Regional Poverty Trends and Issues

### A. Africa

#### 1. The Status of Poverty

14. Africa, despite an abundance of resources, natural and human, currently suffers from widespread and persistent poverty and a high degree of income inequality. In 1987, 47 percent of the population was below the international poverty line. By 1998, this rate had declined only marginally to 46 percent. Sub-Saharan Africa is today the region with the highest incidence of poverty in the world. High levels of income inequality (the Gini coefficient for the region as a whole is as high as 44) compound the problem and undermine the prospects for sustainable and equitable economic growth and a significant reduction in the incidence of poverty. On the other hand, the continent is far from homogeneous and the aggregate figures mask important variations in both the incidence of poverty and in income distribution across countries, and within regions in individual countries.

15. Non-income measures of poverty show large variations, but overall infant mortality, life expectancy and school enrollment rates in Africa are some of the worst in the world. In Sub-Saharan Africa, 151 children out of 1,000 die before the age of 5 and 92 out of 1,000 die before the age of 1. The life expectancy rate of 50 years, and net primary school enrollment rates of 60

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[10] The assumption that this goal will be reached in Central Asia requires that economies can regain greater stability and renewed commitment to education after transition so that excellent enrollment rates achieved during the Soviet period can be regained.

percent are the lowest in the world. Deaths as a result of HIV/AIDS alone have resulted in a lowering of life expectancy, thus wiping out social gains of the last three decades in a number of countries. Among 8 countries where life expectancy declined by more than 3 years since 199[illegible] six are African countries. For instance, in Botswana and Zambia, countries with high HIV/AIDS prevalence rates, life expectancy has declined by 9.5 years and 6 years, respectively.

16. Although poverty in Africa is a predominantly rural phenomenon, urban poverty is also rising in many countries, adding a new dimension. If present trends continue, Africa may be the only continent where problems of poverty, urban as well as rural, will continue to worsen as we enter the 21st century. And it will be difficult, near impossible, for Africa to achieve the International Development Goals, including halving poverty levels, by 2015.

## 2. The Causes of Poverty

17. The main causes of poverty in Africa are low levels of productivity and production technology, especially in the agricultural sector, which provides most of the employment and a large share of the continent's GDP. Other major reasons include high illiteracy and population growth rates, frequent natural disasters, inadequate infrastructure, and in some countries excessive dependence on a narrow range of commodities for export earnings. Counterproductive economic policies in the 1970s and the early 1980s, political instability and conflict in a number of countries, and the continent-wide problem of gender inequality in access to productive assets and social services, have also contributed to sluggish economic growth and widespread poverty. Many of these issues are being addressed, but long-term sustainable solutions will be illusive without improved security and an increase in savings and investment rates and the mobilization of both foreign and domestic resources, including private foreign investment, debt relief and ODA, and support through the Strategic Partnership for Africa. In addition, Africa needs a favorable international trade environment with increased access to developed country markets in order to fully reap the benefits of globalization.

## 3. Anti-poverty policies

18. Since the mid-1980s a number of African countries have made every effort to create an economic environment that is conducive to sustainable, equitable and broad-based economic growth, with a focus on poverty reduction. Some of the policy measures adopted include, stabilizing the macro-economic framework, trade and price liberalization (especially of agricultural prices), and privatization and promotion of efficient management of the public sector, including anti-corruption measures. In many cases, the implementation of sound economic policies has resulted in positive per capita income growth, thus reversing the negative trends of the 1980s and the first half of the 1990s. In some cases, these efforts have been accompanied by investments in social sectors in general and in primary health and preventive health care in particular, as evidenced by improved social indicators. For example, over the last two decades, infant mortality rates have fallen from 112 to 81, and nearly half of Africa's populations had access to sanitation in 1995 against only a third at the beginning of the 1980s. Nevertheless, economic growth has been too slow to make a really significant dent on the reduction of poverty across the continent.

19. It is estimated that Africa will require average growth of 8 percent per year in order to halve poverty by 2015, as stipulated in the DAC goals for the 21st century. Given that recent growth rates have averaged only about 4 percent per year, it is unlikely that Africa will meet those goals within a decade and a half. African countries will need to make renewed efforts to increase economic growth and reduce poverty. An encouraging factor is that there seems to be



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a general consensus on what is required: the promotion of good governance, enhancing the efficiency of public expenditure, deeper economic reforms, expansion of exports, regional integration, access to information technology, and further improvements in the level and productivity of investments in human, as well as physical capital. It is also generally acknowledged that governments need to provide an environment that enables the private sector to realize its full potential for creating employment and income-generating opportunities for the poor. African governments recognize the existence of gender-based inequities in access to productive assets such as land, credit, extension and social services, but strategies and commitment to overcome them need to be more strongly enforced to unleash the potential of women to contribute to economic growth, enhance social equity and reduce poverty.

20. The AfDB's Vision Statement, adopted in 1999, states clearly that poverty reduction is AfDB's overarching objective. As a result, projects in agriculture, rural infrastructure, education, health and water supply are being designed, implemented and evaluated in ways that maximize efforts to reduce poverty.

### 4. The Role of the International Community

21. Accelerating broad-based growth and reducing poverty require expanded and qualitatively improved support from the international community. Africa's longtime development partners have supplied financing, provided technical assistance, and extended advisory services in the past. Much has been achieved through these means, resulting in considerable improvements in economic management as evidenced by higher growth rates, declining inflation and lower fiscal deficits. But today this is inadequate.

22. Ways of further accelerating growth and improving poverty reduction have, therefore, recently been the focus of many consultations between African governments, society and the private sector, together with bilateral and multilateral development partners. From this, a consensus has emerged on the basic building blocks for poverty reduction. First, African governments have the primary responsibility for preparing poverty reduction strategies, and development partners are committed to work in cohesion within this common framework. Second, Africans must be involved in developing those policies to ensure they do indeed respond to the needs and demands of beneficiaries. And, third, strategies will be output-oriented, and Africans themselves will be able to monitor the impact.

23. These measures, endorsed by donors and African Heads of State alike, in Libreville recently, should not obscure the fact however that there remains an unquestionable need for additional ODA, for concessional resources to the poorest countries, for faster and deeper debt relief to those suffering unsustainable debt-burdens, and for foreign direct investments. Without these resources, the newfound consensus may not put Africa on a sustainable path to eradicating poverty.

## B. Asia and Pacific

### 1. Poverty Trends

24. Poverty in the Asia and Pacific region is marked by two significant factors: magnitude and diversity. Close to 900 million or 75 percent of the world's poor live in the Asian and Pacific Region, including Central Asia. Nearly one in three Asians is poor. Within the region, East Asia and the People's Republic of China in particular performed well in reducing poverty, until the recent economic crisis reversed some of the earlier gains. Some progress has been made in South Asia, although the depth of poverty reaches similar levels as Sub-Saharan Africa, but on



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a much larger scale as more than half a billion people are in poverty. Central Asia has been newly exposed to the threat of poverty as many countries undergo difficult transition periods. The countries in the Pacific, despite their relatively higher per capita income, are vulnerable and have limited capacities to deal with external shocks.[11]

## 2. Challenges

25. The sheer magnitude of the number of people in poverty in the region poses an extraordinary challenge to societies, governments and the development community. Ensuring food security with the help of an efficient agricultural sector, while preserving the environment is an enormous task, given the large number of people involved and limited space. There has been some transformation of the rural sector, initiated by the Green Revolution, which has led to improved food security and higher incomes, but the highest incidence of poverty remains concentrated in this sector. Agricultural growth is therefore crucial and must be pro-poor and environmentally sustainable.[12] The region is also urbanizing rapidly (the majority of megacities are in Asia) and the urban poor live in abysmal conditions, insecure in tenure and lacking basic amenities. In both rural and urban areas, the public sector is often unable to deliver services because cost recovery is difficult. This leaves the poor at the mercy of informal suppliers.

26. The pressure of high population growth translates into millions without formal employment and large numbers of new entrants into the job market each year. In the past, export-oriented industries prospered on cheap labor as an asset for transforming economies and reducing poverty, as in East Asia. But manufacturing has become less labor intensive, service industries are becoming the main employers, and the spectrum of technology choices is widening. Modern information technology is creating job opportunities and facilitating the exchange of information across continents, but is also introducing a new form of illiteracy for those (countries and people), without access or ability to use information technology.[13] Governments need to adopt policies and make adequate investments in basic infrastructure to ensure that globally competitive industries (which might not always provide requisite jobs) are integrated into domestic economies to strengthen their competitiveness and increase their capacity to create income-generating opportunities.

27. Skill and knowledge levels required to integrate in these modern sectors are often beyond the reach of the poor. This makes it difficult for them to participate in economic growth and globalization. Governments in the region recognize the need to provide basic education. However, fulfilling this responsibility is a massive task given the large number of children and great variations in population densities, undermining the quality and cost of education. A further impediment is that an increasing number of poor children grow up with insufficient nutrition and exposed to high pollution levels, affecting their ability to learn. Primary health care services face problems similar to those in the education sector. In addition, many in the region, especially the poor, run the risk of communicable diseases, such as malaria, tuberculosis and HIV/AIDS. Together, education and health impact strongly on the prospects of the poor, whose (often only) asset is their willingness and ability to work.

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[11] *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank*, Asian Development Bank, 1999, Manila. http://www.adb.org/Poverty/adb_gl00.htm

[12] *Rural Asia*, Asian Development Bank, 2000, Manila.

[13] *Emerging Asia—Changes and Challenges*, Asian Development Bank, 1997, Manila.

28. Across all these areas, governments continue to have a crucial role to play. They need to create an environment that stimulates growth and private sector development, ensures efficient public resource management and delivers basic services and infrastructure. They also need, in cooperation with society and the business community, to strengthen social cohesion, as the more affluent increasingly tend to have an international outlook and less in common with the poorer parts of their own countries. However, shifting the role of governments over time, from producer/owner to facilitator/regulator, is a complex undertaking. Traditions of participation and decentralized administration existed in several countries but were sometimes swept away in the process of historical change. In other countries, roles previously played by traditionally powerful stakeholders have sometimes been transferred to new institutions. Rediscovering (or newly introducing), concepts of participation and inclusive development requires responsive governments, as well as citizens able to contribute constructively to public debate and the decision-making process.

### 3. Policy Implications for the Future

29. Confronting these challenges and reducing poverty in the Asia and Pacific region calls for a three-pronged approach: promoting pro-poor growth, securing social development, and ensuring good governance. The three are interrelated. Pro-poor growth stimulates employment and other economic opportunities, and generates revenues, which can be directed, through good governance, at providing services needed by the poor and vulnerable groups.

30. Economic growth, essential for reducing poverty in the Asia and Pacific region, needs to be broad-based and labor absorbing, providing jobs and economic opportunities for self-employment — a challenging task, because industries need to be internationally competitive as well. This requires diversified industrial and service sectors and the networking of international and local enterprises of different sizes, to enhance synergism between different economic segments. A supportive policy framework needs to be complemented by investments in human, physical, and financial capital, particularly of the poor, to aid their integration into the main stream of social and economic development. These measures need to be chosen and designed with greater involvement of the public at large, and the poor in particular, to ensure their effectiveness and sustainability.

### 4. Evaluation of AsDB's Antipoverty Operations

31. The AsDB has been active in the fight against poverty. However, an evaluation of its anti-poverty operations reveals two weaknesses. The absence of country-specific and country-owned poverty reduction strategies (hence, no comprehensive or systematic attack on poverty in individual countries), and project preparation without adequate, differentiated information on the poor in the project areas. To address these shortcomings, AsDB's recently approved Poverty Reduction Strategy aims to gear all lending and technical assistance toward poverty reduction, and to establish partnership agreements that set agreed targets. It also mandates a project typology driven by development impact on beneficiaries below the poverty line. With poverty reduction now its overarching goal, AsDB will ensure that all its operations contribute in some way to this end. It will also dedicate 40 percent of its public sector lending towards targeted poverty interventions.



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## C. Latin America and the Caribbean

### 1. Summary of poverty and inequality trends in the region

32. The incidence of poverty decreased in Latin America and the Caribbean during the first half of the nineties. However, the resumption of economic growth in a number of countries was insufficient to reduce the absolute number of poor people. Adverse shocks in the second half of this decade stymied the region's efforts to produce noticeable progress in poverty reduction. Moreover, as the region became more unequal in the 1980s, and remained so in the 1990s, progress in reducing poverty slowed, despite the renewed growth. As a result, in 1997 the incidence of poverty in Latin America remained approximately 3 percent higher than in 1980, with roughly 70 million more people living in poverty.

33. Greater progress has been achieved in non-monetary indicators of wellbeing. Social indicators such as infant mortality rates, nutrition indicators, access to safe water, life expectancy, literacy rates and average years of schooling continued to improve. There has also been a noticeable advance towards more democratic societies. However, progress is still lacking in other dimensions. School completion rates are low, with a large proportion of students dropping out before finishing primary education. The high incidence of social problems such as crime, violence, alcoholism and drug addiction, continue to raise important concerns. Progress has also been uneven among different population groups. Social indicators in poor rural areas (e.g., the Northeast in Brazil and the Andean regions) lag considerably behind those in the most affluent areas in the region. Significant differences in the quantity and quality of education and health services also persist among high and low-income groups. Policies and decision making rarely incorporate the concerns and preferences of the poor or even middle income groups.

34. Important advances in improved macroeconomic management were made during the 1990s. Creating economic opportunities, while managing the risks, improving living standards, and building strong institutions for the poor now stand as the policy challenges to curb poverty and inequality in the region.

### 2. Social Development Goals

35. Economic growth is essential for poverty reduction, but it is not sufficient. Growth must be accompanied by measures that ensure its benefits reach all segments of the population. Beyond broad-based growth, social development goals in Latin American and the Caribbean should take into account both economic and social dimensions of well being, namely:

- Reducing income poverty and inequality
- Increasing levels of high-quality educational attainment and improving health outcomes
- Eliminating social exclusion, and gender and ethnic discrimination
- Increasing the participation of marginalized groups in the political and decision-making process
- Preventing crime and violence

### 3. Areas of Action

36. In order to achieve these goals, initiatives should simultaneously foster and protect the human capital accumulation of the poor. They should contribute to expanding access for the



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poor to social and physical infrastructure, and provide them with consumption smoothing mechanisms, while paying attention to the needs of the most vulnerable and marginalized groups. Four areas of action are a priority in the region:

37. Opportunities, human development and improvements in the quality of life: a comprehensive poverty reduction strategy needs to focus on identifying competitive advantages that can sustain stable and equitable economic growth. This should include policies that:

(i) Increase the assets base of the poor. For example, land titling, housing programs, and investment in projects that secure access to quality education and health services such as Targeted Human Development Programs that help poor families keep their children in school and provide them with regular health care;

(ii) Promote the creation and development of markets. For example, by improving access to geographically inaccessible areas through investment in physical infrastructure, increasing the linkages between the rural economy and the industrial sector through support to microenterprises, and mitigating coordination failures that prevent small producers from organizing to export as a unit. Correcting market failures in order to deepen credit and loosen labor markets is also desirable; and

(iii) Eliminate discriminatory practices and support projects that promote opportunities for indigenous communities in socio-culturally appropriate ways.

38. Social protection: The poor are often the most severely affected by adverse shocks of macro and micro origin, so mechanisms to reduce the incidence of shocks and help the poor cope with them, are essential. At present, most Latin American and Caribbean countries do not have mechanisms to mitigate the impact of adverse shocks to the poor. These mechanisms should guarantee minimum consumption levels and access to basic services, protect investments in human capital during crises, and reduce the risk exposure faced by the poor in their productive choices. Such mechanisms range from making fiscal policy counter-cyclical and improving management of natural disaster risks, to instruments that help the poor cope with illness, crop failure, unemployment and old age.

39. Institutions and governance for the poor: It is crucial to allow institutional reforms to move forward to build strong institutions for the poor. It is also critical to encourage community participation in the larger process of public policy dialogue, especially of traditionally marginalized groups, such as women, indigenous groups and the rural and urban poor, generally. There is also a need to advance the reform of institutions for the delivery of health, education and judicial services and to improve the management capacities of governments to enhance their accountability and make them more responsive to the needs of the poor.

40. Prevention and social progress: The promotion of preventive action is needed in order to avoid the proliferation of child labor and dysfunctional behavior such as domestic violence, crime and/or drug and alcohol abuse. Policies in this area include: (i) investing in mothers and intervening in early childhood education; (ii) campaigns to change social norms and attitudes towards domestic violence; (iii) educational interventions to promote the use of gender neutral educational materials; (iv) facilitating conflicts resolution and training courses on gender roles and strategies to prevent and cope with domestic violence; (v) community policing; (vi) preventive actions in health centers to identify victims of violence so that they can be referred to

counseling services and judicial institutions to handle disputes resolution; and (vii) promoting youth participation and leadership.

## D. Central and Eastern Europe, the Baltic States and the CIS

### 1. Poverty and Inequality in Transition

41. The transition has been a time of social upheaval in Central and Eastern Europe and the former Soviet Union. While an end to rationing and shortages, an increase in the quality and choice of products, and new opportunities for private initiatives have improved living standards for many people across the region, others have suffered severe reductions in their standard of living and some have experienced acute poverty. Despite serious concerns about the quality of income data in many transition economies, social indicators show clearly the stresses of transition.

#### Life expectancy and mortality

42. Before the transition, life expectancy in the region by and large compared favorably with that of market economies with similar income levels. For instance, in 1980 life expectancy in Central and Eastern Europe averaged 71 years, far above levels achieved in most of Latin America or East Asia. In the former Soviet Union, life expectancy in 1980 was 68 years, although it varied considerably across republics and began to decline in the 1980s. Since 1989, trends in life expectancy have increasingly diverged across the region. In central Europe, life expectancy has increased since 1989, to an average of 73 years by 1997. In southeastern Europe life expectancy has remained roughly constant. In the three Baltic countries and Russia, life expectancy declined precipitously during the first 4 years of transition, but has recovered partially since then. The other countries of the western CIS (Belarus, Moldova and Ukraine) as well as Kazakhstan have experienced a continuous decline in life expectancy since 1989. In the remaining countries of central Asia and the Caucasus there appears to have been little change.

43. One major factor behind the decline in life expectancy in many transition economies has been changes in adult male mortality rates. In Russia, male life expectancy declined by 6 years between 1989 and 1994, and approximately half of this decline was due to higher death rates of males aged 35-64. In the Baltic states as well as the western parts of the CIS and in Kazakhstan, adult male mortality rates also experienced a dramatic increase during the first years of transition. Available evidence suggests that a high proportion of the additional deaths among males can be attributed to the rising incidence of cardiovascular diseases, accidents and violence. The concentration of excess deaths in these categories indicates an important role for stress and social dislocation, in addition to economic deprivation, as causal factors for rising mortality rates. Increased alcohol consumption, in part driven by psychological stress, is ranked among the most important proximate causes of increased male deaths in Russia.

#### Poverty and income inequality trends

44. Bearing in mind limitations of income measures, there appear to be two broad trends in poverty and income inequality in the transition. First, there has been an increase in the number of poor people in almost every country, and the increase has been largest in countries where real incomes have fallen most. Second, parallel to the rise in poverty, there has been a marked increase in income inequality. The increase has been more pronounced in the countries of southeastern Europe and the CIS than in central Europe.



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45. At an aggregate level, the increase in poverty can be attributed to falls in average real incomes and rises in income inequality. While average real incomes initially declined in all transition economies, developments in income inequality have differed dramatically across the region. Measures of inequality point to an increase of about 25 percent in central Europe and of almost 100 percent in several other transitional economies, including Bulgaria, Russia and Ukraine. It would appear, moreover, that social transfers have done little to mitigate the increase in earnings inequality in many of the countries of southeastern Europe and the CIS.

46. The optimistic scenario in Appendix 1, assuming just under 4 percent growth per annum and constant levels of inequality, would be sufficient to bring poverty levels back to their 1990 starting point by 2008. With growth now returning to most countries in the region, there are grounds for optimism. Moreover, one of the mechanisms that could have been driving increases in earnings inequality is the reallocation of workers from low productivity, state sector jobs to higher productivity, private sector jobs. As the proportion of workers in the private sector rises over time, earnings inequality will eventually fall, as productivity differences diminish. In the CIS, however, this process seems to have become stuck at a level where there are a few high wage private sector jobs, but with most workers employed in unprofitable and low-paying public sector or privatized enterprises. An eventual decline in inequality in this part of the region would thus depend on a deepening of structural reform to create more private sector jobs.

## 2. Characteristics of the poor and policy challenges

47. Evidence on the characteristics of the poor in transition reveal that households with many children, headed by single parents, and dependent on transfer incomes, such as pensions, unemployment benefits and other forms of social support, have been particularly affected by poverty.

48. Recipients of social transfers have suffered from the lack of indexation during periods of high inflation, as well as from payment arrears due to the fiscal crisis. There have also been great contrasts in transfers among transition countries. In central and Eastern Europe, a relatively generous social safety net has been created and the role of producer subsidies has been greatly reduced. In much of the CIS, redistribution has remained tied to the enterprise sector, through explicit and implicit subsidies. Moreover, in some CIS countries, even when there has been a system of social assistance, transfers have not always gone to the most needy. With limited fiscal resources in the CIS and very high levels of payroll taxation in CEE, there have been increasing demands for improved targeting of social assistance.

49. In most transition economies, a significant proportion of the poor are workers on low incomes. In Ukraine for instance, 80 per cent of all workers earn a wage that is below twice the subsistence level. Should a worker in this group be the only earner in a household of two, the household would fall below the poverty threshold. Wage differentials between skilled and unskilled workers have increased substantially and individuals with secondary and university education tend to be less represented among the poor than individuals with primary or vocational education. One of the challenges facing transition countries is improving education. In southeastern Europe and the CIS, providing quality education for all would require re-building an adequate fiscal revenue base to prevent further real expenditure cuts on education (and health), and strengthening the efficiency of this spending.

50. Also of fundamental importance will be the creation of new private sector jobs. However, weak investment climates in many countries, including unstable and unpredictable government policies, corruption and arbitrary taxation, lack of access to infrastructure and financial services,

and weak protection of property rights, are major obstacles to private sector development. In addition, support for non-viable enterprises significantly distorts the process of competition in many product markets.

## III. Combating Poverty: A Universal Responsibility

### A. Domestic Policies of Developing Countries

51. The lives of poor people are most affected by actions at the country level. Because of the multidimensional character of poverty, public actions are needed in several areas. Countries have to promote sustainable, equitable growth that provides opportunities for all, protection from shocks and a voice in decision-making.

52. Creating opportunities means fostering broad-based economic growth. Strong economic growth requires a sound macroeconomic framework with policies that promote low inflation, realistic and stable exchange rates, reasonable fiscal deficits, effective integration into the global economy, and private sector activity. It also requires investments in the human, physical and financial assets of poor people — adequate schooling and skill development, secured nutrition, preventive health care, rural infrastructure and credit. This in turn contributes to faster growth as the productive potential and skills of the poor are more fully utilized and prejudices against them, and against poor women in particular, are reduced.

53. Providing social protection to the poor requires mechanisms to mitigate the impact of local and national crises and to reduce vulnerability. These include subsidies targeted to the poor, public works and "food for work" programs, and sustainable, well-designed pension, unemployment, social assistance programs and severance payments to those laid off during civil service retrenchment or public enterprise reform. Effective social protection mechanisms should strive to minimize adverse impacts on economic incentives and the crowding out of existing informal income transfer mechanisms.

54. Providing a voice in decision-making means pursuing the broad involvement of poor people and society at large in policy/program design and implementation. Transparency and accountability contribute to a well-informed public debate and result in better policies with wider support. Broad participation can help improve the management of public expenditures by increasing the demand for resource allocations to socially desirable priority areas, such as basic health, education, and infrastructure services. Broad participation may also lead societies to confront issues of social and economic inequality, social strife and corruption, which are obstacles to poverty reduction.

### B. Globalization and Poverty Reduction

#### 1. Investment, trade, and technology flows

55. Experience, especially in East Asia, demonstrates that developing countries benefit from participation in the global economy through higher economic growth and living standards, and thus reduced poverty. Increased openness to trade creates opportunities for new investments and jobs, and promotes more efficient use of resources and higher productivity. The liberalization of capital flows permits greater access to the external resources needed to finance such investments, and foreign direct investment can also encourage the transfer of technology, managerial expertise, and skills. Open markets also provide consumers with access to a wider range of better-quality goods at lower prices.



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56. Globalization will increase the flow of investments, trade, and technology. These flows however, tend to concentrate on a few geographical areas and on a few countries within them. Increasing the number of countries that attract and benefit from investment, trade, and technology flows requires policy responses by both developing and developed countries. The challenge for developing countries is to enact domestic policies that attract more foreign direct investments of a relatively long term and stable nature, as well as adopting structural reforms to enable domestic adjustment when necessary. Industrial economies also have an important role to play in implementing sound economic policies and providing effective policy coordination to avoid economic and financial imbalances, which could lead to significant disruptions in financial and capital markets, and dampen prospects for world growth.

57. Access to industrial country markets is an essential element in a comprehensive approach to growth and poverty reduction in developing countries. Priorities in the area of trade reform include the liberalization of sectors in which the less developed countries are disproportionately dependent, such as agriculture and textiles. In this context, the WTO proposal to grant duty- and quota- free market access for all products originating in the least developed countries (LDCs) should be commended. This would reinforce the impetus to economic growth and poverty reduction provided by debt relief.

### 2. Managing volatility

58. Greater openness to a global economy, increases risks and exposure to economic and financial shocks. Recent financial crises have highlighted the vulnerability of countries to sharp fluctuations in capital flows, and the negative impact on the poor. Strengthening the international financial system will help developing countries reap the benefits of globalization while minimizing the associated risks (including people falling into poverty).

59. Crisis prevention through sound domestic policies and institutions in all countries remains the first line of defense against financial instability. At the same time, considerable progress has been made in strengthening the international financial system. Importantly, developing countries have participated in these efforts. While there is broad agreement on how to move forward, a number of developing countries expressed concern that insufficient weight is given to their views. Significant progress has been made in developing and assessing countries' voluntary observance of standards and codes of good practices in a wide range of areas. Progress has also been made on the appropriate involvement of the private sector in resolving financial crises. For all of these initiatives, further progress is needed in implementation, including the adoption of standards of best practice. The international community can assist developing countries in these tasks through the provision of technical assistance.

60. The international community has already reached broad agreement on key measures to improve macroeconomic and financial policies, strengthen national financial systems and assess and reduce external vulnerability, with the central focus on transparency and accountability of the policies of national authorities and IFIs. The latter have contributed to reducing potential risks emanating from inadequate reporting and transparency by helping to develop and strengthen international standards and codes of good practices, as well as by beginning to assess countries' observance of standards.

## C. Global Public Concerns

61. Greater global integration continues to increase the need for global public action to address threats to health, food security, environmental sustainability, and security. Developing



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countries can participate in addressing these threats by, for instance, implementing vaccination campaigns or by abiding emission controls. However, the capacity of developing countries to generate global public goods is limited, and even accessing privately generated goods that are of importance to global stability can be difficult for them due to a lack of resources.

62. Greater contributions can, and need, to be made by the international community in developing and providing vaccines, food varieties with increased yields, and access to information and knowledge. Often, medical and agricultural research generated in the private sector does not address problems found in developing countries (such as research into drought resistant crops). Donors can provide assistance to purchase vaccines and encourage pharmaceutical research into diseases that are relevant to developing countries and the poor in particular. They can also support agricultural research, (for example through the Consultative Group on International Agricultural Research), and establish a network to help developing countries access and share knowledge on development issues. While public support for these areas is needed, it is also necessary to encourage and promote good corporate citizenship on the part of private enterprise to take on a certain share of the responsibility and cost.

## D. Information Technology and Development

63. The growing impact of information and communication technologies on economic activities, especially in developed countries, suggests the potential benefits that wait to be reaped. These include harnessing new technologies to increase productivity and economic growth, and their use in expanding and improving delivery of social services (such as distance education and health care and diagnostic facilities), to the poor and to remote areas. Access to information can help create, and improve the functioning of, markets. By erasing disadvantages of location and distance, the new technologies also offer fresh possibilities to land- and sea-locked developing countries to integrate with the global economy. Yet it is equally possible that, if current trends proceed unchecked, the world could witness a new discrimination between information "haves" and "have nots" — the so-called digital divide.

64. The spread of new technologies to manufacturing and commercial processes in the developing world may depend on market trends in domestic and foreign investment. However, the donor community can play a useful role in supporting innovative applications of new technology to deliver social services and establish market information networks.

## E. Security and Conflict

65. The incidence of poverty can worsen substantially in conflict situations and may not be reversed for a prolonged period after the conflict has ended. The international community can play a critical role in helping developing countries prevent conflict, as well as in peace-building and social and economic reconstruction efforts in post-conflict situations. The priorities for such assistance include helping countries develop the institutional capacity to implement sound domestic policies based on principles of good governance, equitable access to resources, and adequate public expenditure on basic social services.

66. International donors need to coordinate their assistance more closely in order to enhance aid effectiveness, and to minimize the administrative burden on recipient countries. Donors also need to avoid any gap between the provision of humanitarian and reconstruction assistance, so that both contribute in a mutually reinforcing way to an early restoration of durable peace. This calls for substantial technical and financial assistance for demilitarization, demobilization, and rehabilitation, and the restoration of domestic institutional capacity. Donor assistance in creating



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a professional and transparently run security sector can also help assure durable peace. To help developing countries avoid conflict, the industrial countries also need to ensure greater coherence and transparency in their own policies on arms sales.

## F. Aid Effectiveness and Debt Relief

67. There is a strong belief, backed by empirical evidence, that poverty reduction has been more effective in countries where the strategies pursued were fully owned by the government and by society at large. In view of this, the MDBs and the IMF now devote a substantial share of their assistance, especially concessional resources, including debt relief, to support poverty reduction strategies prepared by client countries. This approach has four major implications: Countries, not donors will lead the process, assuming management and ownership; the formulation of strategies will be broadly participatory, drawing a number of stakeholders into the process; the strategies will be tailor made to meet the poverty situation of individual countries; and the MDBs and IMF will work much more closely together and with other development partners, in support of country-owned strategies.

68. This approach requires a change in the way donor agencies work with countries. Donors will need to support the country's strategy rather than follow their own, often different, visions of development. The emergence of genuine country-owned and managed poverty reduction strategies will require time and flexibility, and donors will have to find ways of providing analytical and policy advice without undermining ownership. Governments and donors will need to take a longer-term approach, which may require using longer-term planning horizons and support instruments than is the case now. More of the assistance will have to be integrated into a country's budget and follow budget planning cycles and implementation procedures. The approach also suggests that donors will have to be selective in providing support by favoring those countries whose governments have demonstrated a commitment to improve the well-being of their people.

69. Supporting country-owned poverty reduction strategies will hopefully go some way to achieving greater poverty reduction than in the past, but will not be sufficient if more aid is not made available. Aid levels declined through most of the Nineties (despite small increases in 1998 and 1999). They need to be restored, at least to the level of 1992. An important dimension of assistance to developing countries is debt relief under the enhanced Heavily Indebted Poor Countries Initiative, under which more countries will be able to obtain deeper debt relief faster. The enhanced Initiative links debt relief to the formulation of country-owned poverty reduction strategies, described above. There is a need to balance the desire for speed with the need for effective use of the resources provided through debt relief. The Initiative has not yet been fully funded, and it is important that the additional resources be mobilized to assure the delivery of debt relief to all eligible countries.

## G. Conclusion

70. Achieving the IDGs will not be easy, especially those for social development. However, meeting the IDG for income poverty may be feasible, given effective performance by developing countries, and support from the international community. This is largely because the two countries with the largest pools of poverty — Peoples' Republic of China and India — are presently on track to do so. The IDGs though, are global targets, and if individual regions or countries do not fulfill them, the spirit of the goals will not have been met. Hence, concerted efforts are required by all developing countries and their development partners in the donor community, if the world is to halve extreme poverty by 2015 and approach the other targets.



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71. IFIs, including the Multilateral Development Banks and the International Monetary Fund, have a central role to play at the country level, where they provide policy advice, and financial and technical support for long-term country-driven programs, as well as support to deal with shocks. The institutions also provide advice that helps governments create a sound environment for private sector development. They have a key role to play at the global level, where they can help shape international rules and ensure the provision of global public goods.

72. These are complex tasks that will require even greater collaboration and stronger partnership than in the past. The poverty reduction strategies now being prepared are providing a framework for enhanced collaboration between governments, IFIs and other external agencies, in support of country-owned programs.



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Appendix 1

# POVERTY REDUCTION FORECASTS

## Table 1: Optimistic Scenario

| Region | Assumptions 1998-2008 | | | Proportion of People Living in Poverty | | | | Number of People living below $1 day | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Consumption Growth* (percent) | Population Growth (percent) | Inequality Change (percent) | Baseline (1990) (percent) | Current (1998) (percent) | Projection (2008) (percent) | Target (2015) (percent) | Baseline (1990) (million) | Projection (2008) (million) | Target (2015) (million) |
| EA | 4.9 | 0.9 | 0 | 28 | 15 | 4 | 14 | 452.4 | 72.1 | 280 |
| EECA | 3.7 | 0.2 | 0 | 2 | 5 | 2 | 1 | 7.1 | 7.4 | 4 |
| LAC | 1.7 | 1.3 | 0 | 17 | 16 | 13 | 8 | 73.8 | 74.7 | 52 |
| MENA | 1.5 | 1.9 | 0 | 2 | 2 | 1 | 1 | 5.7 | 4.7 | 5 |
| SA | 4.0 | 1.4 | 0 | 44 | 40 | 14 | 22 | 495.1 | 205.9 | 369 |
| SSA | 1.0 | 2.3 | 0 | 48 | 46 | 42 | 24 | 242.3 | 329.8 | 218 |
| Total | | 1.3 | | 29 | 24 | 12 | 14.5 | 1,276.4 | 694.7 | 897 |

EA = East Asia; EECA = Eastern Europe and Central Asia, LAC = Latin America and Caribbean; MENA = Middle East and North Africa; SA = South Asia; SSA = Sub-Saharan Africa.

* Real per capita consumption growth

## Table 2: Less Optimistic Scenario

| Region | Assumptions 1998-2008 | | | Proportion of People Living in Poverty | | | | Number of People living below $1 day | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Consumption Growth* (percent) | Population Growth (percent) | Inequality Change (percent) | Baseline (1990) (percent) | Current (1998) (percent) | Projection (2008) (percent) | Target (2015) (percent) | Baseline (1990) (million) | Projection (2008) (million) | Target (2015) (million) |
| EA | 4.0 | 0.9 | +10 | 28 | 15 | 9 | 14 | 452.4 | 182.8 | 290 |
| EECA | 2.7 | 0.2 | +20 | 2 | 5 | 10 | 1 | 7.1 | 45.7 | 4 |
| LAC | 0.6 | 1.3 | +10 | 17 | 16 | 23 | 8 | 73.8 | 130.8 | 52 |
| MENA | 0.4 | 1.9 | +10 | 2 | 2 | 3 | 1 | 5.7 | 11.4 | 5 |
| SA | 2.4 | 1.4 | +20 | 44 | 40 | 31 | 22 | 495.1 | 465.0 | 369 |
| SSA | -0.1 | 2.3 | +10 | 48 | 46 | 52 | 24 | 242.3 | 406.2 | 218 |
| Total | | 1.3 | | 29 | 24 | 22 | 14.5 | 1,276.4 | 1,241.8 | 897 |

EA = East Asia; EECA = Eastern Europe and Central Asia, LAC = Latin America and Caribbean; MENA = Middle East and North Africa; SA = South Asia; SSA = Sub-Saharan Africa.

* Real per capita consumption growth

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**G8 MEETING WITH MBEKI/OBASANJO/BOUTEFLIKA/CHUAN**

There will be no time for bilaterals, but it would be helpful if you could have a word with Mbeki and Obasanjo, possibly together, in the margins. Main points:

- Want to work with you to galvanise international action in support of Africa. African leadership needed. How can we best work together?

- Issues: conflict resolution, free trade/economic reform, governance. We need to create a forum in which African and Western leaders set out a blueprint. Should involve Bill Clinton and Kofi Annan too.

- Needs proper preparation. Close advisers should get together in the margins of the UN Summit in New York. [You could hand over some of our initial ideas - attached.]

- **Mbeki only**

  Conflict diamonds: vital we take action to deal with the problem. Working closely with de Beers. Certification scheme for rough diamonds the best way forward.

  Aids: how did the Durban conference play in South Africa?
  [NB a tricky and sensitive issue for Mbeki]

- **Obansanjo only**

  Delighted you can come to London in September. Hope you will be able to come to Chequers (you will be there preparing for the Party Conference).

Nigerian debt: keen to find a way to provide debt relief.
HIPC not quite right for Nigeria. An IMF programme essential first steps.

# DEVELOPING A VISION FOR AFRICA:

## SOME IDEAS FOR FUTURE SOUTH AFRICA/NIGERIA/UK COOPERATION

1. **OAU Conference on security, stability, development and cooperation in Africa (CSSDCA)**: opportunity to build on OAU progress in 1990s on conflict resolution/promotion of human rights/constitutional government. Chance to share extensive UK/European experience of similar CSCE/OSCE process.

2. **African enterprise/professional e-network**: enhancing access to information/expertise by putting informaiton on-line with access in Africa facilitate, by the provision of PCs to professional bodies. This might be a first step towards a wider upgrade of IT networks in Africa (using public/private finance?)

3. **Focus on Africa week in UK in** second half of 2001 to widen the debate on Africa's future and showcase what Africa has to offer. Might include policy seminars, African arts and archeology exhibitions, music festivals, a football tournament.

4. **Cooperation in international organisations**, focussing on key issues for Africa at:

(a) **UN**, including, the full spectrum of conflict issues from prevention through to post-conflict reconstruction; environment (Rio plus 10) and non-proliferation;

(b) **Commonwealth**, including a kick-start to new world trade round (drawing on the CHOGM Fancour Declaration) and preparation for Rio +10.

5. **A Europe-African civil corps**, to provide a vehicle for professional institutions in Europe to link up with professionals in Africa and to channel and structure private sector support for Africa.

6. **Combating organised crime/drugs/small arms**. Our three countries face similar problems. Opportunity to exchange best practice and offer mutual support in tackling these cross border issues, including joint preparation for the 2001 UN Conference on Small Arms.

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  Aids: how did the Durban conference play in South Africa?
  [NB a tricky and sensitive issue for Mbeki]

- **Obansanjo only**

  Delighted you can come to London in September. Hope you will be able to come to Chequers (you will be there preparing for the Party Conference).

Old Federation Council was a

Yeltsin compromise following 1993.

But regional leaders have turned out to be

reps of the executive. Should be part of

legislature. Simple ruling here should have

been simple interesting here.

Our MPs have been getting involved in a

that was completely violating principle of

separation of powers.

Big debate about all this in Russia

right now

Seriously undermining the design of reform —

the absence of laws.

---

Power:

There is a vast ignorance of laws / structures in

the ec. ignorance? How is practice in this

to be tackled?

Putin

Work is [illegible] underway [illegible] (e.g. adoption of the code)

We want the collection to be transparent & effective. Service needs to be streamlined & downsized. Needs to be much more efficient.

No. of inspections needs to be cut

Small business [illegible] quickly. But it is true that we will not be able to get all over [illegible] through in one swoop

Sure: very difficult — e.g. local code

moral regulation

disputes over local tenure — very tricky issue.

Other issues are more pressing — e.g. regulation the inspectors.

There is layer after layer of regulation. For two new businesses in Russia — sense of need regulation, excessive uncoordinated inspections

- 2) the complexity & lack of transparency

Mori

- we fully support you

- TRADE

We all agree on the desirability of having a new round this year. However, rising deficits/current are not very keen. We need to convince them of the benefits of the new round. We need to ensure they benefit. Must be down-sized round.

We need to help build their trade agenda

Need to send a clear signal on this

Clinton

I agree: we should try & launch a new round before the end of year.

We should help [illegible]

capacity

to scale down [illegible] different views

often contradictory

We should ask [illegible] we can and get

stuff as low as we can.

But we must ignore [illegible] of globalisation. Need to

[illegible] way of taking [illegible] measures re

environment, human rights etc.

Clinic

Agree — but we should be cautious.

should say "if possible" before each [illegible]

TB

important to be realistic. But

desperately important to send a clear signal

of our determination to get stuff

We must send a strong signal

- There will be some difficulties for us

of us

Putin

Russia intends to proceed with a view to

- joining WTO in normal way

Letter transmitted by the relevant documents.

In doing we do not want the holding of a

new round

Modi

- New round is indispensable

But to meet concerns of Seattle people, we need

to specify that the round must include

environment & employment in social society

+ new investment

TB

— the scene description should not determine our position. In the end we must exercise locality. There is no doubt that applying of rule is essential for developed & LDCI state

Christian

We have to move.

We can't reorganize these people into the forest

Let's talk a reading. They will the work.

They are well-organized. But so what?

Solution

Perhaps we should build the next conference in Canada!

Arsto



I fully agree with Clarkian.

They say they represent social security. But we are the elected ones!

I'd like to see who they actually represent?

On issues, the campaign takes into account social goals & environment.

But this is not to say we are opposed to free trade. We need to get down to talking with developing countries - who perceive these issues are protectionist. NGOs do not represent LDCs.

Clarkians

They are both right.

What we are seeing is the birth pangs of globalisation we have global warming. We want India / China to get rich; but in a different way than they did. If we emit it to other studies IL Oth. - we need

- to give them truth

You can't have a global economy without having a global society. Need Jesus

But can't solve these problems (like world hunger) unless we get to know God? If not,

- Don't say "if possible" : As if it's OK!

Christian

Why don't we just do it? We are just too scared to look a fool

Let's now look at!

- Clinic

There's a very good reason to care about this:

- old civilisations. (15th. OK = not white living centre in Asia

Yes - we must have a new round.

We need to work quickly. If we can

do it before the end of the year - good.

But "if possible" is more polite to

[illegible] customers

Arrow

Yes - we cannot give impression that we have taken

the decision.

But strong language is fine

Petri

If I were French I'd give it Claire

But Germans do not represent figure.

So no need to hide or root in the energies!

Nori

No disagreement on need to launch new round.

Clinton

[illegible] you are a good thing!

Schroeder

[illegible] economic reform [illegible]

To [illegible] them that laws are not

[illegible]. [illegible] to restructure

[illegible] & create right climate for

investment

Putin

Russia's decision re right of President to seek

[illegible] to break federal law. This is very

extraordinary. Like [illegible]. Putin is

useful tool. Part of a process of stabilising a single

legal system across the whole country; bringing

regional laws into line with federal law.

financial relationship is important

Central Bank is well aware of its role. Currently we will review its relationship with commercial banks. Brazil is great with Inf. should read a lot in the system.

Part I

Why encouraged by this

with your study relationship, hope there will be further economic return

Putin

Can I just add?

82/89 part of Federation are slowing growth only 7 are slowing zero growth or (-ve)

Schroders

→ should we report what we said yesterday?

**Okinawa G8 Summit** **Prime Minister's Brief**

## Roundtable with Africans / Thai / UN / IT CEOs

### References

A. Personality Reports: President Mbeki, President Obasanjo, President Bouteflika, Prime Minister Chuan;
B. CV of Vernon Ellis and note on Andersen Consulting's work on Digital Divide
C. Poverty Report

### Points to Make

**Debt**

- As you know, deeply concerned about the social and economic impact of unsustainable debt burdens. UK a leading advocate of the debt relief campaign.

- At Cologne we agreed substantive enhancements to HIPC Initiative. Still committed to ensuring that ¾ of eligible countries reach decision point by the end of this year. But concerned that progress has been slow.

- Took time to get the procedure right. But have set up Joint IMF/World Bank Implementation Committee to overcome blockages, and countries now moving through quicker.

- Deeper problem of conflict. 10 of the countries eligible for debt relief under the HIPC initiative currently in conflict. We cannot release resources to fund wars. Our public would not accept it, and it will not help reduce poverty in Africa. But we can fast-track debt relief when conlict has ended, and have committed to doing this.

- Key is make the Poverty Reduction Strategy Papers (PRSPs) work. They will help ensure that resources released from debt service are used on health and education, and create a virtuous circle of development and of public support.

- (**If pressed on new initiative**) Priority is to make existing HIPC work first. Any further relief initiative would have to be based on demonstrating that PRSPs work.

**Globalisation**

- But, important though debt relief is, essential we focus on the bigger picture, as set out in the Global Poverty report before us. Increasing global integration creating new opportunities for development. Advances in science and technology have potential to transform economies and societies. But these opportunities must be open to all – as yet they are not.

- Our responsibilities as leaders to work together to find new solutions. Must ensure all our citizens have fair chance to participate in global economy. And must forge new strategic global partnerships – north/south, public/private - to meet new common challenges.

**Trade**

- Global free trade one such challenge. A key driver of economic growth and poverty reduction. Support launch of new round of trade negotiations, with broad and inclusive agenda, reflecting interests of all WTO members. Want to see assistance to support and manage trade liberalisation as a central element of IFI Poverty Strategies.

- But big global bodies - like WTO - must become more responsive to members' needs, with developing countries able to participate actively and fully.

**Health/Biotechnology**

- Improving health another key challenge. Good health essential to social and economic development, personal and collective advancement. Dramatic new advances in medical science. But clear message at Durban HIV/AIDS Conference last week that benefits of medical advances not being felt by all.

- Must focus on clear targets to reduce infant and maternal mortality rates and provide universal access to reproductive health services.

- And need new innovative global partnerships to make existing drugs more affordable and stimulate the development of new drugs. Building these partnerships a priority on the G8 agenda over the coming year.

- Will announce at Okinawa a doubling of UK funding for communicable diseases and for global efforts to improve accessibility to drugs and technologies and develop new medicines for priority diseases of developing countries.

- Should also make sure developing countries engaged in biotechnology developments – and their impact on food and crop safety and security. Potentially you have much gain; but also need to learn from our experience of trying to get to grips with the risks. Developing countries played key role at Edinburgh GM conference in February. Our Panel proposal would help developing countries keep up to speed with emerging developments in the science.

**Education**

- Basic education a human right and a prerequisite for development. Unacceptable that in the year 2000 more than 113 million children have no access to primary education. We deny them rightful role in global society and doom them to life of ignorance and poverty.

- Must work together to meet Dakar goals. Over past three years UK has committed over £350 million to support development of universal primary education programmes. Must all, as leaders, look to raise priority of education in our societies.

- Potential for exploiting new technologies in education and lifelong learning. In March launched "The Imfundo Project: Partnership for Technology in Education". Focus on Sub-Saharan Africa and harnessing ideas and resources of private sector to the needs of education in developing countries. Will look particularly at using ICTs in teacher training, thus spreading the impact of the Internet right out into the poorest and most remote of rural primary schools.

- **Information and Communication Technologies**

- Spread of Internet and mobile telephony into poorest parts of the world – and throughout Africa - success story of recent years. Tremendous potential for transforming lives around the world.

- But huge digital divides over access to new technologies. Costs of accessing new ICTs still put them out of the reach of the vast majority. Challenge for us as leaders to make new ICTs more inclusive and more widely affordable.

- Experience points to need to liberalise domestic markets, and develop local capacity and content. But no country can do this alone. Welcome range of new international initiatives to help transfer technical expertise, and address wider public policy issues - including UNDP/ITU trustfund [and UNDP/Andersen's planned collaboration **– only if Vernon Ellis announces the Andersen project first - at this meeting**]. Digital divide is an ongoing priority for G8.

- Great opportunities for us as governments to reinvent ourselves through innovative use of new technologies.

- **(Obansajo's trip to London - if raised)** Look forward to possibly seeing you in London in September.

- **(UK/Nigerian debt – if raised)** UK has taken a forward position in G7/Paris Club on Nigeria's external debt problems; no other creditor has gone further. Need a strong IMF programme in place as first step towards debt treatment.

- **(South African concerns about UK conflict diamonds initiative – if raised)** Today South Africa chairing second meeting of Kimberley Working Group in London. Protecting the interests of legitimate producer states such as South Africa one of our key policy aims. But unless we take robust measures against conflict diamonds the entire industry will suffer.

**Background**

1. **Handling:** The roundtable – an unprecedented gathering for the G8 - is designed to bring leaders from the developing world, international organisations and the private sector into the G8 Summit process. Mbeki (South Africa/chair of Non-Aligned Movement), Bouteflika (Algeria/Organisation of African Unity), Obasanjo (Nigeria / chair of the G77) and Chuan (Thailand/Association of South East Asian Nations) will be there throughout. Halfway through, Brundtland (World Health Organisation), Malloch Brown (UN Development Programme), a World Bank official and a number of business leaders from the ICT sector, including Vernon Ellis, of Anderson Consulting, will join you.

2. The Africans will want to talk about debt – perhaps calling for the total cancellation of Africa's debt. ICTs, health and education are on the agenda, within the broader theme of "globalisation and challenges for development". You may wish to draw out some broader priorities for leaders in a globalising world (beyond debt!) and build in references to trade issues and to the importance of improving government.

Debt

3. Heads will review and press for progress on the HIPC initiative at Okinawa. The UK has been always been a leading advocate. At Cologne, we pushed for and obtained agreement to an enhanced HIPC initiative - we pressed for more but there was no appetite for it among colleagues. Nonetheless, the enhanced HIPC initiative will still provide more than twice as much debt relief as the original one. We have also made a significant bilateral contribution to the costs of the HIPC initiative. The International Financial Institutions cannot meet all the costs out of their own reserves. The UK has, therefore, pledged over $350 million to the HIPC Trust Fund – the largest single pledge by a bilateral creditor. Additionally, in December we announced that we would cancel all remaining bilateral debt owed to us by countries that come through the HIPC process. All other G7 countries have now announced additional debt relief.

4. We share African concerns that the initiative is not delivering benefits fast enough. The timetable for getting countries through the process has slipped and we are in danger of missing the targets set at the Cologne Summit. Primarily that ¾ of eligible HIPCs reach Decision Point by end-2000. But the delay is not all the fault of the G7. 10 of the countries eligible for debt relief under the initiative are in conflict. Others are off-track with their IMF economic reform programmes. In both cases we cannot be sure that the released resources will be used to benefit the poor. So one of the pre-conditions for receiving debt relief is that the country must draw up an effective and inclusive Poverty Reduction Strategy Paper (PRSP). This process is taking longer than we expected. The UK has consistently argued that an Interim PRSP should suffice (ie a road map to a full PRSP). At the Spring Meetings of the IMF and World Bank, we also argued for a Joint Implementation Committee to overcome blockages in the HIPC the process; the proposal was accepted. We have also announced that debt relief will be fast-tracked for post-conflict countries.

Globalisation and Poverty

5. At last November's CHOGM, chaired by Mbeki, Commonwealth Heads adopted the Fancourt Declaration on Globalisation, which included the recognition that "Globalisation is creating unprecedented opportunities for wealth creation and for the betterment of the human condition".

6. We see the Report on Poverty Reduction, called for by the Cologne Summit and attached at Ref C, as a key document for ensuring that world attention remains focused on the development targets. Future Summits will receive an annual poverty report from the international financial institutions, which will allow Heads to review progress towards the targets each year: this is a key UK objective. We have also used the Report to reinforce our message to G8 partners on the importance of improving the effectiveness of aid (which includes aid untying).

Trade and Global Governance

7. The WTO's General Council launched mandated agriculture and services negotiations in February and, in parallel, consultations on how to rebuild developing countries' confidence in the WTO. A successful launch next time will require that the necessary political conditions are in place. We believe there is a need to address reform, with an emphasis on consensus building and communication. We see trade openness as key to economic growth and rising prosperity in developing countries. We hope the recent review of the Integrated Framework (for co-ordinating trade assistance to developing countries) will set the basis for closer co-operation between international organisations, including assistance for trade reforms in PRSPs.

8. Many international and regional organisations are seizing on the opportunities of the Internet to improve their accessibility and efficiency. Results are mixed. We and others have reservations that the World Bank's proposed new portal - the Global Development Gateway – is too top-down. But the WTO, UNCTAD, Commonwealth and others are using the Net to set up regional and global trade networks, which could play a useful role in building developing countries' negotiating capacity and confidence. And Internet access to news from global bodies can help developing countries build up their understanding of the issues and bridge conventional barriers of distance and under representation.

Health/Biotechnology

9. Mbeki and Brundtland will be fresh from the 13th International AIDS Conference, in Durban from 9 - 14 July (the first time the Conference has been held in a developing country). Attendees discussed how to overcome cultural taboos about sex and HIV/AIDS. There was also keen debate about vaccines and the prices of antiretroviral drugs (ARVs). Widespread ARV treatment remains expensive, despite agreement in May by five major pharmaceutical companies to reduce the price of ARVs to developing countries.

10. Some developing countries see intellectual property rights (IPRs), and the WTO TRIPs agreement they have signed up, to as a barrier to greater availability of pharmaceuticals at affordable prices. We support innovative public/private approaches to make medecines more affordable, but within current IPR frameworks. We believe TRIPs provides the necessary incentives to pharmaceutical companies for researching and developing products. There are plans for a G8 conference later in the year to look at the question of new public/private approaches to health (although we should not come out with this today until the Japanese do.)

11. We also believe that more affordable drugs are no magic bullet. We pushed for specific, but achievable targets in the Okinawa communiqué, focussing on outputs. Meeting them will require major and sustained commitment from all players, including developing countries, to improve health systems on the ground.

12. The pitch for the International Panel on GM is made because South Africa and Thailand are two of the countries who participated in the Edinburgh Conference and who have supported our proposal for further work in this area. Could help convince others of its value. For the domestic debate, the participation of developing countries is key – even our most hostile media acknowledged at Edinburgh that many developing countries – China, India, S Africa – had a stake in the future of the technology as well.

Education

13. Education is a UK priority. Clare Short attended the World Education Forum in Dakar in April. Dakar resulted in strong political commitment to Education for All (EFA), recognition of the importance of education as part of poverty reduction strategies, and agreement on the need for more investment by governments and the international community in basic education. The Dakar Framework for Action establishes the principle that no country seriously committed to education for all will be thwarted by a lack of resources and calls on bilateral, multilateral and private donors to respond appropriately. UNESCO was given an important role in taking this forward. The UK is committed to the International Development Target of achieving UPE by 2015. Over the past 3 years DFID has committed over £350 million for the development of universal primary education programmes, primarily in sub-Saharan Africa and South Asia.

14. Imfundo was launched in March (the word means "knowledge, education, learning" in Ndebele and Zulu). The initiative will look at the scope for developing public/private partnerships to use ICT to improve the quality of, and widen access to, education in developing countries. A number of pilot projects will be set up to identify and appraise opportunities to use ICT in innovative ways to support education in developing countries. A "knowledge bank" of short papers on various aspects of ICT in education will be produced to assist future project developers in this area. The Initiative will focus on education in Sub-Saharan Africa and will present plans to the Commonwealth Education Ministers meeting in November.

Information and Communication Technologies

15. High level discussion of ICT/development at the 5 – 7 July UN Economic and Social Council (ECOSOC) was surprisingly cordial. Even the G77 seemed ready to accept the central tenet of the G8 Information Society Charter that ICT development will be primarily industry led. Malloch Brown announced at ECOSOC a new UNDP/ITU trust fund to improve developing countries "e-readiness." He is also interested in a role for UNDP in promoting e-government for developing countries. African governments have been particularly slow to embrace the opportunities ICTs represent for improving their own transparency and efficiency.

16. The Charter establishes a G8 Digital Opportunity Taskforce, to work closely with other stakeholders and report its findings and activities before the Genoa G8. The taskforce will consist of one private and one public sector representative from each G8 country and the EC. Subject to your views, Vernon Ellis (Andersen Consulting's representative at the meeting) is likely to be ours. Ref B outlines the work Andersen's are doing on digital divide issues, and flags up their plans for a $5m project with UNDP and others – to be announced at this meeting.

17. We have argued strongly that the DOT.force needs to focus on practicalities and economics. The costs of accessing the Internet in many developing countries are currently prohibitively high for most potential local consumers. In Uganda or Kenya 20 hours of off-peak use is over US$100. The US average is less than $30. The key barriers to bringing down access costs need to be tackled within developing countries, through market liberalisation to increase competition, reduce access costs and attract investment. But some critics, particularly in Africa, argue charges are so high because of market dominance by a few large international internet backbone providers. International telecoms costs typically account for more than half the budget of developing country Internet Service Providers. Consumers inevitably bear the brunt. We have argued for the G8 to identify commitments that we can share with developing countries: developed countries undertaking to promote competition in international markets and put in more public/private money, developing countries to promote competition at home, and build visionary, inclusive national ICT strategies.

Obasanjo

18. Obasanjo is provisionally scheduled to visit the UK on the 11 September, but dates are not confirmed. This follows an invitation issued at CHOGM in November last year. The dates were proposed to the Nigerians in a letter from you to Obasanjo delivered by the Deputy Prime Minister during his visit in June.

19. He may raise bilateral debt. The UK is Nigeria's largest creditor. We are owed around $6bn. Nigeria's total external debt is about $32bn, most of it built up through arrears and penalty interest as previous Nigerian government have failed to honour their obligations. We have said we wish to support the Nigerian democratic government. If Nigeria devoted its resources to economic reform and poverty eradication through an IMF programme, the UK would push for a generous and understanding treatment for Nigeria's debt at the Paris Club group of creditors.

