Prem 49/1230/3

CYPRUS

Cyprus

- welcome continuing UN proximity talks, urge all concerned to support Kofi Annan's efforts to reach a just and lasting settlement.

- (if necessary) express support for use of word "united" Cyprus, as language acceptable to both parties.

Cyprus - Background

1. **Handling.** We are keen to reinforce last year's G8 message, for Heads of Government to confirm their support for Annan and help keep high-level political pressure on the parties to engage. There is one final sticking point over the word "united" in the penultimate sentence. We, the US, Italy and Germany support this; it draws on the Cologne message, expresses the goal of UN settlement negotiations, and avoids implications of a unitary state or confederation. The French and Russians have expressed some concern (the Russians that it might offend the Turks – in fact it is a term acceptable to both parties).

2. G8 Heads of Government statement on Cyprus at Cologne on 20 July last year successfully urged the UN Secretary General to launch comprehensive settlement talks. It also set out principles for the talks, UNSCR 1250 of 29 June endorsed the request and principles in identical terms. In response to UNSCR and guided by its principles, Annan launched UN proximity talks in December 1999. The talks were in session in February 2000 and resumed in Geneva on 5 July. They are set to continue (with a recess in mid-July) and a longer one from early August to early September) into the Autumn. The signs so far are positive that both parties are starting to address the core issues. This is particularly welcome given some inauspicious events surrounding the renewal of UNFICYP's mandate, including the Turkish Cypriot action on Strovilia (which the UN is handling and is keen to keep completely separate from the UN talks).

Okinawa G8 Summit **Sherpa Brief**

CYPRUS

Objectives

1. To secure agreement on draft G8 text, avoiding language that is unacceptable or inflammatory to either party.

References

A: Mr Jones Parry's minute of 12 July to Sir David Hannay and Sir David Hannay's reply of 12 July

See also Cologne G8 Summit statement on Cyprus (Reference section – Statement on Regional issues)

Points to Make (covered in Back to Back)

- express UK support of use of term "united" Cyprus, a term acceptable to both parties.

- content with the current text, but could accept inclusion of language from last year's G8 text and UNSCR 1250 "in accordance with relevant Security Council resolutions"

Background

1. Agreement needs to be reached on a reference in the penultimate sentence to a "united Cyprus". We, the US, Italy and Germany support use of the word "united". It is a term acceptable to both parties, and avoids any implication that the new Cyprus would be a unitary state or the risk of pre-judging the confederation/federation debate.

2. The Greeks and Greek Cypriots are lobbying hard for a reference to Security Council resolutions in this years G8 text. Current UN proximity talks were convened on the basis of UNSCR 1250, which makes it clear that the talks are on the a "no preconditions" basis. We have to be careful to avoid reference to other SCRs, which imply support for a federal solution and might give Denktash, who favours confederation, an excuse to say that pre-conditions were being introduced. We are content with the text as it stands but the best option, if a change is going to be made, would be to add a phrase, used in last year's G8 text (fourth bullet point) and is taken from UNSCR 1250 (point 6), "in accordance with relevant UN Security Council Resolutions". This is the US position.

3. UN settlement talks have to be going on in Geneva (5-12 July). They will reconvene on 24 July. The parties have agreed a work programme stretching on into the autumn. This is a positive development, as are signs that both sides are showing willingness to engage on the core issues (governance, territory, property, security), although things are at an early stage. The UN Secretary General has asked both parties to observe a news blackout.

4. We hope that events on island are not allowed to disrupt the settlement negotiations. There are two immediate flashpoints:

a. Strovilia. The Turkish Cypriots have set up a checkpoint outside a Greek Cypriot village as part of recent measures announced to restrict UNFICYP's movements. (This action followed disagreement over the renewal of UNFICYP's mandate on 15 June and the dropping of an addendum to the UNSG's report, which recorded Turkish Cypriot agreement to UNFICYP's activities). The purpose of the checkpoint is to monitor the movements of the single UNFICYP soldier and villagers' movements are not restricted but the Greek Cypriot government fear a change to the status quo and that these (8 and 9) individuals will become enclaved. Our line is that we regret Turkish Cypriot measures against UNFICYP; this is a UN matter; we support UN efforts to resolve it on island; we believe taking the matter to the Security Council would risk further entrenching the Turkish Cypriot position; it should not be allowed to affect the settlement talks.

b. Denktash' return to the island for the Turkish Cypriot commemoration of the events of 20 July 1974 (the Turkish invasion/peace operation). The UN have asked leaders on both sides to show restraint.

RESTRICTED

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12 July 2000

Emyr Jones Parry
c/o Miyazaki
(00 81 985 678050)

G8: CYPRUS

1. Many thanks for your fax of 12 July; and for your stalwart efforts to achieve what seems to me an excellent text.

2. As to "united" the discussion seems, as so often occurs in multilateral negotiation, to have led to some inadvertent cross-dressing. I cannot believe that Mamedov's dislike of "united" was really because it was offensive to the Turks; more likely it was an opportunistic move to enable him to fish for variants that were even more offensive to them, eg single, undivided etc. "Single" and "undivided" are, pace Errera's desire not to offend Turkish sensibilities, worse for the Turks than "united".

3. My inclination is to camp on "united". For the reasons you and Tom Pickering gave, it does not pre-judge the federal/confederal argument. And it is a comfortable position for a country like the UK which firmly supports the unity of any new Cyprus. That said "re-united" would perhaps be a shade better for the Turks, although they do not actually much like that terminology.

Dawn McKen

Sir D Hannay
c/o UKMis Geneva

cc: Mr Wright
Mr Hill, SED
Edward Clay, Nicosia
David Madden, Athens

RESTRICTED

18-JUL-2000 17:22 FROM SEU Hgean

12 July 2000

Sir David Hannay
c/o UKMis Geneva

cc: Stephen Wright
Jeremy Hill, SED
Edward Clay, Nicosia
David Madden, Athens

G8: CYPRUS

Summary

1. Draft text for Heads agreed with one word still in question. Satisfactory reference in Foreign Ministers' Conclusions.

Detail

2. G8 Political Directors duly discussed the draft passage on Cyprus for the Okinawa communique.

3. Errera (France) had difficult with the reference to the Cologne communique contained in the second sentence, masking a desire to replace it with a reference to UNSCR 1250. Mamedov (Russia) did not rise to the bait and call for an insertion of "in accordance with UN Security Council Resolutions". We agreed to delete the reference.

4. But the main point of contention was the reference in the penultimate sentence to a "united Cyprus" – raised again by Errera. Errera accepted that the text had been studied exhaustively by experts, but intuitively he was concerned that this reference would be seriously offensive to the Turks and Turkish Cypriots, prejudging the constitutional outcome. Mamedov agreed (it was striking that he should be ostensibly trailing the Turkish side of the argument). Heinbecker (Canada) was generally suspicious of the text, coming from the position that G8 leaders risked looking ridiculous if their call came to nothing: he joined in the France-Russian attack on "a united Cyprus".

5. I argued – with strong support from Pickering (US) – that the Cologne message had been pivotal. The present text maintained G8 pressure helpfully, and was an extremely careful balance, arrived at after considerable study by the experts. The phrase at issue was not prejudicial (being consistent with both a federal and a confederal solution); expressed the goal of the negotiations; and its absence would be seriously problematic for Clerides. Baldocci (Italy) and Scharioth (Germany) spoke usefully in support. We saw off a number of alternatives: "single" and "undivided" were the ones which Errera and Mamedov favoured most ("a unified" and "one" Cyprus were also mentioned).

6. We agreed the overall text (attached) less the reference to Cologne, with brackets on "united". Capitals should consider the term further in the interim before Okinawa. The Presidency concluded that, this point apart, Political Directors had committed to recommend the passage to Heads; it should only be reopened if partners had genuinely fundamental concerns.

7. We had previously agreed the following very brief reference in the Foreign Ministers' conclusions:

"We recommend that the Heads reiterate their strong support for the UN Secretary General's efforts to reach a comprehensive settlement in Cyprus."

8.. The next formal step is the Political Directors' meeting to finalise the text, in Okinawa on 21 July.

Emyr Jones Parry

Emyr Jones Parry

reintegrated in the interntiaonal 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

Africa is seriously affected by various intractable problems. We recognise that achieving stability, poverty elimination, sustainable development and prosperity as well as fighting the ravages of disease especially HIV/AIDS in Africa must be the central objectives. We are committed to mobilising the instruments and resources of the international community to support and reinforce the efforts of African states to combat and overcome these challenges.

We are deeply concerned about the growth of armed conflict in the continent. Africa must mobilise the political will to prevent and resolve these conflicts.We reaffirm our commitment to support such a quest for peace and stability. We stress that the rule of law, good governance and democracy are indispensible elements to achieve that goal.

CYPRUS

We recall the declaration issued at our last meeting in Cologne calling for a resumption of comprehensive negotiations under the UN auspices on a Cyprus settlement. We commend the UN Secretary General for convening proximity talks between the parties to the Cyprus dispute to prepare the ground for meaningful negotiations leading to a comprehensive settlement. The failure of the two parties to resolve their differences and end the division of Cyprus remains a matter of serious concern to us. We call upon the parties to take the historic opportunity that now exists to intensify the negotiations in an effort to strike the compromises needed to reach a just and lasting settlement that protects the fundamental interests of both parties in a [united] Cyprus. We express the hope that decisive progress will be made in the current round and in the months ahead.

END

Cyprus

We recall the declaration issued at our last meeting in Cologne calling for a resumption of comprehensive negotiations under the UN auspices on a Cyprus settlement. We commend the UN Secretary General for convening proximity talks between the parties to the Cyprus dispute to prepare the ground for meaningful negotiations leading to a comprehensive settlement. The failure of the two parties to resolve their differences and end the division of Cyprus remains a matter of serious concern to us. We call upon the parties to take the historic opportunity that now exists to intensify the negotiations in an effort to strike the compromises needed to reach a just and lasting settlement that protects the fundamental interests of both parties in a [united] Cyprus. We express the hope that decisive progress will be made in the current round and in the months ahead.

GREATER
WORLD
PROSPERITY

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

G8: TOWARDS A 21st CENTURY OF GREATER WORLD PROSPERITY

Handling

1. This session covers the World Economy, IT, Development (including debt, health and education), Trade and Cultural Diversity. Clinton will open the session leading the discussion on World Economy.

2. Key issues on which you should intervene are:

   a) **World Economy.** Putin's opportunity to speak on Russian economic prospects, possibly making a pitch on debt relief and fuller membership of G8.

   Objective: Welcome Putin and give "in principle" support for fuller membership – following fuller integration into the global economy (eg through WTO accession). On debt, hold G7 position – too early to consider rescheduling (pre-IMF programme implementation) but will judge Russia against reforms.

   b) **Trade.** We have pressed others, with support from the Commission, to be more ambitious on enhancing market access for goods from the least developed countries. This is essential to rebuild confidence in preparation for the launch of a new Round. Prodi also intends to raise and will support you. Meanwhile Clinton wants to keep open the option of a launch this year although others, including most of the developing world, doubt whether the necessary compromises can be made (eg on trade/labour standards) pre-election.

   Objective: Push partners to improve the Quad's initial offer (described by Bangladesh as confidence-shattering) on enhanced market access for goods from the least developed countries.

   c) **IT.** The Okinawa IT Charter (to be published at the Summit) focuses on how to spread the benefits of IT to all, and close the digital divide. This is a chance to flag your initiative with Cisco to explore how the internet can improve education in developing countries.

   Objective: Welcome the IT Charter and flag your initiative with Cisco.