20. The first step is for Nigeria to agree an IMF programme. It will then be able to approach the Paris Club. The IMF programme has taken a long time to agree but

we understand that IMF staff are now close to completing negotiations with the Nigerians. We have encouraged the IMF to ensure the programme is robust with performance criteria which will give Nigeria a demonstrable track record of reform. This will pave the way for a further debt treatment once Nigeria has established its commitment to reform. A weak programme would damage the IMF's, and Nigeria's, reputation and would not provide a track record of reform.

Mbeki's quasi Marshall Plan for Africa

21. At the UK/South Africa Forum in May, President Mbeki discussed privately with you the prospects for Africa and how to generate stability and prosperity. Mbeki's ideas centre on a quasi-Marshall Plan for Africa which includes investment, transfer of capital, development assistance and dealing with the IFI's. Whilst we welcome Mbeki's approach in broad terms, we believe there should be a more balanced political/economic agenda, including good governance and democracy. Mbeki has had similar discussions with Clinton (during the former's State Visit in May), the Nordic countries and, more recently, with EU Heads at Feira. All gave their broad support for Mbeki's principles. No 10 officials are pursuing both with South African and Nigerian Presidential Offices Mbeki's proposal for a small group of senior leaders to take forward his ideas.

Mbeki's Concerns about Conflict Diamonds

22. The South African High Commissioner in London has told us that Mbeki may raise concerns about UK led work on conflict diamonds. We have held up South Africa as an example of how a well-regulated diamond industry can contribute to economic development, and worked closely with them in developing our proposals. You discussed with Mbeki in London in May. Peter Hain wrote to Zuma (South African Foreign Minister) earlier this month, setting out our ideas on a global certification scheme for rough diamonds and an international conference to negotiate such a regime. We have welcomed South African leadership of the Kimberley process, which brings together producer and marketing states with the international industry and civil society. We are hosting the second meeting of the Kimberley Working Group, which South Africa will chair, on 20 July in London.

(A)

**OBASANJO, General (Retired) Olusegun**

President wef 29 May 1999.

Born March 1937 in Abeokuta, Ogun State. Egba Yoruba. Catholic.

Educated at Abeokuta Baptist High School. Commissioned in the Nigerian Army (1959). Mons College (1960-61). Royal Engineers Young Officer's Course Shrivenham, and Indian Staff College Course (1965).

Commander Ibadan Garrison (1967-69). Commander 3 Marine Commando (1969-70) and concurrently Chief Engineer. Brigadier (1972). RCDS (1973-74). Federal Commissioner for Works and Housing (January 1975). Promoted Lieutenant General in January 1976.

Became Head of the Federal Military Government (Head of State) February 1976-79 following the assassination of Murtala Mohammed. Restored civil rule under a new constitution in 1979 and retired to run his large farm at Ota, Ogun State.

Following retirement he travelled extensively and took a close interest in international affairs. His African leadership forum attracted world leaders such as Ex-Chancellor Schmidt. He is a former Chairman of the anti-corruption body Transparency International and was a prime mover behind the African Human Rights organisation. He played a leading role as Joint Chairman of Commonwealth Eminent Persons Group, where his views were generally moderate and sensible. He entertained Nelson Mandela at his farm in May 1990. He visited South Africa in August 1990 at Banbangida's behest. Failed in his bid as an African candidate for UN Secretary-General in 1991.

In March 1995 he was detained for alleged involvement in a coup plot to topple Abacha's government. He was subsequently tried and convicted by the (Aziza) military tribunal. He was sentenced to 25 years imprisonment, which was later commuted to 15 years.

He was released from prison in June 1998 within a week of Abubakar's installation. He joined the People's Democratic Party (PDP) and won the Presidential election on 27 February 1999.

Several traditional and legal marriages. One estranged wife was murdered in 1987.

Met the Prime Minister in London shortly after his election in March 1999. Also had talks with him at CHOGM in November 1999.

**MBEKI, THABO MVUYELWA**

President of South Africa since June 1999.

Born Transkei 1942. Left South Africa in 1962. Studied economics at the University of Sussex, graduated 1966 with an MA. 1967-70 worked for the ANC office in London before undergoing military training in the Soviet Union. Became ANC Deputy President in December 1994 and President in December 1997.

Mbeki was the power behind the throne throughout the life of Mandela's Presidency. He is able, intellectual, energetic and impressive, though he can be elusive. Overall a moderate and pragmatic. Not, in contrast to Mandela, a traditionalist: Mbeki has little time for his Xhosa roots, preferring the poetry of Yeates and a glass of whisky.

Since his election as President, Mbeki has worked to create the impression of a government working hard to deliver. He has a firmer hand on his Ministers than Mandela did. Speaks eloquently of the need for an African Renaissance and for better treatment of Africa by the developed world; but equally on the need for Africans to help themselves and for respect of human rights. Understands the need for a pragmatic economic and internal policy to retain international confidence. But suspicious of the press and strong anti-sexist, anti-racist views.

Wife, Zanele, prefers to stay out of the limelight. No children.

12 May 2000

Mr. GNANGNDRAN Eclr.
K3369 -

BOUTEFLIKA, ABDELAZIZ

Former Foreign Minister to Boumedienne.

Born in 1937 in Oujda (Morocco) of a Tlemcen family. He joined underground in 1956. Served in Wilaya 5 (Oran) and at Oujda. Later Secretary-General of the ALN General Staff in Tunisia. Among the first to join Ben Bella's "Tlemcen Group" in external struggle for power immediately after Independence in July 1962. Acted as spokesman for Colonel Boumedienne. Elected Deputy for Tlemcen to National Assembly in September 1962. Minister of Youth and Sport in Ben Bella's first government. Appointed Minister for Foreign Affairs in September 1963 (the youngest Foreign Minister in the world). Retained his post following the 1965 coup which brought Boumedienne to power.

He travelled extensively. At the UN General Assembly in 1972 he called for the introduction of a New International Economic Order (NIEO) and played an important rôle subsequently when Algeria led the Non-Aligned Movement. Conducted an aggressive foreign policy intended to ensure her leadership of the Arab and Third Worlds. President of the General Assembly in 1974–75, Chairman of the 1975 OPEC Conference in Algiers and of the Arab League Council between March and September 1977. After Boumedienne's death in December 1978, Bouteflika was regarded as one of the main contenders for the Presidency, and as favouring greater economic liberalisation. In March 1979 appointed Minister-Counsellor to the President. In 1983 he lost his post and was investigated by the Cour des Comptes. He is said to have been convicted of speculation and to have had a large fine imposed. Went into exile in Paris 1983. Rumoured to have been pardoned in 1985 and was visible at Algerian National Day reception in November 1985. Attended the FLN Extraordinary Congress in November 1989, as one of the "former leaders of the revolution". Reported to have received the warmest standing ovation given by the Congress. Elected to the FLN Central Committee. Regarded one of the foremost of the "Old Guard" pressure group within the FLN but now something of a spent force.

A bachelor and a reputed womaniser, he is a tiny man with a big moustache and blue eyes. Speaks both French and Arabic well. Not a man on whom it would be prudent to turn one's back.

BRAHIM, CHIBOUT

Minister of Moudjahideen (War Veterans)

Born in 1927 in El Harrouch near Skikda. Trained as a lawyer. Commanded an Army 'Zone' in Wilaya II during the War of Independence. Condemned to death. Became a Wali after independence, then a Deputy in the National Assembly. Was President of the APN's Juridical and Administrative Commission. Appointed to his present post in June 1991, re-appointed by Abdesselam.

Married.

## CHUAN LEEKPAI

Prime Minister (November 1997)

Leader Democrat Party.

Born 28 July 1938 in Trang (South Thailand). Holds a law degree from Thammasat University. Elected MP for Trang since 1975. Deputy Minister of Justice in 1975 and Minister attached to the Prime Minister's Office in 1976, when he was one of the principal targets of rightist agitation because of his allegedly left-wing views. Acknowledged as leader of the Democrats in the South, he was narrowly defeated in the 1979 party leadership election by Thanat.

Appointed Minister of Justice, Commerce Minister, Minister of Agriculture and Minister of Education in various administrations under former Prime Minister Prem, a fellow southerner..

Having been elected for the sixth time in Trang, he was appointed Speaker of the House of Representatives in August 1986, and performed with impressive tact and skill. Established a statesman-like reputation within the Democrat Party. As Minister for Public Health under the Chatichai Government (1988) his reputation as an honest broker grew, especially with his forthright approach to AIDS in Thailand. Later served as Deputy Prime Minister, then as Agriculture Minister until December 1990, when the Democrats left the coalition.

Chuan Leekpai was elected party leader in 1991. His steady but non-confrontational style during the campaign against the appointment of General Suchinda as Prime Minister ultimately propelled the Democrats to victory in the 13 September 1992 elections and his appointment as Thailand's 20th Prime Minister. Led the longest democratically elected Thai government until July 1995. Earned himself respect both domestically and internationally for his commitment to reform and his lawyer's thoroughness.

He visited Britain in April 1982 as a member of Prem's ministerial party, and as a Category I visitor in 1989. He admires the British democratic model.

Rightly criticised during his 1992-95 term for being slow to make decisions, and as a compromiser. His failure to interest himself sufficiently in finance and the economy was only partly compensated for by the appointment of excellent ministers in these fields. Tended to give Cabinet Ministers too loose a rein. Administration fell in 1995 after a no-confidence debate centred on one of his MP's alleged involvement in a land reform scandal. His political skills are nevertheless undoubted, his personal integrity unchallenged, and he retains the image of an ordinary Thai, not a member of the elite.

Chuan returned to power in November 1997, following the resignation of the government led by General Chavalit. Chuan's second term as PM has reinforced his reputation for being slow to make decisions and for being overly indulgent of tainted colleagues. But he and his government have pushed through important political and economic reforms and Chuan remains popular, particularly in the South and among the Bangkok middle classes. He stands a reasonable chance of returning to power for a third term after the next election (probably in mid-2000) particularly if the economy starts to pick up steam. But changes in the PM

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nomination procedure under the New Constitution (giving a bigger role to MPs in the selection process) may work against him and enable an anti-Democrat coalition to gain power.

Principal hobby is drawing (he famously scribbled cartoons of ASEM leaders at the 1998 summit in London).

Long believed to be single, he unexpectedly revealed in 1991 that he had a young son. The mother is referred to as his wife, but rumours persist that they are not married. She does not live with him or attend official functions.

Although he understands English quite well, he does not speak it fluently, and prefers to use an interpreter at official meetings. Reputation for being a sharp orator, his nick-name in Thai politics is a "razor-tongue coated with honey".

**ELLIS, Vernon James** International Chairman, Andersen Consulting, since 1999; *b* 1 July, 1947, *s of* Norman and Phyllis Ellis. *m* 1972 Hazel Marilyn Lucas, one *d* , one *s* . *Educ.* Magdalen College School, Oxford; Magdalen College, Oxford, MA PPE (Hons) 1969; FCA. Consultant Andersen Consulting, 1969; Partner 1979; Managing Partner, UK, 1986; Managing Director, Andersen Consulting Europe, Middle East, Africa and India, 1989; Council Member, World Economic Forum, 1999-; Member, Business Advisory Council, Britain in Europe, 1998-; Trustee, Centre for European Reform 1998-; Member, Advisory Council, the European Movement, 1997-; Member, Development Committee, Magdalen College, Oxford, 1999-; Member of Advisory Council, Said Business School, University of Oxford, 1996-; Foundation Board Member, IMD, Lausanne, 1996-; Board Member, Prince of Wales Business Leaders Forum, 1997-; Member, Industry and Commerce Committee, Save the Children, 1996-; Member, ENO Advisory Council for the Bayliss Programme and the Contemporary Opera Studio 1997-99; Chairman of Trustees, The Classical Opera Company, 1996-. *Publications:* Co-author of Britain, Business and Europe (1998), Reconnecting Europe (1999), eEurope Takes Off (1999). *Recreations:* Music, opera, theatre, gardening, wine, cooking, photography. *Address:* Andersen Consulting, 2 Arundel Street, London WC2R 3LT. Vernon.J.Ellis@ac.com

**ANDERSEN CONSULTING WORK ON THE DIGITAL DIVIDE:**

The 'Digital Divide', with many individuals and communities across the world getting little direct benefit from information and communication technologies, is of special relevance to Andersen Consulting and other firms working closely with the new technologies.

While the phrase 'Digital Divide' is popularly used, Andersen Consulting sees the issue more as a matter of enabling those individuals and communities who have so far been excluded to use new technologies to support their economic, social and cultural development. A large part of our business consists of helping clients recognise and then seize the business opportunities made available by these new technologies. Our skills are highly transferable, and we have many young and idealistic people who are eager to help make a difference. We are working with a number of business organisations, including the World Economic Forum and the Global Business Dialogue on e-Commerce to find the best ways in which the firm and the private sector generally can best contribute towards getting those 'digitally excluded' to get real benefit from the new technologies and the opportunities they bring.

Andersen Consulting and individual staff have also been involved in a wide variety of projects to help bring the benefits of the technologies to disadvantaged groups, communities, etc. especially in education - encouraging disadvantaged youth, but also e.g. in web-enabling AIDS professionals to communicate in UNAIDS initiatives. Andersen Consulting was a pioneer in this area with the Cambridge Childcare Project to help single parents into work, and continues to increase its level of commitment to appropriate projects in developed and developing countries alike.

The Andersen Consulting focus on helping the 'digitally excluded' to find the benefits which are relevant to them is a little different from the natural focus of many of the companies which are involved in providing hardware, software and services, which often focus rather more simply on supply and provision – 'connectivity'.

It is expected that at Tokyo the leaders of the G-8 will endorse a "call to action" to the international community on the issues. As an important part of the response to this, it is proposed [Note: news embargoed until 20 July] that Andersen Consulting would be working with the United Nations Development Programme (UNDP) and with input and expertise from a wide range of other organisations including the World Bank and developing countries themselves to mobilise all sectors in the international community to bridge the global digital divide. The mechanism for this is the development of a strategy, targets, an implementation plan and a series of major initiatives for bringing information and communications technology into play for the benefit of communities not yet in a position to take full advantage of them. The approach taken on this has been shared with DfID experts who have similar concerns that the issue should be tackled from a sound developmental standpoint.

Andersen Consulting expects to contribute more than $3 million worth of personnel and other resources to the 12-month project, which with those of UNDP and others would make an initiative of more than $5 million.

The 'Digital Divide' is seen as part of the 'business in society' debate. Andersen Consulting regards the relationship between business and others in society as a key issue, not only for the firm's own operations, but for the success of client companies and business generally. And it is of paramount importance for the communities and economies in which business needs to prosper. In addition to the work specifically on the Digital Divide, Andersen Consulting is working in the Prince of Wales Business Leaders Forum and in other fora to bring these concepts into the heart of companies' operations and thinking. And we are working with business schools and others to bring these concepts to the next generation of business leaders.

Andersen Consulting is an $8.9 billion global management and technology consulting organization whose mission is to help its clients create their future. The firm works with clients from a wide range of industries to bring about far-reaching change by aligning their people, processes and technology with their strategy. Andersen Consulting has more than 65,000 people in 48 countries. The CEO, Joe Forehand, is based in the US. The International Chairman, Vernon Ellis, who will be at the 20 July meeting, is British and is based in London.

2000年 7月14日 13時24分 外務省 総務参事官室 NO. 0490 P. 3/29

African Development Bank

Asian Development Bank

European Bank for Reconstruction and Development

Inter- American Development Bank

International Monetary Fund

World Bank

G8
Okinawa Summit
July 2000

# GLOBAL POVERTY REPORT

July 2000

受信時刻: 7月11日 18時18分

## EXECUTIVE SUMMARY

Poverty goes beyond lack of income. It encompasses economic, social, and governance dimensions. Economically, the poor are not only deprived of income and resources, but of opportunities. Markets and jobs are often difficult to access, because of low capabilities and geographical and social exclusion. Limited access to education affects the ability of the poor to get jobs and to obtain information that could improve the quality of their lives. Poor health due to inadequate nutrition, hygiene and health services further limits their prospects for work and from realizing their mental and physical potential. This fragile position is exacerbated by insecurity. Living in marginal conditions with no resources to fall back on, shocks become hard or impossible to offset. The situation is made worse by the structure of societies and institutions that tends to exclude the poor from participating in decision-making over the direction of social and economic development.

### Progress and prospects

The last century witnessed major improvements in the health and education status of many, reflected in declining infant mortality rates, increasing life expectancy, and higher literacy rates. However, 1.2 billion people are estimated to still live on less than $1 per day, and almost 3 billion on less than $2 per day. 110 million primary school age children are out of school, 60 percent of them girls. 31 million people are infected with HIV/AIDS. And many more live without adequate food, shelter, safe water, and sanitation.

Poverty in the midst of plenty is one of the central challenges in today's global economy and society. Fighting poverty is both a moral imperative and a necessity for a stable world. In recognition of this, the international community adopted International Development Goals during the 1990s. However progress in meeting these goals has been slow and uneven across regions, while some parts of the world have retrogressed, with poverty increasing in countries of the former Soviet Union, and mortality rates deteriorating in Africa due to the HIV/AIDS epidemic. If trends of the past decade continue or worsen, the International Development Goals are not likely to be achieved. The global community needs to make a concerted effort to accelerate progress and more effectively address the causes of poverty at country and global levels.

### Actions at the country level

The lives of poor people are most affected by actions at the country level. Countries need to get on a path of sustainable, pro-poor growth that provides opportunities for all, a voice in decision-making and protection from shocks.

Achieving sustainable, inclusive and broad-based growth and opportunities requires a sound macroeconomic framework. Policies that promote low inflation, realistic and stable exchange rates, reasonable fiscal deficits, effective integration into the global economy, and private sector activity, are all needed. Investments in the physical and financial assets of poor people are also necessary — adequate schooling and skill development, secured nutrition, preventive health care, rural infrastructure and credit.

Providing a voice in decision-making means pursuing the involvement of poor people and society at large in policy/program design and implementation. Transparency and accountability contribute to a well-informed public debate and result in better policies with wider support. Broad participation can help improve the management of public expenditures by

pushing shifts in resources toward priority areas and avoiding unproductive spending, such as generalized subsidies and excessive military spending. Broad participation may also lead societies to confront issues of social and economic inequality that are obstacles to poverty reduction.

- Providing social protection to the poor requires mechanisms to mitigate the impact of local and national crises and to reduce vulnerability. These include subsidies targeted to the poor, public works and "food for work" programs, sustainable, well-designed pension, unemployment and social assistance programs, and severance payments to those laid off during civil service retrenchment or public enterprise reform.

**Actions at the global level**

At the international level, factors such as globalization, the volatility of commodity prices, the availability of knowledge, and flows of private and official capital have a powerful impact on poor countries and their ability to reduce poverty. Advanced countries have an important role to play in contributing directly to the fight against poverty, as well as through the role they play in international organizations.

Actions are needed to ensure that opportunities for poor countries are expanded. Industrialized countries should strive to sustain steady global economic expansion to provide the demand conditions for developing countries and to open their markets more completely to imports from developing countries (especially in agriculture, labor-intensive manufacturing and services), within a rules-based trading system. Donor countries should strive to increase aid flows to the poorest countries and to complete financing for the enhanced HIPC initiative — with aid increasingly targeted at country-driven, poverty-oriented programs. The international community should provide increased support for international public goods, notably for research and dissemination of vaccines for communicable diseases such as HIV/AIDS, TB, and malaria. It should also assist with agricultural advances for tropical and semi-arid conditions. The private sector and research institutions also have a crucial role to play in devoting talent and resources to solving the problems facing poor countries.

Actions are needed to promote global financial and economic stability and help poor countries deal with shocks. Working jointly with governments and the private sector, the International Financial Institutions (IFIs) play a key role in strengthening the international financial architecture to reduce volatility, and to provide mechanisms for managing financial crises when they occur. The international community should also continue to search for ways to prevent armed conflict, and support countries emerging from strife. This calls for substantial technical and financial assistance for demilitarization, demobilization, and rehabilitation, and the restoration of domestic institutional capacity. The industrial countries further need to ensure greater coherence and transparency in their own policies on arms sales.

Actions are also needed to empower poor countries. Development assistance and debt relief must be provided in ways that strengthen ownership and effectively help poor countries help themselves. Donor countries are progressively linking all their assistance to country-driven strategies to reduce poverty, developed with the engagement of civil society, private sector agents, NGOs, donors, and the international community. Poor countries should be given more of a voice in international forums to ensure that international priorities, agreements and standards reflect their needs. IFIs, and other international organizations such as the WTO, should continue to make their strategies and actions fully transparent, and to hold regular dialogue with representatives of civil society, in particular organizations representing the poor.

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## Role of the MDBs and the IMF

IFIs, including the Multilateral Development Banks and the International Monetary Fund, have a central role to play at the country level, where they provide policy advice, and financial and technical support for long-term country-driven programs, as well as support to deal with shocks. The institutions also provide advice that helps governments create a sound environment for private sector development. They have a key role to play at the global level where they can help shape international rules and ensure the provision of global public goods. These are complex tasks that will require even greater collaboration and stronger partnership than in the past. Poverty reduction strategies now being prepared by countries are providing a framework for enhanced collaboration between governments, IFIs and other external agencies, and civil society.



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Appendix

Poverty Reduction Forecasts
Table 1 Optimistic Scenario
Table 2. Less Optimistic Scenario

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# I. Global Poverty Conditions and Trends

1. Poverty is an unacceptable human condition which does not have to be inevitable. The main goal of development is to eliminate poverty and reduce social imbalances. Sustainable economic growth and appropriate social policies are keys to fighting poverty. At the same time, reducing poverty helps growth by enabling the poor to participate productively in the economy. Yet economic growth by itself does not guarantee success in eradicating poverty. Other important dimensions of poverty, such as quality of life and participation in decision-making, need to be addressed.

2. Leaders of all countries, including the G-8, agreed on International Development Goals (IDGs) to reduce poverty by 2015. The goals are ambitious, but with the efforts and commitment of developing and developed countries, and international development agencies, they can be achieved.[1]

**International Development Goals**

| | Target Year |
|---|---|
| ▪ *For economic well-being:* | |
| Reduce by half the proportion of people in extreme poverty | 2015 |
| ▪ *For social development:* | |
| Achieve universal primary education; | 2015 |
| Eliminate gender disparities in primary and secondary education; | 2005 |
| Reduce by two-thirds the mortality rates for infants and children under 5 and by three-fourths the mortality rates for mothers; | 2015 |
| Provide access to reproductive health services for all individuals of appropriate age. | 2015 |
| ▪ *For environmental sustainability and regeneration:* | |
| Implement national strategies for sustainable development; | 2005 |
| Reverse current trends loss of environmental resources globally and nationally. | 2015 |

## A. Nature and Determinants of Poverty

3. Poverty goes beyond lack of income. It is multidimensional, encompassing economic, social, and governance perspectives. Economically, the poor are not only deprived of income and resources, but of opportunities. Markets and jobs are often difficult to access, because of low capabilities and geographical and social exclusion. Limited education affects their ability to get jobs and to access information that could improve the quality of their lives. Poor health, due to inadequate nutrition and health services, further limits their prospects for work and from realizing their mental and physical potential. This fragile position is exacerbated by insecurity.

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[1] A parallel report also presented at the G-8 Summit in Okinawa, "A Better World for All" discusses in detail progress towards achieving the IDGs. http://www.paris21.org/betterworld.

Living in marginal conditions with no resources to fall back on, shocks become hard or impossible to offset. The situation is made worse by the structure of societies and institutions that tends to exclude the poor from participating in decision-making over the direction of social and economic development.

## B. Recent Trends

4. Globally, the proportion of people living in poverty[2] declined from 29 percent in 1987 to 26 percent in 1998, although the total number of poor remained almost unchanged at around 1.2 billion. The reduction in the incidence of global poverty is attributed to progress made in East Asia, most notably in the People's Republic of China, although progress was somewhat reversed during the recent Asian economic crisis and seems to have stalled in China. The performance in three other regions (Africa, Latin America, and South Asia) shows only moderate or no declines in the incidence of poverty, while the number of people in poverty in these regions has increased. In Sub-Saharan Africa, an additional 74 million people joined the ranks of the poor reaching a total of 291 million in 1998. In Latin America the figure increased from 64 to 78 million;[3] and in South Asia a total of 522 million people live in poverty. Countries in Eastern Europe and Central Asia experienced an increase in both the incidence of poverty and the number of people living below the international poverty line. Here, the incidence rose from 2 percent to 5 percent, translating into 24 million people in poverty.[4]

5. Experience has shown that in countries with lower inequality, growth has a higher impact on poverty reduction. Income inequality within countries has not changed significantly in most regions over the past thirty years, with the exception of countries in the former Soviet Union where negative GDP growth has been accompanied by a large increase in inequality. But differences between countries have increased: the average income of the richest 20 countries is now 30 times that of the 20 poorest countries, as compared to 15 times 40 years ago.[5]

6. Social indicators have improved over the last three decades. Life expectancy in developing countries rose from 55 years in 1970 to 65 years in 1998, but is still far below that of 78 years in OECD countries. Infant mortality rates have fallen from 107 per 1,000 live births in 1970, to 59 in 1998. All regions except Eastern Europe, Central Asia and Sub-Saharan Africa shared progress in this area. Net primary school enrollments improved from 78 percent in 1980 to 84 percent in 1998, and adult literacy rose from 53 percent in 1970 to 74 percent in 1998. However, because of population growth, today there are 41 million more illiterate adults than in 1970.[6] The improvements that have taken place mask differences in performance by region, with Sub-Saharan Africa, South Asia and the Middle East and North Africa falling behind in reducing child mortality rates and in improving net primary enrollment rates. They also mask differences across economic strata. Not surprisingly, the poor generally fare the worst in terms of social indicators, such as illiteracy, malnutrition, ill health (incidence of communicable

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2 That is, people whose level of consumption fell below the international poverty line of $1 per day, in 1993 Purchasing Power Parity terms.

3 This figure rises to 183 million if a poverty line of $2 per day is used, which is more appropriate in the Latin American context. Using that poverty line for all regions yields a number of poor people equal to 2.8 billion, with the largest concentration of poor still in South Asia.

4 *Poverty Reduction and the World Bank: Progress in Fiscal 1999*. World Bank, Washington, 2000.

5 However, inequality in the distribution of world income, which is measured by putting the incomes of all people together, has not increased because of the impressive gains in average incomes in China.

6 *Education for All—The Year 2000 Assessment*, UNESCO, Paris.



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diseases such as tuberculosis and HIV/AIDS), and mortality and morbidity rates. Among this group, women and girls are often the most severely disadvantaged, as evidenced by low school enrollment rates and higher incidence of maternal mortality rates.

7. In a recent study, the poor tell us that insecurity has increased.[7] By and large, poor people feel they have not been able to take advantage of new economic opportunities because of a lack of connections and lack of information, skills and credit. Today's poor work primarily in rural areas and the urban informal sector. They say that life is more insecure and unpredictable than a decade or so ago due to a loss of traditional livelihoods, breakdowns in state and social solidarity, social isolation, increased crime and violence, lack of access to justice, and extortion and brutality from the police. Ineffective and corrupt government institutions add to the problems of the poor.

## C. Outlook

### 1. Income Poverty

8. Two scenarios were developed to assess interim progress against the IDGs by 2008 as an indication of progress that can be expected by 2015. The more optimistic one assumes growth rates in real per capita consumption for each region of between 1 and 5 percent and no changes in inequality. A less optimistic outlook anticipates lower growth rates (between 0 and 4 percent)[8] and an increase in inequality of between 10 and 20 percent. The less optimistic scenario was adopted in light of the recent crises in Russia and Asia, which set back earlier achievements in poverty reduction and demonstrated the volatility in growth rates in developing countries.

9. The assumptions for the optimistic scenario would result in East Asia and the Pacific and South Asia surpassing the 2015 targets (in terms of the proportion of people in poverty), by 2008. Sub-Saharan Africa would still have to reduce the proportion of people living in poverty from 42 to 24 percent. Latin America and the Caribbean, and to a lesser extent, Eastern Europe and Central Asia would make sufficient progress by 2008 so that achieving the 2015 target would be likely. The less optimistic scenario sees increases in the proportion of people living in poverty, so that achieving the 2015 targets would be unlikely anywhere but in Asia. Figures are in Appendix 1.

### 2. Social Indicators

10. IDGs for social development were agreed in four areas: universal primary education; eliminating gender disparities in primary and secondary education; reducing infant and child mortality rates, and providing access to reproductive health care.

11. About 110 million primary-school-age children in developing countries were out of school in 1998.[9] Those who are attending school are not always receiving quality education. The goal of attaining universal primary school enrollment by 2015 is likely to be achieved in East Asia and

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[7] *Voices of the Poor*, World Bank, Washington, 1998. http://www.worldbank.org/poverty/voices/index.htm

[8] Growth rate projections are based on the *Global Economic Prospects and the Developing Countries 2000*, World Bank, 2000; the more optimistic case uses the report's base case growth projections and no change in inequality. http://www.worldbank.org/prospects/gep2000

[9] *Education for All—The Year 2000 Assessment*, UNESCO, Paris.



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the Pacific, Eastern Europe, and Central Asia.[10] Other regions — most notably Latin America — have made good progress in the last decade and could reach the target. In Africa and South Asia the target appears too distant. The IDGs call for equal enrollments of girls and boys in primary and secondary school by the year 2005. However, this target is unlikely to be achieved. Of the 110 million children estimated to be out of school in 1998, 60 percent were girls. The 44 percent gross primary school enrollment rate for girls is estimated to increase to only 47 percent by 2005. The situation is similar for secondary school enrollments, where enrollment rates for girls are only 40 percent, a percentage expected to rise to 47 percent by the target year of 2005.

12. Actual and projected data on infant mortality indicates progress between 1990 and 1998 in all regions. However, reductions in East Asia, South Asia and Sub-Saharan Africa appear too slow to meet the IDG for 2015 (a two-third reduction over 1990 levels). Mortality rates have been declining with rising GDP but, even assuming high GDP growth, infant and child mortality rates would be substantially above the IDG target in 2015. Moreover, keeping infant and child mortality rates in Africa from increasing will be a challenge in a number of countries given the spread of the AIDS epidemic.

13. The IDG of providing access to reproductive health services for all who need it by 2015 is unlikely to be achieved. The use of contraceptives is influenced by many factors, including cultural traditions, religious beliefs and the availability of effective methods at a reasonable cost. The number of women and men in need of reproductive health services will almost double over the next two decades, and achieving this goal will require a combination of increased access to affordable services and stronger education campaigns. Expanding the availability and use of condoms among young people is especially important to control the spread of HIV/AIDS.

## II. Regional Poverty Trends and Issues

### A. Africa

#### 1. The Status of Poverty

14. Africa, despite an abundance of resources, natural and human, currently suffers from widespread and persistent poverty and a high degree of income inequality. In 1987, 47 percent of the population was below the international poverty line. By 1998, this rate had declined only marginally to 46 percent. Sub-Saharan Africa is today the region with the highest incidence of poverty in the world. High levels of income inequality (the Gini coefficient for the region as a whole is as high as 44) compound the problem and undermine the prospects for sustainable and equitable economic growth and a significant reduction in the incidence of poverty. On the other hand, the continent is far from homogeneous and the aggregate figures mask important variations in both the incidence of poverty and in income distribution across countries, and within regions in individual countries.

15. Non-income measures of poverty show large variations, but overall infant mortality, life expectancy and school enrollment rates in Africa are some of the worst in the world. In Sub-Saharan Africa, 151 children out of 1,000 die before the age of 5 and 92 out of 1,000 die before the age of 1. The life expectancy rate of 50 years, and net primary school enrollment rates of 60

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[10] The assumption that this goal will be reached in Central Asia requires that economies can regain greater stability and renewed commitment to education after transition so that excellent enrollment rates achieved during the Soviet period can be regained.



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percent are the lowest in the world. Deaths as a result of HIV/AIDS alone have resulted in a lowering of life expectancy, thus wiping out social gains of the last three decades in a number of countries. Among 8 countries where life expectancy declined by more than 3 years since 1990, six are African countries. For instance, in Botswana and Zambia, countries with high HIV/AIDS prevalence rates, life expectancy has declined by 9.5 years and 6 years, respectively.

16. Although poverty in Africa is a predominantly rural phenomenon, urban poverty is also rising in many countries, adding a new dimension. If present trends continue, Africa may be the only continent where problems of poverty, urban as well as rural, will continue to worsen as we enter the 21st century. And it will be difficult, near impossible, for Africa to achieve the International Development Goals, including halving poverty levels, by 2015.

## 2. The Causes of Poverty

17. The main causes of poverty in Africa are low levels of productivity and production technology, especially in the agricultural sector, which provides most of the employment and a large share of the continent's GDP. Other major reasons include high illiteracy and population growth rates, frequent natural disasters, inadequate infrastructure, and in some countries excessive dependence on a narrow range of commodities for export earnings. Counterproductive economic policies in the 1970s and the early 1980s, political instability and conflict in a number of countries, and the continent-wide problem of gender inequality in access to productive assets and social services, have also contributed to sluggish economic growth and widespread poverty. Many of these issues are being addressed, but long-term sustainable solutions will be illusive without improved security and an increase in savings and investment rates and the mobilization of both foreign and domestic resources, including private foreign investment, debt relief and ODA, and support through the Strategic Partnership for Africa. In addition, Africa needs a favorable international trade environment with increased access to developed country markets in order to fully reap the benefits of globalization.

## 3. Anti-poverty policies

18. Since the mid-1980s a number of African countries have made every effort to create an economic environment that is conducive to sustainable, equitable and broad-based economic growth, with a focus on poverty reduction. Some of the policy measures adopted include, stabilizing the macro-economic framework, trade and price liberalization (especially of agricultural prices), and privatization and promotion of efficient management of the public sector, including anti-corruption measures. In many cases, the implementation of sound economic policies has resulted in positive per capita income growth, thus reversing the negative trends of the 1980s and the first half of the 1990s. In some cases, these efforts have been accompanied by investments in social sectors in general and in primary health and preventive health care in particular, as evidenced by improved social indicators. For example, over the last two decades, infant mortality rates have fallen from 112 to 81, and nearly half of Africa's populations had access to sanitation in 1995 against only a third at the beginning of the 1980s. Nevertheless, economic growth has been too slow to make a really significant dent on the reduction of poverty across the continent.

19. It is estimated that Africa will require average growth of 8 percent per year in order to halve poverty by 2015, as stipulated in the DAC goals for the 21st century. Given that recent growth rates have averaged only about 4 percent per year, it is unlikely that Africa will meet those goals within a decade and a half. African countries will need to make renewed efforts to increase economic growth and reduce poverty. An encouraging factor is that there seems to be



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a general consensus on what is required: the promotion of good governance, enhancing the efficiency of public expenditure, deeper economic reforms, expansion of exports, regional integration, access to information technology, and further improvements in the level and productivity of investments in human, as well as physical capital. It is also generally acknowledged that governments need to provide an environment that enables the private sector to realize its full potential for creating employment and income-generating opportunities for the poor. African governments recognize the existence of gender-based inequities in access to productive assets such as land, credit, extension and social services, but strategies and commitment to overcome them need to be more strongly enforced to unleash the potential of women to contribute to economic growth, enhance social equity and reduce poverty.

20. The AfDB's Vision Statement, adopted in 1999, states clearly that poverty reduction is AfDB's overarching objective. As a result, projects in agriculture, rural infrastructure, education, health and water supply are being designed, implemented and evaluated in ways that maximize efforts to reduce poverty.

### 4. The Role of the International Community

21. Accelerating broad-based growth and reducing poverty require expanded and qualitatively improved support from the international community. Africa's longtime development partners have supplied financing, provided technical assistance, and extended advisory services in the past. Much has been achieved through these means, resulting in considerable improvements in economic management as evidenced by higher growth rates, declining inflation and lower fiscal deficits. But today this is inadequate.

22. Ways of further accelerating growth and improving poverty reduction have, therefore, recently been the focus of many consultations between African governments, society and the private sector, together with bilateral and multilateral development partners. From this, a consensus has emerged on the basic building blocks for poverty reduction. First, African governments have the primary responsibility for preparing poverty reduction strategies, and development partners are committed to work in cohesion within this common framework. Second, Africans must be involved in developing those policies to ensure they do indeed respond to the needs and demands of beneficiaries. And, third, strategies will be output-oriented, and Africans themselves will be able to monitor the impact.

23. These measures, endorsed by donors and African Heads of State alike, in Libreville recently, should not obscure the fact however that there remains an unquestionable need for additional ODA, for concessional resources to the poorest countries, for faster and deeper debt relief to those suffering unsustainable debt-burdens, and for foreign direct investments. Without these resources, the newfound consensus may not put Africa on a sustainable path to eradicating poverty.

## B. Asia and Pacific

### 1. Poverty Trends

24. Poverty in the Asia and Pacific region is marked by two significant factors: magnitude and diversity. Close to 900 million or 75 percent of the world's poor live in the Asian and Pacific Region, including Central Asia. Nearly one in three Asians is poor. Within the region, East Asia and the People's Republic of China in particular performed well in reducing poverty, until the recent economic crisis reversed some of the earlier gains. Some progress has been made in South Asia, although the depth of poverty reaches similar levels as Sub-Saharan Africa, but on



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a much larger scale as more than half a billion people are in poverty. Central Asia has been newly exposed to the threat of poverty as many countries undergo difficult transition periods. The countries in the Pacific, despite their relatively higher per capita income, are vulnerable and have limited capacities to deal with external shocks.[11]

## 2. Challenges

25. The sheer magnitude of the number of people in poverty in the region poses an extraordinary challenge to societies, governments and the development community. Ensuring food security with the help of an efficient agricultural sector, while preserving the environment is an enormous task, given the large number of people involved and limited space. There has been some transformation of the rural sector, initiated by the Green Revolution, which has led to improved food security and higher incomes, but the highest incidence of poverty remains concentrated in this sector. Agricultural growth is therefore crucial and must be pro-poor and environmentally sustainable.[12] The region is also urbanizing rapidly (the majority of megacities are in Asia) and the urban poor live in abysmal conditions, insecure in tenure and lacking basic amenities. In both rural and urban areas, the public sector is often unable to deliver services because cost recovery is difficult. This leaves the poor at the mercy of informal suppliers.

26. The pressure of high population growth translates into millions without formal employment and large numbers of new entrants into the job market each year. In the past, export-oriented industries prospered on cheap labor as an asset for transforming economies and reducing poverty, as in East Asia. But manufacturing has become less labor intensive, service industries are becoming the main employers, and the spectrum of technology choices is widening. Modern information technology is creating job opportunities and facilitating the exchange of information across continents, but is also introducing a new form of illiteracy for those (countries and people), without access or ability to use information technology.[13] Governments need to adopt policies and make adequate investments in basic infrastructure to ensure that globally competitive industries (which might not always provide requisite jobs) are integrated into domestic economies to strengthen their competitiveness and increase their capacity to create income-generating opportunities.

27. Skill and knowledge levels required to integrate in these modern sectors are often beyond the reach of the poor. This makes it difficult for them to participate in economic growth and globalization. Governments in the region recognize the need to provide basic education. However, fulfilling this responsibility is a massive task given the large number of children and great variations in population densities, undermining the quality and cost of education. A further impediment is that an increasing number of poor children grow up with insufficient nutrition and exposed to high pollution levels, affecting their ability to learn. Primary health care services face problems similar to those in the education sector. In addition, many in the region, especially the poor, run the risk of communicable diseases, such as malaria, tuberculosis and HIV/AIDS. Together, education and health impact strongly on the prospects of the poor, whose (often only) asset is their willingness and ability to work.

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[11] *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank*, Asian Development Bank, 1999, Manila. http://www.adb.org/Poverty/adb_gl00.htm

[12] *Rural Asia*, Asian Development Bank, 2000, Manila.

[13] *Emerging Asia—Changes and Challenges*, Asian Development Bank, 1997, Manila.

28. Across all these areas, governments continue to have a crucial role to play. They need to create an environment that stimulates growth and private sector development, ensures efficient public resource management and delivers basic services and infrastructure. They also need, in cooperation with society and the business community, to strengthen social cohesion, as the more affluent increasingly tend to have an international outlook and less in common with the poorer parts of their own countries. However, shifting the role of governments over time, from producer/owner to facilitator/regulator, is a complex undertaking. Traditions of participation and decentralized administration existed in several countries but were sometimes swept away in the process of historical change. In other countries, roles previously played by traditionally powerful stakeholders have sometimes been transferred to new institutions. Rediscovering (or newly introducing), concepts of participation and inclusive development requires responsive governments, as well as citizens able to contribute constructively to public debate and the decision-making process.

## 3. Policy Implications for the Future

29. Confronting these challenges and reducing poverty in the Asia and Pacific region calls for a three-pronged approach: promoting pro-poor growth, securing social development, and ensuring good governance. The three are interrelated. Pro-poor growth stimulates employment and other economic opportunities, and generates revenues, which can be directed, through good governance, at providing services needed by the poor and vulnerable groups.

30. Economic growth, essential for reducing poverty in the Asia and Pacific region, needs to be broad-based and labor absorbing, providing jobs and economic opportunities for self-employment — a challenging task, because industries need to be internationally competitive as well. This requires diversified industrial and service sectors and the networking of international and local enterprises of different sizes, to enhance synergism between different economic segments. A supportive policy framework needs to be complemented by investments in human, physical, and financial capital, particularly of the poor, to aid their integration into the main stream of social and economic development. These measures need to be chosen and designed with greater involvement of the public at large, and the poor in particular, to ensure their effectiveness and sustainability.

## 4. Evaluation of AsDB's Antipoverty Operations

31. The AsDB has been active in the fight against poverty. However, an evaluation of its anti-poverty operations reveals two weaknesses. The absence of country-specific and country–owned poverty reduction strategies (hence, no comprehensive or systematic attack on poverty in individual countries), and project preparation without adequate, differentiated information on the poor in the project areas. To address these shortcomings, AsDB's recently approved Poverty Reduction Strategy aims to gear all lending and technical assistance toward poverty reduction, and to establish partnership agreements that set agreed targets. It also mandates a project typology driven by development impact on beneficiaries below the poverty line. With poverty reduction now its overarching goal, AsDB will ensure that all its operations contribute in some way to this end. It will also dedicate 40 percent of its public sector lending towards targeted poverty interventions.



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## C. Latin America and the Caribbean

### 1. Summary of poverty and inequality trends in the region

32. The incidence of poverty decreased in Latin America and the Caribbean during the first half of the nineties. However, the resumption of economic growth in a number of countries was insufficient to reduce the absolute number of poor people. Adverse shocks in the second half of this decade stymied the region's efforts to produce noticeable progress in poverty reduction. Moreover, as the region became more unequal in the 1980s, and remained so in the 1990s, progress in reducing poverty slowed, despite the renewed growth. As a result, in 1997 the incidence of poverty in Latin America remained approximately 3 percent higher than in 1980, with roughly 70 million more people living in poverty.

33. Greater progress has been achieved in non-monetary indicators of wellbeing. Social indicators such as infant mortality rates, nutrition indicators, access to safe water, life expectancy, literacy rates and average years of schooling continued to improve. There has also been a noticeable advance towards more democratic societies. However, progress is still lacking in other dimensions. School completion rates are low, with a large proportion of students dropping out before finishing primary education. The high incidence of social problems such as crime, violence, alcoholism and drug addiction, continue to raise important concerns. Progress has also been uneven among different population groups. Social indicators in poor rural areas (e.g., the Northeast in Brazil and the Andean regions) lag considerably behind those in the most affluent areas in the region. Significant differences in the quantity and quality of education and health services also persist among high and low-income groups. Policies and decision making rarely incorporate the concerns and preferences of the poor or even middle income groups.

34. Important advances in improved macroeconomic management were made during the 1990s. Creating economic opportunities, while managing the risks, improving living standards, and building strong institutions for the poor now stand as the policy challenges to curb poverty and inequality in the region.

### 2. Social Development Goals

35. Economic growth is essential for poverty reduction, but it is not sufficient. Growth must be accompanied by measures that ensure its benefits reach all segments of the population. Beyond broad-based growth, social development goals in Latin American and the Caribbean should take into account both economic and social dimensions of well being, namely:

- Reducing income poverty and inequality
- Increasing levels of high-quality educational attainment and improving health outcomes
- Eliminating social exclusion, and gender and ethnic discrimination
- Increasing the participation of marginalized groups in the political and decision-making process
- Preventing crime and violence

### 3. Areas of Action

36. In order to achieve these goals, initiatives should simultaneously foster and protect the human capital accumulation of the poor. They should contribute to expanding access for the



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poor to social and physical infrastructure, and provide them with consumption smoothing mechanisms, while paying attention to the needs of the most vulnerable and marginalized groups. Four areas of action are a priority in the region:

37. Opportunities, human development and improvements in the quality of life: a comprehensive poverty reduction strategy needs to focus on identifying competitive advantages that can sustain stable and equitable economic growth. This should include policies that:

(i) Increase the assets base of the poor. For example, land titling, housing programs, and investment in projects that secure access to quality education and health services such as Targeted Human Development Programs that help poor families keep their children in school and provide them with regular health care;

(ii) Promote the creation and development of markets. For example, by improving access to geographically inaccessible areas through investment in physical infrastructure, increasing the linkages between the rural economy and the industrial sector through support to microenterprises, and mitigating coordination failures that prevent small producers from organizing to export as a unit. Correcting market failures in order to deepen credit and loosen labor markets is also desirable; and

(iii) Eliminate discriminatory practices and support projects that promote opportunities for indigenous communities in socio-culturally appropriate ways.

38. Social protection: The poor are often the most severely affected by adverse shocks of macro and micro origin, so mechanisms to reduce the incidence of shocks and help the poor cope with them, are essential. At present, most Latin American and Caribbean countries do not have mechanisms to mitigate the impact of adverse shocks to the poor. These mechanisms should guarantee minimum consumption levels and access to basic services, protect investments in human capital during crises, and reduce the risk exposure faced by the poor in their productive choices. Such mechanisms range from making fiscal policy counter-cyclical and improving management of natural disaster risks, to instruments that help the poor cope with illness, crop failure, unemployment and old age.

39. Institutions and governance for the poor: It is crucial to allow institutional reforms to move forward to build strong institutions for the poor. It is also critical to encourage community participation in the larger process of public policy dialogue, especially of traditionally marginalized groups, such as women, indigenous groups and the rural and urban poor, generally. There is also a need to advance the reform of institutions for the delivery of health, education and judicial services and to improve the management capacities of governments to enhance their accountability and make them more responsive to the needs of the poor.

40. Prevention and social progress: The promotion of preventive action is needed in order to avoid the proliferation of child labor and dysfunctional behavior such as domestic violence, crime and/or drug and alcohol abuse. Policies in this area include: (i) investing in mothers and intervening in early childhood education; (ii) campaigns to change social norms and attitudes towards domestic violence; (iii) educational interventions to promote the use of gender neutral educational materials; (iv) facilitating conflicts resolution and training courses on gender roles and strategies to prevent and cope with domestic violence; (v) community policing; (vi) preventive actions in health centers to identify victims of violence so that they can be referred to

counseling services and judicial institutions to handle disputes resolution; and (vii) promoting youth participation and leadership.

## D. Central and Eastern Europe, the Baltic States and the CIS

### 1. Poverty and Inequality in Transition

41. The transition has been a time of social upheaval in Central and Eastern Europe and the former Soviet Union. While an end to rationing and shortages, an increase in the quality and choice of products, and new opportunities for private initiatives have improved living standards for many people across the region, others have suffered severe reductions in their standard of living and some have experienced acute poverty. Despite serious concerns about the quality of income data in many transition economies, social indicators show clearly the stresses of transition.

#### Life expectancy and mortality

42. Before the transition, life expectancy in the region by and large compared favorably with that of market economies with similar income levels. For instance, in 1980 life expectancy in Central and Eastern Europe averaged 71 years, far above levels achieved in most of Latin America or East Asia. In the former Soviet Union, life expectancy in 1980 was 68 years, although it varied considerably across republics and began to decline in the 1980s. Since 1989, trends in life expectancy have increasingly diverged across the region. In central Europe, life expectancy has increased since 1989, to an average of 73 years by 1997. In southeastern Europe life expectancy has remained roughly constant. In the three Baltic countries and Russia, life expectancy declined precipitously during the first 4 years of transition, but has recovered partially since then. The other countries of the western CIS (Belarus, Moldova and Ukraine) as well as Kazakhstan have experienced a continuous decline in life expectancy since 1989. In the remaining countries of central Asia and the Caucasus there appears to have been little change.

43. One major factor behind the decline in life expectancy in many transition economies has been changes in adult male mortality rates. In Russia, male life expectancy declined by 6 years between 1989 and 1994, and approximately half of this decline was due to higher death rates of males aged 35-64. In the Baltic states as well as the western parts of the CIS and in Kazakhstan, adult male mortality rates also experienced a dramatic increase during the first years of transition. Available evidence suggests that a high proportion of the additional deaths among males can be attributed to the rising incidence of cardiovascular diseases, accidents and violence. The concentration of excess deaths in these categories indicates an important role for stress and social dislocation, in addition to economic deprivation, as causal factors for rising mortality rates. Increased alcohol consumption, in part driven by psychological stress, is ranked among the most important proximate causes of increased male deaths in Russia.

#### Poverty and income inequality trends

44. Bearing in mind limitations of income measures, there appear to be two broad trends in poverty and income inequality in the transition. First, there has been an increase in the number of poor people in almost every country, and the increase has been largest in countries where real incomes have fallen most. Second, parallel to the rise in poverty, there has been a marked increase in income inequality. The increase has been more pronounced in the countries of southeastern Europe and the CIS than in central Europe.



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45. At an aggregate level, the increase in poverty can be attributed to falls in average real incomes and rises in income inequality. While average real incomes initially declined in all transition economies, developments in income inequality have differed dramatically across the region. Measures of inequality point to an increase of about 25 percent in central Europe and of almost 100 percent in several other transitional economies, including Bulgaria, Russia and Ukraine. It would appear, moreover, that social transfers have done little to mitigate the increase in earnings inequality in many of the countries of southeastern Europe and the CIS.

46. The optimistic scenario in Appendix 1, assuming just under 4 percent growth per annum and constant levels of inequality, would be sufficient to bring poverty levels back to their 1990 starting point by 2008. With growth now returning to most countries in the region, there are grounds for optimism. Moreover, one of the mechanisms that could have been driving increases in earnings inequality is the reallocation of workers from low productivity, state sector jobs to higher productivity, private sector jobs. As the proportion of workers in the private sector rises over time, earnings inequality will eventually fall, as productivity differences diminish. In the CIS, however, this process seems to have become stuck at a level where there are a few high wage private sector jobs, but with most workers employed in unprofitable and low-paying public sector or privatized enterprises. An eventual decline in inequality in this part of the region would thus depend on a deepening of structural reform to create more private sector jobs.

## 2. Characteristics of the poor and policy challenges

47. Evidence on the characteristics of the poor in transition reveal that households with many children, headed by single parents, and dependent on transfer incomes, such as pensions, unemployment benefits and other forms of social support, have been particularly affected by poverty.

48. Recipients of social transfers have suffered from the lack of indexation during periods of high inflation, as well as from payment arrears due to the fiscal crisis. There have also been great contrasts in transfers among transition countries. In central and Eastern Europe, a relatively generous social safety net has been created and the role of producer subsidies has been greatly reduced. In much of the CIS, redistribution has remained tied to the enterprise sector, through explicit and implicit subsidies. Moreover, in some CIS countries, even when there has been a system of social assistance, transfers have not always gone to the most needy. With limited fiscal resources in the CIS and very high levels of payroll taxation in CEE, there have been increasing demands for improved targeting of social assistance.

49. In most transition economies, a significant proportion of the poor are workers on low incomes. In Ukraine for instance, 80 per cent of all workers earn a wage that is below twice the subsistence level. Should a worker in this group be the only earner in a household of two, the household would fall below the poverty threshold. Wage differentials between skilled and unskilled workers have increased substantially and individuals with secondary and university education tend to be less represented among the poor than individuals with primary or vocational education. One of the challenges facing transition countries is improving education. In southeastern Europe and the CIS, providing quality education for all would require re-building an adequate fiscal revenue base to prevent further real expenditure cuts on education (and health), and strengthening the efficiency of this spending.

50. Also of fundamental importance will be the creation of new private sector jobs. However, weak investment climates in many countries, including unstable and unpredictable government policies, corruption and arbitrary taxation, lack of access to infrastructure and financial services,



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and weak protection of property rights, are major obstacles to private sector development. In addition, support for non-viable enterprises significantly distorts the process of competition in many product markets.

## III. Combating Poverty: A Universal Responsibility

### A. Domestic Policies of Developing Countries

51. The lives of poor people are most affected by actions at the country level. Because of the multidimensional character of poverty, public actions are needed in several areas. Countries have to promote sustainable, equitable growth that provides opportunities for all, protection from shocks and a voice in decision-making.

52. Creating opportunities means fostering broad-based economic growth. Strong economic growth requires a sound macroeconomic framework with policies that promote low inflation, realistic and stable exchange rates, reasonable fiscal deficits, effective integration into the global economy, and private sector activity. It also requires investments in the human, physical and financial assets of poor people — adequate schooling and skill development, secured nutrition, preventive health care, rural infrastructure and credit. This in turn contributes to faster growth as the productive potential and skills of the poor are more fully utilized and prejudices against them, and against poor women in particular, are reduced.

53. Providing social protection to the poor requires mechanisms to mitigate the impact of local and national crises and to reduce vulnerability. These include subsidies targeted to the poor, public works and "food for work" programs, and sustainable, well-designed pension, unemployment, social assistance programs and severance payments to those laid off during civil service retrenchment or public enterprise reform. Effective social protection mechanisms should strive to minimize adverse impacts on economic incentives and the crowding out of existing informal income transfer mechanisms.

54. Providing a voice in decision-making means pursuing the broad involvement of poor people and society at large in policy/program design and implementation. Transparency and accountability contribute to a well-informed public debate and result in better policies with wider support. Broad participation can help improve the management of public expenditures by increasing the demand for resource allocations to socially desirable priority areas, such as basic health, education, and infrastructure services. Broad participation may also lead societies to confront issues of social and economic inequality, social strife and corruption, which are obstacles to poverty reduction.

### B. Globalization and Poverty Reduction

#### 1. Investment, trade, and technology flows

55. Experience, especially in East Asia, demonstrates that developing countries benefit from participation in the global economy through higher economic growth and living standards, and thus reduced poverty. Increased openness to trade creates opportunities for new investments and jobs, and promotes more efficient use of resources and higher productivity. The liberalization of capital flows permits greater access to the external resources needed to finance such investments, and foreign direct investment can also encourage the transfer of technology, managerial expertise, and skills. Open markets also provide consumers with access to a wider range of better-quality goods at lower prices.



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56. Globalization will increase the flow of investments, trade, and technology. These flows however, tend to concentrate on a few geographical areas and on a few countries within them. Increasing the number of countries that attract and benefit from investment, trade, and technology flows requires policy responses by both developing and developed countries. The challenge for developing countries is to enact domestic policies that attract more foreign direct investments of a relatively long term and stable nature, as well as adopting structural reforms to enable domestic adjustment when necessary. Industrial economies also have an important role to play in implementing sound economic policies and providing effective policy coordination to avoid economic and financial imbalances, which could lead to significant disruptions in financial and capital markets, and dampen prospects for world growth.

57. Access to industrial country markets is an essential element in a comprehensive approach to growth and poverty reduction in developing countries. Priorities in the area of trade reform include the liberalization of sectors in which the less developed countries are disproportionately dependent, such as agriculture and textiles. In this context, the WTO proposal to grant duty- and quota- free market access for all products originating in the least developed countries (LDCs) should be commended. This would reinforce the impetus to economic growth and poverty reduction provided by debt relief.

### 2. Managing volatility

58. Greater openness to a global economy, increases risks and exposure to economic and financial shocks. Recent financial crises have highlighted the vulnerability of countries to sharp fluctuations in capital flows, and the negative impact on the poor. Strengthening the international financial system will help developing countries reap the benefits of globalization while minimizing the associated risks (including people falling into poverty).

59. Crisis prevention through sound domestic policies and institutions in all countries remains the first line of defense against financial instability. At the same time, considerable progress has been made in strengthening the international financial system. Importantly, developing countries have participated in these efforts. While there is broad agreement on how to move forward, a number of developing countries expressed concern that insufficient weight is given to their views. Significant progress has been made in developing and assessing countries' voluntary observance of standards and codes of good practices in a wide range of areas. Progress has also been made on the appropriate involvement of the private sector in resolving financial crises. For all of these initiatives, further progress is needed in implementation, including the adoption of standards of best practice. The international community can assist developing countries in these tasks through the provision of technical assistance.

60. The international community has already reached broad agreement on key measures to improve macroeconomic and financial policies, strengthen national financial systems and assess and reduce external vulnerability, with the central focus on transparency and accountability of the policies of national authorities and IFIs. The latter have contributed to reducing potential risks emanating from inadequate reporting and transparency by helping to develop and strengthen international standards and codes of good practices, as well as by beginning to assess countries' observance of standards.

## C. Global Public Concerns

61. Greater global integration continues to increase the need for global public action to address threats to health, food security, environmental sustainability, and security. Developing



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countries can participate in addressing these threats by, for instance, implementing vaccination campaigns or by abiding emission controls. However, the capacity of developing countries to generate global public goods is limited, and even accessing privately generated goods that are of importance to global stability can be difficult for them due to a lack of resources.

62. Greater contributions can, and need, to be made by the international community in developing and providing vaccines, food varieties with increased yields, and access to information and knowledge. Often, medical and agricultural research generated in the private sector does not address problems found in developing countries (such as research into drought resistant crops). Donors can provide assistance to purchase vaccines and encourage pharmaceutical research into diseases that are relevant to developing countries and the poor in particular. They can also support agricultural research, (for example through the Consultative Group on International Agricultural Research), and establish a network to help developing countries access and share knowledge on development issues. While public support for these areas is needed, it is also necessary to encourage and promote good corporate citizenship on the part of private enterprise to take on a certain share of the responsibility and cost.

## D. Information Technology and Development

63. The growing impact of information and communication technologies on economic activities, especially in developed countries, suggests the potential benefits that wait to be reaped. These include harnessing new technologies to increase productivity and economic growth, and their use in expanding and improving delivery of social services (such as distance education and health care and diagnostic facilities), to the poor and to remote areas. Access to information can help create, and improve the functioning of, markets. By erasing disadvantages of location and distance, the new technologies also offer fresh possibilities to land- and sea-locked developing countries to integrate with the global economy. Yet it is equally possible that, if current trends proceed unchecked, the world could witness a new discrimination between information "haves" and "have nots" — the so-called digital divide.

64. The spread of new technologies to manufacturing and commercial processes in the developing world may depend on market trends in domestic and foreign investment. However, the donor community can play a useful role in supporting innovative applications of new technology to deliver social services and establish market information networks.

## E. Security and Conflict

65. The incidence of poverty can worsen substantially in conflict situations and may not be reversed for a prolonged period after the conflict has ended. The international community can play a critical role in helping developing countries prevent conflict, as well as in peace-building and social and economic reconstruction efforts in post-conflict situations. The priorities for such assistance include helping countries develop the institutional capacity to implement sound domestic policies based on principles of good governance, equitable access to resources, and adequate public expenditure on basic social services.

66. International donors need to coordinate their assistance more closely in order to enhance aid effectiveness, and to minimize the administrative burden on recipient countries. Donors also need to avoid any gap between the provision of humanitarian and reconstruction assistance, so that both contribute in a mutually reinforcing way to an early restoration of durable peace. This calls for substantial technical and financial assistance for demilitarization, demobilization, and rehabilitation, and the restoration of domestic institutional capacity. Donor assistance in creating



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a professional and transparently run security sector can also help assure durable peace. To help developing countries avoid conflict, the industrial countries also need to ensure greater coherence and transparency in their own policies on arms sales.

## F. Aid Effectiveness and Debt Relief

67. There is a strong belief, backed by empirical evidence, that poverty reduction has been more effective in countries where the strategies pursued were fully owned by the government and by society at large. In view of this, the MDBs and the IMF now devote a substantial share of their assistance, especially concessional resources, including debt relief, to support poverty reduction strategies prepared by client countries. This approach has four major implications: Countries, not donors will lead the process, assuming management and ownership; the formulation of strategies will be broadly participatory, drawing a number of stakeholders into the process; the strategies will be tailor made to meet the poverty situation of individual countries; and the MDBs and IMF will work much more closely together and with other development partners, in support of country-owned strategies.

68. This approach requires a change in the way donor agencies work with countries. Donors will need to support the country's strategy rather than follow their own, often different, visions of development. The emergence of genuine country-owned and managed poverty reduction strategies will require time and flexibility, and donors will have to find ways of providing analytical and policy advice without undermining ownership. Governments and donors will need to take a longer-term approach, which may require using longer-term planning horizons and support instruments than is the case now. More of the assistance will have to be integrated into a country's budget and follow budget planning cycles and implementation procedures. The approach also suggests that donors will have to be selective in providing support by favoring those countries whose governments have demonstrated a commitment to improve the well-being of their people.

69. Supporting country-owned poverty reduction strategies will hopefully go some way to achieving greater poverty reduction than in the past, but will not be sufficient if more aid is not made available. Aid levels declined through most of the Nineties (despite small increases in 1998 and 1999). They need to be restored, at least to the level of 1992. An important dimension of assistance to developing countries is debt relief under the enhanced Heavily Indebted Poor Countries Initiative, under which more countries will be able to obtain deeper debt relief faster. The enhanced Initiative links debt relief to the formulation of country-owned poverty reduction strategies, described above. There is a need to balance the desire for speed with the need for effective use of the resources provided through debt relief. The Initiative has not yet been fully funded, and it is important that the additional resources be mobilized to assure the delivery of debt relief to all eligible countries.

## G. Conclusion

70. Achieving the IDGs will not be easy, especially those for social development. However, meeting the IDG for income poverty may be feasible, given effective performance by developing countries, and support from the international community. This is largely because the two countries with the largest pools of poverty — Peoples' Republic of China and India — are presently on track to do so. The IDGs though, are global targets, and if individual regions or countries do not fulfill them, the spirit of the goals will not have been met. Hence, concerted efforts are required by all developing countries and their development partners in the donor community, if the world is to halve extreme poverty by 2015 and approach the other targets.



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71. IFIs, including the Multilateral Development Banks and the International Monetary Fund, have a central role to play at the country level, where they provide policy advice, and financial and technical support for long-term country-driven programs, as well as support to deal with shocks. The institutions also provide advice that helps governments create a sound environment for private sector development. They have a key role to play at the global level, where they can help shape international rules and ensure the provision of global public goods.

72. These are complex tasks that will require even greater collaboration and stronger partnership than in the past. The poverty reduction strategies now being prepared are providing a framework for enhanced collaboration between governments, IFIs and other external agencies, in support of country-owned programs.



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Appendix 1

# POVERTY REDUCTION FORECASTS

## Table 1: Optimistic Scenario

| Region | Assumptions 1998-2008 | | | Proportion of People Living in Poverty | | | | Number of People living below $1 day | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Consumption Growth[a] (percent) | Population Growth (percent) | Inequality Change (percent) | Baseline (1990) (percent) | Current (1998) (percent) | Projection (2008) (percent) | Target (2015) (percent) | Baseline (1990) (million) | Projection (2008) (million) | Target (2015) (million) |
| EA | 4.9 | 0.9 | 0 | 28 | 15 | 4 | 14 | 452.4 | 72.1 | 290 |
| EECA | 3.7 | 0.2 | 0 | 2 | 5 | 2 | 1 | 7.1 | 7.4 | 4 |
| LAC | 1.7 | 1.3 | 0 | 17 | 16 | 13 | 8 | 73.8 | 74.7 | 52 |
| MENA | 1.5 | 1.9 | 0 | 2 | 2 | 1 | 1 | 5.7 | 4.7 | 5 |
| SA | 4.0 | 1.4 | 0 | 44 | 40 | 14 | 22 | 495.1 | 205.9 | 369 |
| SSA | 1.0 | 2.3 | 0 | 48 | 46 | 42 | 24 | 242.3 | 328.8 | 218 |
| Total | | 1.3 | | 29 | 24 | 12 | 14.5 | 1,276.4 | 694.7 | 897 |

EA = East Asia; EECA = Eastern Europe and Central Asia, LAC = Latin America and Caribbean; MENA = Middle East and North Africa; SA = South Asia; SSA = Sub-Saharan Africa.

[a] Real per capita consumption growth

## Table 2: Less Optimistic Scenario

| Region | Assumptions 1998-2008 | | | Proportion of People Living in Poverty | | | | Number of People living below $1 day | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Consumption Growth[a] (percent) | Population Growth (percent) | Inequality Change (percent) | Baseline (1990) (percent) | Current (1998) (percent) | Projection (2008) (percent) | Target (2015) (percent) | Baseline (1990) (million) | Projection (2008) (million) | Target (2015) (million) |
| EA | 4.0 | 0.9 | +10 | 28 | 15 | 9 | 14 | 452.4 | 182.8 | 290 |
| EECA | 2.7 | 0.2 | +20 | 2 | 5 | 10 | 1 | 7.1 | 45.7 | 4 |
| LAC | 0.6 | 1.3 | +10 | 17 | 16 | 23 | 8 | 73.8 | 130.8 | 52 |
| MENA | 0.4 | 1.9 | +10 | 2 | 2 | 3 | 1 | 5.7 | 11.4 | 5 |
| SA | 2.4 | 1.4 | +20 | 44 | 40 | 31 | 22 | 495.1 | 465.0 | 369 |
| SSA | -0.1 | 2.3 | +10 | 48 | 46 | 52 | 24 | 242.3 | 406.2 | 218 |
| Total | | 1.3 | | 29 | 24 | 22 | 14.5 | 1,276.4 | 1,241.8 | 897 |

EA = East Asia; EECA = Eastern Europe and Central Asia, LAC = Latin America and Caribbean; MENA = Middle East and North Africa; SA = South Asia; SSA = Sub-Saharan Africa.

[a] Real per capita consumption growth

## OKINAWA G8 SUMMIT

## SHERPA BRIEF: CONTENTS

**Programme for Okinawa G8 Summit**

**G7 Session**

G7 Economy

Russia

Debt/HIPC

Financial Architecture

Financial Crime

Nuclear Safety (Ukraine)

**G8: Towards a 21st Century of Greater World Stability**

Non-Proliferation/Arms Control

Conflict Prevention

Terrorism

Regional Issues:

- Korean Peninsula
- South Asia (India/Pakistan)
- Middle East Peace Process
- Balkans
- Africa
- Cyprus

**G8: Towards a 21st Century of Greater Prosperity**

World Economy

IT

Development (including Debt, Health and Education)

Trade

Cultural Diversity

**The Role of the G8 in the 21st Century**

**G8: Towards a 21st Century of Deeper Peace of Mind**

Crime & Drugs

Food Safety

Environment

Human Genome

Ageing

**References**

G8 Summit Participants

Cologne G8 Communiqué

Cologne G7 Statement

Cologne G8 Statement on Regional Issues

Fukuoka Finance Ministers' Reports

Miyazaki Foreign Ministers' Conclusions

# PROGRAMME

Draft Programme for Kyushu-Okinawa Summit

| Friday, 21 July | | |
|---|---|---|
| 15:30-~~18:00~~ 17·30 | G7 Session | - G7 Economy<br>- Russia<br>- HIPCs<br>- Financial Architecture / Financial Crime<br>- Nuclear Safety (Ukraine) |

Draft Programme for Kyushu-Okinawa Summit

| Friday, 21 July | | |
|---|---|---|
| ~~19:00~~-21:00<br>19:30 | G8 Working Dinner | Toward a 21st Century of Greater World Stability<br><Non-Proliferation/Arms Control, Conflict Prevention, Terrorism, Regional Issues> |

| Saturday, 22 July | | |
|---|---|---|
| 10:00-12:15 | G8 Session | Toward a 21st Century of Greater Prosperity<br><World Economy, IT, Development, Trade, Cultural Diversity> |
| 13:00-14:30 | G8 Working Lunch | The Role of the G8 in the 21st Century |
| 15:00-16:30 | G8 Session | Toward a 21st Century of Deeper Peace of Mind<br><Crime, Food Safety, Environment, (Human Genome, Ageing,etc.)> |

| Sunday, 23 July | | |
|---|---|---|
| 10:00-11:30 | G8 Session | Adoption of the G8 Communique |

# G7 SESSION

## G7 SESSION

### Handling

1. This session covers G7 Economies, Russia, HIPC (Heavily Indebted Poor Countries Initiative), Financial Architecture, Financial Crime and Nuclear Safety/Ukraine. Schroeder will lead the discussion on Russia, Amato will lead on Financial Architecture and Financial Crime, Prodi on Nuclear Safety/Ukraine and **you will lead on HIPC**

2. Issues on which you will be expected to intervene in this session are:

**a) G7 Economy**. You should say a few words on the UK economy in the traditional round-table on economic prospects. Oil prices could also be worth a mention.

**b) HIPC.** Your lead – and the highest profile issue for NGOs. A number of factors – conflict within HIPCs, negotiations over modalities and the necessary levels of conditionality for countries to qualify for relief – have slowed progress this year, and NGO criticism is mounting (although the UK lead is acknowledged).

**Objective: Secure continued political commitment from others to future progress in line with the Cologne targets (20 countries past decision point by end 2000 would be broadly in line).**

**c) Russia.** Putin will come to Okinawa looking for fuller G8 membership – and may press for G8 Presidency in 2003. He may also pitch for debt forgiveness - although the Russians have pulled back somewhat on this in the face of a clear view from G7 that forgiveness is not needed and rescheduling not yet merited. Heads will no doubt want to compare notes on, and agree how to handle Putin – particularly important since Clinton will have two hours with him between this session and the first G8 events. The G7 are fairly close on the economic issues; but on the politics, Clinton will feel uncomfortable about Missile Defence; while Chirac has lost favour due to France's tough line on Chechnya. Your relationship with Putin could put you in a pivotal position to influence how discussion at G8 develops.

3. Additional points are provided for the discussions on:

**a) Nuclear Safety.** The 1995 G7/Ukraine MoU commits us to supporting the least cost replacement to Chernobyl in return for its closure by end 2000. Ukraine's commitment to close Chernobyl by December 15 may unravel if we pull back from our MoU. But, as in Cologne, Schroeder's anti-nuclear lobby means that he cannot support the expected least cost option – the K2/R4 nuclear reactors.

**b) Financial Crime.** Finance Ministers agreed a report in Fukuoka which will be published at Okinawa. You should welcome international focus on financial crime, and argue for a consensual approach to taking action. Note that there is a domestic sensitivity here given our constitutional links to some of the jurisdictions of concern.

**c) Financial Architecture.** Finance Ministers published a report in Fukuoka. You can welcome the report and the progress that has been made over the past year – especially in establishing the Financial Stability Forum and on codes and standards (both UK initiatives). Could also call for continued momentum in implementation.

# G7 ECONOMY

## G7 Economy

*Handling: Traditional round table on economic prospects – you will be expected to say a few words on the UK economy.*

**World economy**

- **World** economy has started the new millennium well - all G7 economies are growing, emerging markets have bounced back, inflation remains low and world economic growth looks set to be the strongest in a decade.

- But continued vigilance and further action will be needed to ensure that sustained, strong and balanced growth is achieved. At the world level, uncertainty about the effects of **technological change** on our economies combined with simultaneous growth in many countries raises risk of global overheating.

- World **oil prices** also pose a risk to both inflation and the global recovery. Oil prices have risen steeply from around $10 per barrel in early 1999 to around $30 p/b today. Both oil producers and consumers have a strong interest in seeing them moderate to levels more consistent with medium-term stability. We need to remain vigilant of these risks.

**UK economy**

- In the Budget, the Government forecast that the **UK** economy would expand by 2.75-3.25% this year, and grow on trend in later years. Independent forecasters expect roughly the same, showing that the UK remains on track for continued and sustainable growth.

- The economy is continuing to create new jobs. Employment has grown strongly – up by over 1 million since mid 1997 to a new record level. Increased job opportunities and Government policies have encouraged formerly inactive people back into the labour market to look for work, helping contain growth in wages.

- Inflation remains at historically low levels – the Government's target measure has been between 1.9% and 2.7% for two years. Forward-looking policy making has kept the lid on price pressures and, as a result, interest rates are historically low – less than half the level seen in the late 1980s and early 1990s.

- Government has supported monetary policy in recent years by bringing the public finances under control. Public sector net borrowing has been cut by £46 billion since 1996-97, adjusting for the cycle, this represents a fiscal tightening of over 4% of GDP.

**Additional Points**

- Good to see that growth within the **G7** is likely to become more balanced, as **Europe** continues to strengthen, **Japan's** tentative recovery (hopefully) gets going and the **Northern American** countries begin to slow. This should reduce the risk of a disorderly adjustment of current macroeconomic imbalances.

- Moreover, economic prospects in emerging markets remain bright as long as favourable external economic and financial conditions continue, and countries press on with structural reform. A few countries (Argentina and Indonesia) give cause for concern and will need to be monitored carefully in the year ahead.

## G7 Economy - Background

1. **Handling.** Exchange of views on economic climate at home and perhaps on oil prices. You later discuss world economic prospects at G8 under the World Prosperity theme – principally to hear what Putin has to say on the Russian economy.

2. The **UK** economy will expand by 2-3% this year, and grow on trend in later years. Inflation and mortgage rates are low, and the public finances are back under control. Over 1 million new jobs have been created since the last election; youth unemployment is down by over 70% and long-term unemployment is down by 60%.

3. After a decade of weak growth, **Japan** appears to be on the path to recovery, buoyed by exports and an IT boom. And there is increasing support to lift the zero interest-rate policy. But significant challenges remain. Consumption is weak, corporate restructuring continues to weigh on consumer confidence and government debt has ballooned (after 14 "stimulus" packages in eight years). Policy should remain accommodative until the recovery becomes broad-based.

3. In the **US,** despite some encouraging signs of slowing and significant benefits from the 'New Economy', inflationary pressures are emerging. The economy still seems to be growing too fast and the risk of a "hard-landing" remains. This would probably have serious consequences for emerging markets and Japan.

4. In the **Euro-area**, short term growth and employment prospects are better than at any time since the late 1980s. Surging exports - spurred by the weakness of the euro - and favourable conditions for investment growth are providing momentum to the recovery. Inflation remains well under control and some progress has been made on structural reform, particularly in product and capital markets. To sustain this bright economic picture, countries need to press ahead with the reform agenda set out in Lisbon.

5. In **emerging** markets, economic recoveries are taking hold - with particularly strong performance in Asian economies - and the crisis related slowdown is well behind us. Generally, investor confidence is improving and there is currently no emerging market likely to cause a systemic financial crisis. But, developments in **Argentina** will need to be monitored carefully, since high financing requirements and sluggish growth could lead to a liquidity crisis in the medium term.

6. **Oil prices** remain high posing a threat to the global macroeconomic environment. But, oil is less important for the global economy than in the past due to more fuel-efficient technology and substitution to less expensive fuels. Encouragingly, OPEC ministers have agreed to raise supply if the price stays above $28 per barrel. Saudi Arabia has made a further statement along these lines.

## WORLD ECONOMY

### Objective

1. G7 Statement: To agree the language on oil prices.

2. G8 Communique: To ensure that reference is made to all developing countries, not only to Asia.

### References

A. G7 comments on world economy section of G7 communique
B. World Financial Market Developments

### Points to Make

- **G7 Statement**: Paragraph on oil needs to ensure that G8 countries are not prescriptive with OPEC, whilst noting that oil prices need to moderate from current levels and that volatile prices could adversely affect the global economy.

- Welcome most recent Japanese changes which go some way to reflect our amendments, but text is too blunt and risks provoking OPEC. It makes an explicit link between our concerns and the steep rise in prices. Suggested amendment:

  "We are concerned about the adverse effect on world economic growth of a volatile crude oil market. In this context, both oil producing countries and oil consuming countries have an interest in seeing oil prices moderate to a level more consistent with medium-term stability in order to help sustained growth and prosperity."

- **G8 Communique:** Text should refer to all developing countries - not just Asia. Suggested text for paragraph 2:

  "Emerging market recoveries are underway supported by favourable external conditions. However, many developing countries, notably in Africa, are still growing slowly. In order to promote strong sustainable growth, reduce poverty and avoid future instability efforts must now focus on maintaining the momentum of reform, improving public and private sector governance, and increasing transparency."

- Otherwise content with world economy text in both G7 statement and G8 Communique.

### Background

1. **Handling**. G7 Statement.

Oil prices: there has been a mass of drafting suggestions. The initial text proposed in your letter of 11 July was agreed by the Chancellor and by the Germans. After suggested amendments by the US and Canada, our letter of 15 July proposed the following text, based

on language agreed by the Chancellor:

> "World oil prices have risen steeply over the last 18 months. Both oil producers and consumers have a strong interest in seeing oil prices moderate to a lower level more consistent with medium-term stability. World policy makers will remain vigilant of the risks which unsustainably high and volatile oil prices pose for global recovery."

The 18 July Japanese version has attempted to incorporate your comments of 15 July. But the text is too blunt - it makes an explicit link between our concerns and the rise in oil prices - and risks provoking OPEC.

Department of Foreign Affairs and International Trade
Ministère des Affaires étrangères et du Commerce international

Deputy Minister
Sous-ministre

Canada

G7 SHERPA CORRESPONDENCE

Mr. Yoshiji Nogami
Deputy Minister for Foreign Affairs
Tokyo

Dear Yoshiji,

I am writing to provide you with comments on the draft G7 Statement of 11 July.

**World Economy:**

p2, lines 14-17

On the question of oil prices, an acknowledgment of the importance of price stability to both producers and consumers is acceptable. As we need to ensure that our message does not appear to suggest G8 governments are cooperating to drive down the price of crude oil, I prefer not to mention that prices are "high". I also agree with Jean-Marc that we need to avoid being prescriptive with OPEC. I would caution against, as Jeremy suggests, mentioning specific prices.

Therefore, I suggest the following language, which draws upon Armando's original text:

~~*Despite OPEC's decision to increase production quotas at the end of June, oil prices remain high. In this context,*~~ *Given the adverse effect on world economic growth of volatile prices for crude oil, we highlight the need for* ~~*the*~~ *greater stability* ~~*that is necessary*~~ *to help ensure* ~~*the*~~ *sustained growth and prosperity* ~~*of*~~ *in both oil producing countries and oil consuming countries. We welcome recent moves by producers to allow the market to better match supply with strong global demand.*

125 promenade Sussex Drive
Ottawa, K1A 0G2

US

## COMMENTS TO THE G7 STATEMENT

| | |
|---|---|
| **WORLD ECONOMY** | |
| • Page 2, Lines 14-17 | We would like to suggest the following language, "We are concerned about the adverse effect on world economic growth of a volatile crude oil market. We emphasize the significant role that stable oil markets play in the health of the global economy and their importance to sustained growth and prosperity of both oil producing and consuming nations."<br><br>However, we could accept the current language with the following edits "~~Despite OPEC's decision to increase production quotas at the end of June, oil prices remain high.~~ We are concerned about the adverse effect on world economic growth of a volatile crude oil market. In this context, we highlight the need for the stability in the oil markets that is necessary to ensure the sustained growth of both oil consuming and oil producing countries." |
| • Page 1, Line 22 | Editorial comment: "it ~~remains~~ is important to . . ." |
| **STRENGTHENING THE INTERNATIONAL FINANCIAL ARCHITECTURE** | |
| • Page 3, Lines 7-8 | Strike out " . . . capital flows, ~~and the emerging framework of internationally agreed codes and standards~~.", since it is repetitive with the next tick. |
| • Page 3, Line 14-16 | Add to the end of the sentence " . . . for IMF lending and we endorse our Finance Ministers' proposals on facilities reform. |
| • Page 3, Lines 33-34<br>• Page 4, Lines 1-3 | Strike out the entire paragraph and replace with:<br><br>We attach particular importance to the following measures:<br><br>– To meet their core mandate – accelerating poverty reduction -- the MDBs should substantially increase the focus of their operations on promoting the provision of core social investments, such as for basic health and primary education; they should move away from activities that the private sector can and does do better.<br><br>– We look to the MDBs to play a leadership role in increasing the provision of global public goods, particularly for urgently needed measures against HIV/AIDS and other infectious diseases, as well as environmental degradation.<br><br>– All the MDBs should sharpen their focus on achieving durable results, and allocate their support increasingly on the basis of borrower performance. Country assistance strategies should take full account of borrowers' policy environments, including |

Ref B.

RESTRICTED - POLICY

# WORLD FINANCIAL MARKET DEVELOPMENTS

## July 2000

SEE ALSO ADDENDUM ON OIL PRICES (ATTACHED)

Contents:


- Executive summary
- Major economies update
- Oil
- Financial markets
- Key global risks

## EXECUTIVE SUMMARY

- World economic prospects have been revised up, with some commentators saying that growth in 2000 will be the strongest in a decade, at around 4½ per cent. All G3 economies are growing, although there is still some uncertainty as to the robustness of the recovery in Japan.

- In the US, inflationary pressures are becoming apparent, while the current account deficit has risen sharply, to above 4 per cent of GDP. Notwithstanding improvements to trend productivity growth, the economy is still growing too fast raising concerns about inflation and the transition to a lower growth path. The Fed is well into its tightening phase and, despite some promising signs of a slowdown, further tightening is likely.

- A Euro area recovery is well underway, with a robust pick up in growth in the second half of 1999, driven by strong investment and exports. Short term growth and employment prospects are better than at any time since the late 1980s, with above trend growth, between 3.2 - 3.6 per cent, expected in 2000. However structural reform has been mixed; to raise potential growth rates Europe needs to press ahead with the economic reform agenda set out in Lisbon.

- Japan appears to be on the path to recovery, with positive growth in the first quarter of this year, driven by exports and an IT boom. But consumption remains weak, and until the recovery is broad-based, macroeconomic policy should remain accommodative. Government should press ahead with structural reform to increase the flexibility of the economy, and minimise the negative impact of corporate restructuring.

- On the whole, economic prospects in emerging markets are much improved, recoveries have been spurred by improving external conditions and structural reforms, particularly in the financial sector. A few countries give cause for concern (Indonesia, Argentina), where developments will need to be monitored carefully in the year ahead.

- Higher oil prices have adversely impacted on world inflation. However recently announced increases in output should help reduce price pressures in the medium term. Inflation generally remains benign.

- World equity markets remain over-valued, despite an adjustment earlier in the year. Further falls should be anticipated, with the US economy likely to suffer most from declining wealth on personal consumption. In Japan the impact would be greatest in the corporate sector, by adversely affecting banks lending abilities.

- Financing to emerging markets increased for three successive quarters reaching a post-Asian crisis peak in the first quarter of this year. Composition of flows is sounder, implying economies less vulnerable to rapid destabilising capital flows, with greater emphasis on foreign direct investment (FDI) and debt picking up (although spreads still wide).

- Key risk to world economy remains a hard-landing in the US. Clearly the impact would depend on the speed and size of a US downturn, and the channels through which it occurs. But emerging markets and a fragile Japan most at risk via the impact on world financial markets and world trade.

- Also risk of over-heating. The turnaround in the world economy has been impressive, but risk of inflationary pressure and a further deterioration in imbalances if policy makers have under-estimated the impact of external demand.

RESTRICTED - POLICY

# (1) MAJOR ECONOMIES UPDATE

## (A) GLOBAL OVERVIEW

1. The crisis-related slowdown - which mainly affected the non-developed world - is now well behind us. The world economy grew at a reasonable 3.3 per cent in 1999, and the prospect for 2000 is 4.5 per cent - rather healthier than six months ago.

2. Growth within the G3 has not converged as rapidly as we had hoped, with the US continuing to roar ahead at 4 per cent plus, while the Euro area has recovered slowly, and Japan has barely moved. But there ought to be more convergence in the second half of this year and in 2001, as the US economy slows down, the Euro area rises above trend, and Japan's recovery gets going. Central Banks in the US and Europe are well into a phase of tightening policy. But inflation remains benign, despite an oil price induced uptick, and interest rates should rise only moderately compared with previous cycles.

| G3 Growth Forecasts | 1999 | 2000* | 2001* |
|---|---|---|---|
| World | 3.3 | 3.7 - 4.5 | 3.1 - 3.9 |
| US | 4.2 | 4.4 - 4.9 | 3.0 - 3.2 |
| Europe | 2.3 | 3.2 - 3.5 | 3.0 - 3.3 |
| Japan | 0.3 | 0.9 - 1.7 | 1.5 - 2.2 |
| Emerging Markets | 3.5 - 3.8 | 5.0 - 5.4 | 5.0 - 5.3 |

*** Range (IMF, OECD, Consensus forecast)**

## (B) SOME ENCOURAGING SIGNS OF SLOWING IN THE US.....

3. For the first time in a year, there is some evidence that the US economy may be slowing. Nearly every sector, apart from technology spending, has slowed suggesting some moderation in domestic demand growth. But the signs are still tentative and the debate lingers as to how much technological and structural changes in the economy have raised its non-inflationary potential.

4. The combination of a long sustained upswing (eight years of positive growth) with low inflation and falling unemployment has prompted much talk of a 'new paradigm' based on strong investment growth, and greater returns from IT and communications technology.

Much of this has been capitalised into the stock market, which has in turn helped sustain the boom via increased household spending (wealth effect) and, at the business level, increased equity financing for young firms (venture capital, initial and secondary public offerings).

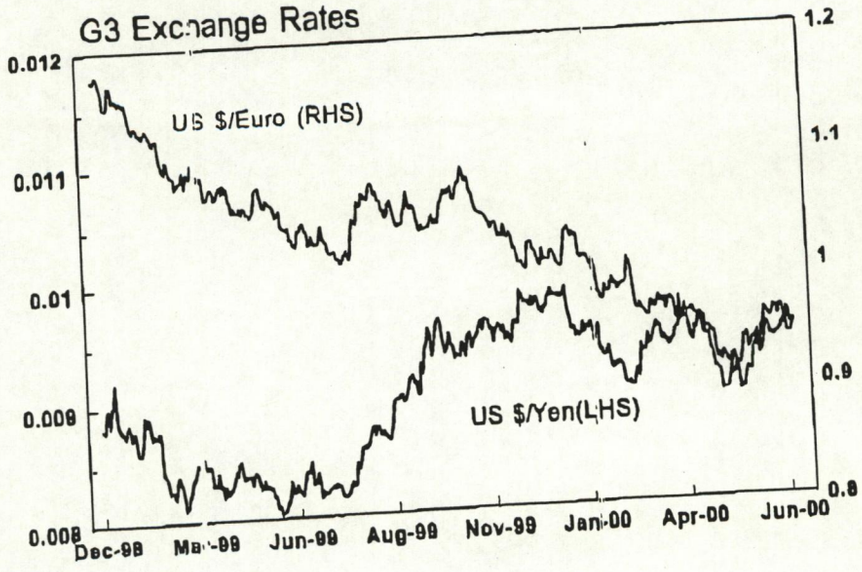
5. There is some substance to the new paradigm. US productivity growth has risen and the NAIRU has fallen to about 5 per cent. This has allowed the US to enjoy faster growth than previously, without rekindling inflationary pressures. But the most recent growth rates (5.5 per cent in Q1) are clearly well above any sensible estimate of trend and, despite the productivity improvements, the impact is starting to feed through into inflation (the core rate was 2.4 per cent in May, and the broader personal consumption deflator was 3.5 per cent in Q1 - the highest figure in the current expansion). Moreover, the labour market remains tight and the pressures on wage inflation remain upward.

6. The strong growth of domestic demand has led to a rapid increase in the current account deficit since 1997, now running in excess of 4 per cent of GDP. The deficit should stabilise this year as exports pick up with the stronger global economy, but increasing net income outflows (due to higher interest rates pushing up the cost of financing the US net external debt position) will constrain any narrowing. So far, the availability of foreign goods to satisfy strong domestic demand has played an important role in sustaining the non-inflationary character of the expansion and financing the deficit has not been a problem. But a shift in investor preferences could produce a rapid reversal of capital inflows, and put disruptive downward pressure on the dollar, and upward pressure on inflation.

7. In addition, fiscal policy will not be tightened to restrain demand in the year ahead. The emergence of a structural budget surplus in 1999 after several years of tight fiscal policy has led to calls for higher public spending and lower taxes which may prove difficult to resist. Emergency measures have already been invoked to increase spending by $60bn more than previously agreed caps, and discretionary measures have been taken to cut taxes slightly.

8. The Federal Reserve continues to respond to the strengthening economic momentum in a gradual way - interest rates have increased 1.75 percentage points over the past year. Although interest rates were left unchanged in June, the Fed believes that signs that the economy is slowing are "still tentative and preliminary, and the utilisation of the pool of available workers remains at an unusually high level", indicating that further tightening is to come. The longer the slowdown takes, the more likely it is that there will be a hard

landing, and the more serious the consequences for the rest of the world economy.




## (C) EURO AREA PICKING UP.....

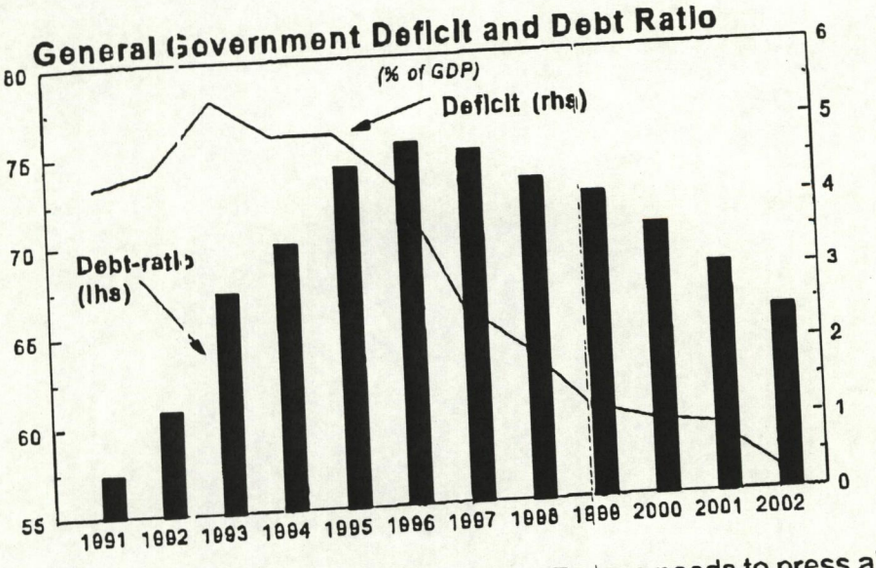
9. Euro-zone growth dipped in the aftermath of the emerging markets crisis. But by the second half of 1999 a healthy recovery was underway, and the euro-zone is now growing well above trend rate (estimated to be between 2¼ - 2½ per cent). Current data suggests that activity remains firm. GDP grew 3.2 per cent (year on year) in the first quarter of this year. Business investment has been particularly robust, helped by low real interest rates and investment in IT. Net exports, boosted by the low level of the euro, have also supported growth. Household spending remains the weak spot, although consumer confidence is at a historically high level. Forecasters expect growth in the region of 3.2 - 3.6 per cent in 2000.

10. Despite the strong impact of oil price rises, reinforced by the weakness of the euro, inflation has remained well under control. In May, HICP inflation was 1.9 per cent, unchanged from the previous month and core inflation was subdued at 1.1 per cent. Whilst there is a chance that there are further lagged effects of oil price rises and the weak euro will work through, inflation is expected to fall back in the second half of the year. Inflation of between 1.5 - 1.7 per cent is expected in 2000 as a whole.

11. But the headline figure masks variation in rates across the euro-zone, with inflationary pressures strong in the periphery. Inflation was 5.1 per cent in Ireland and 3.2 per cent in Spain in May. Portugal saw the largest rise of 0.5 percentage points to 2.4 per cent. Whilst

these differences partly reflect productivity catchup as incomes converge on the EU-average, there is also a role for national governments to address fiscal and wage policies.

12. There have been some improvements in the euro area in both the fiscal stance (average government deficit fell from 2 per cent of GDP in 1998 to 1.2 per cent in 1999) and the rate of unemployment (the harmonised unemployment rate has fallen almost 1 percentage point over the last year to 9.2 per cent in April). However these improvements are mostly cyclical. Indeed the structural fiscal deficit is projected to worsen in 2000 and 2001. More can and should be done on structural tightening.




13. For this bright economic picture to be sustained, Europe needs to press ahead with the economic reform agenda set out in Lisbon. There has been much external (US) criticism of the EU's record to date. Some of this is justified, but progress has been made.

- *Labour markets reform*: some progress has been made in implementing policies towards activation and prevention. However, only a few Member States have tackled employment disincentives in the tax and benefit systems and action is needed to remove excessively rigid employment protection legislation.

- *Product and capital markets reform*: most progress been made in the implementation of internal market legislation and the liberalisation of telecommunications and electricity markets. Some improvement in disciplining State aid and in the development of risk capital markets. But much more needs to be done, particularly the enforcement of public procurement rules, and the promotion of R&D and innovation.

14. The euro has steadily weakened since its introduction in January 1999, hitting record lows in May this year. This downward trend has been attributed to a variety of concerns, including the ECB's communication strategy; the perception of slow progress on structural and fiscal reform and stronger US growth. However, improvements in these area, means that probably turned the corner.

15. With Europe in recovery, an expected US slowdown, and a growing US current account deficit, euro likely to continue to strengthen. Experience shows that predicting the timing and magnitude of the exchange rate's movement is very uncertain. But it is quite likely that if a change in sentiment becomes entrenched, the euro could appreciate even more rapidly than implied by current forwards contracts.

**(D) EVEN JAPAN MAY BE ON THE PATH TO RECOVERY....**

16. The Japanese economy has been in the doldrums throughout the 1990s, growing at an average rate of 1¼ per cent per annum. Growth been particularly weak in recent years, and the economy was technically in recession in the second half of 1999.

17. However Q1 figures suggest that a recovery is now underway, the economy grew at an annualised rate of 10 per cent, driven by exports (strong overseas demand) and capital investment (an IT boom). There was also a reassuring pick up in private consumption, although domestic sales remain weak, due to depressed incomes and employment uncertainties following corporate bankruptcies.

18. But failure to adjust for the leap year means that actual growth was much weaker - maybe half the headline figure - and growth in financial year 1999 was barely positive. More generally, the dubious quality of Japanese economic data means that it is difficult to read too much into quarterly fluctuations, with large discrepancies between the expenditure and output measures of GDP.

19. Nevertheless, whilst predictions are always hardest at turning points, indicators lend substance to the evidence of a gradual, but drawn out, recovery. With forecasters predicting 1- 1¾ per cent growth in 2000 and 1½ - 2¼ per cent growth in 2001.

20. With consumption still so weak, macroeconomic policy should remain accommodative until the recovery is broad-based. The LDP-led coalition retained its power following the general election, though with a somewhat reduced majority. There is unlikely to be any

significant impact on the current policy stance, with the government promising a further fiscal stimulus package in September if Q2 figures are disappointing.

21. Whilst the fiscal stance should remain supportive in the short-term, the level of debt has ballooned (gross government debt will reach 115 per cent in 2000), following 14 "stimulus" packages in eight years, much of which offered poor returns. Fiscal consolidation will be needed once a self-sustaining recovery is underway. Measures could include increasing taxes (tax revenues only 29 per cent of GDP), widening the tax base, cutting unproductive expenditure and more generally, increasing the transparency of the public finances.

22. Hayami (Bank of Japan Governor) is keen to end the zero interest rate policy, which has been in place since February 1999, since deflationary pressures have eased. A quarter percentage base point increase is likely before year-end, and has already been factored into short bond yields. Whilst no clear case for the increase, the net macroeconomic impact should be limited. Could even be positive if sold as evidence of a recovery, and thereby boosts consumer confidence.

23. The Yen has been strong. Authorities are concerned about the impact on competitiveness, especially as exports have led the recovery, and have intervened - with some success - on several occasions. The yen has strengthened, from close to 110 to the dollar to around 105, since the end of May: partly due to increased speculation about the possible termination of the zero interest rate policy.

24. Progress with financial sector reform in Japan over the past 18 months has been impressive and the banking sector no longer provides the same threat to financial stability. However there are still some remaining weaknesses, particularly with regard to regional banks and the insurance sector. In order to reinvigorate the economy, the government should press ahead with structural reform to increase the flexibility of the economy, and minimise the negative impact of corporate restructuring.

## (E) EMERGING MARKETS GROWING FAST, BUT CLOSELY LINKED TO DEVELOPMENTS IN MATURE MARKETS....

25. Growth returned to emerging world, particularly in Asia. Although individual country vulnerabilities (Argentina, Indonesia) unlikely to be any major systemic impact. Concerns over whether structural reform (particularly banking and corporate sector) in Asia and fiscal

consolidation in Latin America gone fast enough.

**Asian economies continue with their recoveries.....**

26. Asian economies continued to record impressive outturns. **Korea, Malaysia, Singapore and Hong Kong**, all recorded year on year growth of over 10 per cent in the first quarter, driven by continued strong net exports and rising consumer confidence. Investment picked up, particularly in export sectors. **Thailand and Indonesia** recorded more modest positive growth rates of over 5 per cent and 3 per cent, respectively.

27. However, the strong cyclical bounce-backs cannot fully mask the region's underlying structural weaknesses. Further progress with restructuring is required to ensure a sustained strong recovery. Moreover, with most economies' recoveries concentrated in the exports sectors, the pace of US slowdown remains a serious risk to future growth prospects.

28. Although large current account surpluses have enabled Asian countries to accumulate vast stocks of international reserves as insurance against future external crises, emerging Asia still remains vulnerable to external shocks. Though amortisation profiles have been rescheduled and some 'haircuts' have been taken, large levels of domestic debt remain, so balance sheets are vulnerable to rising interest rates. For example, in **Korea**, corporate (chaebol) gearing remains high and soon interest rates will need to rise.

29. Of greater concern is **Indonesia**. Despite a new IMF programme, the rupiah hit a 16 month low in the wake of bombs targeted at the attorney general, a vital player in addressing all of Indonesia's problems from regional and ethnic unrest to bank restructuring and the abuses of Suharto. Other concerns include the detention of the Central Bank governor on separate corruption charges; rumours of plans for capital controls; the 'disowning' of Indonesia's IMF programme by key economic players; and slow reform which delayed IMF disbursements and a Paris Club rescheduling. Public debt is near 100% of GDP, further liabilities lie in the banks, IMF exposure is above $10 billion, and reform is way behind the curve. President Wahid himself faces accusations of corruption, and he may not remain in office after August. So **Indonesia's prospects remain on a knife edge**. A renewed crisis could create problems for its neighbours, particularly Singapore on its door step.

30. **China's** recovery appears to be strengthening with both exports and imports growing sharply, domestic demand finally responding to repeated fiscal and monetary stimulus. Q1

GDP showed both a strong recovery and a more balanced output, whilst rising consumer prices suggest a possible end to the deflationary trend. The renminbi has been allowed to move very slightly outside of its narrow band against the dollar, as a possible precursor to an official widening of the band.

31. Last month, China moved closer to achieving its 13-year quest for WTO membership, although further bilateral deals still need to be secured before entry. Full accession will compel China to accelerate structural reform, particularly to its state-owned enterprises and financial sector. Such reform will be painful and there are no guarantees it will be successful.

**Russia's strong recovery continues whilst economic programme is finally approved**

32. **Russia's** strong recovery continues, with the economy expected to grow around 5% this year as it continues to benefit from the rouble devaluation, high oil prices, and greater fiscal and political stability. But sustained growth will depend on further economic reform. Whilst significant tax reforms have been submitted to the Duma, there has been little progress in other areas, including previous IMF conditions.

33. The real devaluation and the large rise in oil prices have resulted in a large current account surplus, with foreign exchange reserves almost doubling this year. However, this rise in reserves has led to high rates of money supply growth, and a pick up in inflation remains a risk, with preliminary numbers for June showing inflation at 2.5 per cent, the highest monthly rate so far this year.

34. On 29 June the Russian government approved its economic programme for the next 18 months setting out measures to sustain macroeconomic stability, improve the business and investment climate, and further tax and banking reform. **If implemented**, these should provide the basis for sustainable growth. Meanwhile Russia is pressing for a further G7 commitment to debt relief at Okinawa.

**Latin America's recovery continues - but Argentina gives cause for concern**

35. The Latin American picture is mixed: countries such as **Mexico and Chile**, that responded quickly to weaker external financial conditions in 1998-1999 by tightening macroeconomic policies are now experiencing the most rapid upswing. **Brazil**, too, is

benefiting from good progress on macroeconomic reform (including a large fiscal adjustment) and a weaker currency. **Mexico's** new president - Vicente Fox - is expected to continue with the same market friendly policies as the current government. Even **Ecuador's** performance has surprised on the upside, but tough IMF conditions to support dollarisation still present political challenges.

36. **Argentina**, however, gives cause for concern. The tentative recovery, rising US and Euro interest rates, concerns about the fiscal position and social tensions have led to investor jitters. Both public and external debt is rising to unsustainable levels and, unless the new government can address persistent fiscal problems the country will face financing problems in the next few years.

**Central and Eastern Europe locked into EU accession process.....**

37. GDP growth in Central and Eastern Europe supported by the improvement in the global economy, and in particular by strong demand growth in western Europe, where exports continue to gain market share. The prospect of entry into the EU means that progress in enacting reforms remains steady and FDI remained strong despite the recent crisis.

38. **Poland's** current account deficit has risen to around 8 per cent of GDP, of which around half is financed by foreign direct investment. It is likely that stronger growth of exports and weaker domestic demand growth will combine to narrow the deficit to a more sustainable level, but the situation will need to be monitored. The coalition government collapsed at the beginning of June, and has been replaced by a minority government. It is widely expected that elections will be brought forward from November 2001 to Spring 2001.

39. Controlling the fiscal deficit remains an issue in **Hungary** and the **Czech** and **Slovak Republics**, with inflation also a concern in Hungary. The banking sector remains weak in both the Czech and Slovak Republics.

40. In **Romania**, the macroeconomic situation remains fragile, although initial estimates for Q1 show year-on-year growth at 1 per cent - the first positive growth for three years. First review of the IMF SBA programme now completed after agreement on the 2000 budget. Two financial institutions have collapsed in recent months severely denting confidence in the banking and financial system. However, a systemic collapse looks unlikely.

## Box 1: Africa in the 1990s - Pessimism or Progress?

Pessimism has been the dominant theme in coverage of Africa's economic and political prospects. While often justified, it can be overdone.

Africa accounts for 2 per cent of world GDP and 10 per cent of world population. And within sub- Saharan Africa, the continent is dominated by the regional powers of South Africa and Nigeria: the one accounting for 25 per cent of the continent's economy; the other, 25 per cent of its population. Africa's annual income is $510 per head - which, to offset population expansion requires growth of 2.6 per cent per year simply to maintain.

The general picture in Africa in the second half of the 1990s has been one of increasingly deeply rooted structural and economic reform, greater macroeconomic stability and improved domestic economic management, reflected in steadily improving economic performance. Between 1995 and 1998, 36 out of 45 countries saw an increase in income per head, in contrast to only 16 out of 45 in the first half of the 1990s. This positive progress is expected to continue in 2000 and 2001, with the IMF anticipating growth picking up to between 4 and 5 per cent and it should be reinforced as the inhibiting effects of debt overhang is increasingly removed.

Integration with the global economy remains slight: Africa accounts for only 2 per cent of total world trade and 6 per cent of financial flows going to developing countries. Official aid flows are still three times as large as private sector inflows. But the raw figures conceal a slow, but growing, recognition of the opportunities in Africa. In the eight fastest growing economies, private capital flows (foreign direct investment and portfolio flows) were worth 9.1 per cent of GDP between 1995 and 1998. Not surprisingly, these economies are also characterised by better policies and better governance. Wider dissemination of information about domestic policy through the promulgation of internationally approved codes and standards would ensure that this message is more generally understood.

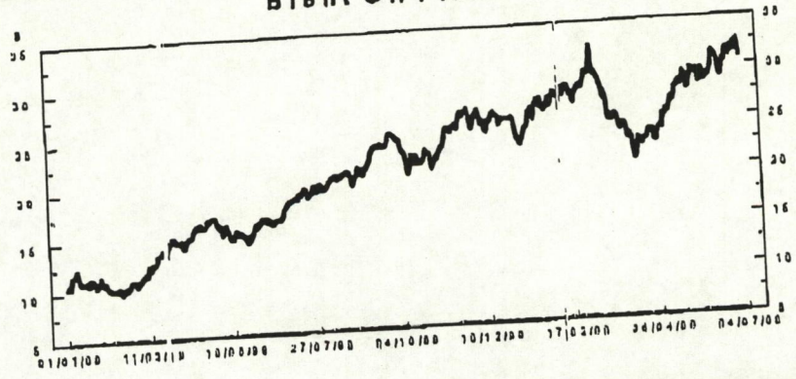
Two obstacles to future economic growth stand out. Eleven countries in Africa are currently involved in armed conflict. The economic effect is devastating - for example the loss of 70 per cent of GDP in Congo Brazzaville - both nationally and regionally. AIDS has an equally widespread impact. 21 countries in Africa have incidences of AIDS above 10 per cent. Life expectancy has fallen dramatically in a number of countries (by up to 20% in Zambia for example). The World Bank calculate that for every 5 per cent of the adult population affected, economic growth per capita is reduced by 0.2 per cent per year. The long term economic impact could be greater through its effects on key sectors, for example 30 per cent of teachers in Zambia and Malawi are infected.

## (2) OIL

### OPEC increases oil supplies in response to $30 oil prices

41. Following further strengthening of oil prices, to over $30 per barrel for Brent crude, OPEC ministers agreed to raise supply quotas by 708,000 barrels per day (or by 3 per cent) when they met in Vienna on 21 June. But the agreed increase was below what markets believed necessary to bring prices down to more reasonable levels (a 1 million barrel per day increases had been expected). And the actual implied increase was only around 200,000 in view of quota cheating being exceeded by around 500,000. The oil price failed to move downwards following the announcement and in fact strengthened to around $31 per barrel.

Brent Oil Prices



42. On 3rd July, Saudi Arabia surprised other OPEC members by announcing that it was prepared to increase output by 500,000 barrels per day if the price did not fall. It subsequently agreed to consult other members of OPEC, and pointed out that its announcement was consistent with earlier OPEC statements that production would be increased by 500,000 barrels per day if the price stayed above $28. The Saudi statement may also be a response to political pressure from the US. But, being by far the largest OPEC producer, and with most others facing capacity constraints, it is clear that Saudi Arabia is running the show. Oil prices fell in response by around $1.50 to below $30 per barrel.

### Oil prices remain above expectations

43. But current oil prices of nearly $30 remain well above most forecasters' projections for the year - the Treasury's average of independent forecasts predicted average oil prices for 2000 of $24.50 in June compared to $20.40 in January. Oil prices have remained strong despite evidence of a significant stockbuild during 2000Q2 (of around 2 million barrels per day):

– it has been suggested that *developments in energy product markets*, in particular supply shortages for gasoline, have pulled up the price for crude. Legislation in the US on new product specifications (for environmental protection), plus patenting activity by Unocal, have contributed to tight conditions in product markets. But it is not clear why these technical factors in product markets can explain high crude

prices (beyond the effect on demand) as opposed to price differentials between crude and petrol.

- more probably, *speculative pressure* has forced the market out of line with fundamentals - Saudi Arabia's recent announcement can be seen in this light as an attempt to "talk down" the market

44. OPEC has targeted $25 per barrel as an immediate price objective. But in the medium term, prices can be expected to fall even without any change in OPEC policy as demand growth falls with substitution away from oil towards less expensive fuels and development of more fuel-efficient technology, and/or as non-OPEC higher cost suppliers expand supply in response to profitable opportunities from higher prices. OPEC's medium term interests are served by attenuating both these eventualities, as Saudi Arabia has publicly acknowledged, and so they might be expected to increase supplies further in due course.

45. But so far OPEC has behaved cautiously:

- perhaps judging that they could benefit from effects of high oil prices in the short term before the medium term responses identified above were included;

- perhaps seeking to avoid increasing supplies at a time when the US may be starting to achieve a slowdown, not wishing to repeat the past mistake of increasing supplies when world growth was about to dip (which was a key reason behind the price fall in 1998 in the face of the Asia crisis).

46. It is reasonable to expect that prices will gravitate to below $20 per barrel. Many believe the real equilibrium price to be around $15 per barrel, based on the estimated supply cost of the marginal oil producer. However, as we have witnessed this year, the oil market can be volatile and hard to predict.

**...and are a threat to world inflation and output**

47. Whilst oil is less important for the global economy than in the past, changes in the oil price can continue to have significant macroeconomic effects. Professor Andrew Oswald is a notable proponent of the view that low oil prices were primarily responsible for better macroeconomic performances in recent years, and that high oil prices pose a strong threat to the current macroeconomic environment. He has produced work showing a strong link between oil price levels and levels of unemployment.

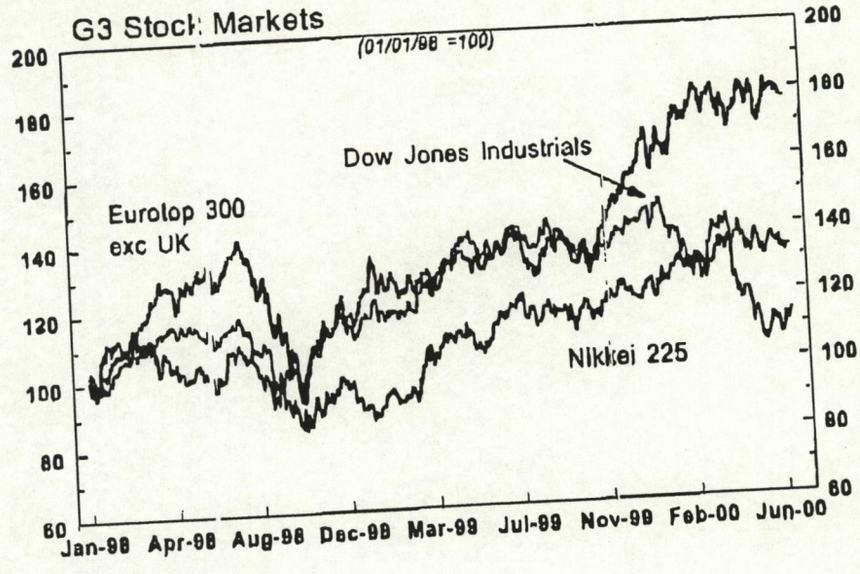
48. US CPI figures for May (year-on-year) showed that the measure including energy was 0.7 percentage points higher than the measure excluding energy. This is consistent with results from a set of OECD simulations (run in December) of a $10 oil price shock (less of a shock than the actual price increase since last June) which implied increases in CPI inflation for the US of 0.4 percentage points after one year and 0.6 percentage points after two years. The effects for the euro-zone were stronger, the figures being 0.6 and 1.1 respectively. For both the US and the euro-zone, the OECD simulations implied negative output changes of 0.2 per cent both one year and two years after the shock.

## (3) FINANCIAL MARKETS

### (A) MAJOR ECONOMIES

**The froth has come off stock markets ....**

49. Global stock markets grew strongly in 1999, amidst optimism about prospects for global growth and corporate earnings - with particularly rapid gains in technology stocks - and some impact from central banks' provision of liquidity to counter potential Y2K problems. But the trend reversed in March, with blue chip stocks gaining at the expense of sharp falls in technology stocks. Since then, G3 stock markets, whilst volatile, have fluctuated about a fairly flat trend. The decline in the Nikkei 225 was largely attributable to a re-weighting of the index. The scope for further corrections remains, since price earnings ratios are historically high.




**Bond markets have been steady.....**

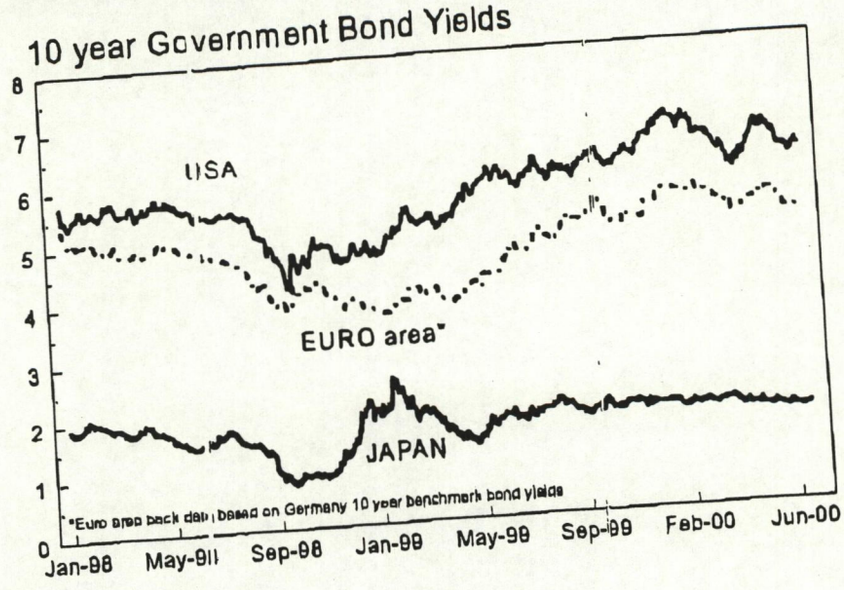
50. Long yields don't appear to reflect inflation concerns, with the trend either flat or falling. There appears to be a high degree of confidence in the markets that the Fed will be able to engineer a smooth landing without short rates increasing by much.

51. In the US and Europe this trend is partly a supply-side effect, as the prospect of continuing fiscal surpluses (and hence low supply of bonds) pushes up the price (and pushes down the yields).

52. The recent fall in yields reflects also, to a certain extent, a flight back to quality as investors become increasingly concerned about stock market valuations.

53. One consequence has been that the US government bond yield curve is inverted beyond the 2-3 year maturity, although in Europe it remains upward sloping.

54. In Japan, the authorities have taken advantage of the zero interest policy to issue mainly short-term bonds. The prospect of a quarter percentage point increase by end-year has already been incorporated by markets into short-rates.




## (B) EMERGING MARKETS

55. In general investor confidence improved in emerging markets over the course of 1999. But in recent months, certain markets have seen renewed volatility - despite continuing growth - and the outlook remains closely tied to developments in mature markets, particularly the US.

56. In Asia, high levels of domestic debt raised fears of renewed financial sector turbulence. However, strong growth, current account surpluses, more flexible exchange rates and large reserves should reduce the risk of a financing crisis this year.

57. In Latin America, heavy amortisation schedules and ongoing current account deficits continue to produce high financing risks for the region. Strong FDI flows and significant pre-financing for 2000 should offset these risks in the next six months. Nevertheless, rising US interest rates will significantly increase debt servicing costs and dampen growth.