3. Subject to Sherpa discussions you may also want to put in a reference on **Untying Aid to the least developed countries.** This is the practice whereby donors insist that aid is spent on goods and services from the donor country. You wrote to Mori in June stressing the importance we place on untying. Two successive Summits have urged action and negotiations in the OECD on an agreement to untie are now very close. Only Japan, France and Denmark have failed to sign up to compromise language. We believe it is time to resolve the small differences remaining. **Objective: (subject to Sherpa negotiations) Press Japan and France to sign up to the OECD agreement on untying – ie commit to untie agreed categories of aid by end 2001.**

4. Additional points are also provided for the remaining discussions. We strongly support headline messages on **Health in developing countries** and can use this session to announce new UK spending. We support firm G8 endorsement of the World **Education** Forum in Dakar – a UK NGO priority. You will probably discuss **Debt/HIPC** quite quickly having covered at G7. Finally you can cite a couple of UK examples on the positive role that **Cultural Diversity** plays in a globalising world.

WORLD ECONOMY

World Economy

Handling: Putin's opportunity to speak on Russian economic prospects. Welcome him and give in principle support for fuller Russian membership. Hold G7 position on debt – too early to consider rescheduling (pre-IMF implementation) but will judge Russia against reforms.

[General discussion on World Economy – as at G7. Putin will then present Russian economic prospects.]

Key Points

- Welcome Russian commitment to economic reform. Look forward to early implementation, agreement of reform programme with IMF/World Bank and action to address poverty and social exclusion.

- Encourage Russia to press on with **WTO accession**.

- [Update brief in light of G7 discussions]

World Economy - Background

1. **Handling.** You discuss World Economy at G8 principally to hear what Putin has to say. You will have discussed approach eg on Russian debt at G7.

2. The Russians seem to have pulled back from their earlier pressure for debt 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.

(Sherpa brief under G7 session
- G7 Economy)

G8 COMMUNIQUE OKINAWA 2000

page 1

Preamble

We, the Leaders of eight major industrialised democracies and the President of the European Commission, met together here in Okinawa for the 26th Summit in the year which heralds a new millennium. We reflected upon the challenges faced and progress made since the First Summit in Rambouillet in working toward peace and prosperity throughout the world, and we discussed the role the G8 should play as it evolves in the 21st century.

During the last quarter of the 20th century, the world economy has achieved unprecedented levels of prosperity, the Cold War has come to an end, and globalisation has led to an emerging common sense of community. Driving these developments has been the global propagation of those basic principles and values consistently advocated by the Summiteers–democracy, the market economy, social progress, sustainable development and respect for human rights. Yet we are keenly aware that even now in many parts of the world poverty and injustice undermine human dignity, and conflict brings human suffering.

As we make the transition into the new century, we will continue to exercise leadership and responsibility in addressing these persistent problems and squarely face new challenges as they arise. We must tackle the root causes of conflict and poverty. We must bravely seize the opportunities created by new technologies in such areas as IT and life sciences. We must acknowledge the concerns associated with globalisation, while continuing to be innovative in order to maximise the benefits of globalisation for all. In all our endeavours we must build on our basic principles and values as the foundations for a brighter world in the 21st century.

In a world of ever-intensifying globalisation, whose challenges are becoming increasingly complex, the G8 must reach out. We must engage in a new partnership with non-G8 countries, particularly developing countries, international organisations and civil society, including the private sector and non-governmental organisations (NGOs). This

page 2

partnership will bring the opportunities of the new century within reach of all.

We hope that our discussions in Okinawa provide a positive contribution to the UN Millennium Summit, which we expect to articulate, in the spirit of the Secretary-General's report "We the Peoples", a vision that will guide the United Nations as it rises to the challenges of the new century. To that end, we will continue to work for a strengthened, effective and efficient United Nations, and remain convinced that reforms of the United Nations, including the Security Council are indispensable.

A new era dawns. Let us move forward together, with hope toward a 21st century of greater prosperity, deeper peace of mind and greater stability.

page

Toward a 21st century of greater prosperity

World Economy

The 20th century has achieved unprecedented economic progress. Yet the financial and economic crises of the past few years have presented enormous challenges for the world economy. Together with many of our partners around the world, we have devoted ourselves to alleviating the adverse effects of the crisis, stimulating economic recovery, and identifying ways to help prevent future upheavals, including measures to strengthen the international financial architecture. The world economy will grow strongly this year, and we are particularly encouraged by the strength of recovery in most crisis-affected countries.

While the pace of recovery varies across Asia, trade is expanding and indeed some countries have achieved dynamic growth. Reform efforts must now focus on maintaining the momentum behind financial and corporate sector reforms, improving public and private sector governance and transparency, and strengthening social safety nets to ensure strong, sustainable growth and avoid future instability.

We continue to place a high value on the G8 partnership and remain committed to Russia's full integration into the global economy. Russia's economic performance has improved during the past year, partly reflecting improved external factors, and we expect that Russia will implement further actions to move forward with fundamental economic reforms. In this context, we welcome the policy commitment in the Russian Governments economic programme and expect that Russia will implement these commitment rapidly, in particular focusing on tax, and expenditure reform, strengthen the rule of law, financial sector restructuring reforms, welfare reforms, establishing effective corporate governance, and taking decisive measures to combat corruption and money laundering. Provided a new IMF programme is in place and displays a financing gap requiring international assistance, Paris Club talks are expected to begin in autumn 2000 to negotiate a new rescheduling agreement for the period covered by the IMF programme. Once Russia establishes a track record of comprehensive reform, we encourage the Paris club to continue to deal with the problem of Russia's external debt service arising from Soviet era obligations, aiming at comprehensive solutions based on Russia's medium and long term capacity to repay.

page 3

We stress the importance of improving the investment climate in Russia, as the Russian government take appropriate steps to create a stable and transparent legal environment and mechanisms more attractive to domestic and foreign investment as well as to settle investment-related disputes.

We emphasise the importance of further integrating Russia into the global rules-based economy, which will enhance the stability and transparency of the Russian economic and trade system, and strengthen our economic partnership. We support Russia's actions to this end, including for early accession to the World Trade Organisation (WTO) on conditions generally applicable to new members.

Despite recent positive developments in the world economy, we recognise that there is no time for complacency as globalisation intensifies and the rapid diffusion of information and communications technology (IT) brings about fundamental structural changes to our economies. There are encouraging signs of a new reality in the improvement of productivity in the United States and, to a lesser extent, in other G8 economies. But to capitalise on the opportunities before us, we must renew our unwavering commitment to structural change in our own economies, including greater competition and more *adaptable* labour markets, underpinned by appropriate macro-economic policies.

INFORMATION TECHNOLOGY

- I hope that new Digital Opportunity Taskforce can look at these issues, in conjunction with UN/World Bank, and work out how we really can help poorer countries to take advantage of the opportunities that the new information age offers.

IT – Background

1. **Handling.** The "Okinawa IT Charter on the Global Information Society" **(ref A)** will be published at the Summit. There was some tension in trying to agree this. The US have been pushing an aggressively pro-competitive, liberalisation agenda. We have no problems with the substance of their arguments. But the view of the other 7 was that this message should not be at the expense of other developing country concerns. These tensions should have been resolved by the time you discuss.

2. The Charter focuses on how to spread the benefits of the information society to all - recognising that this will be primarily industry led – but urging the inclusion and involvement of developing nations. The broad elements of the Charter - potential benefits of the new economy; structural policies; light regulatory framework; risks (including hi-tech crime); closing the divide within countries; and between - are pretty satisfactory and consistent with UK/EU policy.

3. Visionary, effective follow up is essential. The Charter establishes a G8 Digital Opportunity Taskforce and sets out a clear mandate, working closely with other stakeholders and reporting its findings and activities before the Genoa G8.

4. The DOT.Force has only a year to show some results. It needs to focus on practicalities and economics. The costs of accessing the Internet in most emerging and developing countries are currently prohibitively high for most potential local consumers e.g.in Uganda or Kenya 20 hours off-peak use costs over US$100 (compared to US average of less than US$30).

5. The key barriers to lowering internet access costs need to be tackled within developing countries. While international factors exist, developing countries need to liberalise their markets to increase competition, reduce access costs and attract investment. Experience in the UK and elsewhere shows clearly that liberalising telecoms markets and ensuring open and fair regulation reduces costs and provides a stable market for investment. The importance of liberalisation came out clearly at high level discussion of digital divides at the UN's Economic and Social Council (5-7 July). There is growing acceptance in developing countries of the need to act. However the level of commitment from leaders is mixed.

6. Some developing countries suggest that charges to their users are too high because of uncompetitive practices in the provision of international connections. Developed countries could undertake to promote competition in those markets alongside undertakings by developing countries to liberalise their telecoms sectors and build visionary, inclusive national ICT strategies. These should not be linked as conditional "concessions" (since liberalisation is a benefit to the liberator, not a cost), but as a shared commitment to improving access through maximising market competition.

7. The Prime Minister's initiative on education and ICT -"The Imfundo Project": Partnership for Technology in Education" - was launched in March. ("Imfundo" means "knowledge, education, learning" in Ndebele and Zulu - widely spoken in southern Africa). It will look at the scope for developing public/private partnerships to use ICT to widen access to, and improve, education in developing countries. The Initiative will focus on education in Sub-Saharan Africa and aims to present plans to the Commonwealth Education Ministers meeting in November.

REF A

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6 July 2000

Letter from the Global Business Dialogue on electronic commerce

I attach a copy of a letter from the leaders of the Global Business Dialogue on e-commerce (GBDe) addressed to the Prime Minister. The original is being sent by bag.

The letter to the Prime Minister covers a broad position paper for the G-8 summit in Okinawa, in particular the information technology discussions which are to take place there. It is not clear that this is a circular letter, but it is highly likely that the GBDe leaders will have written to all of the G-8 heads of government in similar terms.

The letter sets out some high level objectives which are broadly positive and aimed at furthering the development of the digital economy. The GBDe is a reputable business forum led by some of the leading players in the industry. The letter itself has come from the offices of America Online, and is signed by among others, Steve Case, Chairman and CEO of AOL and co-chair (with Gerald Levin of Time Warner) of the GBDe.

If a reply is to be sent, then that happen should be before the G-8 summit. I am copying this letter and the attachment to James Kariuki (EcPol, FCO). Amanda Goldin (e-envoy's office) and David Love (CII, DTI) and to James Purnell in the No 10 Policy Unit.

Yours ever

Simon Towler
First Secretary (Trade Policy)

Global Business Dialogue on Electronic Commerce

June 26, 2000

The Right Honorable Tony Blair
The Prime Minister
C/O The Embassy of the United Kingdom of
Great Britain and Northern Ireland
3100 Massachusetts Avenue, NW
Washington, DC 20008

Dear Prime Minister Blair:

One of the notable accomplishments of your government has been to help create the environment that has enabled the Internet, information technology and electronic commerce to flourish. The GBDe congratulates you on this noteworthy accomplishment.

The challenge we face collectively as we enter the Internet century is to ensure that the benefits of the Internet and the information technology revolution are more widely shared around the globe. At the upcoming G-8 Summit meeting in Okinawa in July, you and the other World Leaders have an exceptional opportunity to advance this critical goal. The Global Business Dialogue on E-Commerce, a worldwide, CEO-driven initiative to promote global policies to advance the growth of the medium, stands ready to help you in this effort.

We recommend that you utilize the upcoming G-8 meeting to advance a comprehensive global approach on information technology with four important components:

I. **Build greater global understanding of the importance of the medium in promoting not only economic goals, but in broadening a country's ability to advance its social and political agenda as well**

II. **Demonstrate G-8 leadership in embracing information technology by securing a commitment on the part of the G-8 countries to put in place the policy and regulatory environment to ensure that the medium can be available to consumers and businesses anywhere in the world**

III. **Develop a comprehensive digital opportunities program, involving all stakeholders, to ensure that every country can take advantage of the new digital opportunity afforded by the Internet and information technology**

IV. **Finally, secure a commitment of the G-8 countries to launch a public-private program to address the important issue of cyber crime and cyber security**

The GBDe recognizes that while private sector leadership has been critical to the growth of the medium to date, the success of this broader effort will require cooperation among all

stakeholders. Our organization commits to the following initiatives to build a global information society:

- **Expanding our efforts to build greater understanding of the power of the Internet and the promise of connecting individuals around the world.**

- **Continuing our intense focus on developing global and market-driven solutions to e-commerce policy issues and committing to work with governments from around the world to help them develop a policy, regulatory and legal framework to ensure the full growth of the medium.**

- **Committing our expertise to capitalize on global digital opportunities.** Our CEOs include some of the most successful businessmen and women in this field and they commit to work with businesses, governments and other institutions to share their unique knowledge on the digital economy.

- **Establishing a clearinghouse of specific programs and initiatives which GBDe member companies have put in place to ensure digital opportunities both within our home countries and globally.** We will take our collective expertise in addressing the digital divide domestically and work with other stakeholders to develop programs for global application.

As we mentioned at the outset, the G-8 meeting provides a singularly important opportunity -- for the Leaders of the G-8 and for those who value the importance of developing a truly global medium that will benefit people around the globe. We look forward to an opportunity to meet with your team to further refine these ideas.

Kind Regards,

Steve Case
America Online

Gerald M. Levin
Time Warner

Michio Naruto
Fujitsu Limited

Jean-Marie Messier
Vivendi

Lee Yong-Kyung
Korea Telecom Freetel

Cobus Strofberg
MIH Group

GBDe

Global Business Dialogue on Electronic Commerce

Statement of the Global Business Dialogue on E-Commerce Information Technology and the G-8 Summit in Okinawa

The emergence of the online medium has dramatically changed the ways that people live, learn and work. The explosive growth of the Internet and related information technologies is yielding enormous economic benefits in terms of higher economic growth rates, productivity gains and new job creation. As a social force, the medium is linking people across geographic and socioeconomic boundaries, creating new opportunities for learning and empowering governments to more effectively deliver public services to their citizens.

One of the critical challenges we face as we enter the new century is to ensure that the benefits of the Internet and the information technology revolution are more widely shared around the globe. The upcoming G-8 summit meeting in Okinawa provides a unique opportunity for this group of World Leaders to begin to articulate a plan of action to help bring the enormous opportunities provided by information technology to all countries.

The Global Business Dialogue on E-Commerce, a worldwide CEO-driven initiative to strengthen international coordination in the development of policies to promote global electronic commerce, stands ready to participate in this effort.

In developing a global framework to facilitate the global diffusion of information technology, the GBDe recommends that the G-8 focus on four critical areas.

I. **Build greater global understanding of the importance of the medium in promoting not only economic goals, but in broadening a country's ability to advance its social and political agenda as well.** The economic benefits of electronic commerce are becoming well understood, but the broader benefits of an Internet society are only now becoming more apparent. For example, information technology can have a profound impact on public health and education, and it can be used to promote local language and values even as it makes information from other cultures more readily accessible. A number of developing countries have made important strides in adapting advanced communications to local needs, and these examples should be highlighted by the G-8.

II. **Demonstrate G-8 leadership in embracing information technology by securing a commitment on the part of the G-8 countries to put in place the policy and regulatory environment to ensure that the medium can be available to**

consumers and businesses anywhere in the world. The GBDe has outlined the policy framework needed to ensure the continued explosive growth of information technology in a way that serves the interests of all key stakeholders, including consumers. The G-8 countries should take steps to adopt these policies at global, regional and country-specific levels. These include:

- **Market-led, pro-competitive policies to facilitate establishment of high-speed interoperable video, voice and data networks embracing all types of communications to enable global, borderless electronic commerce that enables more citizens to access the internet.** This should include ensuring fair and equitable interconnection rules, correcting unequal treatment and subsidies, encouraging investment in infrastructure development, and reducing or eliminating foreign investment restrictions and other entry constraints. The WTO should continue to advance broadband infrastructure and service deployment. Minimal regulation should be employed until effective competition has been established. To advance interoperability, international, open and market driven standards should be developed by expert, multinational private sector bodies.

- **Elimination of roadblocks to the development of e-commerce through proactive liberalization of trade in key activities involved in the e-commerce value chain, reductions in tariff and nontariff barriers to trade in hardware and software and content and establishment of a WTO work program on e-commerce.**

- **Strengthened intellectual property protection mechanisms** to facilitate the development of rich multimedia digital content, including rapid ratification and enforcement of the WIPO Copyright and Performances and Phonograms treaties, the promotion of technological innovation and the establishment of workable liability rules; full, faithful and prompt implementation of the TRIPs agreement and the harmonization of IPR protection worldwide.

- **Development and implementation of tax systems for the networked economy that involve government-industry collaboration with the goal of balancing the objectives of stimulating the digital marketplace and addressing government's legitimate need to fund public services.** These tax systems should be based upon the principles of neutrality, simplicity, fairness, enforceability and technological efficiency and international coordination and consistency.

- **Creation of a legal and policy environment that enables the private sector to continue its efforts to build high consumer confidence in the online medium.** This should include promoting business-led initiatives to develop effective, reliable and affordable trustmark programs, including alternative dispute resolution mechanisms, that will encourage sound business practices by online merchants, ensure comparable levels of protection across national boundaries and assist consumers in identifying merchants they can trust. Such programs should require minimum standards of behavior in key areas such as online business practices, fair information (privacy) practices and effective handling of customer complaints,

including recourse for consumers to neutral, third party dispute resolution as an alternative to court proceedings. **Governments should avoid standardization of these initiatives through regulation or compulsory accreditation, in favor of encouraging a competitive market for reliable trustmark programs and ADR services to ensure they remain innovative, flexible and easily tailored to specific local, consumer and business requirements in different countries and regions.**

III. **Develop a comprehensive digital opportunities program, involving all stakeholders, to ensure that every country can take advantage of the new digital opportunity afforded by the Internet and information technology.** The G-8 should launch a comprehensive program designed to help any country that seeks to embrace the online medium – and is willing to put the appropriate policies in place – to obtain access to technical, financial, and managerial resources required to meet its particular economic, social and political goals. This will require a new coordinating mechanism as well as the commitment of all stakeholders – including governments, multilateral institutions, business, non-government organizations, foundations, and the academic community – to participate in this initiative. The central principles guiding the effort should include:

- **Each country must tailor its own program.** The Internet is a global network, but it must serve local needs and aspirations. The online medium can and should be used to help people to promote their cultural and linguistic heritage even as it helps break down barriers to economic and intellectual exchange.

- **Infrastructure is critical.** The best Internet content and services cannot reach ordinary people without communications platforms and devices that are capable of providing access at a reasonable cost. The availability and cost of communications infrastructure is a critical roadblock to greater Internet usage in many countries. Competition among network providers enabled by telecommunications liberalization, combined with falling costs of information technology and advances in network technologies such as fixed and mobile wireless, can help to overcome this barrier.

- **The policy and regulatory environment must facilitate Internet adoption.** Public policy and regulatory decisions are critical to the ability of businesses and individuals to incorporate information technology into their lives. In the absence of a predictable and transparent policy and regulatory environment, capital markets, businesses and multilateral lending institutions will be reluctant to participate in local economies.

- **Societies must understand how to use the tools of the new economy.** The success of information technology in any country depends upon the understanding and active participation of people who stand to benefit. This may require new educational initiatives undertaken through both traditional and nontraditional institutions.

The GBDe recognizes that success will require sustained private sector leadership and involvement. The GBDe commits to the following initiatives to support a new G-8 program:

WORLD ECONOMIC FORUM

COMMITTED TO IMPROVING THE STATE OF THE WORLD

From the Global Digital Divide to the Global Digital Opportunity:

Executive Summary of the Statement of the World Economic Forum Task Force[1] to the G-8 Kyushu-Okinawa Summit 21-23 July 2000

[1] This document is the result of discussions of the Task Force created by the World Economic Forum in the context of its Digital Divide Initiative launched at the Annual Meeting 2000 in Davos. It was prepared by William J. Drake, Senior Associate and Director of the Project on the Information Revolution and World Politics at the Carnegie Endowment for International Peace, Washington D.C., in consultation with the Task Force.

The Government of Japan, presidency of this year's G-8 Summit, has invited the World Economic Forum[2] to provide a statement of its members' views on the subject of the global digital divide as an input to the deliberations of the Kyushu-Okinawa G-8 Summit, July 21-23. To take the lead in assembling this statement, the World Economic Forum created a Task Force comprising leading companies in the information technology and media, communications and entertainment sectors. Between March and May 2000, the Task Force met in Geneva, Rio de Janeiro, and Washington D.C. to discuss the issues involved; this Executive Summary presents the main highlights of the views agreed in these deliberations.

The Task Force began from the proposition that framing the international debate in terms of a "Global Digital Divide" risks distracting our attention from the substantial progress that has been made by many developing countries in recent years. Market-oriented policy reforms, local entrepreneurial efforts, and the support of the international community have combined to significantly increase the deployment and usability of telecommunications, Internet, and related technologies in many countries across Asia, Latin America, Africa, and the Middle East. Moreover, the increasing power and flexibility of these technologies and related services, combined with their declining costs, presents extraordinary opportunities to substantially increase their diffusion and use for the purpose of promoting rapid development in the years ahead. As such, the Task Force believed that it would be better to frame the international debate in terms of a "Global Digital Opportunity," and to launch and support initiatives that would enable the developing countries to seize that opportunity as quickly as possible.

To this end, the Task Force identified a wide range of steps that could be taken by the international community, beginning with the Kyushu-Okinawa Summit. These include a balanced mixture of specific activities that could be pursued by the international community---including the G-8 and other industrialized country governments, multinational companies, international institutions, and civil societal and philanthropic organizations---as well as policy reforms that could be undertaken by the developing countries to improve their own prospects. These initiatives fall into nine categories, each of which is defined by a guiding principle. The nine principles, and the ten immediate action points we propose for the G-8 Summit, are summarized below.

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[2] The World Economic Forum is the foremost global partnership of business, political, intellectual and other leaders of society committed to improving the state of the world. Incorporated since 1971 as a foundation, the World Economic Forum is independent, impartial and not-for-profit, tied to no political, partisan or national interests.

on. In this connection, it also may be advisable to consider expanding the resources available to multilateral institutions for such activities.

e. Call on the relevant multilateral institutions to establish a *coordinating committee on the global digital opportunity,* comprising high-level representatives of each organization, to enhance coordination between their respective digital opportunity efforts and thus improve resource management and program performance.

With respect to promoting education, entrepreneurship, and empowerment, the G-8 governments could,

f. Undertake specific commitments, for at least the next three years, to fund the training of teachers and librarians, the wiring of schools and libraries, and the establishment of community tele-centers in the developing world. Independent of, but complementary to these commitments, the G-8 and other governments could establish a volunteer *"Global Digital Opportunity Corps"* comprising skilled personnel who would visit developing countries to carry out fixed term instructional projects geared toward teachers and librarians.

With respect to governing the information and communications technology sector to promote access and use, the G-8 governments could,

g. Urge developing countries to pursue *pro-competitive telecommunications reform, most notably by adopting and fully implementing the pro-competitive reform principles embodied in the Reference Paper* that many members of the World Trade Organization (WTO) have incorporated into their telecommunications commitments under the General Agreement on Trade in Services (GATS).

h. Announce their intention to expand and *institutionalize technical assistance programs* supporting the new telecommunications regulatory authorities in the developing world;

i. Announce a special program to assist developing countries in *combating computer-related crime*; and

j. Urge developing countries to adopt *pro-competitive policies with respect to global electronic commerce*, and offer in return both to *expand technical assistance* on such matters and to *eliminate any barriers to these countries' global electronic commerce-related exports*.