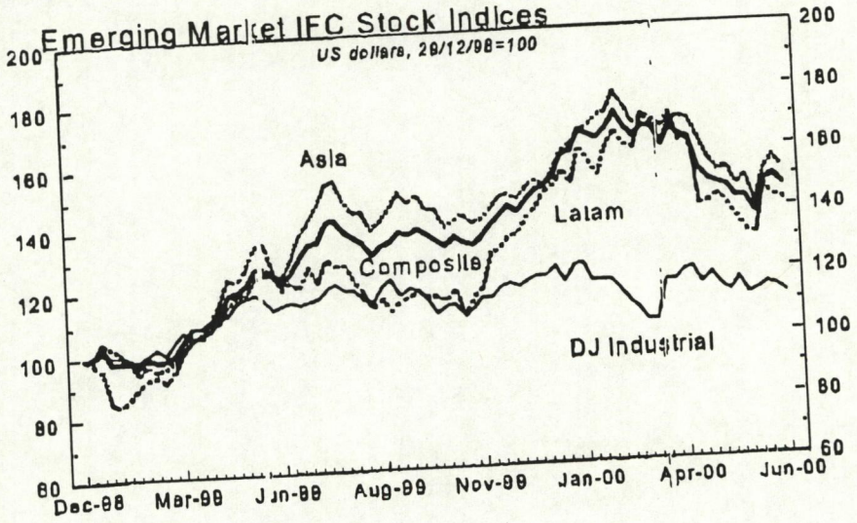
58. Transition economies are locked into convergence with EU, resulting in steady long term flows of FDI, and steady progress in structural reform, including the financial sector, minimising the risk of financial instability in the region.

## Box 2: Emerging Market Finance

Financing to emerging markets increased for three successive quarters reaching a post-Asian crisis peak in the first quarter of this year. Composition of flows sounder, implying economies less vulnerable to rapid destabilising capital flows, with greater emphasis on foreign direct investment (FDI) and debt picking up (although spreads still wide).

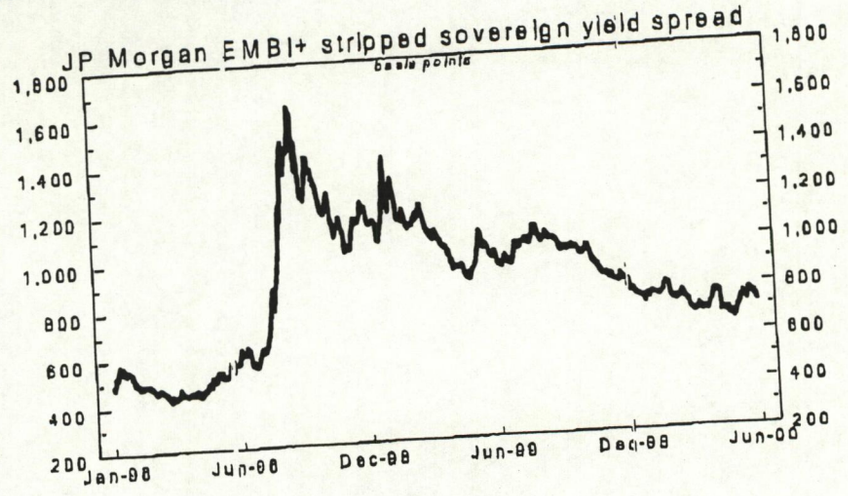
Sharply improved perceptions of emerging market credit quality and a smooth transition to Y2K led to a significant pick up in net financing flows in the first quarter of this year. This positive environment enabled key emerging market sovereigns (e.g. Argentina) to raise a large part of their external financing needs for 2000 - with improved debt maturities - thereby providing some insulation from further Fed tightening.

But in Q2, equity markets, particularly in Asia, turned bearish following volatility in the US stock market. Stock markets in most emerging market regions are now below their end-1999 levels, largely tracking movements in the US indices. In Asia, volatility fed into currencies, with the Thai Baht down nearly 5 per cent over the year, whilst others such as Indonesia and the Philippine's currencies having fallen 15-20 per cent over this year.




contd.....

Spreads on emerging market debt, as reflected in the JP Morgan Emerging Market Bond Index (EMBI), appear to have stabilised at around 750 basis points - reflecting particularly the outlook for US short-term interest rates and the behaviour of the NASDAQ - still well above pre-crisis levels. Moody's decision to upgrade Mexico in March seems to have had positive implications for other emerging markets.



## (4) KEY GLOBAL RISKS

### (A) GLOBAL SHOCK FROM A US HARD LANDING

59. A US hard landing could impact on the world economy through three main channels, trade, financial markets and monetary policy links:

**Risks to Euro-land small.....**

60. The euro area has a fair chance of weathering a US slowdown, the biggest risk might be an inappropriate monetary tightening in the euro area to match Fed rate rises (and prevent a depreciation of the euro), which would impact adversely on investment and growth. The more resilient the US economy remains to the Fed's efforts in slowing the pace of growth, the higher the risk that the slowdown will be more severe.

61. The impact on trade is likely to be small as the euro area is a rather closed economy (less than 15 per cent of exports sold outside euro area).

62. The impact on financial markets would also be limited. Even if a greater than expected fall in US growth triggered a wide-spread sell-off in equities there would only be a limited impact on net wealth. Private households hold only a small proportion of total equities and bank credit remains the primary source of corporate finance. Although US downturn could have some spillover effects in damaging business confidence.

**But could seriously undermine Japan's recovery.....**

63. For Japan the concern is the impact on trade or equity markets, which could knock off-track the tentative recovery.

64. Whilst exports to the US account for only 3½ per cent of GDP, the recovery to date has been driven by export growth. The trade gap between the US and Japan was at an all time high in May 2000. Exports to the US would be affected by both a fall in US demand and the likely appreciation of the yen against the dollar.

65. The other key channel would be via the equity markets. In 2000, Japan's stock market performance has been closely linked to the US NASDAQ. Most equities are held by banks. So whilst the impact on private consumption would be limited, a sudden widespread sell-off in equities could have a serious impact on the capital position of banks.

**Emerging markets also at risk.....**

66. Emerging markets appear to be particularly vulnerable, because of trade links and their reliance on external finance. Latin America would be particularly vulnerable to external financing shocks and in non-Japan Asia the key impact would be via the trade route, although the strength of banking sectors would be a key factor in determining the severity

of any down-turn. Transition economies are the least at risk as highly dependent on conditions in Europe.

67. Exports to the US typically account for a large component of GDP in these countries, for example Mexico (23.3 per cent of GDP). In Asia direct trade accounts for 9.1 per cent of GDP, but this under represents the importance of the US as intra-regional trade is also heavily dependent on US demand. A slowdown in real GDP growth in the US would decrease US demand for overseas goods. Countries which rely on commodity exports, such as Mexico, Argentina, Venezuela and Chile are also vulnerable.

68. Monetary tightening by the Fed (and simultaneously by the ECB) is likely to slow or reduce credit to emerging market countries, as the relative attractiveness of financial assets in emerging markets deteriorates. Countries which attract a higher proportion of long-term capital, such as FDI in Mexico and transition economies, would be well-placed to withstand this effect.

69. Rising US interest rates will increase the debt servicing costs of those emerging markets issuing dollar-denominated debt. This is particularly important for countries with a higher proportion of floating rate debt and large re-financing needs (e.g. Argentina).

## (B) GLOBAL OVER-HEATING

70. Another emerging risk is that of a "global boom/bust" scenario - the emergence of simultaneous rapid growth in many countries, the absence of marked stabilising forces in global financial markets, and trade fuelling domestic demand, runs the risk that monetary authorities and financial markets underestimate the strength of global demand and respond too slowly to future potential spillover effects on prices, resulting in higher inflation, financial imbalances and, eventually, widespread recession (cf. Boom-bust of early and late 1970s and the late 1980s).

71. The recent increase in oil prices could well be a symptom of this, as demand has taken the oil-producers by surprise. Only Saudi Arabia having sufficient excess capacity to deal with demand.

72. This risk could be aggravated if global fiscal policy turns pro-cyclical. The fiscal consolidation process in OECD countries has "paused" since last year. Proposals for tax cuts and additional spending in many countries, if combined with widespread slippage in the run-up to forthcoming elections, increase the risk that fiscal policy turns expansionary.

**Addendum to WFMD**

There have not been any significant developments on oil prices since the release of *World Financial Market Developments*. OPEC has recently reaffirmed Saudi Arabia's announcement that half a million barrels per day of extra supplies will be released if the price fails to fall below $28 (by the end of July). Brent crude oil prices have continued to fluctuate between $28-$31 per barrel, dipping to $28.56 following OPEC's latest statement.

# G7 STATEMENT

Okinawa, ____ July 2000

## World Economy

Since we last met in Cologne, prospects for world economic growth have further improved, as the underlying fundamentals of the industrial countries and the world economy more generally have strengthened, and as our economies move towards a more balanced and therefore more sustainable pattern of growth, Emerging markets economies, including the crisis-affected economies in Asia and elsewhere, continues to strengthen.

At the same time, continued vigilance and further action are needed to ensure that sustained, strong and balanced growth is achieved. We agree on the importance of directing macroeconomic and structural policies in all our countries at achieving this objective, with emphasis on taking full advantage of the investment opportunities created by new technologies to raise potential growth rates.

More specifically,

- In the United States and Canada, where growth remains strong with low unemployment and inflation well contained, macroeconomic policies should continue to be directed towards maintaining a sustainable rate of growth and low inflation, and in the United States, national saving should increase.

- In the euro area, where growth has further strengthened and employment is rising, sound macroeconomic policies and structural reforms directed towards expanding investment, employment, and
- productive potential remain important.

- In the United Kingdom, where growth has strengthened, employment is still rising, and inflation is low, economic policies should continue to aim at meeting the inflation target while sustaining growth and employment.

Page 2 cntd

- In Japan, where the economy continues to show positive signs of recovery, although uncertainty still lingers, macroeconomic policies should continue to be supportive to ensure domestic demand-led growth. Structural reform should be continued to promote an increase in productive potential

- We welcome the recovery in many emerging market economies as
- well as countries in transition and developing countries, but we stress
- the importance of further progress in corporate and financial restructuring and the importance of sound underlying fiscal positions
- and debt structures.

We are concerned about the adverse effect on world economic growth of a volatile crude oil market <u>including recent steep rise in oil prices</u>. In this context, we highlight the need for greater stability of oil prices to help ensure sustained growth and prosperity in both oil producing countries and oil consuming countries.

# RUSSIA

## Russia

*You should compare notes on Putin and discuss Russia handling, in particular how to respond to any bids for a Russian Presidency in 2003, or for debt forgiveness. Germany, as main creditor, has most at stake, but the general view is that forgiveness is not needed (given improved economic prospects) and rescheduling not yet merited (before implementation of IMF programme). On full membership, Heads should be clear that Russia needs a proven track record on economic reform and adherence to basic economic principles. Non-membership of WTO and undemocratic leanings at home show how far it still has to go – the message should be that the G8 is ready to help Russia help itself. With Putin likely to be defensive towards eg Chirac over Chechnya; and hostile towards Clinton over National Missile Defence, you may well find yourself mediating some difficult discussions.*

**Key Points**

- Putin still difficult to pin down three months since his inauguration. He has made an assertive start. His current priorities to consolidate power and establish order. Strong and determined leader, has a strong mandate and is here to stay. Have to do business with him.

- But concerns about his democratic credentials and possible authoritarian tendencies. Applaud his stated intention to deal with corruption. But his prosecution of media baron, Gusinsky seemed politically motivated and questions whether he is prepared to tolerate opposition. His public accusations against press "abuse" of freedom not encouraging. Also cannot let Chechnya out of sight.

- Attempts to reign in the regions and moves to tackle the oligarchs – clumsy but probably genuine attempt to create a single and strong legal system throughout Russia. All this must be in our and Russia's interests. But recent attacks on oligarchs, including Berezovsky and Chubais could be counter-productive if unpick the major privatisations of the last 10 years. Would throw huge question mark over property rights and could damage investment.

- Need therefore to **keep our message firm but fair**: you play by the rules of the international community; we will treat you as an equal. Must be straight with him if we want cooperation on eg Balkans or arms control.

- Don't believe Putin has made up his how to respond to NMD. May well want to strike a deal on ABM Treaty and STRART III Treaty eventually. Important to keep trying to persuade him NMD isn't a threat to Russia, and that it's in Russia's interests to engage seriously with the US on this. In turn, we are ready to examine Putin's own proposals for cooperation.

- commitment to **economic reform** seems genuine; plans to tackle poverty and social exclusion promising. But need to watch for **implementation** of commitments. Without real reform the underlying economy remains fragile.

- Russia remains off-track with the IFIs - IMF agreement likely by September. Should reserve judgement on **debt rescheduling** until Russia has acted on its commitment to reform and has a new programme with IMF. Believe Russians may be lowering sights on debt forgiveness – they don't need it and it does nothing to improve credentials for full G8 membership.

- Putin wants **full G8 membership and Presidency** in 2003. Clearly out of the question for Russia to lead G8 in present economic and political climate. Chechnya aside, how could they broker an end-game to the Trade Round for example, if not even a member of the WTO? or provide leadership on HIPC and IFI reform while off-track with the IMF, and seeking for debt forgiveness from the rest of us?

- Difficult to see Presidency 2003. But think we need to offer something. One idea would be to hint that <u>if</u> Putin is able to turn Russia round, Presidency in 2006 is an option. Logic would be that it fits between UK and Germany – so meetings would alternate between EU and rest of World.

- Should encourage Putin to focus attention on immediate priorities: if he is serious, we will assist with reform and with steps needed to make Russia a full player in global economy. eg **WTO accession; tackling corruption and money-laundering and providing a better environment for investment.** We should stand ready to help on these.

## Russia – Background

1. **Handling. At G7** there should be reasonable agreement on approach. Communique language is likely to stick. We support full membership for Russia – but reform of the Russian economy is needed first – if the Russians are to play a full part in eg trade, international financial discussions. **At G8**, Putin's priority is to be seen as a full member, in his first major multilateral outing. He will resist initiatives that single Russia out and may well downplay or object to G7 references. He may press for a full Russian Presidency of the G8 in 2003. We would support a Russian Presidency in principle - but it is unlikely that Russia will have made enough progress on economic reform to qualify for full G8 membership by 2003. It is likely that Putin will raise ABMT/NMD. We do not consider the G8 a suitable forum for an exchange on this issue.

2. You will discuss Russian debt **first at G7**. the Russians seem to have pulled back from their earlier pressure for forgiveness in the face of G7 (especially German) unwillingness to move. All partners want Russia to implement their commitment to real reform and to agree a programme with the IMF before offering movement on debt. Communique language agreed by G7 Finance Ministers reflects this and calls for the Paris Club to offer Russia another interim rescheduling agreement within the parameters of the IMF programme. G7 agree the best support for Russian reform is for help on debt to reflect Russia's record on implementing reform, and its actual need for finance.

3. Instead, we want to focus on the practical steps which Russia must take before becoming a full member of the G8. WTO membership is key (although not sufficient), and a push on assistance would show we are serious about Russia's integration. DFID have a £1M programme of technical assistance in this area. Accession negotiations must, of course, take place in the WTO, but the communique will agree that G7 countries could support the process. You will want to discuss **first at G7**. Engaging Putin personally **at G8** will then be critical for real progress.

4. There are other smaller areas where we could also demonstrate our desire to support Russia. These include:

   - helping Russia meet the criteria for membership of the Financial Action Task Force (FATF), the Nuclear Safety Working Group (NSWG) and the OECD;
   - supporting the Commission proposal to fund Russian reform of civil aviation, in return for reform of charges for, and increase in number of Siberian overflights;
   - offering Russia the possibility of hosting a special G8 Summit in St Petersburg in 2003 (coinciding with the city's tercentenary), during the French Presidency.

5. Russia's economy is recovering strongly. GDP grew 3.2% in 1999. We expect around 5% growth in 2000, mainly reflecting high oil prices and the devaluation. Despite capital flight and debt repayments, reserves have risen to $22bn. This should enable Russia service its debt even without further IMF disbursements. But the Russians know their record is not unblemished in western eyes, particularly by over-long dithering on structural reform, without which the recent improvements

will remain fragile and there will not be significant sustained growth. And although the economic recovery has helped, 50 million Russians still live in poverty.

6. Putin's domestic priority is to consolidate power. He has put some of his own people into key positions and reasserted Moscow's authority over the regions. But his emphasis on a strong state has raised concerns. The prosecution of Gusinsky, a leading opposition media baron, appears politically-motivated. In an address on 10 July, Putin opposed "abuse" of media freedom, strengthening doubts over his understanding of what a free press really entails.

ABM/NMD

7. The Russians are hostile to the US proposal to deploy a limited National MissileDefence system, which some in the Russian military claim, wrongly, is directed against Russia rather than the states of concern (e.g. North Korea, or Iran). The failue of the latest test on 8 Jul will have reduced the likelihood of President Clinton making a firm decision later this year to proceed with NMD deployment. This will have reinforced the Russians' inclination to play for time, seeking to exploit difference in NATO on NMD. Key to any eventual deployment will be the Russian agreement to amend the ABMT, agreed between the US and the Soviet Union in 1972, and which ,as it stands, would not allow the NMD system proposed by the US. Failure to reach agreement with Russia could result in the US unilaterally abandoning the ABMT, souring US/Russian relations and undermining other international arms control agreements

7 The Putin/Clinton Summit in June made little, if any progress on this issue. The Russians appear keen to raise **at G8**, but discussion by the G8 is inappropriate as only the US and Russia are party to it. General discussion by the G8 of NMD is unlikely to resolve US/Russian bilateral issues and is likely only to raise the temperature and result in acrimonious exchanges. The Russians may also attempt to isolate the US, although in practice, with the possible exception of France, it is Russia that is likely to be isolated. This would not be helpful to either the success of the Okinawa Summit or to the ongoing bilateral discussions between the US and Russia.

**Okinawa G8 Summit** **Sherpa Brief**

## RUSSIA

### References

A A record of Heywood/Illarionov bilateral, 3 July
B Heywood letter to Varrichio on Aviation
C Balkans Reconstruction Papers.

### Background

1. **Handling:** On debt, G7 states are likely to stick to the position agreed by Finance Ministers that we should encourage Russia to move forward on its promised reform agenda, and look for implementation before offering significant movement on debt. The indications are that Russia has recognised that it is too early for a successful push on debt forgiveness, and will focus on gaining western recognition of their programme and of the relative progress in the Russian economy. The general language will therefore need to balance the positive message on progress made so far with a reminder that there is much still to do. Partners who have commented on the general language on Russia have broadly supported this line (see references).

**Russian economy and domestic politics**

2. Russia's economy is recovering strongly. GDP grew 3.2% in 1999. We expect around 5% growth in 2000 as the benefits of higher oil prices and devaluation continue, and the recovery is becoming more broadly-based with consumption and investment rising. The recovery may continue in 2001, but sustained growth will depend on further economic reform. Inflation fell to 20% (yoy) in April. Primary fiscal out turns are running above the annual target of 3% of GDP. The current account surplus is likely to exceed last year's $21bn. Despite capital flight and debt repayments, Central Bank reserves have risen by $9.5bn to $22bn so far this year. This would enable Russia to meet its external debt service obligations even in the absence of further IMF disbursements. However, although the economic recovery has led to some improvements, 50 million Russians still live in poverty.

3. But the Russians know that their record is not unblemished in western eyes, particularly by over-long dithering on the structural reform agenda, without which the improvements of the last year will remain fragile. Putin recently warned of the dangers of inflation, as the Central Bank has printed too many roubles. Without functioning financial markets and a decent investment climate the Government will probably have to allow the rouble to appreciate to stay on line with its inflation target.

Economic Plan

4. The government's economic plan has been long in incubation. Illarionov handed a summary to Sherpas and several draft versions have been circulating in the Russian media. The version handed to Sherpas contains plenty of good ideas for tackling key reform issues. But it has not yet been finally agreed by the Government, and

perhaps reflecting that, contains a number of gaps (eg tax reform). It also lacks the quarterly target dates and proposed legislative instruments included in earlier draft work plans leaked to the press, instead focussing merely giving dates when measures should be submitted to the government. Nor does the economic plan recognise the need for Government to prioritise its tasks and sell them to a number of sceptical constituencies (particularly important for the large number of measures on social policy reform).

5. Moreover, the government has made little headway on implementing reforms since Putin's inauguration, although bills are progressing through Duma and Federation Council on tax, welfare reform, and consolidation of Federal authority over the regions. This partly reflects nature of Russian politics – Putin's focus has been on building his power base rather than, Anglo-Saxon style of making his mark in the first 100 days. But it may also reflect the fact that Putin lacks political experience and is having a tougher time overcoming vested interests than he had hoped.

**Debt**

6. G7 Finance Ministers agree that the best way to support Russian economic reform is for help on debt to reflect 2 principles: Russia's record on actually implementing reform, and Russia's actual need for finance. They have agreed text on Russian debt for the G8 Okinawa communiqué. This calls on the Paris Club to consider a further rescheduling agreement with Russia in accordance with her needs and the parameters of the yet-to-be-agreed IMF programme. As at Cologne, a comprehensive solution to Soviet era obligations depends upon Russia demonstrating a track record of comprehensive economic reform. G7 partners are likely to abide by the agreed language. For the Germans it goes no further towards write-down than Cologne. The previous concern that the US might soften on the issue has diminished because neither the US nor Russia are ready to do a deal on NMD, and the fact that Congress is playing tough on Russia (e.g. over present Paris Club rescheduling agreement) for domestic political reasons.

7. Putin has been lobbying hard for write-down of Soviet era debt and has been citing the agreement with the London Club of private sector creditors (a 36.5% reduction in the face value of its $32bn debt - NPV reduction of over 50% (in exchange for eurobonds)) as precedent. (NB London Club takes its comparability of treatment from the Paris Club not the other way around). But there are signs that the Russians are beginning to accept that write-down are not on the cards for Okinawa. Putin was told this bluntly in Berlin by Schroeder. Perhaps in response to this, Kasyanov spoke recently to the Russian press saying that Russia might seek another temporary Paris Club rescheduling in order to demonstrate meaningful reforms before next year's G8 Summit.

**IFIs**

8. Russia has been negotiating a new programme with the IMF since Putin and Fischer agreed on 10th April that the old programme (off-track since the autumn) was no longer appropriate to Russia's needs. Negotiations are proceeding. A Fund Mission has been in Moscow since 11th July, but it is virtually impossible that the new programme will in place by Okinawa. However, IMF staff could yet reach an

agreement in principle and on required Russian prior actions, if all goes well. New World Bank lending also unlikely as Russia and the World Bank have just begun negotiating a new structural adjustment loan (SAL4). However, the Bank will probably continue with disbursement of remaining tranches of existing loans (coal & social loans).

**Other Measures to Support Russia**

Assistance with WTO accession

9. WTO membership is an important goal in integrating Russia into the global economy, and is a priority for Putin. It is also linked to full G8 participation - a necessary, but not sufficient, condition. The Communiqué text underlines the G7's support for Russia's WTO accession under the approved terms and conditions. Heywood stressed to the Russian Sherpa, Illarionov, the importance and dangers of WTO accession, including the need to agree the objective and then develop plan and timetable to achieve it. In view of the breadth of the necessary measures, Putin's personal interest and engagement will be essential for real progress on this issue. We should encourage Russia to accelerate preparations for complying with the terms and conditions. Detailed negotiations must, of course, continue to be conducted in the WTO, but the G7 could look at ways of supporting the progress that could complement work being done by other organizations (e.g. the EU). The Japanese are keen to do something in this area, but have not yet explained their ideas. We have recently approved a £1.3m project through the Know How Fund to build capacity in the Ministry of Trade in support of WTO accession (and integration into the global economy more generally). The EU is also looking at what assistance is being provided already and will seek to plug the gaps.

FATF/NSWG membership

10. Membership of both the Financial Action Task Force (FATF) and the Nuclear Suppliers Working Group (NSWG) are both further steps on the road to fuller G8 participation and Russia does not currently fulfil the criteria for membership of either. Heywood underlined their importance to Illarionov at the last Sherpa meeting. G7 members might look forward at Okinawa to Russia's eventual membership of the Financial Action Task Force (FATF), perhaps by suggesting that this take place within a fairly short (but at this stage unspecified) time frame. Putin's statement at the Moscow Ministerial Conference in October 1999 noted Russia's interest in early FATF membership. There are a number of steps that Russia would need to take to meet the criteria for FATF membership, including undergoing a positive FATF mutual evaluation and implementing effective anti-money laundering legislation that meets international standards. Russia has already signed up to the FATF 40 Recommendations (the global money-laundering standard) through its membership of the Council of Europe Select Committee on Money Laundering, although implementation is weak (Russia's mutual evaluation by the Council of Europe is due for discussion in December).

11. A further possibility would be for a G7-led package of anti-money laundering technical assistance to Russia. However, Russia has received considerable foreign technical assistance in this area already, the effectiveness of which is in some

doubt. G7 members might simply encourage the Russian authorities in their efforts to strengthen anti-money laundering controls, indicating the G7's willingness to provide further support once Russia's anti-money laundering legislation is passed by the Duma. However, it seems increasingly likely that Russia will be listed by the FATF's "Non-Cooperative Countries and Territories" exercise in June. Any G7 initiative to demonstrate support for Russia would need to be carefully judged against this outcome.

OECD Membership

12. Support for OECD membership for Russia would also send an important signal and is closely tied to building a modern open market economy. But it still remains only a long-term prospect (up to ten years) due to the scale of work that needs to be undertaken to qualify for membership. However, the OECD could take further action to help Russia achieve membership. Such action could include: establishing a representative OECD office in Moscow, increasing the size of the OECD outreach programme, agree with Russia a blueprint for OECD accession, and observer status for Russia for all OECD Committees.

Civil Aviation

13. The Commission is supportive of this proposal from the Association of European Airlines and the EBRD to set up a Russian Aviation Modernisation Fund. This would modernise Russia's obsolescent air traffic control system through a combination of loans from international lending institutes on attractive terms, and using "royalties" from over-flight rights across Siberia. The latter currently go to Aeroflot (a Soviet era arrangement from when they also operated air traffic control) who also restrict the use of Siberian airspace by western competitors. The Fund would both improve safety and capacity across Siberia and do so at no extra cost to the Russian government. Illarionov seemed interested when Heywood handed over the proposal but it will be difficult to overcome the vested interests in Russia who profit from the existing system.

2003 Summit

14. Heywood has made it clear to Illarionov that it is highly unlikely that Russia would be in a position to host full G8 Summit in 2003. This would require Russia to be a full team player with WTO, NSWG, FATF & OECD accession, an end to debt rescheduling, and participation in HIPC. Instead there is the possibility of Russia hosting special Summit on a particular theme in 2003 alongside regular Summit in France (Heywood's letter to Sherpas of 10th April outlined this approach to handling the Russian request). While accepting that Russia needed to make much progress before it could host a full Summit as President, Illarionov was cool on the idea of another one-off special Summit that could only serve to underline that Russia is not a full member of the G8.

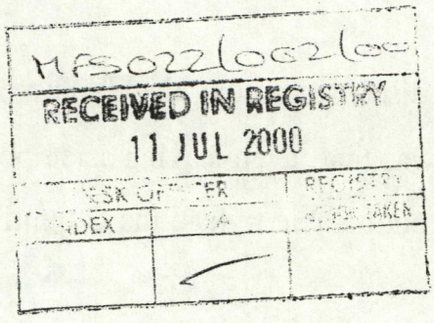
faxed earlier today 3/7

p/a Russia
cc btm + cc to JK 3 minute only.

From: Jeremy Heywood
Date: 3 July 2000

JAMES KARIUKI

cc: Jonathan Powell
John Sawers
David Miliband
Roger Liddle
Colin Budd, FCO
Jon Conliffe, HMT




G8: RUSSIA

I had a long (friendly and frank) discussion with Illarionov (Russian Sherpa) on the flight back from Okinawa. It may be worth recording a few points.

(i) Russian G8 Summit

Illarionov was particularly concerned to get my views on whether Russia could chair the 2003 G8 Summit and on what Russia had to do "to become a full member of the G7".

I said that the Prime Minister and indeed all other G7 leaders were very keen to help Putin as he sought to modernise and reform Russia. But, speaking personally, I thought it was impossible to imagine Russia taking over the G8 Presidency on 1 January 2003 and hosting the 2003 G8 Summit. It might just be possible to envisage Russia's hosting a Special Summit of G8 leaders on a particular theme sometime in 2003. But this would be alongside the normal G7/8 Summit in France.

Illarionov said that this was not what Putin had in mind at all. There had already been a Russian-chaired Special Summit in 1996 on nuclear safety. What would Russia have to do to take over the full Presidency role?

I said that this had not been discussed among the G7 Sherpas, let alone with our leaders. But my own view was that, even leaving aside political problems such as Chechnya, Russia would not be able to lead the G8 until the following broad conditions had been met:

- Sustained adherence to a comprehensive economic reform programme, combined with macroeconomic stability, and an end to Russian debt rescheduling.

- Russian membership of the WTO. For example, if the next trade round came to a conclusion in 2003, how could Russia expect to play a key brokering role and prepare communiqué text?;

- Russian membership of the FATF and full compliance (both de jure and de facto) with international anti-money laundering norms.

- Full and willing Russian participation in G7 debt initiatives such as HIPC (Illarionov said that Russia was currently getting $200-300m a year in debt repayments from HIPC countries!).

- Membership of the OECD.

- Membership (on the agreed terms) of the Nuclear Safety Working Group.

- An established track record of constructive and creative participation in the summit process. It was not sufficient for Russia simply to comment on regional/political issues or what was going on in Russia. We needed to see Illarionov, and indeed Putin, making a serious contribution eg on the environment or food safety. The G8 Summit was still first and foremost an Economic Summit.

I could not see how realistically with the best will in the world Russia could meet these conditions by the end of 2002.

Illarionov seemed to take all this in good part and listened intently throughout. In response he said that he fully understood what I was saying and indeed agreed with me completely. His own calculation was that Russia would have to be able to meet my conditions by Spring 2002 to be able to convince G7 partners that the 2003 Summit should be held in Russia. This would be extremely difficult in relation to the WTO, given the economic problems this would cause in Russia. But the real killer was the OECD as there was no way that Russia could join the OECD by 2003!

I said that the WTO was probably more important. And I could not myself see how Russia could join the WTO in the next couple of years. We would obviously be ready to assist in any way we could. But the impact on Russia's uncompetitive industry would be devastating! Illarionov did not disagree – but said that it was important to work back from the key political objective, and then develop a plan and timetable for delivering it.

We left matters there, with me advising Illarionov to make it his personal priority to start with to get Russia into the NSWG and the FATF, by meeting the necessary conditions. Neither would be easy – but if the political will was there it could be done. I also suggested that he himself should try to make a contribution to some of the wider issues on the Sherpa agenda including the environment (where Russia, like the UK, had a strong interest in getting entry into force of the Kyoto agreement by 2002). It would also be sensible for Putin to focus at Okinawa on trade rather than debt relief. This was likely to be far more important to Russia in the end. Debt issues were best left to Finance Ministers.

(ii) Russian Economic Programme

As you know, Illarionov handed round the attached summary of the new Russian programme at the Sherpa meeting. I probed him as to the origins and development of the plan. He said that the first draft had been largely the work of Gref. But Putin had taken a close personal interest and had had countless meetings on the plan as it evolved. The five key players were Putin, Kasyanov, Gref, Kudrin and himself.

I said that the plan still seemed very focused on reform of the traditional Russian industries rather than the "new economy". Given her well-educated workforce and abundance of scientists would it not be more sensible for Russia to try to leap-frog over Western Europe on the new economy, by putting the Internet and e-commerce at the heart of Putin's economic strategy? Why not, for example, slash telecoms prices by opening up the whole sector to competitors?

Illarionov seemed taken aback by this – he had always thought that British Intelligence was the best in the world; but this was remarkable! It was almost as if I had been present at his recent meetings with Putin! Let's see.

(iii) Russian Aviation

I handed over the Commission papers on the proposed aviation modernisation fund. Illarionov seemed quite interested. Again, let's see.

(iv) Relations with the UK

Illarionov spoke very warmly about the UK and stressed that Putin felt closer to the Prime Minister than to any other world leader. He (Illarionov) was keen to come to London in August to meet UK experts. He also liked my idea of holding six-monthly No. 10/Kremlin senior officials meetings. I will discuss with John how to follow this up.

Comment

A useful chat. Illarionov has reasonable English, is obviously intelligent and is quite well-informed about US and European economic issues and debates. He seems very well-disposed to the UK and "Anglo-Saxon economics" (and claims Richard Layard is a long-standing friend and colleague). He made a reasonable impression on the G7 Sherpas. His presentation on the Russian economy was far more precise and well-informed than anything I have heard before from a Russian Sherpa. He talks the same language as the rest of us on economic reform and is obviously keen to participate more fully in discussions on other

parts of the G7 agenda (albeit usually making rather abstruse, largely theoretical or pedantic points). It remains to be seen whether he has any influence within the Russian system.

**JEREMY HEYWOOD**

Илларионову от Набиуллиной

Draft

# 2000-2001 PLAN OF PRIORITY MEASURES TO IMPLEMENT MAJOR LONG-TERM SOCIOECONOMIC POLICY ACTIVITIES OF THE GOVERNMENT OF THE RUSSIAN FEDERATION

## SOCIAL POLICY

| Item | Measure | Type of draft document | Deadline for submission to Government | Implementing agencies |
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| | ***1. Education Reform*** | | | |
| 1. | To establish procedures for the formulation and use of education development budget, and earmarked investment funds for information support and updating of training equipment of educational institutions, including the 2001 and 2002 federal laws on the federal budget | Federal laws<br>Government resolutions | August 2000 | MOE<br>MOF<br>Ministry of Economic Development and Trade |
| 2. | To establish procedures for providing additional educational and social services on a refundable basis by pre-schools and general education institutions.<br>To establish procedures for the functioning of gymnasias and other public secondary schools whose extended curricula are co-financed by students' parents | Government resolutions | Nov. 2000 | MOE<br>Ministry of Economic Development and Trade<br>MOF |
| 3. | To establish, for the period of transition to funding mechanism based on the "money follows the student" principle, competitive procedures for the placement of the state order for specialists training, and financing university investment projects allowing participation of non-governmental educational institutions | Government resolution | Nov. 2000 | MOE<br>Ministry of Economic Development and Trade<br>MOF |
| 4. | To establish, for the period of transition to funding mechanism based on the "money follows the student" principle, competitive procedures for the placement of the state order for specialists training, and financing university investment projects allowing participation of non-governmental educational institutions | Federal laws<br>Government resolution | January 2001 | MOE<br>Ministry of Economic Development and Trade<br>MOF<br>MOJ |
| 5. | To legislatively enforce a unified state exam, personalized title of budgetary financing of vocational training (governmental nominal financial liabilities). | Federal law<br>Government resolutions | January 2001 | MOE<br>Ministry of Economic Development and Trade |

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| | To establish that the system of attestation and education quality control be independent of the public education management authorities.<br>To establish the content of the federal general education standard and framework for supplementary regional standards. To adopt documents establishing the principle of minimum budgetary financing of educational standards at the federal and regional (local) levels, a possibility to finance supplementary educational services within the general education system from parents' money | | | MOF<br>MOJ |
| 6. | To initiate establishment of vocational training institutions through integration with higher educational institutions | Government resolutions | February 2001 | MOE<br>Ministry of Economic Development and Trade<br>MOF<br>Ministry of Property Relations<br>MOJ |
| 7. | To initiate establishment of university complexes as separate legal entities to integrate structural divisions implementing educational programs of different levels (lyceums, gymnasias, colleges, technical schools, institutes, supplementary education institutions), scientific research institutes and design offices, production and other offices, social assets, etc.<br>To establish research universities to promote development in priority areas of economics, science and technology | Government resolutions | February 2001 | MOE<br>Ministry of Economic Development and Trade<br>MOF<br>Ministry of Property Relations<br>MOJ |
| 8. | To initiate establishment of university complexes as separate legal entities to integrate structural divisions implementing educational programs of different levels (lyceums, gymnasias, colleges, technical schools, institutes, supplementary education institutions), scientific research institutes and design offices, production and other offices, social assets, etc.<br>To establish research universities to promote development in priority areas of economics, science and technology | Government resolution | February 2001 | MOE<br>Ministry of Economic Development and Trade<br>MOF<br>MOLSD |
| 9. | To establish the State Attestation Service to provide independent education quality control | Government resolution | April 2001 | Ministry of Economic Development and Trade<br>MOE |

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| 10. | To arrange for a large-scale experiment on the new structure and content of the general secondary education | Government resolution | May 2001 | Ministry of Economic Development and Trade<br>MOE |
| 11. | To pilot the technology of the unified state exam | Government resolution | May 2001 | MOE<br>Ministry of Economic Development and Trade |
| 12. | To establish regulatory/legal framework for open education.<br>To elaborate and implement a system of measures to create and develop telecommunication infrastructure, methodological guidelines, information/education environment, to train and retrain teachers and establish organizational structures for the unified system of open education in the Russian Federation | Government resolutions | August 2001 | MOE<br>Ministry of Economic Development and Trade<br>MOF<br>MOJ<br>Ministry of Communications<br>Ministry of Press |
| 13. | To establish the content of the federal educational standard and framework of supplementary standards (general education) | Government resolution | Oct. 2001 | MOE<br>Ministry of Economic Development and Trade |
| 14. | To transfer to a transparent system of subsidiary responsibility in educational financing; to evaluate and approve as part of the 2002 "budget package" the minimum (federal scope of responsibility) and expedient (regional and local scope of responsibility) rates of financial support of the general education | Government resolution | Oct. 2001 | MOE<br>MOF<br>Ministry of Economic Development and Trade<br>MON |
| 15. | To establish principles, terms and procedures to restructure small rural schools | Government resolution | Nov. 2001 | MOE Ministry of Economic Development and Trade |
| | ***2. Health Reform*** | | | |
| 16. | To develop coordination mechanisms for health management system | Federal laws | Oct. | MOH |

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| Item | Measure | Type of draft document | Deadline for submission to Government | Implementing agencies |
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| | elements<br>To transfer to per capita financing of the health system<br>To make efforts to complete transition to the system of insurance-based financing of health care institutions | Government resolutions | 2000 | Ministry of Economic Development and Trade<br>MOF<br>MOJ in cooperation with MHIF |
| 17. | To establish a unified system of health/social insurance. To improve the efficiency of public regulation of the health/social insurance system (clarify supervisory responsibilities at the federal and regional levels, as well as procedures for insurer licensing and regulation). To draft a federal law on mandatory health and social insurance of citizens in the Russian Federation | Federal laws | Nov. 2000 | Ministry of Economic Development and Trade<br>MOH<br>MOF<br>MOJ<br>in cooperation with MHIF and SIF |
| 18. | To ensure economic autonomy, and extend the range of organizational and legal forms of health care institutions | Federal law | March 2001 | MOH<br>Ministry of Economic Development and Trade<br>MOF<br>MOJ |
| 19. | To streamline the base package of governmental guarantees for free-of-charge health care based on inpatient care replacement technologies, to establish that its cost includes depreciation and capital repair costs, to transfer to new health care payment methods within the system of mandatory health insurance | Federal laws<br>Government resolutions | April 2001 | MOH<br>MOF<br>MOJ<br>Ministry of Economic Development and Trade<br>in cooperation with MHIF |
| 20. | To develop and introduce minimum social rates of drug provision to privileged categories to be paid from the budget and health/social insurance funds. To transfer to unified health care payment methods within the system of mandatory health insurance | Government resolution | August 2001 | MOH<br>MOF<br>Ministry of Industry<br>Ministry of Economic Development and Trade |

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| Item | Measure | Type of draft document | Deadline for submission to Government | Implementing agencies |
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| | ***3. Culture Policy*** | | | |
| 21. | To develop the Federal Targeted Program "The Culture of Russia" | Government resolution | Sept. 2000 | MOC<br>MOF<br>Ministry of Economic Development and Trade |
| 22. | To draft a federal law on changes and additions to the Law of the Russian Federation "Fundamentals of Legislation on Culture" | Federal law | Nov. 2000 | MOC, together with federal executive authorities concerned |
| 23. | To develop a nationwide system of monitoring the state and use of historic and cultural monuments, items from museums, libraries and archives and cinematography fund | Government resolution | March 2001 | MOC<br>Ministry of Property Relations |
| 24. | To develop a financial and economic mechanism aimed at consistent introduction of program-oriented, contract-based and investment methods to finance cultural institutions | Government resolution | Sept. 2001 | MOC<br>MOF<br>Ministry of Economic Development and Trade |
| | ***4. Social Assistance*** | | | |
| 25. | Starting from 2001, to gradually replace the majority of category-based benefits with targeted forms of social assistance without reducing the total real term costs of social assistance. To delegate most of the authority on establishing the amount and conditions of social assistance to the regional and municipal levels while simultaneously increasing their capacity to finance social payments | Federal laws | August 2000 | Ministry of Economic Development and Trade<br>MOLSD<br>MOF<br>MON<br>MOJ |
| 26. | To transfer (starting from 2001) a certain part of category-based federal benefits for the limited number of recipients (such as war veterans and invalids, heroes of the Soviet Union and Russia) into the | Federal laws | August 2000 | MOF<br>Ministry of Economic Development and Trade |

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| | form of cash payments to be provided from the federal budget | | | MOLSD<br>MON<br>MOJ |
| 27. | To gradually transfer benefits for various categories of law enforcement officers and military servicemen into the form of cash payments | Federal laws | August 2000 | Ministry of Economic Development and Trade<br>MOF<br>MOLSD<br>MOJ<br>MOI<br>MOD |
| 28. | To change the terms, rates and procedures for the payment of temporal disability insurance allowances, *inter alia*, through limiting the highest amount of allowances | Federal laws | Sept. 2000 | Ministry of Economic Development and Trade<br>MOLSD<br>MOF<br>MOJ |
| 29. | To change payment principles and funding sources of monthly child allowances for eligible households. To transfer to financing of the above allowances from the federal budget. To make changes and additions to the Federal Law "On State Allowances to Citizens Having Children" | Federal law | Nov. 2000 | MOLSD<br>MOF<br>Ministry of Economic Development and Trade<br>MOJ |
| 30. | To develop the Demographic Policy Concept for Russia for the period up to 2015 | Government resolution | December 2000 | MOLSD<br>MOH<br>Ministry of Economic Development and Trade |
| | ***5. Pension Reform*** | | | |
| 31. | To gradually increase up to 1.2 the highest wage ratio when calculating pensions with the use of retiree's individual coefficient | Federal laws | Sept. 2000 | Ministry of Economic Development and Trade<br>MOLSD |

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| | | | | MOF<br>MOJ<br>Pension Fund |
| 32. | To introduce fully funded mechanisms to finance early retirement pensions | Federal laws<br>Changes and additions to federal laws | Sept. 2000 | Ministry of Economic Development and Trade<br>MOLSD<br>MOF<br>MON<br>MOJ<br>Pension Fund |
| 33. | To make arrangements for governmental pension insurance | Federal law | December 2000 | MOLSD<br>MOF<br>Ministry of Economic Development and Trade<br>MOJ<br>Pension Fund |
| 34. | To define pension rates, types and conditions of their provision under the governmental pension insurance system | Federal law | December 2000 г | MOLSD<br>MOF<br>Ministry of Economic Development and Trade<br>MOJ<br>Pension Fund |
| 35. | To introduce records of savings on individual accounts within the system of governmental pension insurance based on individual (personified) registration | Federal law<br>Changes and additions to federal laws | December 2000 | Ministry of Economic Development and Trade<br>MOLSD<br>MOF<br>MOJ<br>Pension Fund |

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| | ***6. Housing/Communal Sector Development*** | | | |
| 36. | To improve targeting of budgetary expenditures on housing/utility subsidies, and procedures for providing targeted housing compensations (subsidies) to low-income households | Changes and additions to federal laws | August 2000 | Ministry of Construction<br>MOF<br>MOLSD<br>Ministry of Economic Development and Trade<br>MOJ |
| 37. | To simplify procedures for housing turnover, allotment of land plots, and issuance of permits for housing construction | Presidential Decree | Sept. 2000 | Ministry of Construction<br>Ministry of Property Relations<br>Federal Land Cadastre Service |
| 38. | To strengthen housing rights of individuals: ownership rights, tenant/leasing rights, social renting right, etc. | Housing Code | Nov. 2000 | Ministry of Construction<br>Ministry of Property Relations<br>MOJ |
| 39. | To eliminate legislative constraints on the development of housing mortgage (pledge), mortgage housing loans, housing mortgage and mortgage securities market | Federal law<br>Changes and additions to federal laws | Nov. 2000 | Ministry of Construction<br>MOF<br>MOJ<br>FSC |
| 40. | To establish principles, methods and organizational arrangements to effectively regulate communal sector companies – local natural monopolies | Changes and additions to the Federal law<br>Government resolution | March 2001 | Ministry of Construction<br>MOE<br>MOH<br>MAP<br>MOJ<br>Ministry of Economic Development and Trade |

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| 41. | To eliminate cross-subsidizing of rates established by communal sector companies providing services in the housing sector | Government resolution | July 2001 | Ministry of Construction<br>MOF<br>Ministry of Economic Development and Trade |
| 42. | To establish legislative framework to attract long-term investments in the communal sector through concession agreements with investors | Federal law | Nov. 2001 | Ministry of Construction<br>MOF<br>Ministry of Economic Development and Trade<br>MOJ |
| | ***7. Labor Relations and Employment*** | | | |
| 43. | To develop the 2001-2003 Federal Targeted Program on employment assistance, and mechanisms of its financing from the federal budget | Changes and additions to federal laws<br>Government resolution | August 2000 | MOLSD<br>Ministry of Economic Development and Trade<br>MOF |
| 44. | To transfer to financing of unemployment benefits from the federal budget, and active employment programs – from the federal and regional budgets. To implement efficient mechanisms of vigorous employment policy, including categorization of the unemployed, and to define the terms and procedures for social assistance to the unemployed | Federal law | December 2000 | Ministry of Economic Development and Trade<br>MOLSD<br>MON<br>MOF<br>MOJ |
| 45. | To improve flexibility of labor relations through strengthening the role of individual and collective labor contracts, reducing constraints on the application of fixed-term contracts, eliminating unjustified limitations on the release of excessive labor. To make efforts to increase the role of trade unions in representing workers' interests at the company level | Federal laws<br>Changes and additions to federal laws | December 2000 | Ministry of Economic Development and Trade<br>MOLSD<br>MOJ |

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| 46. | To define legal status of employers and their representatives at various levels of social and labor relations regulation. To legislatively introduce the employers party as a required element of social partnership. | Federal law | May 2001 | MOLSD,<br>MOF,<br>MOJ |
| 47. | To improve mechanisms of pre-judicial and judicial labor dispute settlement | Federal law | July 2001 | Ministry of Economic Development and Trade<br>MOLSD<br>MOJ |

## ECONOMIC MODERNIZATION

| Item | Measure | Type of draft document | Deadline for submission to Government | Implementing agencies |
|---|---|---|---|---|
| | **1. Creating Favorable Business and Investment Climate** | | | |
| | ***1.1. General Conditions of Entrepreneurship*** | | | |
| 48. | To propose that draft federal laws submitted to the State Duma by the Government or other entities entitled to come out with legislative initiatives, which are consistent with the Major Long-term Socioeconomic Policy Activities of the Government of the Russian Federation, be reviewed on a priority basis | Government letter to the State Duma | Aug. 2000 | Ministry of Economic Development and Trade<br>MOJ<br>MOF<br>MLSD,<br>together with federal executive authorities concerned |
| 49. | To inventory and withdraw from the State Duma draft laws submitted | Government letter to | Sept. | Ministry of Economic |

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| | by the Government, which are not consistent with the Major Long-term Socioeconomic Policy Activities of the Government of the Russian Federation. To propose that other entities entitled to come out with legislative initiatives withdraw such draft laws | the State Duma | 2000 | Development and Trade<br>MOJ<br>MOF<br>MLSD,<br>together with federal executive authorities concerned |
| 50. | To simplify the approval and issue procedures for documents authorizing investment project implementation, with the introduction of a "one-window rule", limitation of the review period and reduction of the list of required data | Changes and additions to federal laws | Sept. 2000 | Ministry of Economic Development and Trade<br>Gosstroy<br>MOF<br>MOJ,<br>together with federal executive authorities concerned |
| 51. | To reduce the number of executive authorities entitled to conduct enterprise inspections and apply administrative sanctions. To introduce standards for inspection coordination, number and duration (except tax inspections). To make changes in the federal laws establishing administrative responsibility for violations in relevant spheres, including the RSFSR Copyright Law. | Federal laws, Presidential decrees, Government resolutions | Sept. 2000 | MOJ<br>Ministry of Economic Development and Trade<br>Ministry of Industry (MOI)<br>Gosstroy<br>MAP<br>Ministry of Property Relations |
| 52. | To establish organized markets, including exchange mechanisms, to prevent monopoly activities and market price distortions | Federal Law | Sept. 2000 | MAP<br>Ministry of Economic Development and Trade<br>MOJ |
| 53. | To introduce competitive procurement of large contracts by public enterprises and entities with state-owned shares | Government resolution | Oct. 2000 | Ministry of Economic Development and Trade<br>MOI,<br>together with federal executive authorities |

| Item | Measure | Type of draft document | Deadline for submission to Government | Implementing agencies |
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| | | | | concerned |
| 54. | To develop the Accounting Development Concept for Russia. To encourage entities to adopt the new accounting standards | Government resolution | Nov. 2000 | MOF,<br>Ministry of Economic Development and Trade |
| 55. | To adopt the notification-based principle of "one-window" registration of businesses, with a simultaneous establishment of rules to monitor compliance of data declared by legal entities with the actual status and introduction of founder responsibility. To draft a law on legal entity registration | Federal Law | Nov. 2000 | Ministry of Economic Development and Trade<br>MOJ<br>MAP |
| 56. | To define the finite list of licensed activities and areas of certification and prohibit the introduction of provisions referring to regulatory acts.<br>To reduce the range of licensed activities, simplify and unify licensing procedures throughout the Russian Federation.<br>To make changes to the Federal Law on Licensing Individual Activities, Federal Law on Standardization, and other laws that require licensing of individual activities | Federal laws, Government resolution | Nov. 2000 | Ministry of Economic Development and Trade<br>Ministry of Property Relations<br>MOJ<br>MAP,<br>together with federal executive authorities concerned |
| 57. | To provide for the highest possible level of detail in business regulation laws, legal acts of the President and Government, and actions taken by public authorities | Changes and additions to federal laws, Presidential decrees, Government resolutions | March 2001r. | Ministry of Economic Development and Trade<br>MAP<br>MOJ |
| 58. | To ensure protection of the rights of creditors and owners of enterprises under reorganization/liquidation. To draft a law on legal entity reorganization/liquidation | Federal Law | July 2001 | Ministry of Economic Development and Trade<br>MOJ<br>FSMC |

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| | ***1.2. Development of Insurance and Financial Markets and Institutions***<br>*Banking System Modernization* | | | |
| 59. | To make changes and additions to the Laws on Banks and Banking, and Credit Organization Restructuring and Insolvency (Bankruptcy) with a view to:<br>- allowing the CBR, based on the outcome of a financial review of a bank, to reduce its assets and equity (capital), used to calculate banking norms, to the actual level, and to reduce the bank's authorized capital if the latter exceeds equity;<br>- establishing the capital adequacy ratio below 2% as a criterion of credit organization insolvency;<br>- extending conditions for consolidated supervision of bank groups and holding companies that include credit organizations as their members, in compliance with the international standards;<br>- introducing requirements of quarterly operation data publication by banks;<br>- allowing the CBR to extend the mandatory list of statements to be published by banks;<br>- tightening professional requirements to bank managers; enhancing responsibility of founders (shareholders) for actions that caused bankruptcy of the bank;<br>- enabling legal entities to apply bank liquidation procedures | Federal laws | Oct. 2000 | MOF<br>CBR (as agreed)<br>Ministry of Economic Development and Trade |
| 60. | To make changes and additions to the general civil legislation, including the Civil Code of the Russian Federation:<br>- to simplify procedures for execution upon collateralized property, including real estate;<br>- to create enabling conditions for syndicated credit extension by banks;<br>- to allow banks to postpone deposit withdrawal till the expiration date stipulated in the bank deposit agreement provided such possibility is directly provided for in the agreement;<br>- to eliminate close linkage between bank bond issue and capital; | Federal laws | March 2001 | MOF<br>CBR (as agreed)<br>Ministry of Economic Development and Trade<br>MOJ |

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| | - to introduce a regulation procedure for "suspicious" currency transactions;<br>- to seek preventing legalization of illegally generated funds | | | |
| 61. | To enhance competition in the bank market and create a level ground for attracting household deposits. To draft legal acts on the operation of the bank deposit insurance | Federal laws | May 2001 | MOF<br>CBR (as agreed) |
| | *Development of the Capital Market and Investment Institutions* | | | |
| 62. | To protect the rights of minority shareholders, and tighten control over transactions with affiliated persons. To exclude a possibility of a joint stock company maintaining its own shareholder register (depending on the number of shareholders) | Federal laws | Sept. 2000 | Ministry of Economic Development and Trade<br>FSMC<br>Ministry of Property Relations<br>MOJ<br>MAP |
| 63. | To require that funds of professional securities market agents and those of their clients be accounted for separately | Federal laws, Government resolution | Sept. 2000 | FSMC<br>MOF,<br>in collaboration with CBR |
| 64. | To enhance administrative and criminal responsibility of capital market agents for violation of legislation and that of managers for violation of investor and shareholder rights. To make changes and additions to the Administrative Delinquency Code, Civil Code, Criminal Procedure Code, and Federal Law on Securities Market | Federal laws | Oct. 2000 | FSMC,<br>MOJ<br>Ministry of Economic Development and Trade |
| 65. | To unify requirements to managing assets of investment funds, share investment funds, nongovernmental pension funds, and insurance companies. To make changes and additions to the Federal Law on Nongovernmental Pension Funds | Federal laws<br>Government resolution | March 2001 | FSMC<br>Ministry of Economic Development and Trade<br>MOF<br>MLSD<br>Gosstroy |

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| 66. | To draft a law of investment accounts that would allow to keep track of individual investment objectives of their owners (a possibility to invest savings in more profitable, but more risky securities), and establish an enabling tax regime | Federal laws | March 2001 | Ministry of Economic Development and Trade<br>MORT<br>FSMC<br>MOF<br>Gosstroy |
| 67. | To establish a legal framework for mandatory insurance in Russia based on competition, parallel to elimination of duplicating legislative provisions, including the development of draft laws on:<br>- mandatory civil liability insurance of vehicle owners;<br>- mandatory civil liability insurance of entities, which operate hazardous production facilities;<br>- mandatory insurance of employer liability for occupational damage to employee life or health;<br>- mandatory liability insurance of producers of individual groups of goods, works and services | Federal laws | March 2001 | MOF<br>Ministry of Economic Development and Trade<br>MOI<br>MLSD,<br>together with federal executive authorities concerned |
| 68. | To improve legal framework of the operation of professional securities market agents.<br>To draft laws on:<br>- transactions with official information;<br>- investment advisers;<br>- mortgage securities;<br>- changes and additions to the Federal Law on Securities Market | Federal laws | Nov. 2001 | FSMC<br>Ministry of Economic Development and Trade<br>MOJ |
| | **2. Macroeconomic Policy** | | | |
| 69. | To develop the Concept of Budget Expenditure Efficiency,; concentrate federal budget resources on addressing key tasks, parallel to the reduction of inefficient expenditure; implement the requirements of budget and budgeting transparency; and complete the establishment of the federal treasury system | Report to the President,<br><br>Government resolution | July 2000<br><br>Sept. 2000 | MOF<br>Ministry of Economic Development and Trade,<br>together with federal executive authorities concerned |

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| Item | Measure | Type of draft document | Deadline for submission to Government | Implementing agencies |
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| 70. | To eliminate, reduce or convert unfunded or partially funded federal budget mandates (in compliance with the draft federal law on 2001 Federal Budget) | Federal laws, Presidential decree, Government resolution | Aug. 2000 | MOF<br>Ministry of Economic Development and Trade<br>MOJ |
| 71. | To develop a plan to clear the Government's accounts payable | Government directive | Aug. 2000 | MOF<br>Ministry of Economic Development and Trade |
| 72. | Partial conversion of the governmental securities portfolio owned by the CBR into governmental securities envisaging yield payment at market interest rates | Federal Law | Aug. 2000 | MOF<br>CBR (as agreed) |
| 73. | To improve the budgeting process (make changes and additions to the Budget Code) and, *inter alia*:<br>- establish the time limit for creating regional treasury systems;<br>- specify expenditure responsibilities of the federal center and regional administrations;<br>- liquidate the Federal Employment Fund;<br>- define the procedure for publishing detailed budget reports (for all budget classification items) at all levels of government | Federal Law, Government resolution | Aug. 2000 | MOF<br>Ministry of Economic Development and Trade<br>MORT<br>MLSD<br>MOJ |
| 74. | To raise restrictions on the timing of CBR bond issue | Federal Law | Aug. 2000 | MOF<br>CBR (as agreed) |
| 75. | To phase down and unify customs tariffs and fines | Government resolution | Sept. 2000 | Ministry of Economic Development and Trade<br>MOF<br>SCC |
| 76. | To exempt the CBR from taxes on transactions with securities in case of its own bonds. To make changes and additions to the Federal Law on Securities Transaction Tax | Federal Law | Nov. 2000 | MOF<br>CBR (as agreed) |
| 77. | To revise legal acts of regional executive and legislative authorities with a view to implementation of the Budget Code and constitutional guarantees of a free flow of goods, services, funds and labor within | Presidential decrees, requests to the | Dec. 2000 | Ministry of Economic Development and Trade<br>MOF |