The World Economic Forum Task Force is grateful for the opportunity to share the views of its members with the Government of Japan, presidency of this year's Summit, as well as with other governments participating in the Kyushu-Okinawa Summit.

We stand ready to provide any further assistance as governments move forward with their global digital opportunity initiatives in the months and years ahead.

a two-way street that leads to digital development. In most cases such a move would be reasonably painless for the industrialized world, but there is one politically difficult issue that might require a qualification to the offer, namely market access restrictions on the movement of natural person service suppliers under the terms of the GATS agreement. Ideally these would be lifted as well by the end of the next multilateral trade round if more rapid progress is impossible at this time.

d. At the Kyushu-Okinawa Summit, the G-8 governments also could announce their intention to *expand technical assistance programs focusing on electronic commerce policy.* With regard to the formulation of both national approaches and negotiating positions in multilateral institutions, developing countries urgently need help in understanding what electronic commerce is all about and the relative viability of alternative policy solutions to the complex problems it raises. While the relevant multilateral institutions have made some progress in assisting developing countries on these matters, in general they lack the staff and resources necessary to do the job on the scale that is needed. As such, providing the resources to expand such activities should be a high priority.

IV. Conclusion

In sum, The World Economic Forum Task Force believes that the following principles should guide international efforts to promote the realization of the global digital opportunity:

1. *The G-8 should take a leadership role by advancing a positive vision of the global digital opportunity and by organizing a coordinated effort, backed by high-level support, to assist developing countries in its realization.*

2. *While much can be achieved through individual efforts, in many cases it also would be helpful to coordinate the digital opportunity programs of multilateral institutions, the international business community, and civil societal and philanthropic organizations.*

3. *Governments could increase their ability to contribute to the realization of the digital opportunity by establishing mechanisms---subject to high-level oversight and leadership---for the internal coordination of forward-looking national strategies and policies.*

4. *Universal access to education and technology training is a fundamental prerequisite for the transition to knowledge societies.*

5. *To create a dynamic climate in which entrepreneurship can flourish, macro-economic stability and new sources of commercial financing are essential.*

6. *The digital empowerment of civil society is a key foundation of development in the information age.*

7. *Pro-competitive telecommunications policies are a prerequisite to realizing the global digital opportunity.*

stimulating Internet use and the development of creative applications in business and noncommercial settings.

d. In addition, developing countries would benefit by *phasing out tariffs on the importation of information and communications technologies*. While in the past these impediments generally affected large organizations like multinational corporations, in the current environment they are a hindrance to individual entrepreneurs, small and medium sized companies, schools, libraries, and the many other stakeholders that want to employ what would otherwise be relatively inexpensive systems. The WTO's Information Technology Agreements provide a useful framework in this regard. Similarly, the digital opportunity would be advanced by eliminating any non-tariff barriers in information and communications technology markets, such as technical standards or requirements that limit the employment of diverse kinds of customer premise equipment and end user devices.

e. At the Kyushû-Okinawa Summit, the G-8 governments could announce a *special program to assist developing countries in combating computer-related crime*. The recent "I Love You" virus cost the world economy billions of dollars, and demonstrated that threats can arise anywhere on the open Internet. Most developing countries do not have in place the legal frameworks and institutional capacity to deal with what will undoubtedly be a growing problem in the future. Technical assistance and expanded cooperation with law enforcement agencies in the developing world are needed.

f. The international community, especially multilateral institutions and philanthropic organizations, could provide funds to ensure that *diverse stakeholders from developing countries are able to participate in international forums where Internet technical and policy issues are addressed.* Deliberations on the technology, organization, and governance of Internet infrastructure and services are taking place in a wide variety of industry associations and intergovernmental organizations around the world. For developing country governments it is difficult to attend and effectively participate in many of these meetings, and for other keenly interested stakeholders from the developing world the problem is even worse. Decisions about this inherently global medium should be made on a broadly participatory and democratic basis.

9. Pro-competitive policies on global electronic commerce will greatly accelerate the transition to dynamic and self-sustaining information age economies.

At present, developing countries account for a small fraction of global electronic commerce. Nevertheless, Asia and Latin America are beginning to see rapid growth, and it is widely anticipated that this pattern will continue and spread to other regions in the years ahead. With electronic commerce taking off, it is critically important that developing countries adopt clear, enabling national policies on a host of technically complex issues. In parallel, because the Internet is a global medium that allows the direct connection of potentially millions of buyers and sellers across national frontiers, avoiding conflicts of law and related problems will require that many of these national policies be coordinated both with the private sector and in multilateral institutions. Absent

needed to carry out their tasks effectively. These conditions not only stifle competition, but breed damaging public cynicism about the possibility of accountable and transparent governance in this key sector of the economy. To help address such problems, organizations like the U.S. Federal Communications Commission, the U.S. Telecommunications Training Institute, and the World Bank have established technical assistance programs, all of which could be significantly built out.

Alternatively, or in addition, the international community might consider a more coordinated approach and establish an international nongovernmental organization that would both provide more substantial ongoing technical support, and monitor and publicly report, perhaps annually, on the regulatory authorities' progress in implementing reform. Either way, if feasible it would be ideal for the G-8 Summit at Kyushu-Okinawa to announce some means of enhanced support for the national regulatory authorities if participating governments opt to call on developing countries to accelerate telecommunications reform.

c. At the Kyushu-Okinawa Summit, the G-8 governments could urge developing countries to otherwise *deepen their pro-competitive market access commitments on basic telecommunications under the terms of GATS,* to accelerate the implementation of such commitments, or to undertake commitments if they have not yet done so. It is very encouraging that over fifty developing countries have made commitments on basic telecommunications in the WTO. However, many of these commitments include significant restrictions on competition and foreign investment and are to be phased in slowly over the years ahead. Moreover, many governments have proven reluctant to implement fully the market openings they have already agreed to, and a majority of developing country members of the WTO have yet to make any commitments at all. Such actions serve only to limit developing countries' ability to participate in the global digital opportunity.

d. At the Kyushu-Okinawa Summit, the G-8 governments could urge developing countries that have yet to do so to *undertake the privatization of their national telecommunications operators once an effective framework promoting and safeguarding competition has been established.* Too often developing countries have offered investors monopoly or near-monopoly concessions when privatizing their national carriers. The result has been to limit the potential benefits of reform. In addition, developing countries should ensure that monies accrued through privatization are well managed in a publicly accountable fashion.

e. Developing countries could establish special *incentives to foster investment in the rapid deployment of capital intensive information infrastructures.* This would be especially useful with respect to wireless telecommunications systems, which are cheaper to deploy than wireline systems and can help countries to "leapfrog" to higher stages of infrastructure development. Efficient, market-based radio spectrum management is a necessary component of any such initiative.

empowerment, on the one hand, and business empowerment or entrepreneurship, on the other.

Hence, the World Economic Forum Task Force proposes consideration of the following courses of action:

a. At the Kyushu-Okinawa Summit, the G-8 governments could undertake a commitment to fund the *establishment of community tele-centers in the developing world.* Such centers typically provide the general public with low-cost access to telecommunications, Internet, and related technologies, and to training and support, and are especially useful in rural areas where access may otherwise be very limited. A commitment to fund them could include concrete numerical targets to be achieved per annum for at least the next three years. As other members of the international community already have tele-center programs in place, it might be best for governments to work through these organizations and provide them with the resources to significantly expand their operations. International stakeholders could cooperate with developing countries to devise plans to make the tele-centers commercially sustainable after a start-up period.

b. While striving to protect minors from inappropriate materials through the application of software tools, and to provide adequate protection for intellectual property, developing countries should ensure that *individual citizens and non-commercial organizations can access, produce, distribute, and use information without artificial restrictions.* This is a pre-requisite for the flourishing of empowerment and innovation in all sectors of society.

c. The international community, especially multilateral institutions and civil societal and philanthropic organizations, could work closely with developing countries to create programs which *promote their unique cultural heritages*---e.g. networked museums, libraries, webcasted audio-visual materials and so on---and to ensure the participation of local communities in identifying priorities and creating content. It should be emphasized to governments still prone to view the Internet through the lens of traditional media systems that, unlike broadcast television or movie theatres, there is no scarcity of distribution channels or nominally zero sum trade-off between the display of domestic and international materials. The Internet provides developing countries with a low-cost and infinitely expandable space within which to create and disseminate cultural products and tell their stories, both at home and abroad.

d. The international community, including the private sector, should work closely with developing countries to create *locally-relevant and usable content,* whether domestic or international in origin.

e. The international community, especially the international business community, could promote *low cost access to multi-lingual interfaces and translation tools and adapt them to local conditions in developing countries,* including by enhancing the access of persons experiencing literacy and related social barriers.

training for teachers, developing countries would benefit from greatly expanded access to knowledge and ideas about the social, political, economic, and technological aspects of the information revolution and their implications for development. Physical and virtual visits by scholars and analysts, teacher exchanges, sustained transnational electronic dialogues, subsidized access to relevant publications, and other inputs would help government officials, teachers and others in the developing world to better understand and respond to the world-wide transformation underway.

5. To create a dynamic climate in which entrepreneurship can flourish, macro-economic stability and new sources of commercial financing are essential.

Digital opportunity initiatives are unlikely to succeed fully unless the wider economic environment is healthy and conducive to private enterprise. Fiscal restraint, monetary stability, open markets, appropriate policies on taxation and investment, and other hallmarks of good governance take on additional importance in a global economic transition driven by rapid private sector innovation. At the same time, the ability to promptly secure funding is imperative for individual entrepreneurs and small and medium sized enterprises. However, many developing countries' capital markets are weak and may need to be supplemented through innovative mechanisms.

Hence, the World Economic Forum Task Force proposes consideration of the following courses of action:

a. Developing countries would benefit from *reforming their financial sectors in order to increase the local availability of capital and consumer credit.* In many countries, industry structures and practices and regulatory policies alike limit the ability of businesses and consumers to access the financial resources needed for digital markets to thrive. In this context, liberalization and enhanced foreign investment would be very much in developing countries' interests. Moreover, developing countries that currently tax philanthropic donations may wish to reconsider such disincentives to charitable giving.

b. The international community, especially multilateral institutions and the international business community, could establish or expand existing *facilities providing seed monies (including micro-lending) for local research and the commercial development of low-cost technologies and applications.* At times, inexpensive or small-scale innovations that would meet local needs are unable to attract capital because the potential returns on such investments seem less attractive than other opportunities. Specialized lending facilities can play a constructive role in overcoming such cases of market failure. Existing programs along these lines operated by multilateral institutions should be expanded significantly. In parallel, there is room for partnerships that would involve the international business community in the evaluation and support of potential projects.

c. The international community, especially the international business community, could work with developing countries to establish *"business incubators" and entrepreneurial networks.* Incubators combining physical facilities, technical and managerial training, software and hardware tools, and other assets would

demonstrate to local businesses and civil society the gains that can be realized through technology.

c. Governments should establish more *effective and transparent institutional arrangements for cooperation with other stakeholders* on the design, implementation, and evaluation of their strategies. At present it is often difficult for the international business community and other stakeholders to achieve productive working relations with the relevant ministries due to opaque decision making procedures. This limits the benefits that would otherwise accrue to developing countries from the international community's efforts.

d. Governments should ensure that all digital opportunity initiatives include specific *measures addressing the problems faced by the most disadvantaged segments of society,* e.g. rural populations, women, ethnic minorities, and people with disabilities. Too often policies and programs unduly give preference to the interests of elite groupings, rather than spreading the benefits throughout society. The new technology environment makes possible the low-cost, widespread diffusion and utilization of informational resources and capabilities, which could help invigorate broad-based economic and social development.

e. Governments of developing countries would benefit by working more closely with multilateral institutions to design *capacity building strategies and sustainable mechanisms for their implementation and evaluation.* Such strategies could include analytical frameworks for the periodic measurement and assessment of progress, perhaps similar to the Organization for Economic Cooperation and Development's (OECD) annual reports. Multilateral institutions could also fund appropriate elements of such efforts, such as the technical training of government staff.