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| | the Russian Federation, etc. | Constitutional Court | | MAP<br>MOJ<br>Ministry for Nationalities, together with federal executive authorities concerned and Prosecutor's Office of the Russian Federation |
| 78. | To improve the payment system, to develop non-cash settlements, including the use of modern banking technologies and Internet, and extended use of payment cards. To draft a federal law on Transfer of Funds, and federal law on Electronic Documents | Federal laws | Jan. 2001 | MOF<br>CBR (as agreed) |
| | **3. Structural Policy**<br>***3.1. State Property Management*** | | | |
| 79. | To inventory public assets and liabilities | Presidential decree | Sept. 2000 | MOF<br>Ministry of Property Relations<br>Goskomstat,<br>together with federal executive authorities concerned |
| 80. | To initiate legal regulation of property nationalization procedures | Federal Law | Sept. 2000 | Ministry of Property Relations<br>Ministry of Economic Development and Trade<br>MAP<br>MOJ,<br>together with federal executive authorities concerned |

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| Item | Measure | Type of draft document | Deadline for submission to Government | Implementing agencies |
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| 81. | To improve procedures for converting state unitary enterprises into joint stock companies completely owned by the state; specify procedures for contributing state property to authorized capital of business entities. To make changes and additions to the Federal Law on State Property Privatization and Fundamental Principles of Municipal Property Privatization in the Russian Federation | Federal Law | Oct. 2000 | Ministry of Property Relations<br>Ministry of Economic Development and Trade<br>MOI<br>MOJ,<br>together with federal executive authorities concerned |
| | ***3.2. Innovative Economic Development*** | | | |
| 82. | To involve state rights to intellectual activity results in the economic turnover; develop mechanisms allowing the state to transfer its intellectual property rights to business entities with a view to encouraging innovative development of the real sector. To draft laws on:<br>- secret inventions;<br>- inventions for official use.<br>To make changes and additions to the Federal Law on Patents, and other federal laws | Federal laws.<br>Presidential decree,<br>Government resolution | Nov. 2000 | MOI<br>Ministry of Economic Development and Trade<br>MOF<br>MOJ |
| 83. | To develop legal regulation of registration, use and protection of intellectual property rights and other intellectual activity results in science and technology spheres | Federal laws | Dec. 2000 | MOI,<br>Ministry of Economic Development and Trade<br>MOJ |
| 84. | To develop a methodological framework for intellectual property item valuation | Government resolution | July 2001 | MOI<br>MOF |
| | ***3.3. Natural Monopoly Reform***<br>*Natural Gas Sector* | | | |

| Item | Measure | Type of draft document | Deadline for submission to Government | Implementing agencies |
|---|---|---|---|---|
| 85. | To develop a program envisaging a gradual gas price increase to eliminate energy price disparities and diversify the fuel and energy balance structure | Government resolution, FEC regulatory acts | Sept. 2000 | FEC<br>MOI<br>Ministry of Economic Development and Trade<br>MOEn |
| 86. | To introduce separate financial accounting of gas transport and sale costs of gas distribution companies | Government resolution | Nov. 2000 | FEC<br>MOEn<br>MOI<br>MOF<br>Ministry of Economic Development and Trade |
| 87. | To change the gas pricing principles by separating gas transport and sale tariffs of gas distribution companies | Government resolution | Nov. 2000 | FEC<br>MOI<br>Ministry of Economic Development and Trade<br>MOEn<br>MAP |
| 88. | To develop the gas market development concept for the Russian Federation that would, *inter alia*, consider introduction of restrictions on vertical and horizontal integration. To make changes and additions to the Federal Law on Gas Supply in the Russian Federation. | Government directive and resolution, Federal Law | Nov. 2000 | MOEn<br>MAP<br>Ministry of Economic Development and Trade<br>FFRS |
| 89. | To create conditions for the development of independent gas production and sale structures and allow these structures an organized nondiscriminatory access to trunk gas pipelines and distribution networks | Government resolution | Dec. 2000 | MOEn<br>Ministry of Economic Development and Trade<br>FEC<br>MAP |
| 90. | To divide the regulated gas price into the transport and production components. To make changes and additions to the federal Law on Gas Supply in the Russian Federation | Federal Law, FEC regulatory acts | Jan. 2001 | FEC<br>MOEn |

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|---|---|---|---|---|
| 91. | To create the competitive wholesale gas market infrastructure | Government resolution | Jan. 2001 | MOEn<br>MOI<br>MAP |
| 92. | To put in place double-rate gas transport tariffs for trunk and distribution pipelines equal for all market agents | Government resolution,<br>FEC regulatory acts | Feb. 2001 | FEC<br>MOI<br>MOEn<br>MOF |
| 93. | To elaborate mechanisms for antimonopoly control of gas supply in the domestic wholesale gas market. To make changes and additions to the antimonopoly legislation | Federal laws | May 2001 | MAP<br>MOI<br>MOEn<br>FEC |
| | *Electric Power Sector* | | | |
| 94. | To draft the Principles of Electricity and Capacity Market Development and Operation in the Russian Federation. To make changes and additions to the Federal Law on Natural Monopolies | Federal laws,<br>Government directive and resolution | Sept. 2000 | MOEn<br>FEC<br>MOI<br>Ministry of Economic Development and Trade<br>MAP<br>Ministry of Nuclear Industry<br>MOJ,<br>together with federal executive authorities concerned |
| 95. | To develop a mechanism of financial and institutional separation of naturally monopolistic (electric power transmission, ensuring systems reliability and maintaining operation regimes) and potentially competitive (generation and sales) electric power sector activities. To make changes and additions to the Federal Law on Public Regulation of Electricity and Heat Tariffs in the Russian Federation, and Federal | Federal laws,<br>Government resolution,<br>Decision of RAO UES Board of Directors and | Nov. 2000 | MOEn<br>MAP<br>Ministry of Economic Development and Trade<br>FEC |

| Item | Measure | Type of draft document | Deadline for submission to Government | Implementing agencies |
|---|---|---|---|---|
| | Law on Natural Monopolies | Shareholder Meeting | | |
| 96. | To ensure conditions for the establishment of independent electric power producers (sellers), including setting up long-term electric power transmission tariffs, providing for open entry to electricity markets, defining major rules and methods of fair market competition to curb electricity price growth and improve electric power quality. To make changes and additions to the Federal Law on Public Regulation of Electricity and Heat Tariffs in the Russian Federation | Federal laws, Government resolution | June 2001 | MOEn<br>FEC<br>MOI<br>MAP<br>MOF<br>MOJ<br>Gosstroy |
| 97. | To define antimonopoly regulation procedures for phased-in transition to deregulation of potentially competitive activities (electric power generation). To make changes and additions to the Federal Law on Natural Monopolies, and Federal Law on Public Regulation of Electricity and Heat Tariffs in the Russian Federation | Federal laws, Government resolution | June 2001 | MAP<br>Ministry of Economic Development and Trade<br>MOI<br>MOEn<br>FEC,<br>together with federal executive authorities concerned |
| | *Railways* | | | |
| 98. | To streamline MPS rules for granting privileges to clients, operators and freight forwarders | Government resolution | Jan. 2001 | MAP<br>MPS<br>Ministry of Economic Development and Trade<br>MOF |
| 99. | To establish a legal framework for federal railways reform, and, *inter alia*, make changes and additions to the Federal Law on Federal Railways, and Federal Law on Long-haul Railway Passenger Service, Railway Charter of the Russian Federation, and tax legislation | Federal laws | Jan. 2001 | MPS<br>MAP<br>MOI<br>Ministry of Economic Development and Trade<br>MOF<br>MOJ |

| Item | Measure | Type of draft document | Deadline for submission to Government | Implementing agencies |
|---|---|---|---|---|
| 100. | To separate economic and public governance/regulation functions in the railways sector | Government resolution | July 2001 | MPS,<br>Ministry of Economic Development and Trade<br>MAP |
| 101. | To separate long-haul and commuter freight and passenger companies within the railways sector structure in compliance with the approved Concept of Federal Railways Restructuring | Government resolution | July 2001 | MPS<br>Ministry of Economic Development and Trade<br>MAP |
| 102. | To divide railway facilities and enterprises into the monopolistic (infrastructure and its services) and competitive sectors. To make changes and additions to the Federal Law on Natural Monopolies | Federal Law | Oct. 2001 | MAP<br>MPS<br>Ministry of Economic Development and Trade |
| | ***3.4. Fuel and Energy Sector Development*** | | | |
| 103. | To reduce the list of entities (facilities) not subject to the limitation or termination of fuel and energy supply. To make changes and additions to the Civil Code of the Russian Federation | Federal Law,<br>Government resolution | Aug. 2000 | MOEn<br>MOF<br>Ministry of Economic Development and Trade, together with federal executive authorities concerned |
| 104. | To design and implement a program for the development of competitive environment and limitation of unfair competition in the oil sector that would envisage equal access to product sale markets by all producers based on established rules of production infrastructure use | Government resolution | Aug. 2000 | MAP,<br>MOEn<br>Ministry of Economic Development and Trade<br>MOI |
| 105. | To guarantee a nondiscriminatory access by oil producers to export capacities of the trunk pipeline monopoly | Federal Law | Nov. 2000 | MOEn<br>MAP<br>MOT<br>Ministry of Economic Development and Trade |

| Item | Measure | Type of draft document | Deadline for submission to Government | Implementing agencies |
|---|---|---|---|---|
| | | | | |
| 106. | To review investment programs implemented by regulated entities operating in the fuel and energy sector | Government resolution, FEC regulatory acts, decisions of the Boards of Directors of relevant entities | Jan. 2001 | MOEn<br>MOI<br>FEC<br>Ministry of Economic Development and Trade<br>Ministry of Property Relations<br>Gosstroy |
| | ***3.5 Development of Agro-Industrial Complex*** | | | |
| 107. | To streamline allocation of grants and subsidies at the federal and regional levels. To ensure development of cooperative credit organizations | Federal laws | Sept. 2000 | MOA<br>MOF,<br>together with CBR |
| 108. | To develop private farms and individual subsistence land plots and specify their legal status, *inter alia*, as agricultural producers | Federal laws | Nov. 2000 | MOA<br>MAP<br>Ministry of Property Relations<br>Ministry of Economic Development and Trade |
| 109. | To settle relations regarding the use of land as a collateral, as well as relations between agricultural land lessors and lessees; introduce free sale and purchase of executed long-term lease rights | Federal laws | Dec. 2000 | MOA<br>Ministry of Property Relations<br>Ministry of Economic Development and Trade<br>Federal Land Cadaster Service |

| Item | Measure | Type of draft document | Deadline for submission to Government | Implementing agencies |
|---|---|---|---|---|
| | ***3.6 Development of Land and Real Estate Market*** | | | |
| 110. | To ensure legal settlement of land management procedures (land plot establishment as real estate units with a view to their involvement in the civil turnover), including the development of draft laws on:<br>- state and municipal lands;<br>- land management;<br>- land cadaster (real estate cadaster) | Federal laws, Government resolutions | Sept. 2000 | Federal Land Cadaster Service<br>Ministry of Property Relations<br>Gosstroy<br>MOJ |
| 111. | To establish procedures for transferring land plots under buildings and enterprises to the owners of the latter | Federal Law, Government resolution | Dec. 2000 | Ministry of Property Relations<br>Ministry of Economic Development and Trade<br>Gosstroy |
| 112. | To establish principles of state and municipal real estate management, including the principle of competitive land plot allocation for development purposes on terms of ownership or long-term lease (at the applicant's choice) | Federal Law, Government resolution | Dec. 2000 | Ministry of Property Relations<br>RFPF<br>Gosstroy<br>Federal Land Cadaster Service |
| 113. | To make changes and additions to the Civil Code of the Russian Federation to reflect the basic principle of the integrity of rights to a real estate unit | Federal Law | Feb. 2001 | MOJ<br>Ministry of Property Relations<br>Gosstroy |
| 114. | To establish a registration system for single real estate units, including land plots and facilities which are located or being constructed within these land plot, as well as a registration system for single real estate units and unfinished construction facilities | Federal laws, Presidential decree, Government resolutions | Feb. 2001 | Ministry of Property Relations<br>Gosstroy<br>Federal Land Cadaster Service |
| 115. | Distribution of land property rights between federal, regional and | Federal Law | Feb. | Ministry of Property |

RESTRICTED

1. cc Mr Budd
Mr Wright
Mr Brenton
Mr Butler
Ms Pringle
Mr Jenkins
Ms Kitsell, EUD(E)
Mr Ellis, AMSED
Mr Baker, DETR

Mr Rankin } HMT
Mr Ricketts }
Mr Zeichner }
Ms Cornell }
UKRep

2. Mr Kerr-Fluck
(2) pls Russia
S. Honey 5/6.

As discussed with EUD(E), Eustn, DETR.
Circulated with G7/Commission correspondence (attached) from 02/99. 2 June 2000

10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

(1) cc JPB
JK 5/6

Dear Armando,

## RUSSIAN AVIATION

In Karuizawa and Dublin we discussed the need for concrete initiatives at Okinawa to demonstrate increased G7 support for Russia. One area that I thought we might consider is the Commission proposals for modernising Russian aviation. Jim Cloos raised this last year with G7 Sherpas and personally I thought the ideas were creative and interesting.

It seems to me to offer a real win-win opportunity. The Russians would receive extra money, specifically for modernising aviation infrastructure. There would be clear advantages over the current set-up under which there is no guarantee that payments from European airlines are used for modernisation. In return we would have a more rational and efficient system of air traffic control, and quicker, safer flights over Russia.

I would be interested in your thoughts on how we might take this forward. It seems that EU/Russia negotiations are not advancing very fast. My personal view is that we may have a better chance of convincing the Russians that this really is a win-win on the Sherpa net.

I am copying this letter to Jean Marc, Klaus and Francesco.

Yours, Jeremy

JEREMY HEYWOOD

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Armando Varrichio

24-MAY-2000 10:31 FROM SUMMIT SECTION ERD TO 90267855944 P.04

EUROPEAN COMMISSION
Cabinet of the President

G7 SHERPA CORRESPONDENCE

Head of Cabinet

Brussels, 9 February 1999
MM/isv - D(99) 80700

Dear Klaus,

For quite some time already the Commission has tried, at a technical as well as at a political level, to convince the Russian authorities of the urgent need to change the current system of compensation payments for flights over Siberia. Up to now, these efforts have been to no avail. In view of the fact that, over the coming months, we will reflect in the G7 context on our overall strategy towards Russia, I thought it might be useful to include this particular question into our reflections.

For this purpose, I send you herewith a short note on the idea of a Russian Aviation Modernization Fund to be set up under the auspices of the EBRD. I would be interested to hear colleagues' views on this matter at our next Sherpa meeting.

I am copying this note to G7 Sherpa colleagues.

Jean Cloos

Herrn MD. Prof. Dr. Klaus GRETSCHMANN
Bundeskanzleramt
Adenauerallee 139-141
D - 53113 BONN

Rue de la Loi 200, B-1049 Bruxelles/Wetstraat 200, B-1049 Brussel - Belgium - Office: BREY 12/74.
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# Note

## on the project of the Russian Aviation Modernisation Fund

**an instrument**

- to support the modernisation of Russian air traffic management, and
- to bring Russian aviation in line with the principles of the world economy

It is proposed to include the modernisation of the Russian air traffic management into the general discussion on the modernisation of the Russian economy. On the one hand huge investment is required, which in turn could provide a tremendous return by contributing to the increase of worldwide air transport, including the enhancement of air safety. To this end G 7 should express strong support for the concept of the Russian Aviation Modernisation Fund.

### 1. The project of a Russian Aviation Modernisation Fund

#### a) the basic elements

In co-operation with Association of European Airlines (AEA), EBRD is developing the project of a Russian Aviation Modernisation Fund. According to the concept, European airlines would be prepared to enter into co-operative arrangements for the establishment of a Fund of up to $ 1.5 billion. Approximately half of this amount would be contributed by airlines instead of the current "compensation" payments ("royalties") to the Russian airline Aeroflot. The other half would consist of loans by international lending institutions on very attractive terms due to a commitment by the airlines to pay, during an agreed number of years after the initial five years period, a guaranteed amount of air traffic control (ATC) over-flight charges to the Fund for debt servicing purposes, based on a (by that time) revised ATC charging structure. The amount of money thus mustered would permit investment in the improvement of the Russian air traffic system and related activities.

In parallel, the Russian ATC charging system would have to be reformed and an international Agreement be concluded that would rescind the provisions in the bilateral air services agreement that are considered by Russia to be the basis of a particular system for transit operation.

#### b) Reason for the creation of the Fund

The motive for the creation of such a Fund is the intention to bring Russian aviation in line with the international standards of the world economic system in general, and with international aviation specifically. The Fund should be instrumental to the conversion of the unique Russian system for transit operations across Siberia.

Under this system foreign airlines have to pay uncommon charges (labelled "royalties") to the Russian air carrier Aeroflot by virtue of "commercial agreements" requiring to "compensate" Aeroflot for the "excessive" use of the Siberian airspace for transit operations. Without these agreements the responsible Russian aviation authorities would not grant permission to European airlines (or East Asian airlines) to use the Siberian air space for operations to East Asia, and vice versa. European airlines that are members of AEA (+ Virgin) have paid US $ 200 Mio. to Aeroflot in the 12 months period from 1 April 1997 to 31 March 1998. It appears that affected East Asian airlines have paid about 1/3 of the amount spent by the European Airlines. The US carriers do not presently pay "royalties" but face severe access restrictions, which are becoming increasingly serious as they intend to expand services to countries in Asia other than Japan, for which routes avoiding Russian airspace become excessively expensive.

This unique system may have had some justification during the Soviet era when Aeroflot was not only the sole Russian airline but also provided airport and air traffic control services. These services have since been separated and therefore no return is received for the current "compensation" payments. They amount to an imposed subsidy to a competing but privileged airline constituting a situation that contradicts the principles of a market economy and also violates Articles 15 of the Chicago Convention establishing the International Civil Aviation Organisation (ICAO), according to which "no fees, dues and other charges can be imposed solely for the right to fly across a foreign country".

At the same time, when a considerable amount of money has to be paid to a privileged company in the framework of this unique payment system for Siberian overflights, legitimate public functions, like air traffic control, suffer from a shortage of available resources. While semi-private interests have an illegitimate profit, legitimate public services are deteriorating with far-reaching consequences: The situation of air safety is worsening and the Russian administration is increasingly unable to keep the development of public infrastructure abreast with the market demand for increased operations. This situation amounts to an obstacle to trade between Europe and Asia.

## 2. Actions taken

Since 1994, the European Community has, on a number of occasions, unsuccessfully raised this issue with the Russian Federation. With the approval of the Council, the European Commission has made it clear to Russia that the European side is not complaining about the payments as such, if they are necessary to cover the costs of the public services provided, but about the discriminatory and non-transparent way in which they are levied. Accordingly, the aim is not a simple abolition of the system but rather its gradual conversion so that the payments are, at the end of the conversion, part of the system of transparent, cost-related and non-discriminatory ATC charges. This would amplify the basis for investment in the Russian aviation system.

So far the Russian side has responded with the conventional arguments that these payments are "compensation" to Aeroflot for "allowing" foreign airlines to operate routes that are not served by Aeroflot or to balance the situation since Aeroflot cannot operate directly between Japan and Europe. In the most recent talks between the European side and the Russian Federation in January 1999, the Russian side even denied the existence of a problem. Rejecting the notion that the "agreements" are imposed by administrative means on foreign airlines, the Russian side considered those payments as "commercial"

deals, which could not be interfered with by the administration. This presentation shows very clearly that it is difficult to characterise Russia as a market economy, with potential consequences for access to WTO and international capital markets.

The restrictive approach of the Russian administration defies the efforts of the international community to stabilise the Russian economy by, among others, facilitating trade relations on the basis of common principles. In November 1998, the Association of European Airlines, the Air Transport Association of America and the Association of Asia Pacific Airlines, representing the most affected companies, published a joint Policy Statement "Opening Russian Airspace" urging "the Russian government to allow full and free access for operations through its airspace, subject only to payment of air navigation charges consistent with international law and practice, and to work with other governments and international airline community in promoting an efficient and safe world of air transport".

The concept of the Aviation Modernisation Fund as an offer to Russia should be considered an appropriate means to pursue this aim in a way that takes into account the need for transition from the current unpleasant situation to a condition in which Russia becomes fully integrated in the world economy with full benefits for all sides involved.

### 3. Action at G 7 level

The G7 should ask EBRD to make a report on the project and to suggest a working method for its implementation. On the basis of a relevant EBRD report, G 7 should put the issue on the agenda of an appropriate meeting with the Russian Federation.

AAPA

Air Transport Association

Association of European Airlines

# OPENING RUSSIAN AIRSPACE

## Policy Statement of U.S., European and Asia-Pacific Airlines

**November 1998**

Since facilitation of international air transport is essential for the global economy;

Since the size and location of the Russian Federation place it in the centre of critical routes connecting both North America and Europe to Asia;

Since the practice of the Russian Federation to impose restrictions and conditions on access to, and transit flights through, its airspace unduly affects international air travel and commerce, is inconsistent with international aviation standards and practice, and impedes the successful integration of the Russian Federation in the global economy on the basis of normal market principles;

And since opening Russian airspace to international traffic on a normal basis would promote business confidence, stimulate trade and economic development and bring significant benefits for the Russian economy;

The undersigned airline associations, representing the major U.S., European and Asia-Pacific airlines, therefore urge the Russian government to allow full and free access for operations through its airspace, subject only to payment of air navigation charges consistent with international law and practice, and to work with other governments and the international airline community in promoting an efficient and safe world air transport system;

And the undersigned associations thus urge the governments of their member carriers work actively and constructively with the Russian Federation towards achieving these objectives.

Carol B. Hallett, President and CEO
Air Transport Association of America
1301 Pennsylvania Ave., NW, Suite 1100
Washington, D.C. 20004-1707

Karl-Heinz Neumeister, Secretary General
Association of European Airlines
Avenue Louise 350, B-1050 Brussels

Richard T. Stirland, Director General
Association of Asia Pacific Airlines
5/F, Corporate Business Centre, 151 Paseo de Roxas
1225 Makati, Philippines

Association of European Airlines

# RUSSIAN AVIATION MODERNISATION FUND

## A European proposal for co-operation

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The European Union and the wider European aviation community believe that a new co-operative relationship must be established with the Russian Federation with the aim to support the development of the Russian aviation infrastructure and ensure unhindered operation of vital air routes between Europe and Asia through Russian airspace. This paper discusses the concept, role and relevance of a proposed Russian Aviation Modernisation Fund, envisaged by the European Union, its Member States and airline industry, and the wider European aviation community, as well as by key international financial institutions, as a major $1.5 billion initiative to achieve these aims, in the mutual interest of the Russian Federation and its international partners.

### Why the Fund?

In their new Agreement on Partnership and Co-operation, the European Union and the Russian Federation have agreed to the importance of stimulating trade and economic development, based on the principles of market economy including freedom of transit.

It is clear that the current Russian system of restricting transit flights and subjecting these flights to so-called "compensation" payments to Aeroflot is contrary to these objectives, significantly deviates from globally accepted aviation standards, constitutes an undue obstacle to trade between Europe and Asia, and can only have a negative effect on EU-Russia relations and on the efforts to integrate Russia into the open, international trading system. In the end, the many harmful effects of this transit regime for all parties involved, including the loss of economic benefits for the Russian Federation under a policy of restricted access to its airspace and sub-optimal development of its aviation infrastructure, far outweigh the dubious benefits of making transit flights of foreign airlines subject to paid approval.

Russia's international partners are convinced that a transition to normal, internationally accepted standards based on practical, co-operative steps is the only way forward. The purpose of the proposed Fund is to facilitate this process of transition.

International airlines in general and the airlines of Europe in particular have stressed their interest in safe, efficient and cost-effective access to the shortest air routes between Europe and Asia. In light thereof and recognising the key role which the Russian Federation with its extensive airspace plays in the global aviation system, the European airlines are prepared to make a special contribution to the development of Russia's aviation infrastructure. The European Union is prepared to support this project within the framework for co-operation in the field of transport, set out in the Agreement on Partnership and Co-operation. Given the importance which President Yeltsin attaches to Russian aviation development, it is hoped that the Russian side will respond positively to this proposal by creating the conditions that are necessary for implementation of the Fund.

Concretely, the European Union and the wider European aviation community propose making available up to 51.5 billion to launch badly needed Russian aviation infrastructure projects during the coming five years - taking as an agreed, primary goal the development of the Air Traffic Management (ATM) system and the timely provision of over-flight capacity. In return, it would be expected that Russia would move decisively to eliminate the system of limited access and "compensation" payments for transit flights between Europe and Asia.

**Basic elements**

The proposed modernisation program consists of three central and inter-related elements:

1. Establishment of a Fund as an international institution with joint Russian and European management;
2. Normalisation of over-flight access and removal of the regime of "compensation" payments;
3. Modification in due course of the Russian ATC charges structure to ensure that the improved ATM system can be operated on an economic basis, in line with established charging principles.

The goal of the proposed Fund is to act as an instrument to provide responsive and secure financing on a large scale and on favourable terms for the rapid development of the Russian aviation system. The components of such a financing program, which could include ATM, airports, and possibly other segments of Russian aviation, would be broadly defined and agreed upon among the Russian Federation, the users, and the potential lenders at the time of negotiation of the overall concept.

Pursuant to a concept developed in co-operation with the European Bank for Reconstruction and Development (EBRD), European airlines would be prepared to enter into co-operative arrangements for the establishment of a Fund of up to $1.5 billion. Approximately half of this amount would, following elimination of the system of "compensation" payments for transit flights, be paid into the Fund by the airlines over a period not exceeding five years. The other half would consist of loans by international lending institutions on very attractive terms due to a commitment by the airlines to pay during an agreed number of years after the initial five year period a guaranteed amount of ATC over-flight charges to the Fund for debt servicing purposes, based on a (by that time) revised ATC charges structure. These arrangements could moreover be structured in such a way as to facilitate possible participation by other international users of Russian airspace.

The Fund would be created solely as a financing and implementation vehicle and would have no operational responsibility. During the period of the Fund's existence, the authority over the Russian airspace and the responsibility for maintaining safe, secure and efficient conditions for the use thereof would remain entirely with the Russian Federation and debt servicing arrangements will not affect ATC revenue needed for the provision of aeronautical services.

The Fund would work with Russian ATM authorities, aviation users and experts on ATM modernisation to facilitate the financing, development and operation of a cost-effective system based on and exemplifying international best practice. A cornerstone of its procedures would be transparent and a-political procurement, and tightly controlled project implementation. Russian industry could anticipate major opportunities as supplier of goods and services for aviation projects financed by the Fund.

As indicated above, the Fund is envisaged as a transitional instrument for facilitating modernisation of Russian aviation infrastructure during a difficult time. The Fund's investment programme would be implemented during a five year period and the loans undertaken to support it paid off within a number of years thereafter (to be determined). At the end of that period the Fund would have fulfilled its objectives and would be dissolved.

**Benefits**

Apart from the important positive overall effect which Russian co-operation to normalise access to and use of its airspace would have for its internationa economic relations in many other areas, the proposed Fund would brin significant additional benefits to the Russian Federation:

→

- the size of the Fund (up to $1.5 billion) makes it a powerful instrument for the modernisation of the Russian civil aviation sector at a time when public funds for improvement are badly needed but difficult to obtain;

- loans from the Fund would be on very favourable terms, as a result of guarantees given by the airlines;
- unlike other major development programmes, the Fund permits the raising of financing on a private basis, without the need for the Russian aviation sector to compete with other economic sectors to obtain the security of a "sovereign guarantee" by the Russian Government;
- the time-frame envisaged for the Fund would allow major parts of Russia civil aviation to be modernised and brought up to world standards within a period of only a few years;
- normalised open access to the Russian airspace for over-flight purposes and a restructuring in due course of the Russian ATC user fees, as part of the overall modernisation programme, would boost traffic and increase ATC revenue for the Russian Federation;
- the envisaged modernisation programme would be a significant indirect stimulus to the Russian economy, whose value over time might substantially exceed the Fund's directly supported programme.

## The next steps

Establishment of the Fund and the simultaneous normalisation of over-flight conditions would require in the first place a framework of intergovernmental agreement. That agreement should form the basis for the definition of the overall Investment Programme and for detailed follow-up arrangements with the various parties involved, in particular the Russian aviation authorities, the European airlines and the financial institutions.

These follow-up arrangements would include a definition of the rights and obligations of the Fund and the relevant Russian government agencies with respect to the agreed Investment Programme, as well as loan agreements with the Lenders and agreements specifying the contractual commitments by the airline community.

Clearly, it will require a concentrated effort by all concerned to bring the various arrangements into place without unnecessary loss of time. Therefore, the European Commission, which may also participate in final Fund arrangements, asks that the Russian Federation agree promptly to a concrete negotiating schedule ensuring that talks can begin without delay.

DEBT/
HIPC

## Debt/HIPC

*Handling: Your lead – you should encourage all G7 colleagues to signal their political commitment to implementing the Cologne agreement in full and as swiftly as possible – noting that the G7 as a whole stands to lose considerable credibility if they cannot make a success of the debt initiative.*

- This is the issue on our agenda that people in all our respective countries have shown us they care about deeply. In last 3 months alone have had over 150,000 postcards and nearly 100,000 e-mails from ordinary people about debt relief - 5,000 people every day this week sending an e-mail about debt relief. 80% of the hits on Japan's summit website are on HIPC. Can't afford not to respond to this weight of **public opinion.**

- In the year since our historic agreement to provide **"faster, wider, deeper"** debt relief at Cologne, we have **accomplished a great deal**:

  - the international community has signed up to an **improved HIPC initiative**. The IMF, the World Bank and Multilateral Development Banks have put in place the mechanisms for delivering enhanced debt relief. HIPC countries themselves have begun to develop their **Poverty Reduction Strategy Papers**;

  - we have each agreed to go further and give debt relief on **100 per cent** of eligible debt for countries which receive HIPC debt relief;

  - **HIPC Trust Fund** has reached $2.5 billion in cash and pledges;

  - **9 countries** have now reached their **decision point** under the enhanced initiative. In the 10 months since last year's IMF Annual Meetings, more debt relief has been granted under HIPC2, than was agreed in 3 years under the previous initiative.

- This is real **progress.** Countries like Uganda and Bolivia will be receiving over time an extra $1.3 billion to spend on building schools, providing clean water and sewerage facilities, and increasing the opportunities for poor people to secure sustainable livelihoods.

- But we must not be **complacent.** The NGOs remain concerned about the progress and about the situation on the ground. They are urging us to move faster - pointing to the numbers of children dying every day from the causes of poverty. In 21st century difficult to accept that 130,000 children should die needlessly every week in Africa. Have to ensure that we have done everything in our power to ensure that countries qualify for debt relief as quickly as possible.

- A year ago in Cologne we committed to work together to ensure that three-quarters of eligible countries reached their decision points by the end of this year. Of the 40 HIPC countries, 26 have in place IMF supported programmes and are therefore eligible to receive debt relief. In addition to the 9 countries that have already qualified, the World Bank and the IMF are projecting that a further 11 countries could reach decision point by the end of the year. It will not be easy. But 20 countries would be in line with our Cologne target and deliver new hope to many millions of people. We must continue to work together and with the IFIs and the HIPC countries themselves to ensure that these countries reach their decision point in line with the target set out in Cologne.

- To deliver the relief, we need **financing**. We have $2.5 billion of pledges to the Trust Fund. But some of the money is still only a pledge. We are relying on the US contribution to the Trust Fund, especially as many other creditors have tied their donations to delivery of this contribution.

- Must also begin to focus on the group of countries unlikely to reach decision point in the year 2000 - most are countries affected by **conflict**. The UK has just announced provision of special assistance to conflict-affected countries in Africa. Must all stand ready to assist these countries, including with debt forgiveness, when resources will be used to benefit the poor.

## Debt / HIPC - Background

1. **Handling.** You lead discussion on this issue. You will discuss principally at G7 but will probably return to Debt briefly at 8 under the Greater World Prosperity theme. You will want to try to encourage all your G7 colleagues to signal their political commitment to implementing the Cologne agreement in full and as swiftly as possible - noting that the G7 as a whole stands to lose considerable credibility on this issue if they cannot make a success of the debt initiative.

2. The multilateral Heavily Indebted Poor Countries (HIPC) Initiative is designed to provide assistance in the form of debt forgiveness to eligible countries following sound economic policies and that have demonstrated their commitment to poverty reduction. The relief reduces their external debt burden to "sustainable" levels. The "sustainability" level is calculated by the World Bank on the basis of debt sustainability ratios (debt to exports and debt to government revenue) agreed by the G7 Heads of Government at last year's Cologne Summit. All creditors holding external debt participate in the Initiative: these are; the bilateral Paris Club creditors, such as ourselves and other G7 countries, the non-Paris Club creditors (such as Iran, Libya, India etc), the multilateral development banks such as the African Development Bank, the Inter-American Development Bank, the IMF and the World Bank, and also commercial creditors (although HIPC countries do not have large amounts of commercial debts - unlike the case of Latin America in the 70s and 80s).

3. To qualify for assistance the country must adopt adjustment and reform programmes supported by the IMF and World Bank and build up a three year track record of performance. They must also produce an interim Poverty Reduction Strategy. At the end of this first phase, the World Bank carries out its Debt Sustainability Analysis (DSA) to determine the debt burden of the country and its ability to service those obligations. This is called the decision point. At this point, the international community commits to providing the necessary debt relief once the country reaches completion point (see below) and commits to providing interim relief (i.e. relief on debt service payments) between decision and completion point.

4. The country then establishes a further track record of performance under a World Bank or IMF supported economic reform programme and implementation of the national Poverty Reduction Strategy. The track record is usually three years, but can be shortened for countries that have already demonstrated a commitment to serious reform and poverty reduction. After this period, the country reaches completion point at which time it has a stock of debt reduction from bilateral Paris Club creditors and receives an irrevocable commitment to debt relief from the IMF and other multilateral institutions.

5. As part of the revisions to the HIPC initiative agreed last year at Cologne, HIPC countries must design and implement national Poverty Reduction Strategies. The UK was one of the strongest voices in calling for debt relief to be tied much more closely to poverty reduction, and we were pleased with the proposals brought forward by the IMF and World Bank. The Strategies will be developed in a participative way, with governments leading a process that will involve civil society and the international (donor) community. The strategies will incorporate all government policies and programmes - economic, social and environmental, governance (including corruption) - and they will include a medium term budget framework showing how all development resources (national revenue, development assistance and debt relief) will be allocated in support of the nationally agreed priorities.

5. Nine countries have now reached their decision point (Bolivia, Mauritania, Uganda, Tanzania, Mozambique, Senegal, Honduras, Benin and Burkina Faso). And one country (Uganda) has reached its Completion Point. The total amount of debt relief agreed for these 9 countries is $10.2 billion under HIPC2, combined with the $5.5 billion they received under HIPC1 - making a total of $15.7 billion in relief to spend on poverty reduction and economic development.

6. The UK remains concerned, however, that there is still not enough G7 momentum behind the process of providing debt relief. Some progress has been made in the first half of the year, in terms of putting in place the modalities for delivering relief and getting the Multilateral Development Banks' funding in place. But we and the NGOs remain dissatisfied with the implementation of last year's Cologne agreement.

7. We (the UK) have been successful in pressing for and getting the World Bank and IMF to put in place a Joint Committee on HIPC Implementation. But, again, we remain concerned that the JIC is not taking a pro-active enough role in ensuring that the timetable for each and every country is monitored.

8. The section of the Finance Ministers' report to Heads that deals with HIPC aims to put the most positive presentation possible on progress to date. We have a decent story to tell in that 9 countries will have reached decision point by the time of the Okinawa Summit and the Fund and Bank are still talking in terms of a further 11 being possible by the end of the year (making a total of 20)

9. Crucially, of the remaining 20 HIPCs, 2 are currently not opting for HIPC relief (Ghana and Laos) and 4 are likely to be sustainable after traditional Paris Club stock-of debt reductions. This leaves 14 countries, 10 of which are currently affected by conflict (as defined by the World Bank) and are therefore unable to demonstrate the necessary commitment to poverty reduction that we would want to see in order to offer them debt relief. This is a defensible position in terms of justifying to the NGOs why more countries have not received debt relief this year (but only assuming that the 20 countries currently scheduled for 2000 get to decision point).

10. At the Finance Minister's Summit in Fukuoka last weekend, the Chancellor told his G7 colleagues that there was a need to keep up the pressure on the IMF and World Bank to bring countries through to decision point in line with the latest timetable and a need to focus on understanding the obstacles which are preventing countries coming forward - including, in many cases, conflict.

11. The Chancellor also announced that officials from the UK Department for International Development will be providing technical assistance to these countries affected by conflict and that the UK government will set up a single budget to assist post-conflict countries as they emerge from conflict and embark on the process of building a track record to qualify for debt forgiveness. Additional resources for this purpose will be included in the forthcoming Spending Round.

**HIPC - for both G7 and G8 negotiations**

**Objectives**

1. Ensure that the figure **US$16 billion** is used in the G7 and G8 communiques when referring to amount of debt relief agreed for first 9 countries.

2. Retain current G7 Communique wording on **export credits for unproductive expenditure** - it is slightly stronger than the Finance Minister's report (which is what we want) and, most importantly contains the commitment to **publish** the OECD review.

3. Soften the "significant progress" in the G7 communique to "welcome progress", in line with the Italians' concerns and ensure consistency between the G7 and G8 texts in this regard.

4. Push for the insertion of a tougher statement in relation to efforts to assist the HIPCs currently affected by conflict, in line with the language inserted into the Finance Ministers' report at last weeks' Fukuoka meeting.

5. Amend the latest insertion in the G7 statement on debt (first paragraph), which the UK cannot support and which actually contradicts the sentiments expressed later in the text about welcoming the country-owned PRSP approach.

**References**

See Finance Ministers report to Heads -- References section – FM reports.

A. Your letter to Yoshiji of 10 July giving comments on G8 Communique.

**Points to Make**

- Both G7 and G8 communiques currently contain bracketed figures in relation to the amounts of debt relief agreed for the nine countries that will be through to decision point by the Summit. We have calculated that the nominal value of debt relief agreed for these countries is of the order of $15.77 billion - hence our wish to use a figure of $16 billion in the communique texts.

- US have also suggested adding in a phrase about resources released going to specific areas (investment in education, health - especially HIV/AIDS control). This actually runs counter to the spirit of the enhanced HIPC initiative, in the sense that the new Poverty Reduction Strategy Papers equate debt relief to poverty reduction, not necessarily specific social sector spending. Would therefore be better to retain a broader reference to spending "reducing poverty".

- The Germans and the European Commission have proposed including a reference on HIPC financing that recognises that further efforts still need to be made to filling the gap on funding for the International Financial Institutions. We do not see any need to include such a reference. Raising the financing issue in this way therefore just detracts from the overall progress picture, which we are seeking to make as positive as possible in presentation terms.

- Italians have proposed removing word "significant" in relation to progress on HIPC. Rather than simply say "Since then.....progress has been made in implementing the Enhanced HIPC initiative", how about using word "welcome". This implies some satisfaction with what has taken place over the last nine months, but does not overstate what has been achieved. Whatever we agree, we must make sure that we also bring the G8 text into

line with this (as it currently refers to "significant" progress.

- The latest version of the G7 statement sent round had a couple of insertions on the first paragraph relating to debt and the challenge of meeting the International Development Targets. UK cannot support these revisions. Would propose an alternative:

  "The International Development Goal, of cutting in half the proportion of the world's population living in extreme poverty by 2015, is an ambitious one. It demands nationally agreed strategies [**i.e not one single strategy covering all countries, which contradicts the fact that the statement later welcomes the new country-owned approach to economic development and poverty reduction]** of broad-based economic growth, accompanied by the right social policies **[i.e. delete sector]**, to deliver **[ not "which can contribute to"]** a virtuous circle of poverty reduction and economic development."

- We should note that the Finance Minster's now refers to the fact that: "...[G7] stand ready to strengthen our efforts to help them [HIPC countries affected by conflict] prepare and come forward for debt relief". This additional commitment by the G7 should be reflected in the Heads' communiques. I therefore propose that the fourth paragraph of the HIPC section of the G7 communique be amended to:

  ".....affected by military conflicts which prevent poverty reduction and delay debt relief. **We call upon these countries to end their involvement in conflicts and to embark quickly upon the HIPC process. We stand ready to strengthen our efforts to help them come forward for debt relief.** We will work together to ensure that ....."

In the same vein, the third paragraph of the debt section of the G8 communique could be amended to read:

".....affected by military conflicts which prevent poverty reduction and delay debt relief. **We call upon these countries to end their involvement in conflicts and to embark quickly upon the HIPC process. We stand ready to strengthen our efforts to help them come forward for debt relief.** We must **also** for our part promote more responsible lending and borrowing practices to ensure that.....".

**Okinawa G8 Summit** **Sherpa Brief**

**Background**

1. Both G7 and G8 communiques currently contain bracketed figures in relation to the amounts of debt relief agreed for the nine countries that will be through to decision point by the Summit. We have calculated that the nominal value of debt relief agreed for these countries is of the order of $15.77 billion - hence our wish to use a figure of $16 billion in the communique texts. This figure has been reached by reference to the amounts in the table below:

| Country | Nominal Debt Service Relief given under HIPC2 ($m) | Nominal Debt Service Relief given under HIPC1 ($m) | Total for 9 countries to DP ($m) |
|---|---|---|---|
| Uganda | 1,300 | 650 | 1,950 |
| Bolivia | 1,300 | 760 | 2,060 |
| Mauritania | 1,200 | (didn't reach dp under HIPC1) | 1,200 |
| Tanzania | 3,000 | (didn't reach dp under HIPC1) | 3,000 |
| Mozambique | 600 | 3,700 | 4,300 |
| Senegal | 800 | wasn't eligible for relief under HIPC1 ratios | 800 |
| Honduras | 1,100 | (didn't reach dp under HIPC1) | 1,100 |
| Benin | 500 | wasn't eligible for relief under HIPC1 ratios | 500 |
| Burkina Faso | 350 | 400 | 750 |
| Guyana | - | 410 | |
| Cote D'Ivoire | - | 800 | |
| Mali | - | 250 | |
| | | | |

| | | | |
|---|---|---|---|
| | 10,150 | 6,970 | 15,77 |

Interestingly the US did their calculations separately and came out with a similar number, so you should receive support from them for using the $16 billion figure. Our objective is obviously to use the biggest number possible that we can justify to the NGOs.

***Export Credits for Unproductive Expenditure***

2. On the issue of export credits for unproductive expenditure, the Japanese have brought the G7 Communique text in line with the text of the Finance Ministers' report, which unfortunately is slightly weaker than that which you drafted initially for the Communique. However, the Finance Ministers' text does contain the key references to publishing the OECD's review of existing export credit arrangements and so gives us something concrete to present to the NGOs in terms of outcomes. You therefore will probably not want to resist the Japanese amendment.

3. The Finance Ministers' report states:

".... In this context, we call upon the OECD to review through its export credit group, strengthened measures **towards ensuring** that export credit support to HIPCs and other low income developing countries is not used for unproductive purposes. The result of this review **should be published** and **could** include the review of the relevant existing national rules and regulations. We encourage the OECD to complete this work as quickly as possible." (Key parts that we have fought over are in bold).

3. The G7 Communique text is therefore now in line with this language:

".....we call upon the OECD to review strengthened measures, **including national rules and regulations**, towards ensuring that export credits to HIPCs and other low income developing countries are not used for non-productive purposes. We

encourage the OECD to complete this work and publish the result as soon as possible."

It does, however, go slightly further in stating that the OECD review **should** include a review of national rules and regulations. This is welcome and we should therefore try to hold on to the current G7 text.

4. The bracketed "[seek to]" in relation to "ensuring that export credits are not used for unproductive purposes" has been removed, and replaced by the "towards ensuring" which, although weaker than "ensuring" is in line with the Finance Ministers' report and so we cannot really push further. It is probably a better outcome than "seeking to ensure" and represents a slightly more concrete step in the direction we want to force the rest of the G7, so we can go along with this text.

***Other Comments Received on HIPC texts from Colleagues***

**On G8 Communique -**

5. In their correspondence to Yoshi, the US have proposed some redrafting of the second paragraph of the debt section. Their amendment tones down the statement on resources freed up by debt relief and makes it a bit blander, but we needn't oppose.

6. On line 13, the US have also suggested adding in a phrase about resources released going to specific areas (investment in education, health - especially HIV/AIDS control). This actually runs counter to the spirit of the enhanced HIPC initiative, in the sense that the new Poverty Reduction Strategy Papers equate debt relief to poverty reduction, not necessarily specific social sector spending. It is about a much wider agenda than just health and education spending (eg enabling the poor to earn income, which might imply spending on infrastructure, or addressing governance issues and corruption) - it would therefore be better to retain a broader reference to spending "reducing poverty".

7. Support Italians on use of word "fair" in relation to burden sharing on HIPC financing (as opposed to "appropriate"). We have used the word "fair" in other contexts on this issue and it might look funny to depart from that terminology here. The Germans also support the use of "fair".

8. The Germans and the European Commission have proposed including a reference on HIPC financing that recognises that further efforts still need to be made to filling the gap on funding for the International Financial Institutions. We do not see any need to include such a reference: the US know that they need to deliver, there is sufficient funding for the near future and there is no panic about finding money from bilateral donors at the moment. Raising the financing issue in this way therefore just detracts from the overall progress picture, which we are seeking to make as positive as possible in presentation terms.

**On G7 Communique -**

9. The Italians have proposed removing the word "significant" when talking about progress on implementing HIPC. Admittedly, progress has not been spectacular, but given that we have managed to get the process up and running and 9 countries through to decision point, we needn't be overly downbeat - especially since the language is qualified by the phrase "further efforts are required".

10. Rather than remove the "significant" and simply say "Since then.....progress has been made in implementing the Enhanced HIPC initiative", we could offer to replace the "significant" with "welcome". This implies some satisfaction with what has taken place over the last nine months, but does not overstate what has been achieved. **NB** the G8 Communique contains reference to "significant" progress on HIPC (Pg6, line16) - so whatever is agreed for the G7 Communique will need to be used in the G8 text, otherwise we risk creating the impression that there is a divide between the G7 and G8's reactions to progress.

***Assisting Countries Affected by Conflict***

11. At the Finance Ministers' meeting in Fukuoka, Finance Sous-Sherpas negotiated some new language referring to special assistance for those HIPC countries affected by conflict. This was in line with the UK's priority of focusing attention on the group of countries that are currently not scheduled to reach decision point this year and trying to understand the reasons why they are unable to come forward. Many of them are affected by conflicts (either past or continuing) that have undermined progress on the country's reform programme, or on putting together a Poverty Reduction Strategy Paper.

12. The Finance Minster's report therefore now refers to the fact that:

"...we stand ready to strengthen our efforts to help them [HIPC countries affected by conflict] prepare and come forward for debt relief".

This additional commitment by the G7 should be reflected in the Heads' communiques.

13. You should therefore propose that the fourth paragraph of the HIPC section of the G7 communique be amended to:

".....affected by military conflicts which prevent poverty reduction and delay debt relief. **We call upon these countries to end their involvement in conflicts and to embark quickly upon the HIPC process. We stand ready to strengthen our efforts to help them come forward for debt relief.** We will work together to ensure that ....."

14. In the same vein, the third paragraph of the debt section of the G8 communique could be amended to read:

".....affected by military conflicts which prevent poverty reduction and delay debt relief. **We call upon these countries to end their involvement in conflicts and to embark quickly upon the HIPC process. We stand ready to strengthen our efforts to help them come forward for debt relief.** We must **also** for our part

promote more responsible lending and borrowing practices to ensure that.....".

**Okinawa G8 Summit** **Sherpa Brief**

**Background Note on the Cologne Target and how 20 = 3/4rs**

Aim:

To present the achievement of 20 countries to decision point by the end of the year as consistent with achieving the Cologne Target.

Line to Take:

- G7's commitment was to get three-quarters of eligible countries to qualify for debt relief. We are still on course to meet our target, and even exceed our target, given that a number of countries have currently not made the commitment to poverty reduction necessary to make them eligible for debt relief.

- Want to ensure that as many countries as possible qualify for debt relief as quickly as possible, which is why the G7 (led by the UK) have pledged to work with those countries currently ineligible for relief to provide them with special assistance to enable them to come forward as quickly as possible.

Background:

The Cologne target was to get "3/4rs of eligible countries to decision point by the end of 2000". The term "eligible" was nowhere defined.

We can present the achievement of 20 countries to decision point as being consistent with the Cologne target if we take "eligible" to mean "a country must have in place an IMF or World Bank supported programme".

There are 40 potentially eligible HIPCs.

Ghana and Laos are currently not seeking HIPC relief, making a total of 38
But 12 are currently off-track with their IMF programmes and therefore cannot be brought to the Board for Decision Point. (Burundi, Central African Republic, Congo - Rep of, Congo - Dem Rep of, Ethiopia, Myanmar, Niger, Sierra Leone, Togo, Liberia, Somalia, Sudan).

Which leaves 26 "eligible" countries.

If we can do 20 by the end of the year, we will have reached almost 80% of eligible countries - exceeding the target of 75%.

## HIPC - Summary of Financing Situation

(all figures in 1999 NPV terms)

**Cost of HIPC Initiative** = $28.2 billion

of which,

bilateral creditor costs = $14.1 billion

multilaterals costs = $14.1 billion

of which,

World Bank = $6.3 billion

IMF = $2.3 billion

AfDB = $2.2 billion

IDB = $1.1 billion

other = $2.2 billion

## Financing Gaps at Present

World Bank = $4.2 billion (some of which will come from Trust Fund and some from future IDA replenishments)

AfDB = approx $1.8 billion

IDB = approx $0.9 billion

other MDBs = approx $1.1 billion

IMF = $580 million (5/14ths of the profits from gold - awaiting go-ahead from US Congr

ess

= **$8 billion** (assuming gold goes ahead)
**(Approx half of which is related to near-term countries i.e. just over $4 billion)**

**Amount in Trust Fund**

$2.5 billion (assuming delivery of US pledge)
could be as low as $1.4 billion if US don't deliver anything and EU and Japan therefore don't deliver 2nd and 3rd tranches of their pledge.

(no attachments)
cc: Mr Budd
Mr Brenton
Mr Butler
Ms White
Ms Goldie
Mr Tilbrook, DFID
Mr Rankin, HMT
Ms Malins, EPD
Ms Tew, OST
Mr Stafford, DETR
Mr Downer, UND
Mr Auld, NPD
Mr Freeman
Mr Wordsworth, EAD

A

Leads to note Heywood points on yr instr.

10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

10 July 2000

Dear Yoshiji

S. Honey 10/7

## G8 COMMUNIQUE COMMENTS

Thank you for circulating the latest version of the G8 Communiqué. This now reads very well. But I would like to offer a few comments on the outstanding issues.

PIW Communique
PIW Heywood letter.

### IT

I am content with the communiqué language on IT but have a couple of comments on the Okinawa IT Charter. Firstly, I was surprised that experts made so many changes to the structure of the Charter when they met in Paris on 7 July. I had thought that the mandate was to work on the detail as Sherpas had largely agreed on the structure.

Secondly, I think it important that we welcome the WEF report and undertake to have the DOT.Force examine in more detail – without commitment - the WEF proposals (language currently bracketed in paragraphs 16 and 17). Given that some G8 Heads will be meeting the WEF on 19/20 June to discuss IT in advance of the Summit, it would be strange if we failed to do this. I am quite happy for the DOT.Force to consider the Global Business Dialogue (GBD) proposals too (I have just seen them), and include a reference to this group as well. But it was a Presidency initiative to invite the WEF to prepare a report, and they will be the ones our leaders face in Tokyo.

Finally, it is <u>essential</u> that we keep language in paragraph 17 on lowering the costs of access. This is – rightly - a point of major concern in developing countries and was highlighted by the G77 representative (Nigeria's Trade Minister) in last week's ECOSOC High Level Meeting in New York. If our leaders are to discuss IT with the African and Thai leaders I think they will find their interlocutors at least as interested in this subject – which as we all recognise in our own countries is absolutely fundamental to take up - as in our thoughts on more technical and detailed issues such as patents and tax policy. I note that the

GBD letter also notes that the "availability and cost of communications infrastructure is a critical roadblock to greater Internet usage in many countries" (section III, second bullet). I am attaching here a UK paper on the subject which has been circulated on the e-Expert net.

**Development**

I am still strongly of the view that we must reach agreement on untying to the least developed countries before the Summit. Failure to do so would undermine all our other commitments. My firm preference therefore is for the second of the alternative texts, stating that we will untie our aid to least developed countries, on the basis defined in the OECD at the high-level meeting in May.

I think that there is a small error in lines 20-21 of the Development section when we highlight some of the conclusions from the Global Poverty Report. I believe that the text should read "While the percentage of the poor in developing countries declined from 29% in 1990 to 24% in 1998, there . . .". Appendix 1 of the Global Poverty Report makes it clear that these figures apply only to developing (and transition) countries and not to the whole world and also shows that the 1998 figure was 24%.

**Debt**

This section of the text was changed a lot in the course of our discussions in Okinawa. Whilst we are getting close to a strong text I think it could read more fluently, and would like to offer some ideas in this vein.

Firstly I would suggest that we end the third paragraph, which deals with the speed of the HIPC process and the effect of conflict on the timetable, after ".. and delay debt relief".

The fourth paragraph then just need slightly reordering. I would suggest the following,

"We strongly urge both HIPCs and the IFIs to accelerate their work towards the implementation of the initiative. In this regard, we welcome the establishment of the Joint Implementation Committee by the World Bank and the IMF, which will have responsibility for managing the timetable and implementation of the initiative. IFIs should, along with other donors, help

HIPCs prepare their Poverty Reduction Strategy papers and assist their financial resource management by providing technical assistance."

Finally our estimate is that the bracketed figure in paragraph 2, US$12.5 billion, should read US$16 billion.

**Food Safety**

I welcome Don's supportive comments, and attach slightly revised language which I believe, based on bilateral discussions since the Plenary, may provide a basis for agreement. The UN link is important to ensure that developing countries feel ownership of the Panel proposal. But the revised language clarifies the nature of the link we envisage. In particular, a Panel "facilitated by the UN" captures the idea that the Panel would have a secretariat in the UN system - to help organise meetings, publicise and disseminate reports - but would nevertheless remain entirely independent, setting its own agenda and work programme.

**Human Genome**

I welcome the revised text prepared by Armando. I am also content with Francesco's additional suggestions.

**Environment**

I strongly recommend that we keep the references to resolving "as soon as possible" all major outstanding issues, with a view to "early" entry into force of the Kyoto Protocol, and welcome Don's comments on this point.

With regard to environmental guidelines for Export Credit Agencies, I agree with Don, Jean-Marc and Francesco and would prefer to omit the reference to "based on MDB standards/internationally agreed standards". This could be counter-productive, risking slower progress within the OECD. As an alternative, we might consider guidelines "using MDB standards and other examples of best practice, as benchmarks for assessing individual proposals".

I also agree with Don and Francesco that the text on Forests should refer to "indigenous and local communities" rather than "indigenous populations", as this is standard international language. As you know, I would welcome stronger language on illegal logging given the rising profile of this issue.

On Maritime Safety I can support Jean-Marc and Francesco's proposals to remove all the square brackets in this section of the text.

**Conflict Prevention**

As discussed at the Plenary, our experts' report to Foreign Ministers on conflict diamonds is particularly impressive and merits Heads' discussion.

**Disarmament /Non Proliferation**

I understand that Political Directors are working on a shorter text, as we suggested last week.

**Stability Pact**

Finally, I would like to offer a quick response to Klaus's language on the Stability Pact. I believe a reference to the role of private investment would also be valuable, and would insert at the end of the third sentence, seventh line: "... their efforts for reform and facilitate the growth of private investment. We give ...". I also think we should be careful about suggesting that the Stability Pact itself actually implements projects – it does not. So I would replace the last line from "in the monitoring..." to the end, with the more general "in supporting growth and development in the region".

I am copying our G8 colleagues and look forward to seeing you all again in Okinawa.

pp. **JEREMY HEYWOOD**

Yoshiji Nogami

EUROPEAN COMMISSION
Cabinet of the President

The Diplomatic Advisor

Brussels, 12.07.2000
SG/D/2/NMC

Mr Yoshiji Nogami
Deputy Minister for Foreign Affairs
Ministry of Foreign Affairs
Tokyo

Dear Yoshiji,

Thank you for your letter dated 7 July and the attached revised version of the Okinawa Communiqué. I believe we are drawing ever closer to finalising the text. I have a few brief but important comments to make (to the version of 8 July, 2:31).

**Development**

refers to progress on HIPC

HMT view?

- p.6, line 16: the term "*significant*" should be deleted. I agree with Francesco and Jean-Marc. The initiative is far from being fully financed.

- p.7 line 10: after "Trust Fund" add: "We recognise that additional efforts are needed to ensure the full financing of the initiative."

agreed now.