II. Education, Entrepreneurship, and Empowerment

4. Universal access to education and technology training is a fundamental prerequisite for the transition to knowledge societies.

It is axiomatic that without well educated workers, nations cannot thrive in a globalized, knowledge-based economy, and the payoffs to digital opportunity initiatives will be limited. Nevertheless, in many developing countries access to quality education in general and technology training in particular is restricted to a minority of the population. While there are many reasons for this state of affairs, the fact remains that it is untenable in the current environment. In the years ahead, technical skills increasingly will be required for competitiveness not only in high-tech industries, but in more traditional ones as well. Moreover, a central feature of the Internet age is that many of the key innovations and new markets have been generated not by the historically dominant players in technology industries, but rather by individual entrepreneurs and small and medium-sized enterprises. Only with mass access to education and technical training can developing countries take full advantage of the possibilities presented by the distributed information revolution.

Hence, the World Economic Forum Task Force proposes consideration of the following courses of action:

level representatives responsible for coordinating with their peers in other bodies and making use of the Internet to share information and improve program management. The committee also could oversee information gathering efforts to track and cross-evaluate a) the range of projects underway in multilateral institutions, and b) the progress being made by developing countries in achieving the digital opportunity. Annual reports on these items as well as other inputs could be provided to the G-8 working group, for which the committee could serve as a key interface with the wider international community.

b. The committee also could ensure that where appropriate, there is *inter-organizational coordination of the various conferences and specialized meetings* held by multilateral institutions, so as to promote efficiency and cumulative learning and avoid the persistent recreating of the wheel. Moreover, the committee could ensure that such forums reach beyond government delegations to include key participants from all relevant sectors in both the industrialized and developed worlds. The World Bank's Global Knowledge Partnership initiative is a useful model in this regard.

c. Multilateral institutions could establish *web portals providing "one-stop shopping" access to information* about the range of programs, opportunities, and experiences in the respective sectors, and could coordinate with the other international stakeholders to continuously add new and richer information about their activities.

d. More generally, multilateral institutions should establish mechanisms to *enhance the participation of the private sector and civil societal organizations in intergovernmental forums and programs.* It has become clear in recent years that transparent and participatory approaches are needed to manage global issues successfully and with broad-based legitimacy. This may prove to be especially true in the case of digital technologies, an arena in which the international business community and civil societal organizations will be taking on leadership roles. It therefore would make sense for multilateral institutions to formalize procedures to facilitate partnerships with these stakeholders.

e. For their parts, the international business community and civil societal organizations may wish to consider the utility of establishing *international coordination mechanisms* for some of their various digital opportunity initiatives. Such mechanisms might range from enhanced networked coordination to a more formal virtual body to even an international nongovernmental organization that would serve as a peak association of interested parties. Even a minimalist virtual body could help to improve information sharing and program management, as well as the interface with multilateral institutions and governments.

I. *Institutionalization and Coordination of Global Digital Opportunity Initiatives*

1. The G-8 should take a leadership role by advancing, together with developing countries, a positive vision of the global digital opportunity and by organizing a coordinated effort, backed by high-level support, to assist developing countries in its realization.

While many industrialized countries maintain bilateral programs to aid developing countries with particular technology-related issues, these often lack the sort of high-level political engagement needed to give real momentum and public visibility to the digital opportunity as a broad-scale initiative. Moreover, efforts to address digital development issues in a positive manner within multilateral institutions have not always been successful. With these dual considerations in mind, it would be desirable for the G-8 to take a leadership role in pushing the matter up the international political agenda, establishing contexts for high-level and productive global dialogue, and articulating a positive vision that expands the sense of the possible and inspires action around the world.

Hence, the World Economic Forum Task Force proposes consideration of the following courses of action:

a. At the Kyushu-Okinawa Summit, the G-8 governments could adopt *a declaration of principles and a set of pragmatic initiatives* that would powerfully underscore the G-8's shared commitment to work with developing countries to enhance their participation in the global digital opportunity. The declaration could also underscore the leading roles to be played by the other international stakeholders in development efforts.

b. At the Kyushu-Okinawa Summit, the G-8 governments could establish a *high-level working group on the global digital economy* that would operate for three years, to be renewed thereafter if advisable. Among other things, the group could:

- ✓ serve as the focal point for the high-level coordination of selected technical assistance programs undertaken by member governments (such as those discussed below), and of any relevant G-8 policy discussions;
  coordinate and share information with the other international stakeholders as appropriate, perhaps through advisory groups comprising multilateral institutions, the international business community, and civil societal organizations;
- ✓ monitor both the various international initiatives underway and progress toward the realization of the global digital opportunity;
- ✓ manage the publication of information on that progress, both on the web and perhaps in annual reports; and
- ✓ manage an annual global digital economy session, discussed next.

The globalization of this process presents developing countries with an unparalleled opportunity to significantly accelerate and spread the benefits of economic development. For example, the Internet and related technologies and services can greatly contribute to economic growth by increasing the productivity and competitiveness of companies across the agricultural, manufacturing, and services sectors. In tandem, these technologies and services can generate many new and rewarding employment opportunities for every nation's citizens; experience around the world demonstrates beyond any doubt that over time, new information and communications technologies increase the overall level and quality of employment. And indeed, there are already hundreds of examples of people in developing countries using the technology in ways that have unlocked previously unattainable opportunities for economic growth and wealth creation. These range from large manufacturers improving their products, production processes, and relationships with suppliers and customers, to small communities and individual entrepreneurs using the Internet to sell local agricultural produce or light manufactured goods at home and abroad. Similarly, there are a great many examples, again both large and small, of people in developing countries using the technology to successfully tackle social challenges in fields such as education, public health, transportation, environmental and natural resource management. The same is true for the production and distribution of locally appropriate content that contributes to the promotion of vibrant national cultures. In principle, there is no reason such success stories cannot be widely replicated across the developing world in ways that will advance economic growth, cultural enrichment, and the empowerment of citizens.

That is, in principle. In practice, the digital opportunity will not be realized fully, and indeed could be squandered, unless the developing country governments take decisive and enlightened action. Above all, new national strategies and budgetary priorities are needed on multiple fronts, from education and financial policies to the governance of telecommunications and electronic commerce and policies to the governance of telecommunications and electronic commerce and beyond. At the same time, the international community has a critically important supporting role to play. Governments in the industrialized world, multilateral institutions, the international business community, and civil societal and philanthropic organizations all can help to accelerate developing countries' transition into the information age. Whether through individual actions or by working together, these stakeholders can provide technology, capital, business expertise, trade benefits, technical assistance, and a host of related contributions that will make a difference. Equally important, they can offer developing countries an expanded vision of not only of what could be, but also of how to make it happen.

The Task Force for the Digital Divide Initiative of the World Economic Forum is comprised of approximately 100 leading companies in the information technology and media, communication and entertainment sectors. The Digital Divide Initiative was launched at the Annual Meeting 2000 in Davos with the purpose of developing and propagating creative public-private sector initiatives to bridge the global digital divide. This Policy Statement reflects and elaborates on the views expressed in earlier Task Force meetings in Geneva, Rio de Janeiro and Washington, DC. It includes proposals and recommendations that

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Proposed Action Plan for the G-8 Summit

More immediately, to lay the groundwork for such efforts, the Task Force proposes that at the Kyushu-Okinawa Summit, the G-8 governments may wish to consider the following ten-point plan of action.

With respect to the **institutionalization and coordination of global digital opportunity initiatives**, the G-8 governments could

a. Adopt *a* ***declaration of principles and a set of pragmatic initiatives*** that would powerfully underscore the G-8's shared commitment to work with the developing countries to enhance their participation in the global digital opportunity.

b. Establish a ***high-level working group on the global digital economy*** that would operate for three years, to be renewed thereafter if advisable. Among other things, the group could:
   - ✓ serve as the focal point for the coordination and execution of selected technical assistance programs undertaken by member governments (such as those discussed below), and of any relevant G-8 policy discussions;
   - ✓ coordinate and share information with the other international stakeholders as appropriate, perhaps through advisory groups comprising multilateral institutions, the international business community, and civil societal organizations;
   - ✓ monitor both the various international initiatives underway and progress toward the realization of the global digital opportunity;
   - ✓ manage the publication of information on that progress, both on the web and perhaps in annual reports; and
   - ✓ manage an annual global digital economy session, discussed next.

c. Agree that, beginning in 2001, the G-8 will organize half-**day *sessions on the global digital opportunity*** that would be linked to its summits. These sessions would showcase heads of state and other high-level officials from each region who have adopted forward-looking policies and have made progress in adapting their countries to the information age. Similarly, they would showcase leading entrepreneurs and civil societal organizations that have creatively employed information and communications technologies to launch noteworthy businesses or overcome social problems in the developing world.

d. Establish ***a special initiative for the least developed countries***, to include financial assistance, that would give particular emphasis to infrastructure deployment, as well as to creative applications of technology in fields such as education, public health, community development, cultural enrichment, and so on. In this connection, it also may be advisable to consider expanding the resources available to multilateral institutions for such activities.

REF B

Impact of the IT Revolution on the Economy and Finance

Report from G7 Finance Ministers to the Heads of State and Government

Fukuoka, 8 July, 2000

Financial Business Patents

22. With the revolutionary changes in technologies through computers and the Internet, patents have been granted to an increasing number of business method inventions, including in the area of financial services. We recognize that, with the development of IT in finance, our policies toward financial business method patents could have implications for innovation and competition in financial markets. This issue needs to be addressed in the context of international cooperation with the view to enhancing common understanding of treatment of business method patents.

23. In this respect, we welcome the joint work already underway among our patent authorities on business method patents, and look forward to further development. We have asked our financial experts to meet with our patent authorities and to discuss whether and how the issues of common interest are being dealt with at the international level and how international cooperation in this field is progressing.

Information and Communications Technology (IT)

IT empowers, benefits and links people the world over, allows global citizens to express themselves and know and respect one another. It also has immense potential for enabling economies to expand further, countries to enhance public welfare and promote stronger social cohesion and thus democracy to flourish. Access to the digital opportunities must, therefore, be open to all.

We clearly recognise that the process of globalisation and the fast pace at which IT is advancing have engendered various concerns. We need to address such concerns so that we can contribute to greater peace of mind for all. Acting in concert, we will maximise the benefits of IT and ensure that they are spread to those at present with limited access. In this regard, we welcome contributions from the private sector, such as those of the Global Digital Divide Initiative *of the World Economic Forum and Global Business Dialogue on E-commerce (GBDe)*

In support of these goals, we commit ourselves to pursuing the aims and ambitions set out in the Okinawa Charter on the Global Information Society. We will set up a Digital Opportunities Task Force (dot.force), which will be asked to report to our next meeting its findings and recommendations on global action to bridge the international information and knowledge divide.

DEVELOPMENT

Development

Handling: The key issue is untying. Press Japan and France to sign up to the OECD agreement – ie commit to untie agreed categories of aid by end 2001. Also chance to announce new UK spending on health. You discuss debt again having covered at 7 – see Debt/HIPC brief from G7 session.

Key Points

- Warmly welcome Report on Poverty Reduction. (Chirac's idea last year.) Achievement of the international development targets a huge challenge, requiring major and sustained commitment from all players. Strongly agree that G8 should receive an annual poverty report and review progress at each Summit between now and 2015.

- Report makes clear that donors must improve aid effectiveness. To achieve this we must **untie our aid to the least developed countries**. This is the single most important step we could take, having made the commitment at Birmingham and Cologne.

- Tied aid wastes good donor money. Recipient countries are not free to find the best value solution. They suffer increased transaction costs and domestic entrepreneurs are discouraged. Some studies estimate that tying devalues aid by 25%.

- Tied aid is an anachronism. We urge developing countries to open up their economies. We must be consistent and liberalise the way in which we deliver our assistance. Send message that our major concern is development, not the next contract.

- The sums involved are comparatively small. But crucial for the least developed countries.

- Negotiations in the OECD over the last three years have paved the way for an agreement. Now very close - time to resolve our remaining differences. **Should commit to untie categories of aid already agreed in OECD (on basis of 19 June DAC) by end of 2001**. And agree that by the same date we will agree benchmarks for encouraging improved burden sharing.

Additional Points

- (If Japan defensive) Japan unties more aid than any other donor. Clearly in Japan's interests to encourage others to untie: would bring expanded opportunities for Japan's firms.

- (If appropriate) Fewer countries than we had hoped will progress through HIPC this year. This Summit needs to deliver to the least developed countries. They are at greatest risk of marginalisation in a globalising world.

Additional Points - Debt

- *[draw on HIPC brief from G7 session]*

Health

Additional Points

- Strongly support headline message that health is key to prosperity. Firmly endorse the specific targets and action plan in the communiqué.

- Commitment to specific targets is vital. We must remain fixed on the international development targets of reducing infant and maternal mortality rates and providing universal access to reproductive health services.

- Achieving these goals will require new and innovative institutional mechanisms, partnerships and resource transfers to some of the poorest countries in the world. These same countries will need to respond with political leadership and commitment. Proposed conference will need to focus on new ways of working and should report on progress when we next meet.

- Over past five years Britain's overall spending on international health has nearly doubled, from about £180 million to £340 million. Expenditure on the priority diseases of developing countries - HIV/AIDS, malaria, TB - has more than trebled.

- I can pledge now that we will double our contribution to international efforts to improve accessibility to drugs and technologies and to developing new medicines for priority diseases - from £50 million to £100 million each year.

Education

Additional Points

- Basic education is 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.

- Agree therefore that we should strongly endorse the Dakar goals and help ensure that substantial additional resources for basic education are made available. Developing countries and international NGOs will be examining closely G8's response to Dakar. Must not fail them. Should review progress at Genoa.

- Must all respond positively to this challenge. Over past three years UK has committed over £350 million to support the development of universal primary education programmes. We will do more.

and Mori's response

Development - Background

1. **Handling.** Key UK objective is to reach agreement that untying development assistance to the least developed countries should go ahead by the end of 2001 on the basis already worked out in the OECD. You wrote to Mori **(ref A)** in June stressing the importance we place on reaching agreement. The Japanese have not yet replied but are worried about seeing this issue go to the Summit. Two successive Summits have urged agreement (Birmingham and Cologne). We want to make more headway this time. There has been considerable NGO and UK media interest, largely as a result of a campaign by the British NGO Action Aid, with whom DFID has worked closely. The rest of this session should be uncontroversial. We have secured strong messages and commitments on health and should use this as a platform to announce new UK spending.

Untying

2. Japan, France (and Denmark) are blocking an OECD agreement on untying aid to least developed countries (LDCs). They will argue that the present scope of an agreement to untie aid to the LDCs is unbalanced (largely because the US provides a smaller proportion of its aid to LDCs than any other donor and very little of it will be untied under the proposed agreement). Japan is also concerned to ensure that EC development programmes are covered by an untying agreement, and are seeking a commitment from the Commission. It is difficult to offer the Japanese an assurance on this - the Council of Ministers would have to agree and then, under the Cotonou (successor to the Lomé) Agreement, African, Caribbean and Pacific Ministers. But we have said we will work wholeheartedly for untying of EU aid programmes.

3. On the other hand, Clinton may challenge the Japanese on extent to which they genuinely untie. The US wants transparency in order to see how far technical co-operation linked to investments is used to secure large-scale follow-on contracts (because they believe this to be the practice of the Japanese).

4. Discussions aimed at reaching agreement on this have been underway in the OECD for nearly 3 years. Significant progress has been made in the OECD but the question of some countries providing less aid to the least developed than others threatens agreement. We (along with all OECD countries bar Japan, France and Denmark) favour approaching this by agreeing by the end of 2001 - the date on which untying would commence - arrangements to assess donor countries' efforts to do more in the run-up to a review proposed for 2004. The 3 dissidents want to set entry criteria before any overall agreement on untying. They would aim to set criteria the US could not meet, thus making an OECD-wide agreement impossible.

Poverty Report

5. Discussion on the Report on Poverty Reduction should be uncontroversial. Called for by the Cologne Summit this is 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 on the importance of improving the effectiveness of aid (which includes aid untying).

Health

6. It is a key UK achievement that we have a headline statement linking health to prosperity: good health is the engine for development: investment in health brings economic and social gains. We also pressed for the inclusion of a specific action plan in the communiqué, to back up and fulfil the headline statement: this commits us to specific timed outcomes. These are achievable, but the G8 will need to play a strong role in mobilising political commitment and additional resources (hence the announcement of additional UK resources you will be making).

7. We have also been successful in moving the Japanese from a narrow disease-specific focus to a wider approach: the US and Canada have been key allies here. With the exception of HIV, there will be little appetite for a single disease-response at Okinawa, such as previous initiatives in malaria. We have pressed to ensure that the conference which Japan will host addresses the institutional response and partnerships needed for some of the poorest countries in the world to absorb more resources and achieve good health outcomes: a conference of key stakeholders will need to address new ways of working and (essential) report on progress towards the targets at Genoa. The UK's current expenditure of £340 million on international health excludes contributions through the EU and World Bank.

8. Ante-retroviral therapy (ART) dominated much of the discussion at the Durban International Conference on HIV/AIDS last week. We and the UN emphasised the importance of prevention, care of those infected and secondary treatment to prevent mother to child transmission. ART remains too expensive.

Education

9. The UK played a high profile role at the World Education Forum in Dakar in April. Dakar resulted in strong political commitment by national governments and the international community to Education for All, recognition of the importance of well conceived education sector policies as part of poverty reduction strategies, and agreement on the need for significantly enhanced 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 in its achievement of this goal 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.

10. 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, and will do more.

11. See also IT Background for details of your initiative on education and IT in developing countries – the Imfundo Project.

DEVELOPMENT

Objectives

1. To ensure that Japan and France (and Italy) are ready to commit to untying by accepting the second sentence, as amended by the UK and US, in square brackets in the communiqué (page 5 line 30 - page 6 line 2).

2. To delete or amend proposed US language on cooperation between the IFIs and the ILO.

3. To resist any attempts to introduce language advocating earmarking of aid funds, special funds for education or support for WFP's school feeding programme.

4. To ensure that the proposed UN conference on AIDS covers access to care as well as to treatment (page 9, line 8)

5. To support any attempt to delete the specific reference to TRIPS (page 8, lines 23-25)

References

A. Heywood's letter to Nogami of 6 July on Untying
B. Draft OECD recommendation of 20 June
C. Global Poverty Report
D. Heywood's letter to Brainard of 5 July on WFP proposal handed over at Plenary
E. Brainard's letter to Heywood of 11 July on WFP initiative
F. (Draft) Heywood's response to Brainard of 12 July

Background

Untying

1. **Handling.** Positions of other countries on untying are:

Japan: Concerned that US do too little for LLDCs and that almost all of it (food aid and technical cooperation) will remain tied and so will get away with untying very little. Strongly of the view that investment related technical co-operation (IRTC) should remain tied; wedded to concept of "maintaining a sense of national involvement" in development. Under strong pressure from Diet to tie more Japanese aid. In margins at recent Tidewater conference (of heads of bilateral and multilateral aid agencies) Japan, having seen recent Heywood/Nogami letter, told Sir John Vereker "untying could not be left to the G7". Concerned also that European Community aid be covered by an agreement.

France: Would be happy to see untying kicked into long grass - content to stand behind Japanese (and Danish) concerns on burden sharing - especially on US poor performance in proportion of GDP given in development assistance. Favours weaker first sentence in Communiqué.

US: Long-time member of like-minded pro-untying group, commitment wavering recently under effort-sharing pressure and their need to give US domestic lobby something on IRTC. Concerned that Japanese tied IRTC skews large scale untied follow-on contracts towards Japanese firms. Supports second communiqué sentence, as amended by them (Ref D, which makes clear that agreement should be on the basis defined in the OECD in June), which the UK can accept.

Canada: Like-minded pro-untying. Supports UK position on communiqué.

Germany: Like-minded pro-untying. Supports UK position on communiqué. Previously cautious, and shadowing French concerns, latterly moved more fully to pro-untying.

Italy: Like-minded pro-untying, but, unhelpfully, supports first sentence in communiqué. [Action underway to persuade Italy to reconsider].

2. **Burden Sharing**. OECD Statistics show that Japan currently unties more aid than any other donor (somewhat illogical therefore that it is not pressing other donors to similarly liberalise procurement arrangements.) Japan and France have the US in their sights - US a poor performer both in terms of the amount of aid it currently directs to LLDCs and its overall level of aid - the key "burdens". US unties only a small proportion, averaging 7% in 97 and 98, of its aid to LLDCs (compared with the G7 average of 43%), which is tiny in relation to the already small proportion, 12%, of its total bilateral aid which it gives to the least developed (compared with the G7 average of 25%). Japan and France argue that performance benchmarks, or targets, for burden sharing must be agreed before any untying agreement can be reached. The vast majority in the OECD feel that we must all agree now to untie by the end of 2001, with the benchmarks being worked out in the intervening months and used as a means of incentivising subsequent performance in the run-up to a major review proposed for 2004.

3. **Investment Related Technical Cooperation** This is the design and feasibility work which necessarily precedes major capital investment projects. The majority of OECD members have already conceded to Japanese wishes that this category of aid will not be fully covered by an untying agreement. Instead individual donors can choose whether to untie it or not. The US, under pressure form their domestic lobby, had pressed most strongly for this category of assistance to be included from the outset, because they suspect Japan uses this technical co-operation in order to secure for Japanese companies a bigger share of the large-scale, and reportedly untied, contracts which follow. In order to offer their domestic lobby some comfort the US propose (and the majority, including the UK, accept) a transparency mechanism for all such offers of assistance, whether they are untied or not. Japan

are strongly against this. They are unwilling to separate the principle of "maintaining a sense of national identity in their aid programmes" from a mechanism that seeks to achieve more international transparency.

4. Apart from the discussion of untying, most of the remainder of the session on development should be straightforward. With one exception (see paras 5-9 below) all the amendments proposed to the communiqué text by the other Sherpas since the Plenary have been relatively minor and uncontroversial. You have already written to Nogami (Ref E) to correct one small factual error on page 4 (lines 20-21); the same point has been made by the Germans (Ref F). Apart from untying, our main objective is therefore to ensure that the communiqué language calling for an annual poverty report and annual review of progress by Heads and for improving the effectiveness of aid is retained.