- p.7, line 12: I propose to keep the term "*fair*".

- p.8, line 21-25: I very much appreciate your effort to make it clear that the facilitation of TRIPs implementation is intended to be beneficial to developing countries, it is essential to show G8 willingness to improve the situation in favour of developing countries. As you remember on 16 June I had proposed extensive text on this issue. I also agree with Jean-Marc that a too weak message on TRIPs could be counterproductive and only re-enforce the position of a number of developing countries and NGOs to reject the TRIPs agreement. However, rather than delete the reference entirely, I think we should strengthen it. We should encourage innovative ways to better use the agreement in practice, so that the developing countries can really benefit from it. As such I would suggest adding either a tiret after line 25 or a new sentence in the current tiret:

DFID - Julian?

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Internet: armando.varricchio@cec.eu.int

*"Encouraging all players, including the pharmaceutical industry and NGOs, to present effective solutions, such as through public-private partnerships, which will improve access to drugs in developing countries e.g. via the use of voluntary license agreements. We also acknowledge that WTO members may make use of compulsory licenses in accordance with the flexibility and obligations provided for within the TRIPs agreement."*

**Environment**

- p.17, lines 11-16. I agree with Jeremy that we should keep both *"as soon as possible"* and the term *"early"*. I would suggest adding, after line 16, *"and to strengthen domestic actions to address climate change in our countries"*. Alternatively, the language proposed by Jean-Marc is a good compromise.

DETR

- p. 17, line 29, I would add *"This work will also contribute to the process on sustainable energy under the UN Commission on Sustainable Development."*

**Food Safety**

- The text proposed by Jeremy in his 10 July letter is acceptable to us.

good

**Trade**

note Commission commenting on Presidency text - not advancing "Canada/EC" text.

Thank you for your letter dated 10 July accompanying the draft text on trade. We welcome the thrust of the message and agree that we need to tread a fine line between moving forward the multilateral trade agenda (on which we all agree) and avoiding the sense that the rich G7/8 are dictating terms to the South. At this stage I'd like to suggest only two additional sentences:

- p. 1, line 21, after *"strengthened"* I would suggest adding: *"and continues to play its vital role in the world economy"*

- p.2, after line 7, I suggest adding a new paragraph: *"We also agree on the importance of enhanced WTO transparency, both within the organisation and vis-à-vis the outside world."*

thrust of our suggestion but need stronger push than this.

I do, however, also deem it necessary to do more for developing countries and think that leaders should, in Okinawa, look into possible initiatives to further ease market access for the least developed countries.

**Stability Pact**

With reference to Klaus' letter dated 10 July concerning the South-eastern Europe Stability Pact. I welcome Klaus' text proposal and fully support its inclusion into the Communiqué. Nonetheless I do suggest two minor changes:

- line 10: replace *"monitoring and implementation"* with *"follow-up"*.

- line 4: replace *"a number of Quick Start Package projects"* with *"regional projects"*, given that €2.4 bn is the whole pledge.

I am copying this letter to our G8 colleagues.

Yours sincerely,

Armando Varricchio

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## Progress of the Enhanced HIPC Initiative

The International Development Goal of cutting in half the proportion of the world's population living in extreme poverty is an ambitious one. It demands a strategy of economic growth accompanied by the right social sector policies, which can contribute, to a virtuous circle of poverty reduction and economic development. Debt relief for Heavily Indebted Poor Countries (HIPCs) is only one part of such a strategy, but it is a crucial part.

Last year in Cologne,we agreed to launch the Enhanced HIPC Initiative to deliver faster, broader and deeper debt relief, releasing funds for poverty reduction. We welcome endorsement of this initiative by the international community last autumn.

Since then, while further efforts are required, progress has been made in implementing the Enhanced HIPC Initiative. As reported in the annex to our G7 Finance Ministers' report, published today, on "Poverty Reduction and Economic Development", [nine] countries (Benin, Bolivia, Burkina Faso, Honduras, Mauritania, Mozambique, Senegal, Tanzania and Uganda) have already reached their Decision Points and are seeing

Page 7

the benefits of the Initiative. Total debt relief under the HIPC Initiative for these countries should amount to [US$12.5/16?: being checked with the IMF and WB] billion.

We welcome the efforts being made by HIPCs to develop comprehensive and country-owned poverty reduction strategies through a participatory process involving civil society. We encourage those HIPCs that have not yet done so to embark quickly on the process and thus fully benefit from the debt reduction. We are concerned by the fact that a number of HIPCs are currently affected by military conflicts,which prevent poverty reduction and delay debt relief. We will work together to ensure that as many countries as possible reach their Decision Points, in line with the targets set in Cologne, giving due consideration to the progress of economic reforms and the need to ensure that the benefits of debt relief are targeted to assist the poor and most vulnerable.

In this regard, we welcome the establishment of the Joint Implementation Committee (JIC) by the World Bank and the IMF and strongly urge both HIPCS and IFIs to accelerate their work toward the implementation of the Initiative. IFIs should, along with other donors, help HIPCs prepare PRSPs and assist their financial resource management by providing technical

Page 7 cont

assistance.

We reaffirmed our commitment to provide 100% debt reduction of ODA claims, and newly committed to 100% debt reduction of eligible commercial claims. We welcome the announcement made by some non-G7 countries that they too will provide 100% debt relief, and we urge other donors to follow suit.

Page 8

We note the progress made in securing the required financing of the IFIs for effective implementation of the enhanced HIPC Initiative, and welcome pledges including those to the HIPC Trust Fund. We reaffirm our commitment to make available as quickly as possible the resources we have pledged. In this context, we recognise the importance of fair burden sharing among creditors.

Given the enormous destructive effect of war and crisis, we call upon the OECD to review strengthened measures, including a review of national rules and regulations, toward ensuring that export credits to HIPCS and other low income developing countries are not used for non-productive purposes. We encourage the OECD to complete this work and publish the result as soon as possible.

As stated above, debt relief is only a part of the efforts required for poverty reduction. It is crucial to have a policy environment for sustainable and equitable growth.

# FINANCIAL ARCHITECTURE

## Financial Architecture

*Handling: Unlikely to be discussed in detail. You can welcome the Finance Ministers' report which was published at Fukuoka and the progress that has been made since Cologne. You could also press for continued momentum in implementation.*

- Welcome the **report** prepared by Finance Ministers and published in Fukuoka. Report sets outs a clear framework of principles and measures to guide further action.

- Particularly welcome the progress that has been made since Cologne in implementing many of the reform proposals the G7 agreed last year. Encouraging that more than 30 countries have now made commitments to undertake IMF led assessments of their observance of **codes and standards**. Also encouraging that the **Financial Stability Forum** has been established with a mandate to enhance financial stability and improve the functioning of markets.

- Important that this **momentum** is maintained, now that the financial crisis has subsided. Our goal must to be to ensure that the International Financial Institutions and their operations develop in a way that supports the objective of a more stable global financial system that delivers benefits to all countries, including the poorest.

- **Buy in** of emerging market and developing countries is critical to the success of reform efforts. Many of the reforms impose new requirements on these countries – for example, to implement in a transparent way a wide range of codes and standards of good practice in economic and financial disciplines. To ensure implementation proceeds smoothly, we must work to develop a broad-based consensus in favour of these reforms, and a wider sense of ownership among the countries they affect the most.

- Not for the communique, but wonder whether we also need a fresh look at the procedures for selecting heads of the various international organisations. The rapidly changing global environment poses new challenges for the institutions. We need to be confident that we have systems in place that deliver the right people and which command public support. Could ask our Sherpas to work out the next steps.

## Financial Architecture - Background

1. **Handling.** Heads are likely to welcome the Finance Ministers' report to Heads published at Fukuoka two weeks ago. There is unlikely to be any detailed discussion of architecture reform.

2. G7 work on reforming the international financial architecture was launched during the UK Presidency in 1998 in response to the global financial crisis. It went on to be one of the dominant themes of last year's Cologne Economic Summit. G7 Finance Ministers produced a substantial report to Heads in June 1999 detailing a number of priority areas and measures for reform, including :

   - strengthening the **international financial institutions** and arrangements;
   - enhancing **transparency** and promoting best practices through internationally agreed codes and standards;
   - strengthening **financial regulation** nationally and on a global level through the establishment of a new international Financial Stability Forum (FSF);
   - strengthening macroeconomic **policies and financial systems** in emerging market countries;
   - improving **crisis prevention and management**, and involving the private sector in the resolution of financial crises; and
   - promoting **social policies** to protect the poor and most vulnerable.

3. Since the Cologne Economic Summit, work has continued in various fora (including G7 Finance Ministers, the IMF, World Bank and the FSF) aimed at developing further the reform proposals set out in Cologne and taking forward the implementation process.

4. At their recent Fukuoka Summit meeting, G7 Finance Ministers published a second detailed report to Heads outlining where progress has been made on implementation and setting out principles and priorities moving forward. The Finance Ministers' report focuses in particular on the roles and responsibilities of the major international financial institutions – the IMF and the Multilateral Development Banks (the World Bank and the Regional Development Banks). While it contains only a limited amount of new material (many of its key points having been covered in recent G7 Finance Ministers and Central Bank Governors communiques) it takes the debate forward in a manner consistent with UK objectives. From a UK perspective, the report's main attributes are that :

   - it sends a clear signal to Horst Kohler, the new Managing Director of the IMF, of our objectives for the future direction of the institution, including the need for it to maintain a role in developing countries ;

   - it contains helpful language on organising the surveillance of countries' implementation of internationally agreed codes and standards and places the IMF at the centre of this process ;

   - it recognises that the increasing interdependence of IMF and World Bank activities calls for new models of cooperation between the two institutions.

5. Looking further ahead, a key aim is to ensure that the reform process – led by industrialised nations and now in its second year – takes into account the needs and views of emerging market and developing countries. Delivering emerging market buy-in will not be easy, not least since many of the reform proposals impose significant new requirements on these countries. But it will be essential to ensure effective implementation on a broad basis. New fora like the G20 (the G7 plus systemically important emerging market countries) and the IMF's International Monetary and Financial Committee can play an important role in fostering political consensus building and promoting implementation. The G7 needs both to use these different fora, and to ensure that overall package of reform measures strikes an appropriate balance between carrot and stick, to garner the support and create the incentives required to underpin a sustainable reform process.

# INTERNATIONAL FINANCIAL ARCHITECTURE

## Objective

1. The section on architecture contains no substantive points of difficulty. Ideally we would slim down the sections on IMF and MDB reform to just a single paragraph or so.

2. If there is no support for this, you could seek to improve the existing drafting and strengthen the message in one or two places. The net effect then however would probably be an even longer, not shorter, text.

## References

A. US, Canadian and French comments

See also Finance Ministers' report – published at Fukuoka – under References – Finance Ministers' Reports

## Possible points to make (back-to-back)

Opening position

- Would much prefer a shorter text on architecture given that it merely repeats what Finance Ministers have already published two weeks ago. Ideally should slim down the sections on IMF reform and MDB reform to just one paragraph or so on reform of the IFIs. **[ We will consider some new text on the flight to Japan. ]**

Detailed comments on existing chapeau

- First paragraph (lines 23 to 25 on page 2 and lines 1 to 2 on page 3) reads badly. Could draw more closely from the Fukuoka report to improve the drafting :

  " In view of the rapid changes occurring in the global financial landscape, the international community must continue to address the challenge of promoting greater stability in the international financial system as a platform for sustainable world growth and prosperity."

- Second paragraph (lines 40 to 5 on page 3) could then be amended slightly and merged with the third paragraph (lines 7 to 8 on page 3) to read :

  " We welcome the substantial progress made since the Cologne Economic Summit in strengthening the international financial architecture and agree to continue to work together with other members of the international community to implement the necessary reforms. We also support the further steps out by our Finance Ministers in their report published in Fukuoka."

Detailed comments on existing IMF reform section

- Could go along with Jean-Marc's suggestion for a reference to the central mission of the IMF. But must be based on the Finance Ministers report and should not add too much to the length of the text. So could add an initial paragraph before line 12 :

  " The IMF should continue to play the central role in advancing macroeconomic and financial stability as an important precondition for sustainable global growth and should continue to evolve to meet the challenges of the future. As a universal institution, the Fund must work in partnership with all its member countries, including the poorest, based on their shared interests."

- Do not share Lael's view that we should strike out the reference to codes and standards from the first indent on surveillance. Codes and standards are a key part of the Fund's new surveillance responsibilities. Should reinstate at the end of the first indent (line 16 on page 3) :

  " ....large scale private capital flows**, and the emerging framework of internationally agreed codes and standards**."

- Second indent on codes and standards is rather weak. Could strengthen by replacing text after the colon in line 18 with :

  " We agree on the importance of addressing market and official incentives in promoting observance of codes and standards and underscore the need for greater disclosure and transparency about countries' intentions and progress in implementation."

- Could strengthen reform of facilities indent by adding to the end of line 23 on page 3 the following :

" ...structure for IMF lending **that encourages countries to develop stable access to private capital markets on a sustainable basis**."

- Content with the language on private sector involvement (lines 5 to 10 on page 4). To take account of Jean-Marc's suggestion, could add to the end of this indent :

  " We look forward to further progress at the IMF to provide greater clarity to countries and markets."

Detailed comments on existing MDB reform section

- Should replace the first sentence of this section (lines 14 to 15 on page 4) to bring the message into line with the Finance Ministers' report. Suggest :

  " We affirm that accelerating poverty reduction in developing countries must be the core role of the Multilateral Development Banks."

- If we are to stick with a long section on architecture, then would also want to include a reference to the need for more effective methods of cooperation between the Fund and the Bank given the increasingly interdependent nature of their activities. Propose to add the following after the second paragraph of this section :

  " The IMF and World Bank have different mandates and need to respect them. Nevertheless the issues they deal with are increasingly interrelated. They should continue to work closely together to improve efficiency and exchange of information. This would require a clearer definition of their respective responsibilities and activities, and continued development of more effective mechanisms of cooperation. It is also essential to strengthen collaboration and coordination between the World Bank and the Regional Development Banks in order to ensure efficient use of scarce resources."

Detailed comments on existing HLIs, capital flows and OFCs section

- Minor editorial suggestion in line 12 on page 5 : replace "will" with "should".

- In line 13 on page 5 would prefer to amend as follows : " .... whether additional measures, **including a reconsideration of direct regulation,** are necessary."

Department of Foreign Affairs and International Trade
Ministère des Affaires étrangères et du Commerce international

Deputy Minister
Sous-ministre

fax: 8.675 3833

Jeremy. Canadian comments. V helpful on food safety! v unhelpful on Forests - both reflect a long conversation yesterday with Campbell's assistant. (they may be able to meet us half-way.

OK to tweak the language slightly. JC.

JUL 14 2000

Mr. Yoshiji Nogami
Deputy Minister for Foreign Affairs
Tokyo

Dear Yoshiji,

I am writing to provide you with comments on your latest draft of the G7 Statement of 14 July. This version of the text is much improved.

**Strengthening the International Financial Architecture:**

p2 — I'm not sure there is a need, contrary to what Jean-Marc suggests, to refer to the central mission of the IFIs. Given Jeremy's desire to keep this text short, we may wish not to add more paragraphs.

p3, lines 7-8 — The text in the G7 Statement is meant to be a general statement about the international community, not just the membership of the IMFC. I therefore would prefer that we do not add Jean-Marc's proposed text (he refers to p2 line 29-30 of the previous version)

p4, line 14 - p5, line 2 — I like the way you integrated Lael's suggestions. As it stands now, the text is very good.

On Jean-Marc's proposed language on this section (he refers to p3, lines 29-30 of the previous version), we can agree with a reference to the need for MDBs to not compete with private sector, as well as with mentioning the scarcity of aid resources. However, I cannot accept the change to the language on the efficiency of MDB assistance, as the proposed change shifts the focus of the paragraph from efficiency of assistance to efficiency of the institutions, which are not equivalent.

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Ottawa, K1A 0G2

p5, line 7 I would prefer to keep the current wording.

p5, line 13 Jean-Marc suggests replacing "*whether*" with "*which*" here (he refers to p4, line 13 of the previous version). I prefer "*whether*" since this is what is used in the Finance Ministers' report

p5, line 15 I see you have integrated Lael's good suggestion for an additional sentence on OFCs, but I would prefer that the word "*specific*" be removed.

p5, line 10-13 The tirets removed on Lael's suggestion should be re-integrated and the text returned to its previous version. The text is now somewhat weaker than the previous version.

P5, line 23-27 I agree with your integration of Lael's suggested text.

**Progress on the Enhanced HIPC Initiative**

p7, line 24 I support the use of "*fair*", which is correct since it is the language agreed in the Finance Ministers' report.

**Actions Against Abuse of the Global Financial System**

This section is now very good. A couple of comments on Jean-Marc's suggestions:

p9, line 7 I question the need to insert Jean-Marc's suggested language after "*appropriately*" (he refers to p7, line 18 of the previous version) in the G7 Statement, particularly since these details have already been communicated to the public in the Finance Ministers' press release.

p9, line 23 We can agree to Jean-Marc's suggested language, with a couple of minor changes to be consistent with the Finance Ministers' report (he refers to p7, line 34 of the previous version):

*... consequently potential threats, we welcome the identification by the FSF of priority jurisdictions for assessment and consider it essential that ~~all~~ measures recommended by the FSF on OFCs are ~~fully~~ implemented.*

I am copying this letter to G7 colleagues.

Yours sincerely,

Donald W. Campbell

G7 CORRESPONDENCE

PRÉSIDENCE
DE LA
RÉPUBLIQUE

Paris, July 13, 2000.

*Le Conseiller Diplomatique*

**Dear Yoshiji,**

**You will find hereafter my comments on the last G7 draft.**

**Altogether, it represents a very useful effort to summarize and capture the spirit and political meaning of the work achieved since Cologne, as well as to show the way ahead.**

**1 - Page 1, last para: the previous drafting was preferable**

**« *In the euro area, where growth has further strengthened and employment has started to rise, sound macroeconomic policies and structural reforms directed at expanding investment, employment, and productive potential remain important.* ».**

**2 - Page 2 : We need a reference to the central mission of IFIs, which is in tune with the efforts for reform currently underway. We propose to add the following, after the first paragraph of "*Strengthening the international financial architecture* »):**

**« *We consider it essential that the IFIs continue to play a central role in promoting economic growth and development worldwide, in accordance with the universal principles that were laid down in Bretton-Woods in 1944. Monetary and financial stability, as well as poverty reduction are keys to attain such aims.* »**

**« *The IMF should continue to play the central role in advancing macroeconomic and financial stability as an important precondition for sustainable global growth and should continue to evolve to meet the challenges of the future. As a universal institution, the Fund must work in partnership with all its member countries, including the poorest, based on their shared interests.* »**

we need to cut down!

3 - Page 2, lignes 29-30 : a reference to the monetary and financial committee should be inserted, adding after « *international community* » :

« , *in the framework of the International Monetary and Financial Committee of the IMF,* ».

4 - Page 3, lignes 26-29 : this paragraph is not fully in tune with what has been achieved. In order to show a sense of momentum, we suggest the following, which builds on what Ministers agreed in Fukuoka:

« *We look forward to further progress at the IMF in making operational the approach, agreed last April by our Finance Ministers, to private sector involvement in the design of all IMF programs.* »

5 - Pages 3-4, lines 31-3 : we suggest to introduce again the idea of selectivity :

"*The MDBs should sharpen their focus on poverty alleviation and improve ~~and improve the efficiency of their assistance~~ their efficiency and their coordination, avoiding competition with private financial flows and considering scarcity of aid resources. The MDB's especially the WB are asked....*"

5 - Page 4, line 8 : add « *all* » après « *implementing* ».

6 - Page 4, line 13 : replace « *whether* » par « *which* ».

7 - Page 4, lignes 31-33 : add after « *arrangement* » :

" *aimed at supplementing IMF surveillance and, where necessary, financial support,* ».

8 - Page 6, lignes 18-24 : deete « , *including national rules and regulations,* »

And add line 24, after « *possible* » :

« , *which could include a review of existing national rules and regulations.* ».

9 - Page 7, line 18, in accordance with what was agreed in Fukuoka, add after "*appropriately*" :

", *including the possibility to condition or restrict financial transactions with those jurisdictions and to condition or restrict support from international financial institutions to them.*"

**10 - Pages 7-8 : We think it necessary to strengthen the paragraphs on offshore financial centres and suggest the following :**

**"*Offshore financial centres*" (page 7, ligne 34) : "*Regarding offshore financial centers that do not meet international financial standards adequately, and that are consequently potential threats to the international financial system, we welcome the identification by the FSF of priority jurisdictions and consider it essential that all measures recommended by the FSF on OFCs are fully implemented.*"**

**On the whole, in this part devoted to "abuse", we need to stick to the structure you suggest, and cannot go along with Jeremy's proposals, that would considerably alter the strength of the message.**

**11 - Pages 8-9, last para : as Jeremy, I need an explicit reference to K2/R4.**

**I understand that FSS will have a final look at the text prior to the Heads G7 meeting.**

**I copy this letter to G7 colleagues.**

**Yours Sincerely,**

**Jean-Marc de LA SABLIERE**

**Mr. Yoshiji NOGAMI**
**Deputy Minister for Foreign Affairs**
**TOKYO**

HMT to note in redraft of Fin Crime text – can we keep this that need simple political message – but follow pattern/order of Fin Min report – as Sabliere and Campbell want.

# COMMENTS TO THE G7 STATEMENT

| | |
|---|---|
| **WORLD ECONOMY** | |
| • Page 2, Lines 14-17 | We would like to suggest the following language, "We are concerned about the adverse effect on world economic growth of a volatile crude oil market. We emphasize the significant role that stable oil markets play in the health of the global economy and their importance to sustained growth and prosperity of both oil producing and consuming nations."<br><br>However, we could accept the current language with the following edits "~~Despite OPEC's decision to increase production quotas at the end of June, oil prices remain high.~~ We are concerned about the adverse effect on world economic growth of a volatile crude oil market. In this context, we highlight the need for the stability in the oil markets that is necessary to ensure the sustained growth of both oil consuming and oil producing countries." |
| • Page 1, Line 22 | Editorial comment: "it ~~remains~~ is important to . . ." |
| **STRENGTHENING THE INTERNATIONAL FINANCIAL ARCHITECTURE** | |
| • Page 3, Lines 7-8 | Strike out " . . . capital flows, ~~and the emerging framework of internationally agreed codes and standards.~~", since it is repetitive with the next tick. |
| • Page 3, Line 14-16 | Add to the end of the sentence " . . . for IMF lending and we endorse our Finance Ministers' proposals on facilities reform. |
| • Page 3, Lines 33-34<br>• Page 4, Lines 1-3 | Strike out the entire paragraph and replace with:<br><br>We attach particular importance to the following measures:<br><br>– To meet their core mandate – accelerating poverty reduction -- the MDBs should substantially increase the focus of their operations on promoting the provision of core social investments, such as for basic health and primary education; they should move away from activities that the private sector can and does do better.<br><br>– We look to the MDBs to play a leadership role in increasing the provision of global public goods, particularly for urgently needed measures against HIV/AIDS and other infectious diseases, as well as environmental degradation.<br><br>– All the MDBs should sharpen their focus on achieving durable results, and allocate their support increasingly on the basis of borrower performance. Country assistance strategies should take full account of borrowers' policy environments, including |

| | |
|---|---|
| | overnance issues that impede poverty reduction, budget choices, nd the financial sector.<br><br>– The MDBs' own governance and accountability should be trengthened through significant additional progress on information isclosure, public participation, compliance with agreed policies, mproved monitoring and evaluation mechanisms, and independent nspection functions.<br><br>- We welcome the increasing cooperation between the MDBs and the LO in the area of employment and fundamental worker rights and call upon these institutions to operationalize this cooperation at country level. |
| • Page 4, Line 14 | Stri ce out " . . . ~~including direct regulation~~, are necessary."<br><br>We could also use the language from the Finance Ministers, "We note tha the FSF considered, but did not recommend, at this stage, direct reg ulation of the currently unregulated HLIs, but emphasized that direct reg ulation would be reconsidered, if, upon review, the implementation of i s recommendations were not adequately addressing concerns ide ntified." |
| • Page 4, Line 14 | Ad l a sentence on OFCs at the end of the paragraph that reads "We also urg e the IMF to conduct quickly a specific assessment of offshore fin ncial centers identified by the FSF as a priority." |
| • Page 4, Line 16-24 | De ete the four ticks since they are too detailed. |
| | |
| **REGIONAL COOPERATIC N** | |
| • Page 4, Lines 31- | Th current language alters the message from the Finance Ministers rep ort. We propose the following language:<br><br>" V e agree that regional cooperation through intensified surveillance ca help contribute to financial stability by strengthening the policy fra nework at the national level. Cooperative financing arrangements at the regional level designed to supplement resources provided by the IFIs in upport of IMF programs can be effective in crisis prevention and res olution." |
| | |
| **PROGRESS of the ENHAN ED HIPC INITIATIVE** | |
| • Page 5, Line 4 | Su ggest striking out absolute and replacing with extreme so that it reads "w orld's population living in ~~absolute~~ extreme poverty . . ." |
| • Page 5, Lines 4-6 | Su ggest rewording the second sentence to read "It demands a strategy ~~th augh which debt relief~~ of economic growth accompanied by the right so ial sector policies which can contribute . . ." so as to elevate the role |

| | |
|---|---|
| | debt relief plays is addressing poverty. |
| • Page 5, Lines 9-11 | To make consistent w/ Cologne, we suggesting adding " . . . releasing funds for investment in education, health, especially HIV/AIDS control, and other national poverty reduction strategies." |
| • Page 5, Lines 18-19 | We would suggest the following language " . . . the Initiative ~~freeing up [US $12.5/16?] billion for the fight against poverty~~. Total debt relief under the HIPC Initiative for these countries should amount to [$1[illegible].5/16?] billion. The annual savings from this debt relief will be used for the fight against poverty. |
| • Page 6, Lines 16 | We CANNOT accept fair and would like to either bracket this language again or go with appropriate. |
| • Page 6, Line 19 | Add ", "possibly including a review of. . ." |
| | |
| **ACTIONS AGAINST ABUSE OF THE GLOBAL FINANCIAL SYSTEM** | |
| | We agree with Jeremy in principle that the text should be clearer and simpler. However, the language provided by Jeremy in its current form is too long and needs to be edited.<br><br>In the meantime, we have included some specific edits to the current language. |
| • Page 7, Line 15 | After the sentence ending with "jurisdictions" add the following new sentence:<br><br>"We also welcome the Finance Ministers' agreement, at their meeting, to issues advisories to our domestic financial institutions to take cognizance and enhance their scrutiny of the risks associated with business transactions with individuals or entities from these jurisdictions." |
| • Page 7, Line 18 | Add a final sentence that reads:<br><br>"We welcome the agreement of our Finance Ministers to take stock of existing legal tools and the agencies that administer them in each of our countries that would be available to identify, trace, and seize assets laundered by government officials in the international financial system." |
| | |
| **RUSSIA** | |
| | On the proposed text (except for the debt piece), we agree with Don and Jeremy's suggestions. |
| | |

Page 2 cont.

## Strengthening the International Financial Architecture

Page 3

Following a series of crisis since 1997, the international community has endeavoured to promote greater stability of the global economy through strengthening the international financial architecture, in view of the drastic changes to the global financial landscape, particularly in light of the increasing size and importance of private capital markets.

We welcome the progress made thus far and support the further steps set out by our Finance Ministers in the following areas.

We will continue to work together with other members of the international community to further strengthen the international financial architecture.

### *Reform of the International Monetary Fund (IMF)*

The IMF should continue to play a central role in advancing macroeconomic and financial stability as an important precondition for sustainable global growth and should continue to evolve to meet the challenges of the future. In this regard, we attach particular importance to the following measures:

- **Strengthening IMF surveillance to prevent crisis:** A substantial qualitative shift in the nature and scope of the surveillance is needed in light of globalisation and large scale private capital flows.

- **Implementation of international codes and standards:** We are determined to strengthen our efforts to this end.

- **Reform of IMF facilities:** To adapt to the globalisation of capital markets, we attach priority to early progress in achieving a streamlined incentive-based structure for IMF lending.

Page 4

- **Safeguarding IMF resources and post-programme monitoring:** It is imperative to implement the strengthened safeguard measures and to enhance IMF's capacity for post-programme monitoring.

- **Strengthening governance and accountability:** It is important that the IMF's decision-making structure and its operation remain accountable taking into account changes in the world economy.

**Promotion of private sector involvement in crisis prevention and resolution:** We welcome that private external creditors have contributed to the financing of recent IMF programmes, confirming the importance of making operational the approach agreed by our Finance Ministers last April based on the framework we laid out in Cologne.

***Reform of the Multilateral Development Banks (MDBs)***

The MDBs should sharpen their focus on poverty alleviation and improve the efficiency of their assistance, avoiding competition with private financial flows. The Comprehensive Development Framework (CDF) and the Poverty Reduction Strategy Papers (PRSPs) should become the basis for programmes that have strong ownership by the recipient countries.

All the MDBs should allocate their support increasingly on the basis of borrower performance. Country assistance strategies should take full account of borrowers' policy environments, including governance issues. The MDBs own governance and accountability should also be strengthened.

We look to the MDBs to play a leadership role in increasing the provision of global public goods, particularly for urgently needed measures against infectious and parasitic diseases including HIV/AIDS, as well as environmental degradation.

***Highly-leveraged Institutions (HLIs), Capital Flows, and Offshore Financial Centres (OFCs)***

We stress the importance of implementing measures recommended by the Financial Stability Forum (FSF) last March.

With regard to concerns about the potential consequences of the activities of HLIs, we agree that the recommended measures should be fully implemented and that they will be reviewed to determine whether additional steps are necessary.

Page 5 cont

We urge the IMF to conduct a specific assessment of offshore financial centres identified by the FSF as a priority.

We agree that it remains essential for each country to strengthen the financial system, choose an appropriate foreign exchange rate regime, and liberalise the capital account in a well-sequenced manner.

***Regional Co-operation***

We agree that regional co-operation through intensified surveillance can

Page 6

help contribute to financial stability by strengthening the policy framework at the national level. Co-operative financing arrangements at the regional level designed to supplement resources provided by the international financial institutions (IFIs) in support of IMF programmes can be effective in crisis prevention and resolution.

# FINANCIAL CRIME

## Financial Crime

*Handling: Finance Ministers agreed their report at Fukuoka, but its publication was delayed to coincide with the Heads' meeting at Okinawa. You should welcome international focus on financial crime, and call for a consensual approach to cracking down on abuse of global financial system. There is a potential sensitivity given our constitutional links to some of the jurisdictions concerned.*

- Welcome recent international focus on financial crime, and in particular the publication of OECD, FATF and FSF lists. Must continue to ensure international standards are met. **Multilateral action** most effective way forward.

- These lists have concentrated international attention on problem jurisdictions. Must maintain momentum and international consensus to crack down, for instance, on countries and territories that pose a money laundering threat, or which maintain harmful tax practices. The best approach is, I believe, to ensure an effective dialogue between the jurisdictions concerned, and the wider international community.

- UK approach to exchange of information clearly signalled our intention to crack down on tax evasion and harmful banking secrecy. Hope others will follow our lead. Enhanced transparency and international co-operation, at heart of the three lists, clearly best way to ensure effective action against abuse of the global financial system for criminal ends.

- Simple fact of listing has already achieved results in some jurisdictions that have never before engaged in efforts to promote highest international standards.

- Multilateral action most effective way forward. Important to maintain international consensus reached thus far. Should seek to ensure an effective dialogue between the jurisdictions concerned, and the wider international community. Only if dialogue fails to achieve results should sanctions be imposed.

**Additional Points – If UK Overseas Territories and Crown Dependencies raised**

- Can assure colleagues of **UK commitment** to work within constitutional constraints to ensure all our territories and dependencies meet the highest international standards.

Although these jurisdictions formally independent, we take our responsibilities seriously - for instance Edwards Report on our Crown Dependencies and KPMG report on some of our overseas territories proof of commitment.

- Off-shore Financial Centres not the only threat; mistake to focus exclusively on them. Must focus on any financial centre, on- or off-shore, which fails to abide by international codes of conduct.

## Financial Crime - Background

1. Financial Crime is high on the international agenda. June saw the publication of an OECD list of potential tax havens, the G7 Financial Stability Forum report on problematic off-shore centres, and the Financial Action Task Force report naming 15 jurisdictions which were found to be non-cooperative in the fight against money laundering. Of the three, the most contentious has been the FATF list.

2. The FATF list was a great disappointment to France, who had hoped for the naming of the Crown Dependencies and Gibraltar as non-cooperative countries or territories (NCCTs). This would have played into their continuing campaign against off-shore financial centres and whether they have a legitimate role in the international financial system.

3. The reason why they were not listed was that the FATF did not find that they met the appropriate criteria to be named non-cooperative. Where there were potential weaknesses, it was agreed that they stemmed from a lack of clarity in the relevant international standards. The UK was instrumental in ensuring this outcome, as the CDs and Gibraltar had modelled the relevant bits of their anti-money laundering legislation on UK legislation. For the FATF to have found the CDs or Gibraltar non-cooperative might have called our own position into question.

4. Given this history, France has been seeking conclusions which imply that the FATF published a 'black list' of 15 NCCTs, and a 'grey list' comprising the other 14 jurisdictions examined. This is explicitly <u>not</u> what was agreed by the FATF – there was only a black list' but the 14 other jurisdictions examined were not found to be non-cooperative in any shape or form. Where there were potential weaknesses that stemmed from ambiguous international standards, the FATF has agreed to consider those subjects on a cross-cutting basis.

5. It was agreed that no sanctions be applied to the 15, except for drawing the attention of financial institutions to the potential money laundering risks of doing business with those jurisdictions (issuing 'advisories'). Any other sanctions would be held over pending a dialogue with the jurisdictions concerned on ways to improve their systems.

**OECD**

6. G7 Ministers in May 1996 called on OECD to "develop measures to counter the distorting effects of harmful tax competition". In June 2000 OECD members approved Report: "Towards Global Tax Co-operation" setting out work to date and way ahead.

<u>Member countries</u>

7. The 2000 Report identifies 47 measures in member countries which, on basis of purely technical evaluation against criteria in 1998 Report, have been identified as potentially harmful. No UK regimes included.

Tax havens

8. The 2000 Report identifies 35 jurisdictions which have not made an advance commitment to co-operate with OECD and which on purely technical evaluation meet criteria set out in 1998 Report. These include all 3 UK Crown Dependencies (Guernsey, Isle of Man and Jersey) and 5 Overseas Territories (Anguilla, BVI, Gibraltar, Montserrat, and Turks and Caicos Islands). OECD will continue discussions with jurisdictions listed in Report over next 12 months before drawing up final list of "Uncooperative" tax havens against whom counter measures may be taken after July 2001. 6 jurisdictions, including Bermuda and Cayman Islands made "advance commitments" to work with the OECD to eliminate harmful tax practices by end 2005. They are therefore not included in the Report whether or not they met the criteria.

## FINANCIAL CRIME

### Objectives

1. Revise wording on Communiqué to make explicit reference to the eight standards applying to all jurisdictions.

2. Resist French attempts to include reference to potential IFI sanctions against NCCTs.

3. One other small (uncontroversial) change to the current text to clarify that advisories only applied to the 15 NCCTs, not all 29 jurisdictions on which reports were completed.

### References

A. Canadian, French and US comments on proposed text.

See also FM report to be published at Okinawa (under reference section – Finance Ministers' Reports.)

### Points to Make

- UK still believes our revised statement on Financial Crime is clearer and simpler.

- But if colleagues do not agree, willing to try to make the best of the current text, as set out in my letter.

- Believe text should make clear that the eight standards apply to all financial centres. Cannot accept idea that the 'so-called' offshore centres are required to adhere to higher standards than others. But do agree we must send a firm signal that all financial centres must respect international codes of conduct.

- Believe we can achieve this, and thereby send stronger message to 'problematic jurisdictions'. Revised text would read:

**"Offshore Financial Centres:** We call on offshore financial centres (OFCs) that do not comply with international standards to improve weak regulatory and supervisory systems identified by the FSF, as well as to eliminate harmful tax competition and to

adopt anti-money laundering measures. In this regard we attach priority to the eight areas identified by our Finance Ministers, such as international cooperation, exchange of information, and customer identification. We will take steps to encourage jurisdictions to make the necessary changes and provide technical assistance where appropriate. We believe that all financial centres must universally apply standards in these eight key areas. Where jurisdictions fail to meet certain standards and do not demonstrate commitments to enhancing their level of compliance with international standards, we will also take measure to protect the international financial system from the effects of these failures."

[A better way to achieve the same goal, but one likely to be even less acceptable to the French, Japanese and Canadians in particular, would be to end the sentence after 'anti money laundering measures.' The subsequent text could be moved to a separate paragraph and linked to all financial centres. The sections would therefore read:

"- **Offshore Financial Centres:** We call on offshore financial centres (OFCs) that do not comply with international standards to improve weak regulatory and supervisory systems identified by the FSF, as well as to eliminate harmful tax competition and to adopt anti-money laundering measures.

- **Role of international financial institutions (IFIs):** We urge IFIs, including the IMF and World Bank, to help countries implement relevant inteernational standards in the context of financial sector assessments as well as programme design and assistance

We stress the urgent need for concrete actions against the abuse of the global financial system at both the national and international level. We also strongly urge better coordination, further impetus to efforts under way in various international for a, and expeditious follow-up actions.

In this regard we attach priority to the eight areas identified by our Finance Ministers, such as international cooperation, exchange of information, and customer identification. We believe that **all** financial centres must universally apply standards in these eight key areas. We will take steps to encourage failing jurisdictions to make the

necessary changes and provide technical assistance where appropriate. Where jurisdictions fail to meet certain standards and do not demonstrate commitments to enhancing their level of compliance with international standards, we will also take measure to protect the international financial system from the effects of these failures."]

[SMALL CHANGE TO EXISTING TEXT]

- We would like to see one other drafting change to current text – in line 2, page 9, replace 'such' with 'the 15 non-cooperative'. This is a drafting change to clarify that the advisories apply to the 15 rather than 29. The sentence would therefore read:

'We note with satisfaction the issuance of advisories to our domestic financial institutions that they should take cognisance and enhance their scrutiny of the risks associated with business and transactions with individuals or entities from the 15 non-cooperative jurisdictions.'

## Background

1. You have written suggesting alternative language for the G7 statement. This has not been supported. A last ditch attempt to get the reference to the eight standards to apply to all financial centres has been suggested. But the French will probably view this as an attempt to undermine the language directed at OFCs, and oppose it. On past performance, you are unlikely to receive much support from others.

2. The current wording, while sub-optimal, is broadly acceptable. As ever, a close eye will need to be kept on the French to ensure no last-minute nasties are included which either undermine the FATF and OECD agreed positions on sanctions (particularly vis a vis the CDs and OTs), or could be construed to imply that the FATF report listed more than 15 non-cooperative jurisdictions.

3. For example, France has suggested (letter of 13 July) making a particular reference to the possible sanctions that might be applied to NCCTs which do not undertake satisfactory reform of their anti-money laundering systems. Rather disingenuously, they are suggesting that IFI sanctions were agreed at Fukuoka. The FM text simply read:

'We are prepared to act together when required and appropriate to implement coordinated countermeasures against those NCCTs that do not take steps to reform their system appropriately, including the possibility to condition or restrict financial transactions with those jurisdictions.'

4. You should therefore resist any proposed French reference to IFI sanctions, but should be willing to consider harmonising the Heads text with that of FMs.

5. There is one other (uncontroversial) amendment we are seeking. As the text stands, it is ambiguous as to whether the advisories being referred to on page 9 (first paragraph) apply only to the 15 NCCTs, or to all 29 jurisdictions on which reports were completed. As advisories have only been issued on the 15, the suggested redrafting clarifies the position. It should not be controversial.

A- Canada

| | |
|---|---|
| | debt relief plays is addressing poverty. |
| • Page 5, Lines 9-11 | To make consistent w/ Cologne, we suggesting adding " . . . releasing funds for investment in education, health, especially HIV/AIDS control, and other national poverty reduction strategies." |
| • Page 5, Lines 18-19 | We would suggest the following language " . . . the Initiative ~~—freeing up [US $12.5/16?] billion for the fight against poverty~~. Total debt relief under the HIPC Initiative for these countries should amount to [$1[illegible].5/16?] billion. The annual savings from this debt relief will be used for the fight against poverty. |
| • Page 6, Lines 16 | We CANNOT accept fair and would like to either bracket this language again or go with appropriate. |
| • Page 6, Line 19 | Add ", "possibly including a review of. . ." |
| | |
| **ACTIONS AGAINST ABUSE OF THE GLOBAL FINANCIAL SYSTEM** | |
| | We agree with Jeremy in principle that the text should be clearer and simpler. However, the language provided by Jeremy in its current form is too long and needs to be edited.<br><br>In the meantime, we have included some specific edits to the current language. |
| • Page 7, Line 15 | After the sentence ending with "jurisdictions" add the following new sentence:<br><br>"We also welcome the Finance Ministers' agreement, at their meeting, to issues advisories to our domestic financial institutions to take cognizance and enhance their scrutiny of the risks associated with business transactions with individuals or entities from these jurisdictions." |
| • Page 7, Line 18 | Add a final sentence that reads:<br><br>"We welcome the agreement of our Finance Ministers to take stock of existing legal tools and the agencies that administer them in each of our countries that would be available to identify, trace, and seize assets laundered by government officials in the international financial system." |
| | |
| **RUSSIA** | |
| | On the proposed text (except for the debt piece), we agree with Don and Jeremy's suggestions. |
| | |

willing to provide to affected jurisdictions. The section would then become:

*....and territories (NCCTs). We have recommended to our domestic financial institutions that they should take cognisance and enhance their scrutiny of the risks associated with doing business in NCCTs or with cross-border transactions carried forward by individuals or entities domiciled or holding accounts in such jurisdictions ~~fully acknowledge and enhance their scrutiny of the risks associated with individuals or entities from such jurisdictions.~~ We are prepared to give our advice and provide, where appropriate, technical assistance to jurisdictions that commit to making improvements to their regimes. We are prepared...*

p7, line 34

"problematic" is pejorative. I suggest the following amendment:

*We call on ~~problematic~~ OFCs that fail to meet international money laundering and supervisory standards or to take action to counter harmful tax practices to improve...*

p8, lines 4-9

I suggest we re-cast the second and third sentences of this paragraph so countermeasures are raised last (similar to the paragraph on NCCTs) and to bring in our intention to provide appropriate assistance. The two sentences would therefore be replaced with:

*We will take steps to encourage jurisdictions to make the necessary changes and provide technical assistance where appropriate. Where jurisdictions fail to meet certain standards and do not demonstrate commitment to enhancing their level of compliance with international standards, we will also take measures to protect the international financial system from the effects of these failures.*

I am copying this letter to G7 colleagues.

Yours sincerely,

Donald W. Campbell

A - French

3 - Page 2, lignes 29-30 : a reference to the monetary and financial committee should be inserted, adding after « *international community* » :

« , *in the framework of the International Monetary and Financial Committee of the IMF,* ».

4 - Page 3, lignes 26-29 : this paragraph is not fully in tune with what has been achieved. In order to show a sense of momentum, we suggest the following, which builds on what Ministers agreed in Fukuoka:

« *We look forward to further progress at the IMF in making operational the approach, agreed last April by our Finance Ministers, to private sector involvement in the design of all IMF programs.* »

5 - Pages 3-4, lines 31-3 : we suggest to introduce again the idea of selectivity :

"*The MDBs should sharpen their focus on poverty alleviation and improve ~~and improve the efficiency of their assistance~~ their efficiency and their coordination, avoiding competition with private financial flows and considering scarcity of aid resources. The MDB's especially the WB are asked....*"

5 - Page 4, line 8 : add « *all* » après « *implementing* ».

6 - Page 4, line 13 : replace « *whether* » par « *which* ».

7 - Page 4, lignes 31-33 : add after « *arrangement* » :

" *aimed at supplementing IMF surveillance and, where necessary, financial support,* ».

8 - Page 6, lignes 18-24 : deete « , *including national rules and regulations,* »

And add line 24, after « *possible* » :

« , *which could include a review of existing national rules and regulations.* ».

9 - Page 7, line 18, in accordance with what was agreed in Fukuoka, add after "*appropriately*" :

", *including the possibility to condition or restrict financial transactions with those jurisdictions and to condition or restrict support from international financial institutions to them.*"

10 - Pages 7-8 : We think it necessary to strengthen the paragraphs on offshore financial centres and suggest the following :

"*Offshore financial centres*" (page 7, ligne 34) : "*Regarding offshore financial centers that do not meet international financial standards adequately, and that are consequently potential threats to the international financial system, we welcome the identification by the FSF of priority jurisdictions and consider it essential that all measures recommended by the FSF on OFCs are fully implemented.*"

On the whole, in this part devoted to "abuse", we need to stick to the structure you suggest, and cannot go along with Jeremy's proposals, that would considerably alter the strength of the message.

11 - Pages 8-9, last para : as Jeremy, I need an explicit reference to K2/R4.

I understand that FSS will have a final look at the text prior to the Heads G7 meeting.

I copy this letter to G7 colleagues.

Yours Sincerely,

Jean-Marc de LA SABLIERE

Mr. Yoshiji NOGAMI
Deputy Minister for Foreign Affairs
TOKYO

HMT to note in our redraft of Fin Crime text – can we keep things that need simple political message – but follow pattern / order of Fin Min report — as Sabliere and Campbell want.

[redacted] OVERTAKEN.

A - US

*the efficiency of their assistance. In particular, the Comprehensive Development Framework (CDF) and the Poverty Reduction Strategy Papers (PRSPs) should become the basis for programs that have strong ownership by the recipient countries.*

*The MDBs should allocate their support increasingly on the basis of borrower performance, and performance-based lending frameworks, such as agreed under IDA-12, should be extended in an appropriate manner to all MDB programs.*

*The MDBs, especially the World Bank, are asked ...*

**Progress on the Enhanced HIPC Initiative**

p5, lines 10-11 — I suggest a clarification:

*..., releasing funds for investment in poverty reduction, aided by the preparation of national poverty reduction strategies. We welcome endorsement of this..."*

p5, line 13 — I agree with others that "significant" be omitted.

p5, line 28, 29 — The focus on poverty reduction should be strengthened by making a reference to the need to ensure that debt relief benefits the poorest and most vulnerable segments of society as called for by Leaders in Cologne:

*...to the progress of economic reform and the need ~~to link debt relief to poverty reduction~~ to ensure that the benefits of debt relief are targeted through the adoption of Poverty Reduction Strategy Papers to assist the poor and most vulnerable.*

p6, line 12-14 — I support Klaus's suggestion to note the need to secure financing. A similar change should be made in the G8 Communiqué, as Klaus suggests.

**Actions Against Abuse of the Global Financial System**

On Jeremy's suggestion to amend this section, my understanding is that Finance Ministers and their Deputies agreed that the Leaders' text should closely follow the wording contained in their report on Abuses, to be released at the same time as the G-7 Leaders' Statement. In the interest of consistency, we would prefer to retain the language in the current draft. I also have some specific suggested edits:

p7, lines 13-16 — I would suggest clarifying the second sentence of the paragraph on Money Laundering to more closely reflect the wording contained in the Finance Ministers' Report. This section also fails to mention the assistance we are

p5, line 7 I would prefer to keep the current wording.

p5, line 13 Jean-Marc suggests replacing "*whether*" with "*which*" here (he refers to p4, line 13 of the previous version). I prefer "*whether*" since this is what is used in the Finance Ministers' report

p5, line 15 I see you have integrated Lael's good suggestion for an additional sentence on OFCs, but I would prefer that the word "*specific*" be removed.

p5, line 10-13 The tirets removed on Lael's suggestion should be re-integrated and the text returned to its previous version. The text is now somewhat weaker than the previous version.

P5, line 23-27 I agree with your integration of Lael's suggested text.

**Progress on the Enhanced HIPC Initiative**

p7, line 24 I support the use of "*fair*", which is correct since it is the language agreed in the Finance Ministers' report.

**Actions Against Abuse of the Global Financial System**

This section is now very good. A couple of comments on Jean-Marc's suggestions:

p9, line 7 I question the need to insert Jean-Marc's suggested language after "*appropriately*" (he refers to p7, line 18 of the previous version) in the G7 Statement, particularly since these details have already been communicated to the public in the Finance Ministers' press release.

p9, line 23 We can agree to Jean-Marc's suggested language, with a couple of minor changes to be consistent with the Finance Ministers' report (he refers to p7, line 34 of the previous version):

*... consequently potential threats, we welcome the identification by the FSF of priority jurisdictions for assessment and consider it essential that all measures recommended by the FSF on OFCs are fully implemented.*

I am copying this letter to G7 colleagues.

Yours sincerely,

Donald W. Campbell

Page 8 cont

**Actions against Abuse of the Global Financial System**

To secure the benefits of the globalise financial system, we need to ensure that its credibility and integrity are not undermined by money laundering, harmful tax competition, and poor regulatory standards.

We welcome and strongly endorse our G7 Finance Ministers' report, published today, on "Actions Against Abuse of the Global Financial System," and attach particular importance to the following developments:

Page 9

- **Money laundering:** We welcome the initial work of the Financial Actions Task Force on Money Laundering (FATF), which has published its review of the rules and practices of 29 countries and territories and its identification of 15 non-co-operative countries and territories (NCCTs). We note with satisfaction the issuance of advisories to our domestic financial institutions that they should take cognisance and enhance their scrutiny of the risks associated with business and transactions with individuals or entities from such jurisdictions. We are ready to give our advice and provide, where appropriate, our technical assistance to jurisdictions that commit to making improvements to
- regimes. We are prepared to act together, when required and appropriate, to implement co-ordinated counter-measures against those NCCTs that do not take steps to reform their systems appropriately, including the possibility to condition or restrict financial transactions with those jurisdictions and to condition or restrict support from IFIs to them.

- **Tax havens and other harmful tax practices:** We welcome the OECD Report on Progress on Identifying and Eliminating Harmful Tax Practices, which includes two lists: certain jurisdictions meeting tax haven criteria: and potentially harmful regimes within the OECD member countries. We also welcome the public commitments already made by jurisdictions to eliminate harmful practices and we urge all jurisdictions to make such commitments. We encourage the OECD to continue its efforts to counter harmful tax practices and to extend its dialogue with non-member countries. We also reaffirm our support for the OECD's report on improving access to bank information for tax

Page 10

purposes and call on all countries to work rapidly towards a position

Page 10 cont

where they can permit access to, and exchange, bank information for all tax purposes.

- **Offshore financial centres:** Regarding offshore financial centers (OFCs) that do not meet international financial standards adequately
- and that are potential threats to the international financial system, we welcome the identification by the Financial Stability Forum (FSF) of priority jurisdictions for assessment. We consider it essential for OFCs
- to implement all measures recommended by the FSF with a view to improving weak regulatory and supervisory systems,
-
-
- as well as to eliminate harmful tax competition
- and to adopt anti-money laundering measures. In this regard, we attach priority to the eight areas identified by our Finance Ministers, such as international co-operation, exchange of information and customer identification. We will take steps to encourage jurisdictions to make the necessary changes and provide technical assistance where appropriate. Where jurisdictions fail to meet certain standards and are not committed to enhancing their level of compliance with international standards, we will also take measures to protect the international financial system from the effects of these failures.

- **Role of international financial institutions (IFIs):** We urge IFIs, including the IMF and World Bank to help countries implement relevant international standards in the context of financial sector assessments as well as programme design and assistance.

Page 11

We stress the urgent need for concrete actions against abuse of the global financial system at both the national and international level. We also strongly urge better co-ordination, further impetus to efforts under way in various international for a, and expeditious follow-up actions.

NUCLEAR
SAFETY

## Nuclear Safety

*Handling: Secure Schroeder's commitment not to block K2/R4 – even if he can't support.*

**Key Points**

- Announcement by Ukraine of **closure date for Chernobyl** (no later than 15 December this year) is obviously excellent news. Also congratulate Gerhard on success of recent (July 5) Chernobyl Shelter pledging conference in Berlin.

- But still need to do all we can to ensure Chernobyl does indeed close this year. Part of the package that Ukraine expects from the G7 in return for closure is assistance with completion of **K2/R4 nuclear reactors.** Was specifically referred to in our 1995 MoU.

- Recall our discussions on this subject last year. Agreed Gerhard would visit Ukraine to discuss non-nuclear alternatives to K2/R4.

- But the message from Ukraine has been consistently that they want to complete K2/R4. And EBRD expected to confirm this is least cost option – probably as early as September. Loans for K2/R4 could be agreed later this year.

- But if we do not send positive message to Ukraine we run risk that stays open and Ukraine will turn to Russia for help with K2/R4 instead. Result: we give up control over safety standards, and have. So we hope for clear German commitment not to seek to block or obstruct agreement on loans for K2/R4, even if it is unable participate in export credit financing of the project.

## Nuclear Safety (Ukraine) - Background

1. **Handling**. [At the time of writing we are pressing Germany to agree to a modest G7 communique reference to K2/R4. The rest of the G7 (in particular France) support a reference]. Irrespective of the final communique language, we should press Chancellor Schroder hard to commit not to block or obstruct the project, which remains an important element of the package for securing Chernobyl closure later this year.

2. President Kuchma of Ukraine has announced that the last remaining operating reactor at Chernobyl will close no later than December 15 this year. While the announcement was not made conditional on any specific level of future G7 assistance, the Ukrainians continue to stress their wish for further G7 support in the areas covered by the 1995 G7/Ukraine MoU on closure of Chernobyl.

3. These include G7 support for decommisioning, and for repair of the sarcophagus surrounding the damaged reactor at Chernobyl – a recent pledging conference in Berlin has secured about another $320m for the Chernobyl Shelter project (the UK contributing an additional $18.3m). But the main unfulfilled element of the Mou is conclusion of EBRD and Euratom loans for completion to international safety standards of K2 and R4, two partially built reactors in Ukraine which are of a more modern, safer design than Chernobyl.

4. A number of factors have contributed to delays on reaching agreement on loans for K2/R4. One is German political opposition to the project (at the 1999 Koln Summit, Chancellor Schroder indicated that he wished to visit Ukraine to discuss non-nuclear alternatives – the clear message from Kuchma was that he wanted K2/R4). Other delaying factors have been slow progress on energy sector reforms in Ukraine and an unexpectedly high contractor's bid for the project. However progress is now being made on both project costs and energy reform in Ukraine and prospects for the loans being agreed before the end of this year – around the time of the final closure of Chernobyl - are improving. But opposition from Germany, as well as from other anti-nuclear states in the EU such as Sweden and Austria, still threatens the success of the project.

5. The UK position has consistently been one of support for K2/R4 if Ukraine and the EBRD/Euratom can agree terms. The risk of failure to support K2/R4 is that Ukraine will consider that the G7 has failed to honour its commitments under the MoU and will in turn decide to keep Chernobyl running, and/or will complete K2/R4 with Russian help but to lower Russian safety standards.

6. It is therefore desirable that the Okinawa Sumit signal that the K2/R4 project is still on the table as far as the G7 is concerned. And Germany should be pressed to confirm that it will not seek to block or obstruct the project, even if it cannot actively support it through the provision of export credit financing.

**Okinawa Summit** **Sherpa Brief**

## NUCLEAR SAFETY - UKRAINE AND RUSSIA

### Objectives

1. Press Germany to confirm that they will not block K2/R4 even if they cannot actively support [and to agree to Summit language which makes clear that the K2/R4 project is still on the table as far as the G7 is concerned].

2. Confirm that UK continues to see no scope for Russian membership of the NSWG. Agree with G7 that renewed high level commitment from Russia to improve nuclear safety is required.

### References

A. EBRD letter of 28 June to Sherpas giving the latest position on K2/R4.
B. Table of pledges made at the Chernobyl Shelter pledging conference on 5 July.
C. G7 NSWG paper on non-compliance of Russia with the Nuclear Safety Account.

### Background

1. **Handling** .Discussion on K2/R4 is likely to rehearse familiar arguments and positions. But it should be increasingly difficult for the Germans to argue that Ukraine does not want K2/R4, or that the status of the project is too uncertain to merit mention in the G7 Summit communique. A German commitment not to block or obstruct the project would be very desirable, especially if this could be formalised in a letter or some other way. We can expect strong French support for our position but others may be less involved

2. The brief suggests that Jeremy Heywood sound out Sherpa colleagues on how to handle the remaining approx $58m shortfall in the Chernobyl Shelter Fund – no immediate decisions are required on this but it is an area where Ukraine may press for further assistance in the run up to Chernobyl closure.

3. At G8, the Russian Sherpa may raise the issue of Russian membership of the NSWG, although this is very unlikely to be major focus of Russian attention. Russia's continued failings in the nuclear safety area (see below and Reference D for more detail) gives no grounds for support for this – indeed the G7 believe that a renewed high level commitment from Russia to improve nuclear safety is desirable.

4. President Kuchma has announced that the last remaining operating reactor at Chernobyl, Unit 3, will close no later than December 15 this year. The Ukrainians have not made the 15 December closure date explicitly conditional on any specific level of further G7 assistance, or on final agreement on K2/R4, but it is absolutely clear that they continue to look to the G7 to deliver additional assistance, notably in respect of K2/R4 and payments for fuel (the "fuel gap").