5. The exception is the language proposed by the US (Ref D) on increasing cooperation between the IFIs and the ILO. The original language which they proposed at UNGASS read as follows:

> "Call upon the ILO and other UN institutions, including the Bretton Woods institutions, to plan and carry out coherent and integrated approaches with host Governments to promote and realise fundamental principles and rights at work. Such an initiative should include:
> (a) Consultations and co-operative work by the ILO, the UN and the Bretton Woods institutions, in co-operation with host Governments, to develop strategies to be applied at the national level to ensure that the realisation of fundamental worker rights is fully integrated into macroeconomic policies and national development programmes, including poverty reduction strategies;
> (b) Periodic reports and recommendations to the governing bodies of the respective organisations for their consideration and appropriate action.

6. The US met total resistance on this language from the developing countries. The final agreed UNGASS language is far removed from the above. It reads:

> "Calls upon the relevant organisations of the UN system to provide national governments with technical assistance in a co-ordinated manner in order to help them in their efforts to promote social development and achieve the goals of poverty eradication, full employment and social integration, including, inter alia, gender equality."

7. Any language in the G8 communiqué on this issue which goes beyond the UNGASS will be regarded as provocative by the developing countries: since Seattle they have become more suspicious that calls for co-operation and coherence between the ILO and the IFIs are ways of introducing cross-conditionality to force them to observe labour standards, introduce social safety nets etc, all of which would add to their deficit with the IFIs and undermine their competitiveness.

8. If the G8 adopt what will be clear to the developing countries is US-inspired language on cooperation between the ILO, IFIs and the WTO, it could put at risk the possibility of an early WTO Ministerial because developing countries will think that the G8 are united in wanting to pursue a protectionist agenda.

9. Our preferred positions is therefore to stick with what was agreed at UNGASS. However DfEE has discussed a compromise text with the US which takes out the direct references to the ILO and IFIs while keeping the issue on the G8 agenda. We can live with this.

Education

1. Can live with US proposal to refer to World Bank lending in the text. Equally have no problems if it is deleted. If retained, there must be a clear understanding that G8 is not advocating that World Bank earmarks part of its lending for basic education but merely showing the very positive impact that would result if the World Bank decided to substantially increase its lending for basic education. And G8 should not advocate increased IFI lending merely to avoid financing increased grant funding for basic education.

2. Your draft letter of 12 July to Brainard (Ref F – we didn't send) reiterates our earlier opposition (Ref A) to G8 endorsement of WFP's school feeding programme initiative but does not object to a US announcement about this at Okinawa.

3. We have no strong objection to the German proposal to include a reference to the recent UN Conference on Social Development ("Copenhagen + 5") if others support. But need to avoid any further additions! Importance of Dakar Forum should not be further diluted. This was the key conference on education, which is determining policy on education in other UN fora.

Health

1. **Handling.** France will resist broadening the UN conference to include care issues. However, the US will strongly support us (and have already proposed a specific amendment to deal with this). Germany's alternative approach of trying to prevent further conferences from taking place is unlikely to be successful. Other positions are not clearly known. We may be able to secure a trade-off by offering support to France in their wish to remove the specific reference to TRIPs. Germany, US and Canada also seek deletion of the TRIPS reference, but the Commission wish to extend the reference further: they are likely to be isolated in this.

2. The proposal for an AIDS conference is the end-game in a long-running effort by France to garner international support for a Global Solidarity Fund to make anti-retroviral drugs more available to developing countries. The idea of a Fund has been roundly and almost universally opposed by donor partners, both bilateral and multilateral, on grounds of cost and the practical feasibility of delivering the

complex regimen of drugs involved in low capacity health systems in poor countries.

3. A conference is a less objectionable outcome. We (and others) have been convinced of France's intention to hold one, with or without UN endorsement (UNAIDS have told us that the last thing they want is another conference: they want to get on with making a difference at country level and fear that such a conference would divert energy and resources from dealing with the epidemic). However overt resistance (such as the Germans have advocated in their comments) is unlikely to prevent it. We have judged it better to ensure that any event is properly balanced. Confining it to treatment constricts the issues narrowly to anti-retrovirals, which are only one part of the picture, and on which donor positions radically disagree as to achievability and realism. Including a reference to care broadens the agenda to include a range of already affordable approaches which can be pursued now in poor countries, particularly in regard to HIV-associated sexually-transmitted infections: these would include the treatment of associated infections such as TB and pneumonia with readily available and affordable drugs, methods of prevention, mother-to-child transmission issues and community responses.

4. The German proposal to delete the reference to the Japanese conference is completely unacceptable. This is the whole point of the section on health, that adds concrete action to develop a better international development framework to deliver the communicable disease agenda. The communiqué would be hollow without it.

5. France has suggested deleting the specific reference to TRIPs. In the health field, Trade-Related Intellectual Property Rights (TRIPs) rules prescribe patent protection and control of manufacturing rights for pharmaceuticals. They provide the necessary incentive to pharmaceutical companies for researching and developing products. UK supports TRIPs implementation. Some developing countries, and NGOs, have focused on TRIPs as a barrier to greater availability of pharmaceuticals at affordable prices for developing countries. TRIPs is, however, only one part of a complex inter-relation of factors affecting developing countries' ability to access affordable medicines. A specific reference to TRIPs in the communiqué confers undue importance on it as a factor, and is likely to provoke adverse (and unnecessarily incurred) reaction from the NGO constituency. We should therefore lend support to France on this point.

Ref B (A)

10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

cc: Mr Budd
Mr Brenton
Mr Butler
Mr Kavicki
Mr Gnaneratnam
Mr Tilbrook } DFID
Mr Ash
Mr Sands-Smith }
Mr Rankin, HMT.

6 July 2000

Letter to Nogami only. Follow-up all planned for today.
S. Harvey
cc btm
and pla Dev. 7/7.

Dear Tosh,

UNTYING AID

I have been reflecting further on this issue. As you know the Prime Minister remains very keen to see G8 OECD members reach a consensus that represents a real positive signal to the least developed countries. I understand the particular difficulties that Japan faces in moving us all to such a consensus and I would like to suggest a possible way forward.

Let me say first of all that there seems to be a big gap between substance and perception in this area. Japan already unties a larger proportion of its total aid than any other G8 country and provides a smaller proportion of it to least developed countries than any other G8 member bar the US. I enclose figures from the OECD Secretariat that make the point in detail. Relatively speaking, you have nothing to lose, and everything to gain, presentationally, from getting an agreement on this dossier.

By being seen as one of the key hold-outs against an agreement, Japan is in danger of losing public credit for its good untying record and becoming the butt of NGO criticism, when it will in fact have less to untie in proportionate terms than most of the rest of us. It also seems to me that you have an excellent story to tell to your domestic lobby groups - Japan has successfully negotiated the removal of all free standing technical co-operation from the scope of any agreement, and secured agreement that countries can decide whether or not they wish to untie technical co-operation linked to investments (a major concession from the rest of us, notably the Americans, who as you know are concerned that consultants can swing allegedly untied contracts by the specifications that they use). As Japanese companies are highly competitive you stand a very good chance of gaining more contracts from the larger untied pool than you lose from

the additional untying you would be committed to under an agreement. I hope that you would be able to highlight some of these points when presenting this to your domestic constituency – this has in fact been a major negotiating triumph for Japan!

However, I have been trying to think if there is anything further we might be able to offer your potential domestic critics in the area of effort sharing. I should like to propose that - in line with Tony Blair's recent letter - we commit ourselves both to untie on the basis proposed in OECD in June by the end of 2001 and to agree by the same date the benchmarks against which progress will be assessed. But in addition, I suggest that we call on the OECD to issue a public document each year highlighting all members' performance against these benchmarks. Progress should be further scrutinised at a major review - currently proposed for 2004 - at which time new decisions could if necessary be taken in the light of progress or lack of it towards the agreed benchmarks. An annual public review, focusing on the volume of untied aid each OECD country is providing for the least developed countries, would not only reflect Japan in a more positive light; it would also put strong peer-group and NGO pressure on other countries to make progress against the agreed benchmarks.

In terms of communiqué language, this might suggest:

> "We will untie our aid to least developed countries from the end of 2001 on the basis defined in the OECD in June [NB: this would pick up some minor changes to the text discussed in May which are not I think controversial]. Bearing in mind the need for fair burden sharing we commit ourselves to agreeing by the same date benchmarks against which the performance of all members will be assessed, and call on the OECD to publicise these on an annual basis and to review the agreement in 2004 in the light of progress towards them".

I know that you are also interested in how European Community aid, which is mostly untied only to EU member states and recipient countries will be handled. Most least developed countries are covered by the new Cotonou agreement between the EU and the African, Caribbean and Pacific countries. Under the terms of this agreement, procurement could be widened to other OECD countries by a decision of the EU/ACP Council of Ministers. The position of the EU side would be decided by the EU Council on the basis of qualified majority voting. The UK would certainly vote for untying to OECD

countries as part of an agreement and would confidently expect to secure a qualified majority for that view.

When you have considered perhaps we could have a word on the 'phone tomorrow (Friday).

I am not copying this letter to our other colleagues.

Yours,

JEREMY HEYWOOD

Yoshiji Nogami

DCD/DAC(2000)18/REV2

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2nd Secretary	

19 JUN 2000

DRAFT RECOMMENDATION ON UNTYING ODA TO THE LEAST DEVELOPED COUNRIES

Members are invited to consider the attached draft Recommendation at the ad hoc DAC meeting on Monday 19 June 2000, commencing at 11.30 and at the DAC meeting on 20 June, as scheduled under item 5 of the agenda [DCD/DAC/A(2000)8] for that meeting, which is to consider whether full agreement can be reached on a Recommendation.

Contact person: Bill Nicol [Tel: (33) 1 45 24 91 37 / Fax: (33) 1 44 30 63 33]
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DCD/DAC(2000)18/REV2

Or. Eng.

Ref C - K Hannay
- K Fraser

20 June 2000, 20.30

Room Document No. 6

Proposed revisions to DCD/DAC(2000)18/REV2 and Corr. 1

II. Implementation

a) Coverage

6. Untying is a complex process. Different approaches are required for different categories of ODA. Actions and efforts by Members to implement the Recommendation will vary in coverage, timing and starting points. Bearing this in mind, DAC Members will untie their ODA to the Least Developed Countries to the greatest extent possible, within the framework of the mechanisms and procedures set out below:

i. DAC Members will simultaneously, and by 31 December 2001 at the latest:

- untie ODA to the Least Developed Countries in the following areas: balance of payments and structural adjustment support; debt forgiveness; sector and multi-sector programme assistance; investment project aid; import and commodity support; commercial services contracts, and ODA to Non-Governmental Organisations for procurement related activities; and
- establish mechanisms in order to achieve balanced effort sharing.

****

i) Ex ante notification

25. Untied aid offers covered by this Recommendation are to be notified *ex ante*. These notifications should include the following information:

- Notifying Member, agency and contact point;
- Recipient country;
- Project description, and indicate if there has been donor financing of services related to the design or implementation of the notified project;
- Sector/activity and DAC purpose code;
- Project value (in donor currency and SDR);
- Bidding period (start and closing dates);
- Procurement regime (if not International Competitive Bidding, state regime and justification);
- Details of agency responsible for procurement and from which further information or details (e.g. bidding periods, procurement regime, bidding documentation) can be requested,

and all other information that the Member deems appropriate.

Report to the DAC ad hoc meeting on 19 June, 2000, on the state of play concerning the draft Recommendation on untying ODA to the Least developed Countries

Following the discussion of the draft Recommendation at the HLM, the Chairman has conducted a series of informal consultations with various Members. The objective of these discussions has been to search for the "final adjustments" called for at the HLM to meet unresolved concerns among DAC Members, as expressed at the HLM, in ways likely to be generally acceptable to the DAC as a whole.