5. EBRD Vice-President Charles Frank reported on the position on K2/R4 in his letter to Sherpas sent during the Sherpa Plenary meeting in Japan (copy at Reference B). This letter was disappointingly lacking in firm specifics on the state of negotiations to reduce the cost of the project and handle the likely absence of Hermes export credit financing (indications are that Westinghouse are hoping to replace Siemens in the consortium, though nothing is

decided) but it did paint an overall picture of increasing efforts to bring the project to a state where EBRD and Euratom loans could be approved towards the end of this year. Informally, EBRD officials at working level are up-beat about the progress being made – though past experience of this project suggests we should be cautious about the pace at which things will move forward - another likely hurdle down the line is objections from anti-nuclear EU states (in particular Austria, Sweden) to approval of the Euratom loan

6. Progress is also being made in Ukraine on energy market reform. although it will be critical that momentum is maintained over the coming months. Cash collection has risen significantly (up to 40% according to Ukraine) following an increasingly tough policy on non-payers, and the Ukrainian government from Yuschenko downwards is participating actively in discussions on restructuring of the market to allow open and transparent payments between generators, distributors and customers. Privatisation of distribution companies is moving forward with the appointment of commercial advisors. Much remains to be done in this area but with continued good progress it is looking more promising than it has for some time that Ukraine will do enough to satisfy EBRD in this area.

7. The prospects for reaching agreement on loans for K2/R4 are therefore increasing –this enhances the desirability of maintaining a reference to the project in the G7 communique (Reference A gives the proposed German text, which we could accept if it was made clear that the EBRD report is "on K2/R4"]– and to securing a commitment from the Germans not to actively block or obstruct the project. If this could be formalised in a letter or some other way, all the better.

8. Of course it also remains very possible that events will be thrown off track and it will become clear that a viable loan package cannot be agreed in the near future. This would take us into a new situation in which other non-nuclear options for G7 support for Ukraine in this area could be more actively considered. Such options exist, though none are well worked up, all are expensive and all carry the risk that K2/R4 will be completed with Russian help instead.

**Fuel gap**

9. One area where the Ukraine is pressing the G7 for further assistance is for payments for fuel to cover the "fuel-gap" between closure of Chernobyl and the coming on stream of K2/R4. In truth these requests stem fundamentally from a shortage of funds in the Ukrainian energy sector to purchase fuel, and have little relation to the closure of Chernobyl. The indications are that the improvements in cash collection in Ukraine mean that more funds to purchase fuel may be coming available.

10. Payments for fuel are not envisaged in the 1995 MoU between the G7/EU and Ukraine on closure of Chernobyl. However, an Aide-Memoire signed between the European Commission, EBRD and Ukraine in 1999 does hold out the tentative prospect of European Commission assistance with fuel payments until the first reactor of the K2/R4 set comes on stream. There have been some suggestions from the US that the Commission should help with fuel purchases this year as a one-off gesture to help secure final Chernobyl closure. The Commission has indicated a willingness to discuss this with Ukraine, though it remains circumspect about committing to any payments, no doubt fearing it would set a precedent for a long term commitment. The UK is not in a position to offer bilateral funds for fuel payments, but would have no strong objections to others doing so on a one-off basis this year.

**Chernobyl Shelter Fund (Berlin Pledging Conference)**

11. The CSF Pledging Conference took place on 5 July in Berlin. The Conference raised just under $320m of new pledges for the Fund - $25m coming from non-G7 donors and just under $295m from the G7 (a shortfall from Canada plus the decision of the EC and some other European states to pledge in Euros meant that at current exchange rates the target $300m G7/EU pledge could not quite be met). The full list of pledges made at the Conference is attached as Reference C.

12. Ukraine professed itself pleased with the outcome of the conference, which will ensure that work on repairing and replacing the sarcophagus can continue for the next few years without further delay. However the total pledged to the Fund is still some $58m short of the total estimated cost of the project ($768m). Ukraine will undoubtedly look to the G7 to meet this gap and it would be worth soliciting colleagues views on how to handle this – some may argue that the G7 should pledge the relatively small remaining shortfall before closure of Chernobyl, others that there is no immediate need for further pledges to the fund. Flexibility agreed with HMT and the new money available following the Cross Cutting Review of Nuclear Problems in FSU mean that the UK would if necessary have some flexibility for additional contributions to the Fund.

**Russia**

13. Russia remains non-compliant with its Nuclear Safety Account (NSA) agreement. This is a fundamental obstacle to their membership of the NSWG (Russia has failed to carry out appropriate safety assessments with western experts at their older plants,and plans to extend the lives of some of its oldest Chernobyl type reactors). At a broader level the Russian approach to nuclear safety remains at odds with that of the G7 – their nuclear regulator GAN remains weak and they dispute western views of the safety of their reactors. Energy market reform in Russia has been limited and power sector strategies which plan for the gradual shut down of older Chernobyl type reactors have not been developed.

14. More detail on Russia's failures in this area are given in the G7 NSWG paper at Reference D. This paper proposes that a renewed high level commitment from Russia to improve nuclear safety is required if progress is to be made in this area. We agree and this point could be made to the Russian Sherpa. But in the absence of a significant shift of Russian position, DTI remain of the view that a potential long term solution to any Russian pressure to join the NSWG as a full member would be to disband the NSWG altogether. Meetings with Russia at NSWG expert level are un-productive and the Russian approach is not constructive.

15. Given the present Russian position, the text on nuclear safety for the G8 communique is inevitably restricted to reaffirming basic safety principles and the importance of compliance with the NSA agreement. While limited in substance, this text poses no problems for us or other members of the G8.

REFERENCE A.

(A)

**European Bank**
**for Reconstruction and Development**

**Charles R. Frank, Jr.**
*First Vice President, Banking Department*

Mr Yoshiji NOGAMI
Deputy Minister for Foreign Affairs
Ministry of Foreign Affairs
2-2-1 Kasumigaseki
Chiyoda-ku
Tokyo
JAPAN

28 June 2000

Dear Mr Nogami,

Earlier this year, then EBRD President Horst Köhler sent Prime Minister Obuchi a letter dated 21st February 2000, regarding the status of the investment project for units 2 and 4 of the Khmelnitsky and Rovno Nuclear Power Stations (K2/R4), respectively. I am writing to brief you on progress made since then on this project, before the Sherpa preparatory meeting for the G-7 Summit in Okinawa next month.

*Energy Sector Policy Reform.* One of the most important requirements for EBRD participation in the financing of the K2/R4 project is progress on tariff collection and privatisation of electricity distribution companies. On 16 June Prime Minister Yuschenko and I chaired a meeting of the Task Force for Energy Sector Reform. The Task Force brings together high-level representatives from the Government of Ukraine and multilateral institutions, including the IMF, European Union, the World Bank and USAID.

This meeting addressed the resolution of three outstanding issues: (1) improvements in cash collection of tariffs, (2) privatisation of electricity distribution companies, (3) structure of the energy market and market regulation. While collection by energy distribution companies from end-users has improved markedly, many regional companies have failed to make payments to the central energy market account as required by law. Thus some electricity generating companies are not being paid properly for the energy they deliver to the central market. Agreement was reached in principle on the measures to be taken to address this problem.

Implementation of the energy sector privatisation policy is proceeding. The Government has hired international advisors, Credit Suisse First Boston, and the information memorandum for privatisation of a number of Oblenergos should be issued later this summer.

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Tel: +44 20 7338 6000 Fax: +44 20 7338 6630 Telex: 887161 EBRDLO G

Broad agreement was reached on some of the basic principles of energy market regulation, including improvements in the operation of the accounts of the central energy market. However, the issue of whether distribution companies and end-users would be permitted to enter into bilateral contracts with electricity generators was not resolved.

*Negotiations between the General Contractor and Energoatom.* The general contractor for the project, a consortium of Siemens, Framatom and Atomstroyexport, have submitted a bid for the project that was too costly for the project to meet least-cost criteria and available sources of financing. We have been informed that negotiations between Energoatom and the General Contractor consortium led by Framatom to reduce cost and apportion risk are making progress. We hope that both parties can reach an agreement soon on a contract price for completion of K2/R4 according to western safety standards, that is sufficiently close to the original cost estimate for the project to be economically and financially feasible.

*EBRD Loan Agreement Negotiations.* The Government of Ukraine has appointed Deputy Prime Minister Yulia Timoschenko to oversee negotiation between the Government and the EBRD of the Loan agreement for the K2/R4 project. I have invited the Government negotiating team for negotiations in London in mid-July. We expect detailed negotiations to continue throughout the second half of July and aim for their completion by early August. Draft legal documentation has already been submitted by the EBRD and is currently being reviewed by the Government. I have received personal reassurances from Prime Minister Yuschenko that those negotiations are a priority for the Government and that he wishes these to be concluded according to schedule.

*Timing.* As you may be aware, the loan proposal for K2/R4 investment project passed final review by EBRD's Operations Committee. However, over a year has elapsed since the review date has passed and reconfirmation of the approval is necessary. In preparation for this, the operation team is currently working on an update of the financial and economic analysis. As part of this update, the team will review the findings of the Stone and Webster Study to determine whether it's findings remain valid and that the K2/R4 project truly represents the least cost alternative. The findings of the Fichtner Report, which was commissioned by Greenpeace earlier this year, will be taken into account.

Following reconfirmation by the Operations Committee of the final review, we hope to conduct a Board workshop in September. The workshop will be an informal meeting for discussion of key aspects of the project prior to formal Board consideration, planned for autumn this year. The management of EBRD will

recommend the project to the Board for approval only if it is consistent with the application of sound banking principles and is in accordance with Board-approved policy guidelines regarding the financing of nuclear power plants.

It is clear that important progress is now being made and that the Government of Ukraine is firmly committed to the K2/R4 project. The Bank has appointed an operation leader at a more senior level in order to strengthen the Bank's capacity to complete project preparation and appraisal.

I trust that you will find this brief update on project preparation progress helpful in the preparation of the G-7 summit.

Yours sincerely,

**Charles R. Frank, Jr**
**Acting President**

c.c: Mr Donald W. Campbell, Deputy Minister of Foreign Affairs, Canada
Mr Armando Varricchio, Cabinet of Mr Prodi, European Union
Mr Jean-Marc Rouchereau de la Sablière, Conseiller diplomatique, France
Dr Klaus Gretschmann, Bundeskanzleramt, Germany
Mr Francesco Olivieri, Ministro Plenipotenziario, Italy
Mr Jeremy Heywood, Principal Private Secretary to the Prime Minister, UK
Mr Lawrence H Summers, Secretary of the Treasury, USA

REFERENCE C

| Pledged Contributions to the CSF after CPC 2000 - July 5 - (final) | | | | | | |
|---|---|---|---|---|---|---|
| Contributor | Ccy | Contribution Until 05/2000 | Ccy | New Contribution 1 € = 0.95 $ | New Contribution US $ | New Contribution € |
| Austria | € | 2.500.000 | € | 2.500.000 | 2.375.000 | 2.500.000 |
| Belgium | € | 2.500.000 | € | 600.000 | 570.000 | 600.000 |
| Canada | US $ | 20.000.000 | US $ | 13.000.000 | 13.000.000 | 13.684.211 |
| Denmark | € | 2.500.000 | € | 2.500.000 | 2.375.000 | 2.500.000 |
| EC | US $ | 100.000.000 | € | 100.000.000 | 95.000.000 | 100.000.000 |
| Finland | € | 2.500.000 | € | 1.000.000 | 950.000 | 1.000.000 |
| France | € | 18.520.000 | € | 23.250.000 | 22.087.500 | 23.250.000 |
| Germany | US $ | 23.610.000 | US $ | 25.610.000 | 25.610.000 | 26.957.895 |
| Greece | € | 2.500.000 | € | 2.500.000 | 2.375.000 | 2.500.000 |
| Iceland | US $ | 10.000 | US $ | 15.000 | 15.000 | 15.789 |
| Ireland | € | 2.515.790 | € | 3.085.000 | 2.930.750 | 3.085.000 |
| Italy | US $ | 16.820.000 | € | 17.820.000 | 16.929.000 | 17.820.000 |
| Kuwait | US $ | 4.000.000 | | | | |
| Luxembourg | € | 2.500.000 | | | | |
| Japan | US $ | 22.500.000 | US $ | 22.500.000 | 22.500.000 | 23.684.211 |
| Netherlands | NLG | 6.000.000 | € | 3.000.000 | 2.850.000 | 3.000.000 |
| Norway | US $ | 5.000.000 | NKR | 20.000.000 | 2.500.000 | 2.631.579 |
| Poland | € | 2.500.000 | | | | |
| Portugal | US $ | 200.000 | US $ | 200.000 | 200.000 | 210.526 |
| Slovak Rep. | € | 2.000.000 | | | | |
| Slovenia | - | - | US $ | 300.000 | 300.000 | 315.789 |
| Spain | US $ | 3.000.000 | to be confirmed later | | | |
| Sweden | € | 2.500.000 | SEK | 24.000.000 | 2.700.000 | 2.842.105 |
| Switzerland | € | 4.000.000 | SFR | 7.000.000 | 4.180.000 | 4.400.000 |
| Ukraine | US $ | 50.000.000 | | | | |
| UK | US $ | 16.820.000 | US $ | 18.320.000 | 18.320.000 | 19.284.211 |
| USA | US $ | 78.000.000 | US $ | 80.000.000 | 80.000.000 | 84.210.526 |
| Total | | | | | 317.767.250 | 334.491.842 |

TO 72702266 P.06/08

# CONCLUSIONS OF THE G-7 NUCLEAR SAFETY WORKING GROUP (NSWG) WITH REGARD TO THE NON-COMPLIANCE OF RUSSIA WITH THE COVENANTS OF THE NSA AGREEMENTS

## - EXECUTIVE SUMMARY -

### PURPOSE OF THE PAPER

1. This paper provides the critical issues and the conclusions of the G-7 NSWG with regard to the non-compliance of Russia with the covenants of the NSA Agreements and to the Russian request of its full membership in the NSWG. It is being provided to enable the G-7 Heads to re-examine the current mandate of the G-7 NSWG with regard to nuclear safety in Russia and to take the necessary decisions.

### STATUS

2. Agreements were signed on 9 June 1995 between the Government of the Russian Federation, Leningrad NPP, Rosenergoatom (jointly with Novovoronezh and Kola NPPs), Gosatomnadzor and the EBRD. The Agreements set up strict requirements for the operation of the ten designated VVER 440/230 and RBMK reactors, especially with regard to the practices for verification of the safety and economical feasibility of operation of nuclear power plants and to the maximum operating lifetime.

3. At the Birmingham Summit 1998 the Heads agreed "to deepen Russia's role in the activities of the NSWG, with a view to eventual full membership in the appropriate circumstances", whereas the Russian Sherpa, by letter of 29 October 1999, suggested that the NSWG adopts "a final report, which would include a conclusion on completion of the Group's mandate and a recommendation to transform it into a working body within the framework of the G8."

4. Russia has failed to comply with important parts of its obligations under the NSA Agreements. The Group has repeatedly confronted Russia with these findings. The Russian side denies the fact of being in non-compliance with or even breach of the NSA Agreements.

5. Although, lately there are signs which might indicate some changes with regard to the Russian In-depth Safety Assessment (IDSA) approach, the lack of transparency by the Russian side in the IDSA process is indicating their lack of interest in co-operating on these issues with the G-7 NSWG.

### CONCLUSIONS AND RECOMMENDATIONS OF THE G-7 NSWG

6. Although some improvements were achieved, Soviet type reactors of the first generation, particularly the RBMK reactors, still in operation in Russia continue to pose a serious threat to the global environment and give rise to serious safety concern.

7. Although considerable progress to improve nuclear safety of Soviet designed reactors in Russia has been achieved, Russia's transition to internationally acceptable safety practices is far from being fulfilled. Therefore the Russian request to transform the NSWG into a

working body of the G-8 is not supported by the G-7 NSWG. Compliance with the NSA Agreements is considered the minimum standard for inviting Russia to join the NSWG.

8. Despite the prevailing state of Russian non-compliance and despite the lack of interest on their part, the G-7 NSWG believes co-operation with Russia needs to be continued. For the success of this co-operation a high-level recommitment by Russia to fully comply with the NSA Agreements and to resolve actions currently in breach of the NSA Agreements is indispensable.

9. For the success of continued co-operation, the G-7 NSWG believe a high level commitment from Russia to improve nuclear safety is a prerequisite. Russia should acknowledge the following essentials for nuclear safety, and immediately start to implement the corresponding necessary steps:

   a) An independent, competent and well-funded national regulatory authority and Technical safety organisations (TSO) working in an effective legal and administrative framework is indispensable for the high standard of nuclear safety. This will enable GAN to enforce full implementation of the NSA regulatory obligations by the operating organisations and plant operators and to make sovereign licensing decisions on that basis.

   b) Establish realistic time schedules and secure adequate funding in order to perform site-specific In-Depth Safety Assessments (IDSAs) for the period up to the end of the original 30 years design life time for those designated reactor units that are not yet approaching the end of this lifetime, based on Gosatomnadzor's requirements and the corresponding comments of the EBRD's Safety Review Group to ensure compliance with internationally recognised safety practices in line with the NSA Agreements.

   c) Develop, or respectively update, Power Sector Strategies that are based on an assessment of energy demand agreed with the EBRD, and include measures to promote energy efficiency and least-cost investments.

   d) Reconsider it intentions to continue operation of first-generation reactors beyond their original 30 year lifetime as this would be in clear contradiction to the NSA Agreements.

   e) Address and implement sustainable power sector reforms in Russia needed to develop a financially-sound power market, encouraging nuclear safety, energy efficiency and conservation and generating the resources needed for least-cost investments in replacement power generation, transmission and distribution.

10. The NSWG recommends that the G-7 Heads reinforce the international interest in improved nuclear safety in Russia and that the Russian President personally commit that his new government will provide the necessary financial, political and legal support to enable Russia to fully embrace international nuclear safety practices and thus grasp the economic and political benefits of doing so.

11. Based on a general common understanding, the G-7 is willing to adopt new approaches for co-operation in the spirit of the NSA to address nuclear safety issues in Russia in the broader context of energy sector reform and general economic development.

## Nuclear Safety (Ukraine) - Background

1. **Handling**. [At the time of writing we are pressing Germany to agree to a modest G7 communique reference to K2/R4. The rest of the G7 (in particular France) support a reference]. Irrespective of the final communique language, we should press Chancellor Schroder hard to commit not to block or obstruct the project, which remains an important element of the package for securing Chernobyl closure later this year.

2. President Kuchma of Ukraine has announced that the last remaining operating reactor at Chernobyl will close no later than December 15 this year. While the announcement was not made conditional on any specific level of future G7 assistance, the Ukrainians continue to stress their wish for further G7 support in the areas covered by the 1995 G7/Ukraine MoU on closure of Chernobyl.

3. These include G7 support for decommisioning, and for repair of the sarcophagus surrounding the damaged reactor at Chernobyl – a recent pledging conference in Berlin has secured about another $320m for the Chernobyl Shelter project (the UK contributing an additional $18.3m). But the main unfulfilled element of the Mou is conclusion of EBRD and Euratom loans for completion to international safety standards of K2 and R4, two partially built reactors in Ukraine which are of a more modern, safer design than Chernobyl.

4. A number of factors have contributed to delays on reaching agreement on loans for K2/R4. One is German political opposition to the project (at the 1999 Koln Summit, Chancellor Schroder indicated that he wished to visit Ukraine to discuss non-nuclear alternatives – the clear message from Kuchma was that he wanted K2/R4). Other delaying factors have been slow progress on energy sector reforms in Ukraine and an unexpectedly high contractor's bid for the project. However progress is now being made on both project costs and energy reform in Ukraine and prospects for the loans being agreed before the end of this year – around the time of the final closure of Chernobyl - are improving. But opposition from Germany, as well as from other anti-nuclear states in the EU such as Sweden and Austria, still threatens the success of the project.

5. The UK position has consistently been one of support for K2/R4 if Ukraine and the EBRD/Euratom can agree terms. The risk of failure to support K2/R4 is that Ukraine will consider that the G7 has failed to honour its commitments under the MoU and will in turn decide to keep Chernobyl running, and/or will complete K2/R4 with Russian help but to lower Russian safety standards.

6. It is therefore desirable that the Okinawa Sumit signal that the K2/R4 project is still on the table as far as the G7 is concerned. And Germany should be pressed to confirm that it will not seek to block or obstruct the project, even if it cannot actively support it through the provision of export credit financing.

**Nuclear Safety**

We renew the commitment we made at the 1996 Moscow Summit to safety first in the use of nuclear power and achievement of high safety standards world wide. We agreed to continue to co-operate in promoting a high standard of nuclear safety. We continue to attach great importance to the full and timely implementation of the Nuclear Safety Account Grant Agreement.

Page 11

## Nuclear Safety/Ukraine

We welcome the decision taken by President Kuchma to close the Chernobyl Nuclear Power Plant (NPP) on 15 December this year. We continue to co-operate with the Government of Ukraine in addressing the problems associated with the permanent shutdown of the Chernobyl NPP.

We reaffirm our commitment made at the Cologne Summit to continue our support for the Shelter Implementation Plan (SIP). We welcome the results

Page 11

of the Pledging Conference in July to ensure full implementation of the SIP. We appreciate the contribution of the non-G7 donors.

We urge the Government of Ukraine to accelerate its power sector reforms, particularly improvement of cash collection and privatisation, which will attract financially viable investments in the energy sector. We look forward to receive the report of the European Bank for Reconstruction and Development on K2/R4 in this respect. In the meantime, we affirm our commitment in line with the Memorandum of Understanding to assist the Ukraine in the preparation of energy projects based on least cost principles.

GREATER
WORLD
STABILITY

## G8 – TOWARDS A 21st CENTURY OF GREATER WORLD STABILITY

### Handling

1. Chretien will be asked to open this session which has two parts. The first covers cross-cutting issues: **conflict prevention**, **non-proliferation/arms control** and **terrorism**. The second covers **regional issues** – texts on the Korean Peninsula, South Asia (India/Pakistan), MEPP, Balkans, Africa, Cyprus - forwarded from the Foreign Ministers meeting and updated since.

2. This session, straddling the first dinner, is likely to be unstructured and wide-ranging. It could be difficult if Putin, in his first session, chooses to raised NMD (US missile defence) and islamic terrorism (code for Chechnya). Events in Korea could well come up. Japan will be most interested in the prospects of progress following last month's North-South Summit meeting; and Putin will have just stopped off in North Korea. We suggest you might want to intervene first time round with some general points on **conflict prevention** and **world stability** (speaking note attached). Depending on how discussion develops, you might then say some words on **Africa**.

3. You might look for an opportunity to advance our proposal on **Conflict Diamonds**. **Objective: G8 Heads to support our proposal to hold an international conference to consider a legally binding agreement on a certification scheme for rough diamonds. Only Russia has substantive difficulties with the proposal, which it feared might hit its domestic diamond industry. We have taken these sensitivities into account in lobbying in G8 capitals. Clinton is briefed to support.**

4. Depending on how conversation develops you could also:

   a) to welcome progress at the Camp David negotiations on **the Middle East Peace Process**;

   b) to press the case for integrating the **Western Balkans** into the European mainstream and convince Putin of the advantages of not being shackled to Milosevic's **Serbia** – isolated from its neighbours and Europe and failing its own population.

   c) to announce new commitments agreed in the CSR covering: i) the disposal of **weapons grade plutonium**; and ii) **chemical weapons stockpiles** in Russia.

   d) to secure agreement on a statement (drafted by UK/US) giving renewed impetus to the negotiations on **Cyprus**.

SPEAKING NOTE: GREATER WORLD STABILITY

- Kosovo and Africa underline the importance of **conflict prevention**. In everyone's interest for the international community to contribute more to inhibit outbreak of conflict respond better when it occurs. Interstate rivalries of the last century have increasingly been replaced by intra-state tensions.

- Foreign Ministers identified five positive initiatives (we will come back to proposed certification scheme for diamonds later). Issues are complex and require a coherent, comprehensive response. In the UK we have just announced a new conflict prevention package: a joined up response by Defence, Foreign and Development Ministries to better tackle conflict.

- Sierra Leone demonstrated dramatically the inadequacies of **UN peacekeeping**. Brahimi report, expected in August, should bring out the necessary changes. We must support an approach intended to promote a robust effective UN response to peacekeeping (eg East Timor).

- Of course we need to strengthen **non-proliferation regime** and move forward the agenda identified by Foreign Ministers. But want to flag up a particular concern about missile proliferation which is an increasing danger. You, Mr Chairman, will inevitably have been concerned by the development of the North Korean missile programme. Current political developments on the peninsula are welcome, and a de-escalation of tension and establishment of normal relations are very desirable. But we must end up with a solution to the North Korean missile problem. We also need to check the spread of missile programmes elsewhere. We should therefore all give our strong support to rapid establishment of the MTCR (Missile Technology Control Regime).

- So many of the threats are global in nature. They demand an internationally co-ordinated response. G8 countries have shared interests in tackling the scourge of **terrorism**. The threat from Bin Laden confronts us all and requires that we work together to counter it.

- **Regional issues** are no less important for being familiar and long-standing. The Balkans at last is showing some positive aspects – Croatia an emerging beacon. But Milosevic remains deeply disruptive. We have a common interest in achieving stability in the West Balkans by bringing it into the European mainstream and encouraging democratic change in Serbia. Kosovo a much-improved situation since we last met.

- In the **Middle East** we salute US efforts to make progress in the Peace Process. We share President Clinton's wish to see an early breakthrough. Must then be prepared to look at what support we give to the parties: costs are likely to be high.

# NON-PROLIFERATION/
# ARMS CONTROL

## Non-Proliferation/Arms Control

**Key Points**

- Disposal of **weapons-grade plutonium** is key non-proliferation and disarmament goal. Vital in addressing nuclear legacy of Cold War. UK committing **£70 million over the next ten years** (over £17 million for the next three years) to plutonium disposition.

- In May the Non-Proliferation Treaty Review Conference agreed on practical measures to advance the cause of nuclear disarmament. Contributions announced today will give tangible support to these efforts.

- Applaud efforts being made by Russia on **destruction of Chemical Weapon** stocks. The UK will be committing **£12 million over the next three years** to assist the destruction of these stocks. [need to check exactly when announcement was made and further details.]

## Non-Proliferation / Arms Control - Background

1. **Handling.** US and Russia will welcome UK commitment on plutonium disposition. The Cologne Communique exhorted partners to review their commitments. Canada and Japan will be keen to promote discussion on the NPT Review Conference. Russia may try to raise NMD but US will resist. (See also Russia – background.)

2. HMT have agreed in full the costed set of programme bids included in the Cross-Cutting Review on Nuclear Problems in the Former Soviet Union. Plutonium disposition is one of the top priority programmes. Estimated expenditure is given as £70 million over the next ten years with £2.5m 2001/02, £5.2m 02/03 and £10m ¾.

3. [MOD to provide CW background.]

4. The UK has now formalised in New York the nomination of Sir Michael Weston as the UK/Western candidate for the Summer 20001 UN Conference of the Illicit Trade in Small Arms and Light Weapons in All Its Aspects. Japan and Colombia are the other candidates. The Foreign Secretary will have re-affirmed this at his meeting with Japanese Foreign Minister Kono on 13 July. He will also have expressed again our regret that the news leaked prematurely (through the EU) before, as we planned, we could inform the Japanese out of courtesy. The UK looks forward to working constructively with Japan on this issue and on the Conference process as a whole.

Okinawa G8 Summit

Sherpa Brief

DISARMAMENT, NON-PROLIFERATION AND ARMS CONTROL

**Objectives**

- maintain plutonium disposition language in full

- cut back remainder of this section as far as possible

**References**

A. Illarionov-Nogami letter 8 June

B. Letter from Andrew Smith to John Battle 13 July on Cross-cutting Review.

**Background**

1. **Handling.** Sherpas tasked Political Directors to shorten this section of the Communique. It has been reduced from 8 paragraphs to 6 since the Plenary.

2. All issues in the Heads Communique are also present in the Foreign Ministers Communique to some degree. The issue of paramount importance for the UK is plutonium disposition, as the G8 is driving the agenda here, while in other areas the G8 is reactive. The Communique ties our reticent partners into a substantive schedule for the next year. It also recognises the need for public and private financing. However, it is premature to discuss specific initiatives (eg NEXUS). Both US and Russia have lobbied partners to declare support at the Summit. The PM will announce new UK funding. Japan and Canada will not give public commitments at Okinawa. Germany seem undecided. France may make an announcement.

3. The paragraph on small arms duplicates a reference in the Conflict Prevention section.

4. All other issues can be cut from the Communique if necessary, although partners are likely to oppose.

5. The following is background for those issues that remain in the Communique at present:

- one main issue is the succuessful outcome to the Non Proliferation TReaty Review Conference (New York 24 April-19 May) and how to translate the agreement reached there into action. Our priorities are the start of Fissile Material Cut-Off Treaty negotiations at the Conference on Disarmament, the entry into force of the Comprehensive Test Ban Treaty and for further bilateral cuts in the US and Russian arsenals.

- our efforts to address missile proliferation focus on work underway in the MTCR. The aim is to produce a voluntary code of conduct of principles of behaviour, confidence-building measures, pre-launch notification and possibly incentives for states to refrain from missile programmes. Given that such steps would go beyond export controls they would not form part of the MTCR and would have to be promulgated separately. The UK was a key initiator of this work. The Russians launched their "Global Control System" (GCS) in March, in apparent contradiction to their commitment to the MTCR effort. The GCS would be a voluntary instrument comprising a launch transparency

regime, and security assurances and incentives for states who renounce missile-based WMD delivery systems. The Russians say the GCS would complement rather than undermine the MTCR. We are not so sure; it certainly muddies the waters for the MTCR's own initiative. It is widely accepted that the GCS was created for tactical reasons related to Russian opposition to US NMD. They have had one meeting so far and are deciding on next steps.

- Chemical Weapons: MOD will provide briefing tomorrow.

(4) (41)

G8 SHERPA CORRESPONDENCE

cc: Mr Heywood
Mr Budd
Mr Butler
Mr Kariuki
Ms Pryle } Eastern.
Mr Jenkins }
Mr Auld, NPD
Mr Rankin } HMT
Mr Parker }

→ pla Non Proliferation.

Moscow, June 8, 2000

Illarianov renewing interest in plutonium (ours).
He will be visiting Heywood soon. Can
NPD advise on outcome of PS(X) meeting
on 6 June. Thanks, S. Honey x/c pla Russia.

Dear Colleagues,

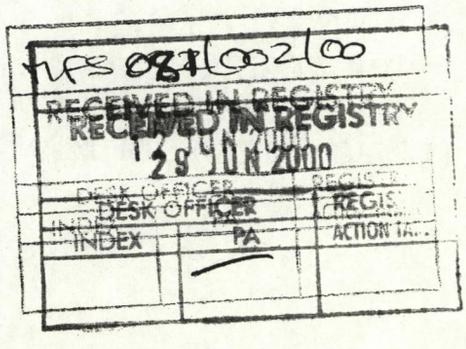
I am writing to inform you that on the 26 of May I was appointed by the President of the Russian Federation as the Russian Sherpa for the G-8.

I am counting on working with all of you in order to continue and develop the fruitful cooperation established between you and my predecessors.

I look forward to seeing you soon in Okinawa at Sherpa's Plenary session.

Sincerely yours,

Andrei Illarionov
Russian Sherpa




**G-8 SHERPAS**

Moscow, June 8, 2000

Dear Yoshiji,

At the 1999 Cologne Summit in 1999, the G-8 nations affirmed their intention to establish arrangements to safely manage surplus weapon-grade plutonium and recognized that an international approach to financing large-scale plutonium disposition projects would be required.

At the Moscow Summit the Presidents of the Russian Federation and the United States announced completion of the bilateral Agreement for the management and disposition of weapon-grade plutonium withdrawn from their respective nuclear weapon programs and declared excess to defense purposes. This Agreement will ensure that this plutonium will be changed into forms unusable for nuclear weapons.

Bearing in mind that activities to implement the plutonium disposition program in Russia concurrently with the implementation of the similar program in the United States (in accordance with the statement by the Russian and US Presidents of September 2, 1998) could only be initiated if the financing required would be ensured, we expect the Okinawa Summit participants to declare the necessary support.

HIS EXCELLENCY
MR. YOSHIJI NOGAMI
DEPUTY MINISTER OF
FOREIGN AFFAIRS OF JAPAN

Tokyo

International assistance to the Russian program of surplus plutonium disposition requires a multilateral arrangement defining necessary legal instruments, organizational structure, rules and conditions to ensure success of that program. Such an arrangement should provide for an efficient and consolidated management, jointly with Russia, of technological and financial resources of the program.

The Okinawa Communique could provide directions and guidelines for the elaboration of an appropriate international arrangement and also contain an adopted decision to establish a task force to work out the commercial approach to the use of the MOX-fuel produced from the weapon-grade plutonium in order to reduce the budget outlays of the states concerned.

The task force will submit its proposals to the next G-8 Summit.

Taking into account the importance of that issue, I would like to rely upon Your interested consideration of the above suggestions.

I am copying this letter to our G-8 colleagues.

A. ILLARIONOV

CONFIDENTIAL - POLICY

Treasury Chambers, Parliament Street, London, SW1P 3AG

John Battle MP
Minister of State
Foreign and Commonwealth Office
King Charles Street
LONDON SW1A 2AH

13 July 2000

Dear John,

**CROSS CUTTING REVIEW 12: NUCLEAR PROBLEMS IN THE FORMER SOVIET UNION (FSU)**

Thank you for your letter of 5 May enclosing a copy of the final report of the cross cutting review on nuclear problems in the Former Soviet Union. Given your absence in Japan, Helen Liddell presented the report to the PSX meeting on 6 June.

***Proposals and conclusions***

2. The nuclear problems in the FSU are amongst the most important challenges facing the international community. The environmental, security and proliferation threats they pose do not respect international boundaries and can only be properly addressed by the international community working together. It is clearly important, therefore, to ensure that the UK contributes to these wider international efforts in a focussed manner that complements others' efforts. I agree that the approach the cross cutting review puts forward will do this, though every effort must still be made to ensure that our international partners and the FSU states

themselves also play a full part in addressing these problems.

3. I agree, therefore, that existing departmental programmes of assistance with the FSU's nuclear problems (including departmental attributions in respect of the UK's share of the EU's contribution to KEDO) should be drawn together to form a new ring fenced expenditure programme within DTI's Departmental Expenditure Limit (DEL). DTI will have Accounting Officer responsibility for this new programme and for its day to day management, but strategic decisions will be taken on the advice of an interdepartmental committee of officials chaired by DTI and with representatives from FCO, DFID, MoD and DETR. The interdepartmental committee should manage the programme in line with the criteria set out in the Review.

4. If the interdepartmental advisory committee agree that greater presentational benefits could accrue by channelling funds for a particular project by way of a another department, for example as Defence Ministry to Defence Ministry assistance, it would be open to DTI, with the agreement of the interdepartmental committee and the Treasury, to make a transfer of funds to the appropriate department. The recipient department would then have Accounting Officer responsibility for this expenditure which would in turn be ring fenced within the recipient's DEL in the same way that the new programme will be ring fenced within DTI's.

***Resources***

5. I also agree that the additional expenditure pressures as well as the

expectations of FSU states and other international donors can best be managed if the UK takes a proactive stance that puts us on the front foot diplomatically when the FSU's nuclear problems are discussed. I accept, therefore, that some new money will be required in this area and agree that a programme comprising categories A to C as defined in the report should be established at a total cost of £23.9m/£27.4m/£32.5m over the period of the Spending Review.

6. I have decided to agree in full the figures provided by the cross-cutting review drawn up by officials from all interested departments. This is on the firm condition that all future demands for assistance in addressing the FSU's nuclear problems should be met from within this new ring fenced fund. Interested departments are of course free to top up the fund from their own resources if they choose but there will be no future access to the Reserve in respect of expenditure in this area in the Spending Review period. It will be for the interdepartmental management committee to advise Ministers how best to meet any new demands from within the ring fenced budget - subject of course to such projects falling within the definitions of categories A to C as defined by the Review. If individual Departments for wider policy reasons wish to support proposals outside the fund's remit and financing, it will be for them to provide these additional resources.

***Targets***

7. I agree that it would be inappropriate to apply a Public Service Agreement target to the work of the ring fenced fund and that instead Service Delivery Agreements (SDA) targets should be put in place for some of the projects that will be funded by the new programme. Even in the case of multilateral programmes the

SDA targets should focus on the outputs that will be delivered on the ground. The interdepartmental committee should liaise closely with my officials in drawing up appropriate targets, and they should be included in the SDAs published this Autumn.

***CBW***

8. I note the similarity of the issues raised by the FSU's Chemical and Biological Weapons stocks and facilities to its nuclear problems. However, as the new programme will be managed under novel arrangements I feel it is better to trial these for nuclear problems before extending them to other fields. That said I recognise that pressure over CBW will continue to build in particular if lack of funding means that the Russians continue to be unable to meet their international treaty commitments on Chemical Weapons destruction. I propose, therefore, that MoD should take the lead in this area and will be allocating an additional £4m per year to MoD's settlement across the SR2000 period to cover the cost of so doing.

***Implications for DTI, FCO, MoD, DFID and DETR***

*DTI*

9. As set out above DTI will have Accounting Officer responsibility for the new expenditure programme. While the new programme will be within DTI's DEL it will be ring fenced. DTI will not be expected to make any future contributions to it. Nor will it be open to DTI to transfer funds from the ring fenced budget to other DTI programmes. That said, since administering the new fund will impose

additional burden on DTI's running costs it would be open to DTI to put aside up to 1 per cent of the agreed programme to meet these costs.

11. Additional provision of £19.1m/£22.6m/£27.7m has been included in DTI's DEL settlement to represent the new resources being made available, and the transfer of budget allocations for existing programmes from other departments. The remaining £4.8m per year, the cost of existing DTI activities in this area as identified by the report will be transferred from DTI's provision to the ring fenced fund giving a total ring fenced programme of £23.9m/£27.4m/£32.5m across the SR2000 period. This includes £850k in respect of the UK contribution to KEDO. I have seen Stephen Byers' letter to Robin Cook of 15 June. Given the scale of the additional resources I have been prepared to make available in this area, it is essential that DTI transfers in full the £4.8 million baseline, including £850,000 for KEDO, to the pooled budget.

12. Given the difficulty in actually spending money on the ground in the FSU the fund will have up to 100 per cent end year flexibility and any funds not committed at the end of the financial year may be carried forward to the following year in accordance with normal Treasury guidance on end year flexibility.

*MoD*

13. MoD's settlement provision takes account of an adjustment downwards to reflect the £0.9m already contained in the departmental baseline for contributions towards projects in North West Russia in 2001-2002 that will be subsumed within the new fund. £4m per year of new provision has also been included in MoD's

settlement across the SR2000 period to cover the costs of UK activities in respect of assistance with FSU CBW problems. It must be for MoD to manage CBW activities within this total and to find additional resources themselves. As with the nuclear ring fenced fund there will be no access to the Reserve in respect of CBW expenditure.

*DFID, DETR and FCO*

14. As defined in the review, DFID, DETR and FCO's settlement provisions take account of an adjustment downwards by £0.9m, £0.9m and £0.15m respectively in 2001-2002 to reflect the transfer of existing provision allocated to projects in North West Russia. Transfer of a further £850k of Departmental allocation from FCO's budget in respect of the UK share of the EU contribution to KEDO is also taken into account.

***Presentation***

15. In order to protect our position in international negotiations and to avoid raising unnecessary expectations in FSU states I believe that a relatively low key approach should be taken to presentation of the findings of this review.

***Next steps***

16. The settlement conditions set out above form an integral part of Departmental Settlements. I am copying this letter to the Prime Minister, Gordon Brown, John Prescott, Stephen Byers, Robin Cook, Clare Short, Geoffrey Hoon,

**CONFIDENTIAL - POLICY**

Cross Cutting Review colleagues, and Sir Richard Wilson.

Best wishes,

Andrew.

ANDREW SMITH

page 19

**Disarmament Non-Proliferation and Arms Control**

We welcome the successful outcome of the 2000 NPT Review Conference. We are determined to implement the conclusions reached at this Conference, including the early entrance into force of the CTBT and the immediate commencement and the conclusion within five years of negotiations for the Fissile Material Cut-Off Treaty. We remain committed to promoting universal adherence and compliance with the NPT

We look forward to the early entry into force and full implementation of START II and to the conclusion of START III as soon as possible, while preserving and strengthening the ABM Treaty as a cornerstone of strategic stability and as a basis for further reductions of strategic offensive weapons, in accordance with its provisions. We welcome the ratification of the CTBT and START II by Russia.

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The transparent, safe, secure, environmentally sound and irreversible disposition and management of weapon-grade plutonium which has been designated as no longer required for defence purposes remains vital. The agreement on plutonium disposition reached between the United States and Russia, reinforced by their statement of intention concerning non-seperation of additional weapon-grade plutonium, marks a critical milestone. The cooperation amoung the G8 countries has yielded significant results and our next steps should build on this cooperation and related international projects.

Our goal for the next Summit is to develop an international financing plan for plutonium management and disposition based on a detailed project plan, and a multilateral framework to co-ordinate this co-operation. We will expand our co-operation to other interested countries in order to gain the widest possible international support, and will explore the potential for both public and private funding.

The UN Conference on the Illicit Trade in Small Arms and Light Weapons in All Its Aspects next year requires strong support to ensure a successful outcome. We invite the international community to exercise restraint in conventional arms exports, and are committed to work jointly to this end.

We welcome the reinforcement of global regimes to prevent proliferation of weapons of mass destruction and their delivery systems. We also recognise the need to examine and promote further multilateral measures to curb missile proliferation. We are actively contributing, in appropriate ways, to taking this process forward. In this regard, we strongly support the

# CONFLICT PREVENTION

**Points to make**

**Conflict Prevention**

**Key Points**

- Good work done by Foreign Ministers on conflict prevention – addressing issues like child soldiers, small arms and the relationship between development and conflict. Work on the potential role of diamonds in bankrolling conflicts particularly interesting. Sierra Leone has given it a particularly sharp focus.

- Producer countries, the international diamond trade and NGOs have all made clear that they expect G8 to have a major input into the international effort against conflict diamonds.

- Diamonds the **lifeblood of terrible conflicts** (also Angola and Democratic Republic of Congo). But not synonymous with conflict: elsewhere they are source of prosperity and development – eg South Africa, Botswana, Namibia. Determined **our work will not harm legitimate trade**.

- Agreement on the need to explore a **possible certification scheme for rough diamonds** would be valuable. Will complement wish of industry and producer countries (in the "Kimberly process") to effectively regulate trade. Proposing that an **international conference** will give political impetus to launch negotiations.

- Heads' personal involvement on conflict diamonds will show the G8 responding quickly and giving a strong lead on an issue of intense international interest. We will have demonstrated will to take our share of responsibility (as major consumers and producers of diamonds).

## Conflict Diamonds - Background

1.**Handling**. We have taken a leading role in ensuring that conflict diamonds should have a high profile during the forthcoming G8 meetings, and have successfully argued that the current political interest in conflict diamonds (not least because of Sierra Leone and the UK-inspired Security Council Resolution which was adopted on 5 July) warrants this issue being addressed by Heads. Canada has expressed some concern over singling diamonds out as the only one of the five conflict prevention themes addressed by Foreign Ministers to be given individual treatment by Heads. Russia (fearful of damage to their interests as a major diamond producer) has had difficulties with the substance of the proposal, but has agreed to reconsider its position in the run-up to Okinawa. We believe they are unlikely to want to hold out in isolation.

2. In the paper endorsed by Foreign Ministers at Miyazaki, G8 conflict prevention experts agreed the need for rapid follow-up to discussions (the "Kimberley process") already underway on key measures to improve the transparency of the international trade, including - crucially - a certification scheme for rough diamonds (under which producer countries would agree not to export rough diamonds without a certificate or origin issued by a responsible authority and importing countries would not allow imports of rough diamonds without such a certificate).

3. G8 Heads could usefully give impetus to this by sending a strong signal that discussions of an international certification regime for rough diamonds should move quickly toward inter-governmental negotiation. This could be done by Heads calling for an international conference to address the problem, including by drawing up a legally binding rough diamond regime.

4. Heads agreement to our proposal would represent an excellent opportunity to demonstrate the leading role played by the UK on conflict diamonds. We would have driven the issue high up the G8 agenda, secured Heads' attention and led them to a concrete outcome. We would also be able to offer to host either the final negotiating conference or one of the preparatory meetings.

5. The Kimberley process (also known as the African Regional Initiative) was launched by South Africa in May. It brings together leading African producer states, some (although not all) key marketing/trading states and representatives of the international diamond industry. The FCO and the US State Department have both participated from the first meeting and are closely involved in the Kimberley working group, which is working up a set of detailed proposals for action against conflict diamonds. The next meeting will be in London on 20 July.

### Other G8 Conflict Prevention Initiatives

6. Foreign Ministers announced a package of conflict prevention initiatives at

Miyazaki. These five initiatives prepared by experts (of which four were largely UK-inspired) - on small arms, child soldiers, conflict diamonds, conflict and development, and international civilian police - meet UK objectives. While it has been difficult to forge agreement on some issues, the result is a set of practical measures in key areas where the G8 can add value. They do not cut across, but support, the role of the UN (a French and Russian sensitivity throughout).

7. The development of the agreed conflict prevention initiatives has involved substantial UK input and produced significant new outcomes:

**Small Arms:** The package worked up commits all G8 states to a set of principles on responsible small arms exports which are broadly similar to those EU states already apply. As major exporters of small arms, G8 members have undertaken not to authorise the export of small arms if there is a clear risk that these might be used for repression or aggression.

**Children in Armed Conflict:** The proposals agreed also include collective pressure against those who involve or target children in armed conflict and support for implementation of international law which protects children.

**Conflict and Development:** The G8 have agreed to use development assistance to address the root causes of conflict, including through helping to promote democracy, the rule of law and mechanisms for the peaceful resolution of disputes.

**International Civilian Police:** The initiative on civilian policing not only addresses a key gap in the international community's crisis management capacity, but should help the Japanese Government overcome domestic sensibilities about contributing personnel to UN missions.

8. Members have agreed that the G8 should continue its work on conflict prevention post-Summit. The Foreign Ministers' Conclusions already identify supporting the role of women (US), combating cyber crimes (Russia) and developing the principles of corporate citizenship (Canada) as areas for further discussion. This does not exclude proposal of other items. We will probably want discussion to focus on some economic issues (role of IFIs in conflict prevention and post-conflict reconstruction is one possibility) to complement the work done this year on political issues.

## CONFLICT PREVENTION

### Objective

1. To retain language in the Communiqué calling for an international conference to, inter alia, consider a legally binding rough diamonds regime.

### References

A - Heywood's letter to Brainard, 5 July

B - Heywood's letter to Nogami, 12 July

C – Conflict Prevention Experts' Report

D – Note on Diamonds certification and line to take with the Russians

### Background

1. **Handling**. Depending on the outcome of Heywood's letter to Nogami of 12 July, we may not end up having to argue at Okinawa for the inclusion of language on conflict diamonds that calls for an international conference to, inter alia, consider a legally binding rough diamonds regime. However, if this has not been resolved favourably beforehand, we may face opposition from Canada who, belatedly, expressed concerns over singling out diamonds (from the five conflict prevention themes addressed by Foreign Ministers) for individual treatment by Heads; and from Russia, who are fearful of damage to their interests as a major diamond producer. With both (and indeed any other opponents), we should refer to the agreement reached at the 29 June Sherpa Plenary that Heads would address this issue. Canada has no substantive reason to object to the reference, and we believe that Russia is unwilling to hold out on its own. We should look for strong support from the US (who, like us, have been involved in the Kimberley process from the beginning).

2. The issue of conflict diamonds is receiving significant, and increasing, international media attention. The situation in Sierra Leone, including the recent (UK-inspired) UN Security Council resolution, warrants the issue being addressed by Heads. Moreover, producer countries, the international trade and civil society (NGOs have played a key role in the campaign against conflict diamonds) have all made clear they expect the G8 to have a major input into the international effort against conflict diamonds.

3. The key part of the proposed language is the call for follow-up to the international discussions which have already taken place as part of the Kimberley process. This will give a major political boost to a process which has got off to a shaky start but which is heading in the right direction. Given the leading role played by the UK and US in helping to establish the Kimberley process, and in the Kimberley working group discussions so far, we have a particular interest in ensuring strong G8 support for Kimberley.

(A)

CB.
cc: Richard Jones (CFSP)
Diana Melrose, Planning
James Dauney (UN)

Jan Kinsler
FCO.
pw Communique.

cc: Mr Budd
Mr Brenton
Mr Kavanagh
Mr White
Mr Quarrey, UNJ
Mr Tilbrooke } DFID
Mr Moye
Ms Goldie, Cabinet Office

10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

5 July 2000

Letter to US Sherpa only

following up on points raised at Planning. pla US plw Hayward letter

Dear Leel,

## CONFLICT DIAMONDS, EDUCATION AND IT S. Hovey 5/7.

In Okinawa we touched on conflict diamonds. I think that our experts have got a substantial package of measures in place and this section of their report to Foreign Ministers does, I think, merit Heads' attention. Given the situation in Sierra Leone there will also of course be strong media interest in the role of diamonds in fuelling conflict and in G8 action to tackle the issue. I attach a short note offering a little more detail on the rationale we see in taking this issue to Heads, and on how it might be presented.

I have also now had a chance to consult our experts on the proposal you gave me on promoting literacy and access to basic education in developing countries through nutrition programmes. We would certainly support the analysis that poor nutrition can hinder a child's full participation at school and affect learning outcomes. However given the number of factors in the equation – poor health, HIV/AIDS, lack of clean water, child labour – we would not want to single out nutrition in this context. We also see particular difficulties in international endorsement of the World Food Programme (WFP) initiative. Whilst WFP-funded imports may be essential supplements to national production in some countries, in others they may threaten the livelihood of local producers and hinder national self-sufficiency.

Finally, in advance of the E-Experts meeting on Friday, I just wanted to highlight a couple of proposals I made on the follow-up section of the IT Charter, after you left on Saturday. Firstly, I think that we should welcome, and undertake to examine further, the recommendations of the WEF group – it would be odd, having asked for the report, if we didn't. I would be comfortable about asking the G8 DOT.Force also to review Recommendations put forward by other identified groups. Secondly, I have suggested that one issue the DOT.Force might address is how to lower internet access costs for developing countries. I

attach a short note on how the G8 might address this. I believe these ideas complement the suggestions in section 4 of the private sector paper you gave to me; so I hope you can support on this (everybody else seemed happy at Okinawa).

Tom, JH

**JEREMY HEYWOOD**

Lael Brainard

G8: CONFLICT DIAMONDS

**Proposals on Conflict Diamonds**

- The conflict prevention experts' report represents a comprehensive response by the G8 to the problem of conflict diamonds:

  * endorsing activity underway at the UN against conflict diamonds as they affect Angola, Sierra Leone and DRC;

  * signalling the G8's willingness to work closely with governments of legitimate producer states (who remain sensitive about G8 involvement) and the legitimate international industry;

  * agreeing the need for rapid follow-up to discussions (as part of the South African-led "Kimberley process" - see footnote below) on key measures to improve the transparency of the international trade, including - crucially - a certification scheme for rough diamonds;

  * signalling that the G8, representing the leading diamond marketing states, accept their responsibility for keeping conflict diamonds out of their own markets.

- We are proposing that Heads personally endorse the conflict experts' report. Discussion might also signal the need for further G8 work on this issue, eg through links with other international processes and/or examination of the key proposals on the table (eg a certification scheme for rough diamonds).

**What difference will this make?**

- The problem of conflict diamonds is high on the international political agenda. The current situation in Sierra Leone has given it particularly sharp focus.

- Producer countries, the international trade and civil society (NGOs have played a key role in the campaign against conflict diamonds) have all made clear that they expect the G8 to have a major input into the international effort against conflict diamonds.

- The key part of the text is the call for rapid follow-up to the international discussions which have already taken place as part of the Kimberley process. This will give a major political boost to a process which has got off to a shaky start but which is heading in the right direction. It will reassure the legitimate producer governments that the G8 does not intend to cut across their own efforts.

- Given the leading role played by the UK and US in helping establish the Kimberley process, and in the Kimberley working group discussions so far, we have a particular interest in ensuring strong G8 support for Kimberley.

- G8 agreement on the need to explore a possible certification scheme for rough diamonds would be particularly useful, given that such a scheme will require international negotiation and requires a strong political impetus to kick-start it.

- The experts' report will also maintain the pressure on the diamond industry to continue working with governments on a range of measures to improve the transparency and accountability of the international trade.

- It would also be helpful to have political support from the G8 for the range of activity underway against conflict diamonds at the UN (sanctions regime in place against UNITA diamonds; Security Council resolution on Sierra Leone diamonds likely to be agreed this week; expert panel set up to investigate role of minerals in conflict in DRC), thereby helping ensure that the issue remains high on the agenda of the Security Council.

- Heads' endorsement of the conflict experts' report might also provide the context in which experts could subsequently be commissioned to continue their work on conflict diamonds, rather than leave open the possibility of further work as the text does currently.

**Presentation**

- Heads' personal involvement on conflict diamonds will show the G8 giving a strong lead on an issue of intense international interest. Heads will be seen to have responded quickly to an emerging, live issue. They will have taken their share of responsibility (as the major consumer markets for diamonds) for this problem. They will have worked together despite their differing interests as consumers and producers.

**Note:** the Kimberley process (also known as the African Regional Initiative) was launched by South Africa in May. It brings together leading African producer states, some (although not all) key marketing/trading states and representatives of the international diamond industry. FCO and State have both participated from the first meeting and are closely involved in the Kimberley working group, which is working up a set of detailed proposals for action against conflict diamonds. These proposals are welcomed in the current conflict prevention experts' text.

**"How should the G8 address the issue of the high costs of Internet access for many developing countries?"**

The draft Okinawa Charter on the Information Society states that "IT represents a tremendous opportunity for emerging and developing economies. Countries that succeed in harnessing its potential can look forward to leapfrogging conventional obstacles of infrastructural development, to meeting more effectively their vital development goals, such as poverty reduction, health, sanitation and education, and to benefiting from the rapid growth in global e-commerce."

But in practical terms, the costs of accessing the internet in most emerging and developing countries are currently prohibitively high for most potential local consumers. In Uganda or Kenya for example, 20 hours of offpeak use costs over US$100 (compared to a US average of less than US$30.) This is out of the range of most potential local users of ICTs, be they individuals, Small and Medium Sized Enterprises, schools or clinics. A number of studies, including by the OECD, show that internet up-take is related to access costs.

The G8 Digital Taskforce should put a major push into identifying any barriers to such costs coming down and in developing public private partnerships to invest for the future in emerging and developing economies.

Domestic Barriers to Competition

Creating domestic policy and regulatory environments which are Internet friendly is clearly key to bringing down the costs of Internet access. Experience in the UK and in other countries shows very clearly that liberalising telecoms markets and ensuring open and fair regulation reduces costs and provides an open and stable market for companies to invest. Developing countries need to build visionary, inclusive long term strategies and to show the lead by making more use of ICTs within government itself. The World Economic Forum identify in detail the various elements which emerging and developing country governments should consider. The G8 Digital Taskforce should work to build technical capacity within developing countries to tackle these challenges. Some will be relatively easy to introduce – there should be relatively little local opposition to lowering tariffs on computers and telecoms equipment, or to cutting the bureaucratic hurdles surrounding the establishment of telecentres and internet cafes. Others, such as opening up infrastructure provision to competition may be politically harder. But dramatic results can be achieved. In Nepal, for instance, international IP connectivity increased 15 fold in just 8 months following the liberalisation of satellite access to the Internet in mid 1999.

Opening up domestic markets will help, but there are also international dimensions to the problem. The high cost of Internet access in developing countries is partly a reflection of the expenses incurred by local operators in peering with the US/EU backbone, via International Private Lines (IPLs). Telecommunication costs typically account for more than half of the budget of developing country ISPs and these costs are inevitably passed on to consumers. If it is to have widespread support, it is important that the G8 Digital

Taskforce signal a readiness to address some of the international issues which concern developing countries. These include the following:

"A Lack of International Competition"

Developing countries also complain of a lack of competition between international operators for transit traffic on low-volume routes. The Digital Taskforce should look at all the barriers to ICT take-up including the cost of international connections. Internet connectivity is an essential part of the global information infrastructure that should be encouraged. While governments should not intervene in private business agreements on International Charging Agreements for Internet Services achieved in a competitive environment, where there are monopolies, governments should also play a role in promoting fair competition.

"Outdated Charging Arrangements"

It may not be an appropriate issue for the Digital Taskforce to address. But the G8 cannot ignore the fact that many developing countries identify a problem with having to pay for both half circuits of International Private Lines (IPLs) for Internet traffic exchange. This model is different from that used in the traditional telephone network where IPL costs are shared, and where developing countries receive settlement payments for call minutes which they terminate. These settlement payments, which constitute the major source of foreign exchange for some developing countries, are disappearing as traffic shifts onto the Internet.

A traffic settlements model is not appropriate for the Internet. Web-browsing traffic, which currently accounts for around 75% of total IP traffic, is highly asymmetric. Nevertheless, given current trends for website owners to gain an increasing share of their revenues from advertising and of the growth of new, more symmetrical traffic streams, such as IP telephony, complaints that developed country users are "free-riding" on international networks developing country consumers have paid for will not go away.

We attach as additional background an annexe with extracts from the APEC Principles on International Charging Arrangements for Internet Services agreed at last May's Cancun Ministerial on the Telecommunications and Information Industry in Mexico.

Conclusion

The G8 could present the above approach as a "new deal": developing countries need to liberalise their telecoms sectors and build visionary, inclusive national ICT strategies, but in return developed countries will commit to addressing some of the issues underlying the high cost of international access.

**Annexe A: Extracts from the APEC Principles on International Charging Arrangements for Internet Services agreed at last May's Cancun Ministerial on the Telecommunications and Information Industry in Mexico.**

(A) Internet connectivity is an essential element of the global information infrastructure that should be encouraged (to strengthen the Asia-Pacific Information Infrastructure).

(B) Governments need not intervene in private business agreements on International Charging Agreements for Internet Services achieved in a competitive environment, but where there are dominant players or de facto monopolies, governments must play a role in promoting fair competition.

(C) Internet charging arrangements between providers of network services should be commercially negotiated and, among other issues, reflect: (i) The contribution of each network to the communication; (ii) The use by each party of the interconnected network resources; and (iii) The end to end costs of international transport link capacity.

The Program of Action adopted at the meeting included a request for follow up discussion between business/private sector and government parties on appropriate means to assess and reward the value of products and services exchanged in the provision of converged Internet services among APEC economies and the relationship between charging arrangements and return on investments as it reflects the development of high speed bandwidth connectivity.

(B)

10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

12 July 2000

Dear Tosi,

## CONFLICT DIAMONDS

Our Political Director has reported from Miyazaki that – contrary to what we agreed at the plenary in Okinawa – Foreign Ministers have now decided to publish the agreed report on conflict diamonds, along with the other elements of the conflict prevention package, tomorrow at the end of their meeting.

However, the Political Directors have also put together some new text for Heads, which both welcomes the work done by Foreign Ministers on conflict prevention and, importantly, takes a step forward with a new announcement on diamonds. Building on the expert group's recommendations, this calls for an international conference on the diamond trade which would consider inter alia the creation of a legally binding international agreement on a certification scheme for rough diamonds. I believe this proposal – now bracketed in the third draft of G8 Heads conclusions on political issues (extract attached) – deserves our Head's clear support.

The new initiative – not covered in the Foreign Minister's conclusions – would demonstrate the willingness of G8 Heads to show real leadership on a subject of intensifying media and public interest. Our leaders' agreement to work on a scheme for certification of rough diamonds would give a strong political impetus to kick-start the necessary international negotiations. It would provide additional support for international efforts in this area, including the recent UNSC resolution on Sierra Leone and the ongoing Kimberley process. And it would demonstrate G8 leaders taking their share of responsibility for addressing a key element of conflict in Africa, despite our differing interests as consumers and producers.

Tony Blair is convinced that this is one of the Summit issues that will most capture the attention of the international media, not to mention the African leaders who we will meet on the eve of the Summit. I therefore hope that you

and G8 colleagues, in consultation with Political Directors, will support this proposal through removal of the brackets in lines 16, and 18-20, of the attached text.

I am copying this letter to G8 colleagues.

Yours,

**JEREMY HEYWOOD**

Mr Yoshiji Nogami

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## G8 HEADS' COMMUNIQUE (POLITICAL ISSUES)

### TOWARD A 21ST CENTURY OF GREATER WORLD STABILITY

### *CONFLICT PREVENTION*

The international community should act urgently and effectively to prevent and resolve armed conflict. Many people have been sacrificed and injured, many economies have been impoverished, and much devastation has been visited upon the environment.In an ever more interdependent world such negative effects spread rapidly. Therefore, a "Culture of Prevention" should be promoted throughout the global community. All members of the international community should seek to promote the settlement of disputes by peaceful means in accordance with the United Nations Charter.

We underline the importance of the work done by our Foreign Ministers on confict prevention since their special meeting in December 1999 in Berlin and the conclusions of their July 2000 meeting in Miyazaki. We commit ourselves to work for their implementation particularly with respect to the UN Conference on Small Arms and Light Weapons, economic development and conflict prevention, children in conflict, and international civilian police. [We express special concern that] the proceeds from the illicit trade in diamonds have provided funds for arms purchases, thus aggravating conflict and humanitarian crises in Africa [and we call for an international conference to consider remedies to curb this illicit trade, including consideration of a legally binding international agreement on a certifcation scheme for rough diamonds.] We invite our Foreign Ministers to examine further effective measures to prevent conflicts.

### *DISARMAMENT, NON-PROLIFERATION AND ARMS CONTROL*

We welcome the successful outcome of the 2000 NPT Review Conference. We are determined to implement the agreements reached at this Conference, including the early entry into force of the CTBT and the immediate commencement and the conclusion within five years of negotiations for the Fissile Material Cut-Off Treaty. We remain committed to promoting universal adherence and compliance with the NPT.

We look forward to the early entry into force and full implementation of START II and to the conclusion of START III as soon as possible, while preserving and strengthening the ABM Treaty as a cornerstone of strategic stability and as a basis for further reductions of strategic offensive weapons, in accordance with its provisions. We welcome the ratification of the CTBT and START II by Russia.

The transparent, safe, secure, environmentally sound and irreversible disposition

MINISTRY OF FOREIGN AFFAIRS
TOKYO, JAPAN

Tokyo, 6th July 2000

Dear Colleagues,

Referring to my fax communication dated 19th June and following communications from colleagues on the Foreign Ministers' paper on conflict prevention (former CPOM Report), I herewith attach its final version. Some technical and editorial changes suggested by some colleagues have been incorporated, while I had difficulty in taking in at this stage those suggestions that would change the substance or nuance of the text.

Sincerely yours,

Ryozo Kato
Deputy Minister for Foreign Affairs

# G8 MIYAZAKI INITIATIVES FOR CONFLICT PREVENTION

## I. EFFORTS FOR CONFLICT PREVENTION
## -- A BASIC CONCEPTUAL FRAMEWORK --

The G8 Heads of State and Government announced last June in Cologne, and we, Foreign Ministers, reiterated last December in Berlin, the determination to make prevention of armed conflict a high priority issue in coming years. We have to nurture a "Culture of Prevention" throughout the global community by encouraging international and regional organizations, states, NGOs and other actors to view their activities and policies from the vantage of conflict prevention, and to commit themselves to work towards this goal.

The G8 confirms that efforts to prevent conflict must be based upon observance of international law including the UN Charter, democracy, respect for human rights, the rule of law, good governance, sustainable development, and other fundamental values, which constitute the foundation of international peace and security.

### 1. "Comprehensive Approach"

The G8 believes that, because of the diversity and complexity of causes of conflicts, the following "Comprehensive Approach" should be adopted:

Consistent efforts for conflict prevention need to be made at every stage, from pre-conflict to post-conflict (Chronological Comprehensiveness).

During each stage of a conflict, the international community should draw from a wide-ranging menu of political, economic and social policy options. Furthermore, it is crucial to address the issues of human rights and protection of civilians. (Comprehensiveness in Measures for Conflict Prevention)

It should be noted that, in taking concrete measures on individual conflicts, their characteristics, including their causes, parties, modalities, and regional contexts, as well as coherence with policies in other fields -- e.g. international trade and finance -- need to be fully taken into consideration.

### 2. The UN, the G8 and Other Actors

We, the G8 Foreign Ministers recalled at the Berlin Ministerial Meeting on Conflict Prevention that the UN Charter confers the primary responsibility for maintenance of international peace and security upon the Security Council, and that the UN Secretary General also has an important role in this respect. We reaffirmed that a

reformed and effective UN remains central. In this context, the G8 notes the relevance of the report of the UN Secretary General in preparation for the UN Millennium Assembly.

While the principal responsibility for preventing conflicts lies with the parties directly concerned, conflict prevention is a joint venture involving all the international community, including other international and regional organizations, states, business sector, NGOs, and individuals.

The G8 welcomes wider use of the relevant provisions of the UN Charter for preventive diplomacy and will work for integration of the diverse elements of the UN system so as to support more effectively preventive action.

The G8 regards the UN's peacekeeping capacity as a key contribution to global conflict prevention efforts. We note the establishment by the UN Secretary General of an expert panel and welcome the effort to conduct a comprehensive review in this field as a contribution to efforts to strengthen the quality and speed of the UN response to peacekeeping challenges. We underline the importance of efforts to create arrangements with member states for an effective surge capacity for planning and conduct of peacekeeping operations. We also look forward to the reinforcement of the capacity of the UN in the area of CIVPOL.

The G8 supports the UN's existing mechanism for maintaining compliance with the international human rights standards and regular communication of this information to relevant UN bodies for use in their deliberations. We intend to contribute to strengthening the conflict prevention and early warning capacity of the UN by, inter alia, promoting the reinforcement of the role of the Special Representatives of the Secretary General.

The G8 stands ready to support the efforts by the international community for conflict prevention, especially in those areas where it has a special contribution to make.

## II. THE G8 INITIATIVES FOR CONFLICT PREVENTION

Based on three criteria, namely, (a) whether the issue has a direct relevance to conflict prevention, (b) whether the G8 has a comparative advantage over other players in dealing with the issue, and (c) whether a joint initiative by the G8 could bear fruit, this year the G8 undertakes the following initiatives:

- Small Arms and Light Weapons
- Conflict and Development
- Illicit Trade in Diamonds
- Children in Armed Conflict
- International Civil Police

## 1. Small Arms and Light Weapons

The G8 believes that the uncontrolled and illegal transfer of small arms and light weapons (hereinafter referred to as "small arms") and the existence of destabilizing accumulations of these weapons in many parts of the world pose a serious threat to peace, security, and prosperity. The G8 therefore strongly supports national, regional, and international efforts to ensure that transfers of small arms are carried out in a responsible and legal fashion, and to reduce existing destabilizing accumulations to levels consistent with legitimate defense and security needs.

The destabilizing proliferation of small arms presents the international community with challenges in many areas including export control policy, prevention of illicit trafficking, law enforcement and crime prevention, disarmament, demobilization and reintegration, post-conflict reconstruction, and security sector reform. The G8 emphasizes the need for international institutions and individual states to increase the effectiveness of their efforts by developing coordinated and coherent policies in all of these areas, while avoiding duplication.

The G8

- looks forward to the holding and a successful outcome of the UN Conference on the Illicit Trade in Small Arms and Light Weapons in All Its Aspects, in 2001. We will work for a conference with a broad agenda whose outcome will genuinely strengthen international efforts to eradicate illicit trafficking, particularly of small arms.

- while recognizing that transfers of small arms are consistent with the right of self-defense enshrined in the UN Charter, confirms that we will exercise a high degree of responsibility in controlling and licensing such exports. Unless we have stricter regulations, in our approach to approving export licenses the G8 will take as a minimum criterion the legitimate defense and security needs of the recipient. The G8 will not authorize the export of small arms if there is a clear risk that these might be used for repression or aggression against another country. Finally, the G8 will consider the scope for further action at the national level and in international fora such as the Wassenaar Arrangement to minimize the risk that small arms may be illegally diverted or re-exported. To this end, the G8 agrees on the importance of effective national controls for arms brokering. The G8 strongly encourages other small arms exporting

countries to adopt these principles in their own policies.

- emphasizes the importance of complementary demand-side measures. In this context, the G8 welcomes the October 1998 adoption of the ECOWAS Moratorium on the Importation, Exportation and Manufacture of Light Weapons and encourages other regions affected by the problem of small arms proliferation to consider similar measures. The G8 will take steps to ensure that our export licensing decisions respect the ECOWAS moratorium and urge other exporting states to do likewise. The G8 also welcomes the recently-adopted Nairobi Declaration on the Problem of Proliferation of Illicit Small Arms and Light Weapons in the Great Lake Region and Horn of Africa. The G8 encourages those in a position to do so to provide financial and technical assistance to support the implementation of the ECOWAS moratorium as well as the Nairobi Declaration.

- encourages the countries and regions directly affected by illicit arms trafficking to enhance transparency in this regard which could include exchange of information on discovered instances and routes of illicit small arms supply. The G8 considers that the marking of small arms could improve their traceability. The G8 will work to build international consensus on increasing the degree of transparency attached to such transfers. With the aim of combating the illicit trafficking of small arms and building confidence, the G8 stands ready to exchange information in appropriate fora concerning national legislation, practices and experience, and calls upon other states to do likewise.

- emphasizes the fundamental importance of measures to combat illicit trafficking in small arms. The G8 is committed to maintaining effective national export control and enforcement systems in order to prevent the illicit transfer of small arms from, via or to our territories. We reaffirm our commitment to implement strictly all arms embargoes imposed by the UN Security Council. To this end, the G8 strongly supports appropriate national legislation that establishes legal enforcement of these embargoes. We strongly support efforts to increase the effectiveness of UN sanctions, such as the Security Council's decision to investigate reports on the violation of measures against UNITA.

- stands ready to support projects and programs which will increase the capacity of states directly affected by illicit small arms trafficking to implement effective controls. The G8 emphasizes the importance of coordinated regional and international action in this area, and welcomes initiatives such as the OAS Inter-American Convention Against the Illicit Manufacturing of and Trafficking in Firearms, Ammunition, Explosives and other Related Parts and the EU/SADC action program for tackling illicit arms trafficking in Southern Africa. The G8 also attaches importance to increased information exchange in the Wassenaar Arrangement and in other international and regional fora as appropriate on issues such as illicit trafficking routes and diversionary destinations.

- recognizes the need to tackle the problem of illicit small arms possession and misuse through effective law enforcement and crime prevention measures. With regard to firearms, the G8's Lyon Group will continue within its mandate to consider how to improve the effectiveness of the G8 members' policies and countermeasures to the illicit manufacturing of and trafficking in firearms. The G8 will play an active and constructive role in the work to elaborate the Protocol against the Illicit Manufacturing of and Trafficking in Firearms, Their Parts and Components and Ammunition, supplementing the draft UN Convention Against Transnational Organized Crime, which will serve as a key element in international efforts to combat illicit firearms trafficking, with a view to ensuring these negotiations are completed by the end of 2000.

- pledges its full support for the effort to reduce existing destabilizing accumulations of small arms. The G8 encourages affected countries and regions to adopt confidence-building measures and incentives to encourage the collection and destruction of surplus or illegally-held small arms. The G8 confirms that we are ready to support such efforts through the voluntary provision of financial and technical assistance, including through specifically targeted funds, existing or to be established, at the UN, regional and local level, and designed to deal with the problem of small arms, and call upon the international community to do likewise. In this context, the G8 emphasizes the central importance of comprehensive demobilization, disarmament and reintegration programs in post-conflict situations. The G8 will support the inclusion of such programs where appropriate in peace agreements between the

parties to conflicts and mandates of peace keeping forces and other relevant missions.

- emphasizes the importance of the role of civil society in tackling destabilizing accumulations of small arms, for example through awareness-raising at the community level. The G8 encourages the international community and governments of affected countries actively to involve civil society in efforts to prevent the uncontrolled spread and destabilizing accumulation of small arms.

- reaffirms its support for the principle that all surplus or illegally-held small arms which have been removed from circulation in countries or regions affected by destabilizing accumulations should, if not immediately destroyed, be properly secured and managed prior to their early and effective destruction, preferably under international or third party supervision

## 2. Conflict and Development

Peace and democratic stability are indispensable pre-conditions for economic growth and sustainable development. Moreover, economic and development co-operation has an important role to play in fostering peace and stability. The G8 can use its position as the major provider of the development assistance to pursue actively initiatives in this area. While ensuring that fundamental development goals remain at the core of bilateral and multilateral assistance policies, the G8 should take initiatives particularly in three areas: (a) promoting the consideration of conflict prevention in development assistance strategies, (b) focusing assistance to ensure quick action to prevent conflict, and (c) ensuring a smooth transition from emergency humanitarian assistance to development assistance in the post-conflict stage. The G8 also recognizes that a recipient government's ownership of its development policies and civil society's participation can contribute to mitigating tensions.

### (1) Promoting the Consideration of Conflict Prevention in Development Assistance Strategies

The G8 ,

- continues to extend economic and development cooperation to promote prosperity, reduce poverty, and to help create resilient societies that promote inclusion and opportunity for all citizens.

- recognizes the importance of addressing root causes of conflicts, including through assistance to regional and subregional organizations.

- will consult with the relevant international financial institutions regarding conflict-related implications of development assistance.

- aims, with other bilateral and multilateral actors, to use development assistance to promote democratic and legislative institutions, good governance, rule of law, peaceful resolution of disputes, civic education and other structural elements.

- aims to build capacity in administrative and security systems, including police, penal and judicial institutions.

- enhances technical assistance to build capacity and to ensure appropriate social investments in education, health and nutrition, and other programs targeting vulnerable segments of society, seeking to protect these expenditures during economic downturns and time of crises.

- considers ways to use economic and development assistance to address causes of conflict stemming from competition for natural resources, such as water, and to encourage regional approaches to their management .

- will pay attention, in extending economic and development cooperation, to excessive military expenditure where it occurs in recipient countries and calls upon developing countries to ensure effective, transparent and accountable public sector management of state expenditures, including military budgets and the use of development assistance.

- recognizes the important role that donor coordination in the area of conflict prevention plays in enhancing the effectiveness of economic and development assistance in this regard.

- welcomes the work of the OECD Development Assistance Committee (DAC) to review bilateral donors' practices in the field of conflict prevention.

(2) Focusing Assistance to Ensure Quick Action to Prevent Conflict

The G8,

- recognizes the importance of extending flexible, quick assistance with the aim to helping to alleviate and stem the spread of human suffering to countries and regions neighboring conflict areas, including displaced persons and refugees, and will work towards more effective and better coordinated provision of emergency and other relevant assistance through regional and international organizations, in particular the United Nations.

- encourages the international community to focus its attention on conflict and development in Africa and to carry out closer exchanges of perspectives and information, including at the field level and within the UN system.

(3) Ensuring a Smooth Transition from Emergency Humanitarian Assistance to Development in the Post-Conflict Stage

The G8,

- recognizes the importance of continuous and coordinated efforts by various actors including UNHCR, UNDP, UNICEF, World Bank, other international and regional organizations as well as NGOs in achieving a smooth transition, and invites the international community to give further consideration and support toward this end.

- will strive to focus emergency and transition aid on supporting local security, economic and political stability, local capacity building, and reconciliation.

**3.Illicit Trade in Diamonds**

The G8 is concerned that the proceeds from the illicit trade in certain high value commodities, especially diamonds, are providing funds for arms purchases, thus aggravating conflicts and humanitarian crises in Africa (particularly Angola, DRC and Sierra Leone).

Whilst insisting that the interests of the legitimate diamond producers and traders are not put at risk, the G8 will take the following steps to counter the illicit trade in diamonds, particularly those coming from conflict zones in Africa.

The G8, which accounts for the bulk of the global market for diamonds,

- will co-operate closely with governments of diamond-producing states, neighboring states, major marketing centers, regional organizations and industry in order to curb illicit diamond flows.

- calls on producers and buyers to work in close co-ordination on the elaboration of specific measures to trace and block the illicit trade in diamonds in Africa on an urgent basis, as a first step.

- supports the efforts of African states in strengthening regional law enforcement and internal capacity building for curbing the illicit trade in diamonds and welcomes their respective initiative in this regard.

- emphasizes that the UN Sanctions Committee on Angola is central to efforts to strengthen sanctions enforcement against UNITA and the need to fully implement UN Security Council resolutions 1173 and 1295.

- welcomes the initiatives within the UN framework to assess the impact of the illegal exploitation of natural resources, including diamonds, on the conflict in Democratic Republic of Congo.

- calls for the urgent cooperation of interested parties including the diamond industry with the government of Sierra Leone on the proper control over trade in diamonds produced in Sierra Leone.

- welcomes 'Technical Forum on Diamonds' held at Kimberly, South Africa, as

an important contribution to finding pragmatic solutions. The G8 supports rapid follow-up, involving all the key actors, which should include the exploring of a possible certification scheme for rough diamonds from conflict areas, industry codes of conduct and an international body to promote transparency and accountability.

- will consider appropriate action to keep diamonds from illicit transactions out of the G8 markets.

## 4. Children in Armed Conflict

The plight of war-affected children, a group which includes, in particular, child soldiers, child orphans, sexually exploited children and children traumatized by armed conflict, but also comprises all the children affected by the effects of war in wider sense, is one of the most disturbing human security issues facing the world today. The G8 is particularly concerned by the issues raised by children in armed conflict both as participants and victims. In this context, the G8 agreed upon the following approaches.

(1) Pressure Against Those Who Involve or Target Children in Armed Conflict in Breach of International Standards

The G8

- will concert G8's pressure in UN and other fora against individual governments and armed groups when access to assistance is denied to children or when children are specifically targeted as victims and/or participants in a conflict.

- will take account of, and promote international standards on the non-use of child soldiers in considering our military assistance to armed forces in third countries.

(2) Support for International Standards and Mechanisms

The G8

- urges universal adherence to the ILO Convention 182 on Elimination of Worst Forms of Child Labor.

- welcomes the adoption of and supports the universal adherence to the Optional Protocol to the Convention on the Rights of the Child on the involvement of children in armed conflict.

- provides support for the office of the UN Special Representative for Children and Armed Conflict in its role as an advocate on behalf of war-affected children, and to UN agencies including UNICEF.

- will cooperate in the UN and other international fora when there is a need to

5. International Civilian Police

UN deployed civilian police (CIVPOL), usually as a component of peacekeeping operations, are a critical element in conflict prevention as they help indigenous civilian police forces develop the capacity to maintain law and order, and if necessary, can perform this function on an interim basis.

The G8

- notes the recent dramatic increase in civilian police operations and the resulting increase in the demand for international civilian police officers. The G8 calls upon the UN and regional organizations to work with member states to explore ways to meet this demand in a timely and effective way. The G8 urges that states in a position to do so make efforts to enhance their own capability to provide qualified civilian police officers on a timely basis, and that those with active training programs for international civilian police officers make them available to police from other contributing states.

- stresses the need to enhance the capacity of the UN in the frame work of peacekeeping operations to support more comprehensive planning and better coordination of indigenous civilian police operations, criminal justice, and development of indigenous criminal justice systems. The G8 calls on the UN, in close consultation with member states, to take further steps to improve its international civilian police capabilities. Such steps should include development, on the basis of national contributions, of a reserve list of pre-trained, UN-certified international civilian police officers for possible service; completion of the review and revision, as appropriate, of the criteria for selection, evaluation, and training of these officers; and formulation of comprehensive policies on international civilian police operations to reflect new responsibilities such as in recent UN peacekeeping operations.

- calls as well for increased UN support for training local police forces also as a post conflict activity and as a regular developmental activity with priority emphasis where such training would help prevent conflict. The G8 calls for new efforts in this regard on the basis of a dialogue involving member states, all relevant UN institutions, including UNDP, and other developmental institutions. This activity should promote the principles of democracy, good

governance, human rights, and equal treatment under law.

# FOREIGN & COMMONWEALTH OFFICE

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**Fax Cover Sheet**

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**RESTRICTED**

To..... : **Jeremy Heywood**

Fax Number..... : **speed-dial**

From..... : **James Kariuki**

Date..... : **18 July, 2000**

Pages (including cover) ..... :

cc John Sawers, Anna Wechsberg, Tim Livesey, Tanya Joseph } No 10
PS
PS/PVL
PS/Mr Hain
Dr James Parry
Mr Bredel
Mr Bretton
Heds: EPD, UND, Eastern Planners, AD(S), News D
Mr Elder, UND
Ms White
Ms Hardy
Mr Tilbrook, DFID

**G8: CONFLICT DIAMONDS**

1. At yesterday's pre-Summit briefing I promised you and John Sawers:

- a note on our ideas on certification;
- a line to take with the Russians.

2. These now attached (prepared by UND, FCO), along with Moscow telno 456 and a letter from Russian Deputy Foreign Minister Mamedov (I will put all in Sherpa pack). These suggest that the door is still open for securing Russian agreement to a conference to discuss a certification regime (ie acceptance of the bracketed text in the draft Communique). It may need to be discussed by Heads - if not, certainly at your and John's level.

3. In light of the continuing press interest in this moving story; Russian and S African sensitivities; and our Okinawa objectives, I have asked UND here who lead to keep the FCO and No10 press offices fully up to speed, as well as getting papers/press lines to the delegation in Okinawa. The attached paper on the certification regime can be drawn on for use with press, but we need to be careful about fingering Liberia (I have suggested UND talk to News on this, which was raised at this morning's press briefing).

4. Could Peter Elder, UND, copy more widely as necessary.

Signed: ..... 18/7

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**G8 SUMMIT, OKINAWA**

**CONFLICT DIAMONDS: LINES FOR USE WITH RUSSIA**

Objective

To secure Russian agreement to G8 communiqué calling for an international conference to explore a possible international certification regime for rough diamonds.

Points to Make

- Welcome your acceptance that conflict diamonds is an issue deserving the attention of Heads at Okinawa. Important that this interest be reflected in their communiqué.

- Share your concern to protect legitimate Russian diamond industry. UK objective is to ensure that measures taken against conflict diamonds do not damage economic interests of producers and the legitimate trade.

- A system which aims to ensure that conflict diamonds are kept out of the market will strengthen consumer confidence and will secure the future prosperity of the industry.

- Strongly believe that best means of achieving this is through an international certification scheme for rough diamonds. Leading players in international diamond industry share this view.

- Hence our proposal for Heads to call for an international conference on conflict diamonds to consider this and other ideas on curbing the illicit trade. Important to note that we are not prejudging outcome of such a conference, rather seeking highest level of political support for it.

(if suggested that certification scheme should cover only Africa)

- Disagree. Concentrating solely on Africa would simply drive illicit trade elsewhere. Also unfair and politically unwise to stigmatise all of Africa in this way. Global certification scheme would ensure level-playing field; bolster consumer confidence; and likely be most efficient scheme to administer.

(if necessary)

- Aware of pressure in US Congress for unilateral action on conflict diamonds. Concerned that this has potential to harm your legitimate trade. Your acceptance of our proposal would allow discussion of remedies - including a global scheme - to continue, thereby lessening pressure on Congress to act.

Background

1. Mamedov's letter to Sir Roderic Lyne of 17 July although unclear, suggests that Russia may be willing after all to accept the language we have proposed for the G8 communiqué calling for an international conference to consider, inter alia, a global certification scheme for rough diamonds. Russia remains concerned however that such a scheme might be expensive to implement and administer, and they want to ensure that Heads do not explicitly sign up to a global scheme without there first having been a thorough examination of this, and any other, proposals to remedy the problem of trade in conflict diamonds. We are satisfied that the bracketed language is sufficiently open on this question, merely noting that a global scheme is one issue for an international conference to consider. Other G8 partners are content with the bracketed text.

## CONFLICT DIAMONDS: PROPOSAL FOR A GLOBAL CERTIFICATION SCHEME

Background

- National certification schemes exist in several diamond producing countries, including the major legitimate producer states (eg South Africa, Namibia, Botswana) and those under a UN sanctions regime (Angola, Sierra Leone – where a regime is being introduced).

- But the lack of a global regime means that there are ready opportunities for diamonds from conflict regions to be smuggled via third countries into western markets (eg from Sierra Leone via Liberia).

- Technology is not currently available to "fingerprint" diamonds, although this may be an option in the future.

- Diamonds experts can usually identify the origin of rough diamonds from physical examination. Once diamonds are polished, it is virtually impossible to establish their origin.

Our Objectives

To establish a certification system which:

- has global coverage, to minimise the opportunities for smuggling of conflict and other illicit diamonds;

- involves the minimum necessary bureaucracy for both governments and the industry;

- is relatively straightforward to negotiate internationally (hence it should be as compatible as possible with eg existing WTO and EU regulations);

- focuses on rough diamonds only, aiming to control the first point of entry into the major importing and marketing states;

- is backed up by voluntary measures from the diamond industry to enhance its effectiveness.

Our Proposal

- An international regime under which:

  - all rough diamond exports would be accompanied by a forgery-proof certificate of origin which meets international standards and is issued by a recognised national authority;

  - rough diamonds could only be imported if accompanied by such a certificate of origin.

- This would be enforced by physical inspection regimes by national customs authorities; monitored by an international body bringing together governments, the industry and civil society; and backed up by commitments by all parts of the trade (traders, manufacturers, financiers) not to trade in conflict diamonds.

Industry Proposals

- The International Diamond Manufacturers' Association (IDMA) and De Beers have made their own proposals for certification regimes. Not surprisingly, given our close consultation with the industry, there is a close fit between their proposals and ours.

- Their ideas on a rough diamonds regime are very close to ours, although they insist that such a regime could only apply to parcels, not individual diamonds. We have not taken a firm view on this, but could probably accept their position.

- Their proposals for further measures by governments (eg new legislation criminalising trade in illegal rough diamonds and banning imports of polished diamonds from states which do not adhere to the international rough diamond regime) have some attractions but will need to be considered further.

- The measures proposed for action by the industry (eg national codes of conduct, expulsion from trade bodies for those found trading in conflict diamonds), and for an international diamond council to supervise the new arrangements, are welcome.

- De Beers and others have proposed a "chain of warranties", under which all diamonds would be accompanied from import to manufacture to sale by a guarantee that they did not come from conflict regions. This is likely to meet strong resistance from eg Russia and the southern African producer states, and if put on a statutory basis could impose a heavy bureaucratic burden on states. We might encourage the industry to consider introduction of chain of warranties on a voluntary basis, but we should not allow debate on this to delay progress on our top priority – the global certification regime for rough diamonds.

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INFO PRIORITY NAIROBI, DAR ES SALAAM, ACTOR, WHIRL

MOSCOW TELNO 449

SUBJECT: OKINAWA G8 SUMMIT: CONFLICT DIAMONDS: RUSSIAN RESPONSE

SUMMARY

1. MFA reply to my letter suggests that Heads should consider the issue at Okinawa before any firm decisions made. Door therefore left open for further discussion. Some form of deal might be possible.

DETAIL

2. Late on 17 July I received a letter (by fax to UND) from Deputy Foreign Minister Mamedov in reply to my lobbying reported in TUR. The letter said that the Russians saw the need to keep an overall balance among all the topics on the conflict prevention agenda. There should be no under or overestimation of the importance of one topic. The Russians believed the Heads should discuss the issue at Okinawa, before working up firm proposals. They were ready to listen to any good suggestions. But the detail of proposals would have to be examined thoroughly, as there would be a high cost to Russia in taking practical action.

Comment

3. This reply leaves the door open to further discussion. The Russian G8 Sherpa, Illarionov (who has already left for Japan) is more likely to be flexible than the MFA. On 14 July we took his adviser through all the arguments.

4. I believe it would be helpful to underline that our proposed language does not commit the Russians irrevocably to any particular diamond certification scheme, but only to intensifying the dialogue that is already underway. Given their interest as a producer, they clearly intend to proceed cautiously. It is possible that they may propose some alternative text. But from Mamedov's letter, it appears that they will not seek to block all reference to diamonds.

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ЗАМЕСТИТЕЛЬ МИНИСТРА
ИНОСТРАННЫХ ДЕЛ
РОССИЙСКОЙ ФЕДЕРАЦИИ

«____»_____№_____

Cc PS/Pol Director
David Gnamey
Jan.
James Kariuki
CFSPD.
MNS 17/7.

Moscow, July 17, 2000

Dear Roderic Ambassador,

Thank You for Your letter of July 14 on addressing the issue of «conflict diamonds» at the upcoming G8 Summit in Okinawa.

We share the view that this issue is significant, among others, in the context of conflict prevention. At the same time we see the necessity of keeping an overall balance among all the aspects of the conflict prevention theme, with no under- or overestimating the importance of any of them.

Our basic idea is that the Heads in Okinawa must have an opportunity to discuss approaches that could lead us forward - and we are willing to listen to any good suggestions in this respect - before one can start elaborating on eventual concrete mechanisms and other details. In our opinion the latter part should be examined quite thoroughly, because for Russia the «price» of these practical aspects is high enough.

Yours sincerely,

GEORGIY MAMEDOV

**HIS EXELLENCY SIR RODERIC LYNE**
**AMBASSADOR**
**EXTRAORDINARY AND PLENIPOTENTIARY**
**OF THE UNITED KINGDOM**
**OF GREAT BRITAIN AND NORTHERN IRELAND**

**Moscow**

TOTAL P.02

## Toward a 21st century of greater world stability

**[*Being elaborated by PDs]**

page 19

### Conflict Prevention

The international community should act urgently and effectively to prevent and resolve armed conflict. Many people have been sacrificed and injured, many economies have been improverished, and much devastation has been visited upon the environment. In an ever more interdependent world such negative effects spread rapidly. Therefore, a "Culture of Prevention" should be promoted throughout the global community. All members of the international community should seek to promote the settlement of disputes by peaceful means in accordance with the United Nations Charter.

We underline the importance of the work done by our Foreign Ministers on conflict prevention since their special meeting in December 1999 in Berlin and the conclusions of their July 2000 meeting in Miyazaki. We commit ourselves to work for their implementation particularly with respect to the UN Conference on Small Arms and Light Weapons, economic development and conflict prevention, children in conflict, and international civilian police. [We express special concern that] the proceeds from the illicit trade in diamonds have provided funds for arms purchases , thus aggravating conflict and humanitarian crises in Africa [and we call for an international conference to consider remedies to curb this illicit trade, including consideration of a legally binding international agreement on a certification scheme for rough diamonds.] We invite Foreign Ministers to examine further effective measures to prevent conflicts.

# TERRORISM

## Terrorism

### Additional Points

- Vital that we send a strong message of condemnation of all forms of terrorism regardless of motivation. Murder on 8 June of British Military Attache in Athens by November 17 terrorists stark reminder that terrorist outrages occur without warning;

- International co-operation first priority. Strongly endorse call for all states to become party to 12 international terrorism conventions. UK working closely with Greece to bring murderers of Brigadier Saunders to justice;

- Commitment also needed by individual states to change the environment in which terrorists operate. UK parliament about to finalise new counter-terrorism legislation. Existing legislation now put on permanent footing and consolidated. New powers for police. Consistent with Human Rights Act – vital that in fight against terrorism highest standards of human rights behaviour applied;

- In February UK had to deal with hijacking of Afghan Ariana aircraft. Delighted that UK is hosting G8 best practice workshop on countering hi-jacks;

### If raised by Putin

- Share concern about international Islamist terrorist networks, including those in Afghanistan. Need for proportionate response that takes into account the norms of international law and human rights.

## Terrorism - Background

1. **Handling.** The G8 discussion on terrorism is unlikely to be contentious. There is broad agreement on the need for international cooperation to bring terrorists to justice and the important role of the UN in coordinating an effective international legal framework. We would like to encourage more commitment by individual states (outside the G8) to making life as difficult as possible for terrorists within their territory. The UK's new Terrorism Bill is one of the most comprehensive in the world.

Greece

2. We are not seeking G8 action on Greece over the 8 June murder of Brigadier Saunders. Our bilateral efforts (both political and practical) together with EU pressure for greater Greek efforts on terrorism and progress in the Saunders investigation are sufficient for now.

International Conventions

3. The UK is working with G8 colleagues worldwide to ensure greater coverage of the 12 UN Counter-Terrorism conventions. We believe the G8's aim should be strong international framework that provides no hiding place for terrorists to operate.

UK Legislation

4. The Terrorism Bill is likely to receive Royal Assent on 28 July. The Act will give police new powers to seize terrorist assets, contain terrorist financing and proscribe international terrorist groups.

G8 Hijacking workshop

5. A UK initiative, following the Ariana Airlines hijack in February 2000. The aim will be to agree best practice on handling hijacks between G8 states. The workshop will take place in the FCO in London in October.

Usama bin Laden

6. The US could lobby for more action against UBL. There should be no doubt about HMG's support for the US in fight against terrorism (demonstrated by the Prime Minister's unequivocal support for the 1998 US military action in Afghanistan and Sudan following the bombing of the US Embassies in Nairobi and Dar es Salaam in August 1998). We share the US aim of stopping UBL's activities. We supported the US when they introduced UNSCR 1267 that calls upon the Taleban to handover UBL to stand trial. He and the groups associated with him present the most serious threat to world-wide British interests.

Terrorism Sherpa Brief.

Background

1. The G8 discussion on the language for the terrorism paragraph is unlikely to be contentious.

Indian Global Convention

2. Negotiations will begin in September in New York on an Indian draft of a proposed comprehensive terrorism convention. While the G8 and EU have given positive signals to India about our willingness to engage constructively in the negotiations, there are a number of difficult and potentially divisive elements in the draft. These include a wide definition of terrorism, possible overlap with earlier Counter Terrorism sectoral conventions, and the need for an exemption clause for states' armed forces.

(if delegates press for reference to Indian Comprehensive Terrorism convention)

- important that any reference to global terrorism convention does not imply G8 has signed up to the text as proposed by India; much remains to be negotiated;

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**Terrorism**

We renew our condemnation of all forms of terrorism regardless of their motivation . We are determined to combat them. We call for the urgent strengthening of international cooperation, in particular in exchanges of counter-terrorism information, improving measures against the financing of terrorist activities, and working together to bring terrorists to justice. We welcome the adoption of the International Convention for the Suppression of the Financing of Terrorism. We call for all states to become parties to the twelve international counter-terrorism conventions to enhance

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international co-operation against terrorism.

We are deeply concerned at the increased number of terrorist acts, including hijacking and taking of hostages. We express our great concern over the continuing pattern of terrorist activities in many regions. We will continue to raise this in our bilateral contacts, carefully monitor developments and maintain close co-operation between us.

In this regard, emphasising the international concern over the terrorist threat emanating from Afghan territory under the control of the Taliban, we call for full implementation of the UNSCR 1267.

**Next Summit**

We have accepted the invitation of the Prime Minister of Italy to meet in Genoa next year.

# REGIONAL ISSUES

# KOREAN PENINSULA

## Korean Peninsula

**Additional Point**

- Welcome the successful outcome of the Inter-Korean Summit. Praise both leaders. Think we were all struck by Chairman Kim's (N Korea) positive performance.

- Important now to implement the Pyongyang Declaration on issues including reunification; family reunions; economic cooperation.

- Many issues still to resolve of course, particularly missile proliferation. Would welcome Vladimir's assessment of prospects for better North Korean cooperation in this area.

## Korea - Background

### Korean Peninsula Development Organisation (KEDO)

1. The Prime Minister may face lobbying from the US and Japan over the recent EU decision on future funding for KEDO. The EU agreed a far smaller contribution than other KEDO partners had been pressing for. The Prime Minister will be able to give only a bland reply – there seems little prospect of EU partners agreeing to re-open the decision.

2. The EU's current contribution of 15 meuro a year to KEDO expires at the end of this year. Following protracted debate, a mandate for the Commission to negotiate renewal was endorsed by Council on 29 June. Germany and France led the opposition to any substantial increase. Partners were able to agree only a small increase for inflation, to 17.5 meuro.

3. The other KEDO Executive Board members (US, Japan and South Korea) are greatly disappointed by this outcome. The US had been pressing hard for a doubling of the current commitment. Japan is contrasting its large contribution to Kosovo with the EU's minimal efforts in East Asia. EU partners, collectively and individually, will face further lobbying. Madeleine Albright has already raised the issue with the Secretary of State (3 July).

### Inter-Korean Summit, 13-15 June 2000

4. The Summit exceeded expectations. Kim Dae-jung and Kim Jong Il made progress on a number of key issues, signing a joint Declaration on reunification, family reunions, economic cooperation and future dialogue. While the declaration's wording on reunification is vague enough to satisfy both parties, the family reunion agreement is a notable achievement for Kim Dae-jung. The inclusion of an agreement on economic cooperation was a North Korean objective.

5. Nonetheless, the real test for the Declaration will be in its implementation – by both sides. North and South Korea have agreed similar documents in the past; none has delivered on its promises. Previously, however, the leaders of North and South Korea were not so personally and visibly committed to such political statements and did not display such rapport. Chairman Kim did not seem the sickly recluse portrayed in South Korea; his apparent affability, astuteness and personal modesty played well in South Korea and internationally, as did his deference to President Kim's office and age. But North Korea, its leadership and strategic aims (other than the preservation of its political system) remain an enigma (until the Summit, Chairman Kim's voice had been heard only once before, and then only in North Korea).

6. The South Koreans welcomed the outcome of the Summit as a real breakthrough. Experience has, however, taught them to be restrained about North Korean promises of cooperation. While enthusiastic about the potential for real change, the South Koreans will await further signs of North Korean willingness to put it into practice. In a public statement, the South Korean Deputy Foreign Minister said South Korea would welcome the declaration on cooperation "with a warm heart and a cold head". Clearly, Chairman Kim has more work to do if he is to convince South Korea and the international audience that his stated intentions are sincere. Crucial to this will be the eventual resolution of important issues not apparently covered in depth at this Summit, such as North Korean missile proliferation and North Korea's insistence that all 37,000 US troops are removed from the Korean Peninsula.

## Korean Peninsula

1. **Handling.** The South Koreans are keen to get G8 support for observer status and eventual North Korean membership of IFIs, the aim being to share the burden of reconstructing the North Korean economy. The South Koreans may have lobbied the Japanese to raise this at Okinawa. The US in particular is against North Korean membership of IFIs until it makes progress on transparency. Other countries are likely to have problems because of North Korea's long standing debts. A vague blanket statement of support for North Korea membership of IFIs would be inappropriate.

2. Russians have proposed two amendments to Heads conclusions on Korea – dropping word "strong" before "support for the RoK's engagement policy and dropping a reference to continuing international concerns about the DPRK (human rights, missile proliferation etc). Ideally these would stay in, but from our perspective the key issue is that the Communiqué says something positive about the North-South Summit - which is still does. (Covered in back to back.)

3. The Russians will be particularly reluctant to have any language critical of DPRK as Putin will be arriving straight from Pyongyang. After almost a decade of indifference, Russia is taking more interest in DPRK, though they have not so far shown any interest in putting any money into it. Putin may use his reporting on his DPRK visit to turn the argument to NMD and the presence of US troops on the Korean Peninsula.

4. Canada may recognise North Korea after the Bangkok Asean Regional Forum meeting. She has indicated that this may then lead to the establishment of diplomatic relations, making Canada the second G7 country after Italy to take this step. (UK has recognised North Korea since 1991 when it entered the UN.)

# REGIONAL ISSUES

## Korean Peninsula

We warmly welcome the Summit Meeting between the ROK and the DPRK held in Pyonyang on 13-25 June 2000 and underline the historic importance of this meeting. We fully support the positive developments set in train by the meeting, and encourage the South-North dialogue to continue and advance further on the basis of the results of the first meeting. We sincerely hope that such process, including the faithful implementation of the South-North Joint Declaration, will usher in a new era in inter-Korean relations and reduce the tensions in the Korean Peninsula.

We welcome the recent positive attitude shown by the DPRK, and take note of the reconfirmation of its moratorium on missile-launch as a positive step. We call on the DPRK to continue such efforts and to take constructive steps towards the resolution of the security, non-proliferation and humanitarian and human rights concerns of the international community. We reiterate our strong support for the ROK's engagement policy which has contributed to the recent positive developments. We express support for all efforts by the ROK and the DPRK to reduce tension and establish lasting peace on the Korean Peninsula, which will contribute to stability in Northeast Asia.

# SOUTH ASIA
# (INDIA/PAKISTAN)

## South Asia (India/Pakistan)

### Additional Point

- No major conflict this summer so far. G8 countries should take some credit for clear messages passed to India (restraint), and, in particular, Pakistan.

- But still concerned at underlying situation. Kashmir a potential flashpoint. Dangers remain; Pakistani support for terrorist infiltration, heavy-handed Indian administration, border (Line of Control) exchanges.

- All this in shadow of continued development and deployment of nuclear weapons. Vital to encourage a return to bilateral dialogue.

# SOUTH ASIA (INDIA/PAKISTAN)

## Background

1. This spring was dominated by fears that General Musharraf was prepared to engineer a step-change in militant infiltration across the Line of Control once the snows melted. Not strictly a Kargil II, but potentially as explosive. An Indian over-reaction to violence in the Kashmir Valley could start a chain of escalation.

2. A major conflict this summer has been avoided so far. There are signs that Pakistan has responded to international pressure (notably from CDS in January and President Clinton in March) and toned down its plans. In parallel India has given assurances that it will act with restraint in the face of militant provocation. The aggressive rhetoric on both sides has subsided.

3. But the underlying situation remains tense. Pakistani-backed infiltration across the Line of Control continues at pre-Kargil levels. The political and human rights climate on the Indian side of the Line of Control is poor (and worsening). Artillery exchanges continue at the Line of Control, although the US are trying to broker a cease-fire.

4. There is no bilateral dialogue in prospect. India says it will not talk until there has been an end to militant activity. A tangible reduction may be enough to kick-start talks, but the prospects of early movement on the key issues are slim. Trust is at an all-time low. And both sides are urgently pressing ahead with development, manufacture and deployment of nuclear weapons and delivery systems.

5. Apart from India's recent agreement to resume dialogue with the US over export control legislation, there has been little progress by either side against the benchmarks in UNSCR 1172. Lobbied by India, France and Russia argue that G8 sanctions and the G8-led Taskforce are not working and should be quietly dropped. Japan and Canada are keenest to hold the present firm line. We and the US think that the Taskforce is still a useful tool to bring pressure, but take a generous interpretation of G8 sanctions on IFI lending.

**G8 SUMMIT, 21-3 JULY, OKINAWA: SOUTH ASIA**

**SHERPA BRIEF**

**Objective**

To support the Canadians in seeing off the US/French amendment.

**Points**

- Have not seen any move by either side which can be regarded as a 'step'. Nothing but words so far.

- Understand that India has agreed to resume talks with US on export control legislation. But not aware that there have yet been any breakthroughs.

**Background**

1. France (usually supported by Russia) waste no opportunity to attempt to dilute the firm G8 stance on the Indian and Pakistani nuclear programmes. On this occasion the US may be supporting more positive language because of their impending non-proliferation talks with India this month. They may be looking to leave the door open for India to deliver real progress on new export control legislation.

2. But unless the US-India talks produce an unexpected breakthrough before the summit, the truth is that neither India nor Pakistan has made any progress against the UNSCR benchmarks:

- signing and ratifying Comprehensive Test Ban Treaty
- progress on the Fissile Missile Cut-off Treaty
- tightening export controls
- confidence and security building measures

3. Canada is likely to be strongly supported by Japan.

**South Asia**

The level of tension between India and Pakistan remains a cause of international concern. We call on the two countries to resume dialogue as soon as possible in the spirit of Lahore in order to realise a sustainable peace in the region.

We call on both India and Pakistan to join international efforts to strengthen the non-proliferation and disarmament regime. While welcoming positive statements [and steps] that have been made, we reiterate our call for them to fully carry out concrete measures set out in UNSCR 1172, including signing and ratifying the CTBT.

# MIDDLE EAST
# PEACE PROCESS

**Middle East Peace Process**

- Grateful to US for efforts at Camp David. Negotiated solution is the only way forward. Unilateral actions will destroy progress and risk violence.

**[will need updating]**

## Middle East Peace Process - Background

1. **Handling.** Discussion of the MEPP will depend on progress at the Camp David Summit. If Camp David is continuing then the G8 should simply signal its support of current negotiations.

**Okinawa G8 Summit** **Sherpa Brief**

**Objectives**

- to agree text of communique in support of US efforts to promote negotiations through the Summit at Camp David.

**Background**

2. **Handling.** The text on the MEPP will depend on the outcome of the Camp David Summit. President Clinton is expected to leave the Summit in order to attend the G8 meeting. This would give both Barak and Arafat an opportunity to return to the region to brief their constituencies on any progress. In this case, language on the MEPP should encourage the parties to continue negotiations. We should avoid references to Palestinian statehood.

3. But it is also possible that the Summit will continue, with Clinton present. In which case, the language agreed for the Foreign Ministers meeting in Miyazaki will suffice.

4. Clinton may push for G8 partners to commit themselves to financial support for a permanent settlement. We want to lower rather raise expectations of an EU, and UK, contribution.

**Middle East Peace Process**
**(Text inserted from Foreign Ministers' Conclusions; to be updated at the next PD's Meeting on 21 July)**

In the Middle East, there is a real opportunity for the achievement of a comprehensive peace based on the UN Security Council Resolutions 242 and 338 and the agreements of Madrid and Oslo. We reaffirm our strong support for the efforts by the parties concerned to advance the peace process toward this end. We reiterate the importance we attach to a continuing commitment to the peaceful resolution of disputes.

We welcome the recent withdrawal of the Israeli forces from Lebanon, in accordance with the UNSCR 425, as verified by the UN Secretary General and confirmed by the UN Security Council. It is the responsibility of the Government of Lebanon to ensure the return of its effective authority to maintain peace and security in southern Lebanon. Being aware that attaining these goals will also depend on the government's ability to meet the infrastructure and development needs of this region, we are committed to supporting its efforts to this end.

In light of the trilateral Summit Meeting on a peace between Israel and the Palestinians, we call upon both parties to accelerate the negotiations to reach a final status agreement by the target date of 13 September set forth by the Sharm el-Sheikh Memorandum. We invite the international community to participate in the efforts to help the parties implement such an agreement when it is reached.

We underline the importance of resuming the activities of the multilateral working groups recognising that progress in the multilateral tracks is related to and supports bilateral tracks.

BALKANS

**Balkans**

- When we last met at Eight we celebrated historic breakthrough in reaching Kosovo peace settlement. An important triumph for G8 cooperation; and the passing of a difficult period for all of us. At Gerhards suggestion we reconvened at the Stability Pact Summit to pledge our support for the region's reconstruction. Many in the Western Balkans – such as Croatia – are now working hard to overcome the legacy of the last decade of conflict and get back on their feet economically.

- But Milosevic remains in Belgrade. Personally I find it remarkable that more than one year on Milosevic is still trying to cling to power. Best thing for the region, and for the Serbian people, would be for him to go.

- Latest changes to the Belgrade Constitution are illegitimate. Prospect that under revised constitution he might be allowed to serve a second term is unacceptable. New voting system rigged in his favour;

- Also gravely concerned at introduction of new terrorism legislation with draconian penalties for "generally dangerous action". Clear that Milosevic has not changed his spots.

- Djukanovic in Montenegro showing restraint in the face of this provocation. Need to make our views clear, while showing our support for measured response.

## Balkans - Background

1. **Handling.** Protracted discussion over the G8 Foreign Ministers' text at Miyazaki centred on Russian concerns that criticism of Milosevic's recent changes to the FRY Constitution would be tantamount to an incitement to violence. The text that was eventually agreed usefully referred to Ministers being 'very concerned' about the motivation for and possible consequences of the changes; and also said that Ministers 'strongly oppose' the recent restrictions on the free press. The Russians have their own links to the opposition and to Djukanovic, but are generally reluctant to criticise Milosevic in public (while often expressing their frustration in private). So this was a godd result. Having agreed to this language at Miyazaki, the Russians ought not to make too much fuss about a corresponding (but shorter) draft reference in the Heads' Communique. But, given the sensitivity, the issue may need to be discussed at Heads' level.

2. The regime-dominated FRY Parliament changed the Constitution on 6 July to allow the direct election of the Federal President for two terms (Milosevic was appointed by the Parliament under the old system, which allowed only one term – his expires in July 2001). A change to the voting system in the upper house will also help to secure pro-Belgrade influence. Taken together with a planned 'anti-terrorist' law, which prescribes draconian penalties for 'generally dangerous action', it looks as though Milosevic plans to cling to power and crack down on the opposition.

3. Djukanovic has reacted cautiously. He has said that these moves (about which Montenegro should have been consulted in advance, but was not) amount to a 'constitutional division', and that Montenegro will no longer take part in Federal elections. But he has not re-opened the independence issue.

Sherpa Brief

**G8 - BALKANS - STABILITY PACT FOR SE EUROPE**

**OBJECTIVES**

- Retain existing draft language, with UK amendment

- Resist German amendments (but see fall-back text below)

**BACKGROUND**

1. We are generally happy to accept the draft Communique text, with amendments (in bold): (included in Back to Back)

..We commend [the co-ordination provided by] the Stability Pact which is contributing to enhanced regional political and economic co-operation in South Eastern Europe. We also welcome the 2.4 billion Euro pledged for quick start projects in the fields of democratisation, economic development and security. We expect countries of the region to intensify their efforts for reform [**and facilitate the growth of inward investment**].

This shortens the text, reduces the focus on co-ordination (which other players dislike) and includes inward investment, which in the medium-long term is more important than aid.

2. Germany has suggested a new text (attached). This is too long and unbalances the Balkans text by giving too great a prominence to the Pact. While the Pact has been useful in encouraging the countries of South East Europe to work together, it has been only one part of a much wider international agenda. Much work has also been undertaken bilaterally and by the EU and the IFIs. The draft Communique language, with some minor amendments, reflects this by putting the Stability Pact in the context of the supporting role it has played.

3. Additionally, as drafted, the German text would extend the role of the Pact beyond one which we would find acceptable. In particular, the last sentence gives the Stability Pact a role in the 'follow-up of the projects agreed upon'. We cannot accept this. In many cases, this is the role of the WLSG or the World Bank/EC HLSG chairmanship. The Stability Pact, at most, provides support in this process.

4. France and the Commission will probably lead in opposing this text, so no need to get out in front; but if pressed we should support opposition to the German language. We could however accept a redraft of this sentence in the final Communique language along the lines of:

'We give our strong support to the continuing role of the Stability Pact in supporting the World Bank and European Commission in the follow up of the projects agreed upon.'

**Balkans**

The G8 remains committed to supporting peace, stability and development in South Eastern Europe. Towards this goal, we call upon all parties concerned in the region to refrain from violence and to further promote their mutual co-operation, and we reiterate the importance of promoting harmony among ethnic groups and creating the conditions for coexistence among all communities. We welcome contributions supporting South Eastern Europe made by individual states and international organisations, in particular by the EU. We commend the co-ordination provided by the Stability Pact which is contributing to enhanced regional political and economic co-operation in South Eastern Europe. We also welcome the 2.4 billion Euro pledged for quick-start projects in the fields of democratisation, economic development and security. We expect countries in the region to intensify their efforts for reform.

We reaffirm our commitment to the full implementation of the UNSCR 1244 and underline our support for the efforts made by the UN, the EU, KFOR and the OECE. Successful and carefully prepared municipal elections in Kosovo will be an important step in the establishment of a democratic and multi-ethnic society, and we urge all communities in Kosovo to refrain from violence and to help build such a society. We look forward to a democratic Federal Republic of Yugoslavia so that it can be reintegrated in the international community and play its rightful part in contributing to the stability of the entire region. [At present, we can only be deeply concerned by the revision of the FRY Constitution which jeopardises peace and stability in the region and is intended to preserve and extend the power of Milosevic.]

# AFRICA

**Speaking Note: Priorities for Africa**

1. Success of Africa remains high on UK agenda. Why?
- war, AIDS, corruption and environmental disaster have no continental boundaries.
- 10% of world population but 1% of its GDP represents a huge missed market
- an Africa in turmoil threatens a global community that wants peace, stability and prosperity.

2. 4 Key priorities in our relations with Africa:

**I Conflict**
- War and conflict more pervasive in Africa than any other region in the World.
- This prevents sustained economic progress and transition to stable democracy.
- Tackle this on 3 fronts: (a) stop wars starting (b) stop processes that sustain conflict (eg action on conflict diamonds) (c) stop existing wars.

**II HIV/AIDS**
- Biggest killer of adults in Africa. 23 million Africans infected (70% of global incidence)
- Potentially devastating economic impact: (a) undo past achievements. Eg falling life expectancy. (b) HIV/AIDS disproportionately affects the productive age groups so lose skilled workers at peak of their productivity.

**III Corruption**
- Corruption reduces the effectiveness of aid, public expenditure and private investment. Poorest people are hit hardest. Eg Funds earmarked for poverty reduction that get diverted to private bank accounts.

**IV Debt**
- Need to ensure that resources released by debt relief are used to strengthen poverty reduction programmes, eg health and education. Hence the emphasis on inclusive Poverty Reduction Strategy Papers (PRSPs).
- But HIPC Initiative needs to deliver results faster.

**<u>Tackling These Priorities</u>**
- African government's that demonstrate a genuine commitment to peace, economic reform and poverty reduction must be supported.
- As major donors need to co-ordinate our efforts and work with other development agencies, including the International Financial Institutions, to build genuine partnerships with these countries.
- Innovative new partnerships to marshal business to the development challenge.
- Recognise the positive role that civil society can play.

## Africa - Background

1. **Handling.** We are content with the Africa text which has been sharpened up, at UK suggestion, throwing into greater relief what the G8 itself can do to help the continent. The Foreign Ministers' final communique goes into greater detail about the issues. The prize for this meeting will be the adoption of a good text on conflict diamonds (see separate brief) which is a practical attempt to help address one of the main causes of conflict in Africa.

2. Recent events in Zimbabwe, Sierra Leone and the Horn of Africa (Ethiopia/Eritrea) have led to increasingly Afro-pessimistic coverage in the UK and other Western media. We cannot ignore these events, but the situation is much more complicated than the headlines suggest. 80% of Africans are fighting poverty. Massive developmental challenges remain. Fewer than one in four rural girls attend primary school in sub-Saharan Africa, and fewer still complete it. Endemic disease, including malaria, and HIV/AIDS are decimating the population, including the middle class. But an increasing number of African Governments have embraced political and economic reform. South Africa and Nigeria are the motors of Africa. President Mbeki and Obasanjo are working increasingly closely to promote their vision for the continent. Heads are meeting them, with President Bouteflika, in preparation for the summit (see separate brief). The regional organisations are growing stronger. The challenge for the 21st century is to tackle the causes of conflict.