The adjusted draft Recommendation, set out below (amendments to the previous version are signalled in bold text), provides a balanced package, which offers scope for a successful implementation of the Recommendation.

The process has required flexibility on the part of all. It has been productive and encouraging. However, the approach to dealing with effort sharing still needs further discussion. In respect of this issue, an alternative proposal by Japan, France and Denmark, to that set out in the attached draft, will be distributed for the meeting.

The effectiveness of the Recommendation requires, of course, that all provisions and agreements are fulfilled in an effective and timely manner, respecting deadlines and delivering desired results. This applies obviously to the provisions and processes to address performance and effort sharing, as to other operational procedures and understandings set out in the text. As Members share a basic concern over the question of full and timely implementation, it could be appropriate to schedule a "rendezvous" at the December 2001 SLM to take stock of and assess progress with the implementation of the Recommendation in general, as well as in respect of specific provisions, and to consider the implications of the results of that assessment.

The timetable for implementing the Recommendation in general, as well as specific provisions such as those concerning effort sharing, will be a priority item for the Working Party on Financial Aspects of Development Assistance, at its next meeting on 3-4 October 2000. For that meeting, the Secretariat will circulate concrete proposals for Members' consideration on the operationalisation of the principles set out in the Recommendation and on the implementation of the various tasks to which we have committed ourselves by agreed deadlines. Meetings of the Working Party through 2001 will be organised in a manner that provides full opportunity to address all issues, to assess implementation and to reach agreed conclusions for that work with a deadline of end 2001.

DRAFT

DAC Recommendation on Untying Official Development Assistance to the Least Developed Countries

I. Objectives and Principles

1. Members of the OECD's Development Assistance Committee (DAC) agree to the objective of untying their bilateral official development assistance (ODA) to the Least Developed Countries as a means to:

- foster co-ordinated, efficient and effective partnerships with developing countries;
- strengthen the ownership and responsibility of partner countries in the development process;
- demonstrate responsiveness to the requests from partner countries and others to increase the use of untied aid in order to promote aid effectiveness; and
- contribute to broader efforts with partner countries to promote their integration into the global economy

2. This Recommendation reflects the results of discussions in the DAC to respond to the Mandate provided at its 1998 High Level Meeting (see Annex III) and the shared intentions of DAC Members to:

- untie their ODA to the Least Developed Countries to the greatest extent possible;
- promote and sustain adequate flows of ODA in terms of quality, volume and direction, in particular to the Least Developed Countries;
- achieve balanced efforts among DAC Members.

3. This initiative is targeted on the Least Developed Countries because of their relative dependence on aid and their relatively greater need for accelerated progress towards the International Development Goals, as set out in the report "Shaping the 21st Century: the Contribution of Development Co-operation". This initiative aims to capture, for these countries, the benefits of open procurement markets.

4. In promoting the above objectives, DAC Members consider that reinforcing partner country responsibility for procurement, with appropriate guarantees for effectiveness, accountability, probity and transparency, is intrinsic to this initiative. Similarly, promoting local and regional procurement in partner countries is a shared goal. DAC Members will work with partner countries to identify needs and to support efforts in both areas.

5. This Recommendation does not restrict the prerogative of DAC Members to untie ODA to a greater extent than set out herein. DAC Members are invited to continue to provide untied ODA in areas not covered by the Recommendation when they already do so, and to study the possibilities of extending untied aid in such areas. Neither does this Recommendation pre-empt positions that DAC Members may take in discussions on related issues in other fora.

II. Implementation

a) Coverage

6. Untying is a complex process. Different approaches are required for different categories of ODA, and actions by Members to implement the Recommendation will vary in coverage and timing. Bearing this in mind, DAC Members will untie their ODA to the Least Developed Countries to the greatest extent possible and in accordance with the criteria and procedures set out in this Recommendation:

i. DAC Members agree to untie, by 31 December 2001 at the latest, ODA to the Least Developed Countries in the following areas: balance of payments and structural adjustment support; debt forgiveness; sector and multi-sector programme assistance; investment project aid; import and commodity support; commercial services contracts, and ODA to Non-Governmental Organisations for procurement related activities.

ii. In respect of investment related technical co-operation and free standing technical co-operation, it is recognised that DAC Members' policies may be guided by the importance of maintaining a basic sense of national involvement in donor countries alongside the objective of calling upon partner countries' expertise, bearing in mind the objectives and principles of this Recommendation. Free-standing technical co-operation is excluded from the coverage of the Recommendation.

iii. In respect of food aid, it is recognised that DAC Members' policies may be guided by the discussions and agreements in other international fora governing the provision of food aid, bearing in mind the objectives and principles of this Recommendation

7. This Recommendation does not apply to activities with a value of less than SDR 700,000 (SDR 130,000 in the case of investment related technical co-operation).

b) Procurement regime

8. The procurement of goods and services covered by this Recommendation should follow the DAC's Good Procurement Practices.

9. In conducting procurement of aid-supported goods and services, and in partnership with developing countries, DAC Members should apply relevant commitments and guidance such as:

- the 1996 DAC Recommendation on Anti-Corruption Proposals for Aid-Funded Procurement;
- the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

c) Transparency

10. For untied aid offers covered by this Recommendation, DAC Members should, and in collaboration with partner countries as appropriate, provide or ensure *ex ante* notification.

11. DAC Members should respond promptly and fully to requests by other Members for further information on, or clarification concerning untied aid offers covered by this Recommendation.

12. DAC Members should ensure that the DAC will be provided with information on contract awards pertaining to the untied aid offers covered by this Recommendation.

d) Derogation

13. For individual aid offers, DAC Members may, in exceptional circumstances, take measures inconsistent with the terms of this Recommendation, in situations where they believe it to be justified on the basis of overriding, non-trade related, development interests. Derogations are to be justified in a letter to the Secretary-General of the OECD and to the DAC Chair and will be followed up in review procedures.

e) Monitoring and evaluation

14. The DAC will monitor all aspects of this Recommendation through a combination of different mechanisms:

- Annual reports covering all aspects of the Recommendation, as well as the experience in delivering its objectives. These reports, which will be reviewed by the DAC in time for its annual High Level Meeting, will, inter alia:

  - assess the impact of the Recommendation on the volume, quality and directions of ODA flows;
  - set out Members' policies in respect of investment related technical co-operation and food aid;
  - review the implementation of this Recommendation with respect to achieving a balance of efforts among DAC Members and promoting and sustaining ODA flows to the Least Developed Countries;
  - review DAC Members' procurement practices and patterns for untied aid offers;
  - assess progress towards strengthening partner countries' local procurement capacities and improving the access of partner countries enterprises to aid funded procurement;
  - address, in addition to the provisions for bilateral consultations set out above, specific concerns that may be raised by individual DAC Members in respect of the Recommendation.

- The annual reports will also provide input for the peer reviews of individual DAC Member's development co-operation programmes.

- A comprehensive evaluation of its implementation and impact will be carried out by the High Level Meeting in 2004. This evaluation will also pay particular attention to the implementation of this Recommendation with respect to achieving a balance of efforts among DAC Members and promoting and sustaining ODA flows to the Least Developed Countries.

15. To foster balanced efforts among DAC Members, the DAC will set, by the end of 2001, appropriate quantitative performance objectives for the implementation of the Recommendation, and use indicators as benchmarks to measure progress with and to consider further actions to be taken by Members to enhance their efforts and performance. In so doing, the DAC will develop

individual and aggregate indicators of Members' efforts and performance in respect of the volume of ODA to the Least Developed Countries, its relative importance (e.g. as a percentage of ODA/GNP, as a share of bilateral ODA, etc.) and the share of ODA to the Least Developed Countries that is untied, acknowledging both starting points and efforts already made by Members in these respects.

16. DAC Members will work with stakeholders, particularly developing country partners, to ensure the Recommendation delivers its objectives.

Annex I

OPERATIONAL PROCEDURES AND UNDERSTANDINGS

17. This Annex forms an integral part of the Recommendation on untying ODA to the Least Developed Countries. It details, where necessary, provisions concerning operational procedures and understandings related to the coverage and implementation of this Recommendation.

I. Definitions and coverage

18. Untied ODA refers to loans or grants which are freely and fully available to finance procurement from substantially all aid recipient countries and from OECD countries. Members which have rules of origin, or minimum national content rules, should take any steps necessary to ensure that ODA untied in accordance with this Recommendation is both de jure and de facto untied.

19. This Recommendation applies to DAC Members' bilateral ODA to the Least Developed Countries. The list of Least Developed Countries (as may be periodically modified by the United Nations) is set out in Annex II.

20. Definitions of the ODA categories addressed in this Recommendation are as set out in the DAC's Statistical Reporting Directives [DCD/DAC(2000)10]. Further work **will be undertaken** to operationalise, **by the end of 2001**, the definitions of investment related technical co-operation (including its component activities) and food aid to ensure an effective implementation of the Recommendation.

Commercial services contracts

21. For the purposes of this Recommendation, commercial services contracts are defined as contracts let on a commercial basis to a company for the running or management of a utility or distribution network.

ODA provided for NGOs

22. ODA provided for NGO activities is covered by this Recommendation only to the extent that NGOs are involved in procurement-related activities included in its coverage. Grants for the core support of development NGOs or their programmes are excluded.

Management services arrangements

23. Management services arrangements (i.e. "technical co-operation" provided by donors primarily for the purpose of carrying out the administration of their own aid projects and programmes) are excluded from the coverage of this Recommendation.

II. Transparency

24. DAC Members recognise that efforts to promote partner country responsibility for procurement are intrinsic to this untying initiative. In situations where partner countries have responsibility for conducting procurement, some of the information requirements set out below may be available in the first instance from partner countries or their procurement agents. Members should report in a timely manner

the information required by the following provisions, or should work effectively with partner countries to do so.

i) Ex ante notification

25. Untied aid offers covered by this Recommendation are to be notified *ex ante*. These notifications should include the following information:

- Notifying Member, agency and contact point;
- Recipient country;
- Project description; **if the project follows on from an IRTC contract, indicate donor and tying status of the IRTC;**
- Sector/activity and DAC purpose code;
- Project value (in donor currency and SDR);
- Bidding period (start and closing dates);
- Procurement regime (if not International Competitive Bidding, state regime and justification);
- Details of agency responsible for procurement and from which further information or details (e.g. bidding periods, procurement regime, bidding documentation) can be requested,

and all other information that the Member deems appropriate.

26. Notifications should be made to the Secretariat not less than 30 calendar days prior to the opening of the bidding period.

27. Bidding periods should ensure sufficient time to all suppliers to prepare and submit bids, while taking account of the circumstances of the procurement agent. Bearing this in mind, bidding periods should normally be not less than 45 calendar days, except for large projects (with a value of, or exceeding, SDR 50 million), where bidding periods should normally be not less than 90 calendar days.

28. Notifications should be made available to DAC Members and to potential suppliers through the DAC's Internet bulletin board. DAC Members may also, in addition, wish to use their own facilities to publicise the aid offers contained in notifications.

ii) Exchange of information procedures

29. DAC Members which have received an enquiry from another Member concerning individual untied aid offers covered by this Recommendation should respond promptly (i.e. within 14 calendar days) and fully, providing all information relevant to the request. Such enquiries and responses should use electronic means of communication. The DAC Members concerned should, together, take all possible steps to clarify or resolve issues arising.

30. Where that latter is not possible, a DAC Member may, if it so wishes, broaden the initial bilateral exchange of information to other DAC Members, in order to solicit views on issues pertaining to the implementation of the Recommendation.

31. The periodic reviews of the implementation of the Recommendation will also address experience with these procedures.

iii) Information on contract awards

32. DAC Members should provide the Secretariat with information on contract awards pertaining to individual *ex ante* notifications. This information should include the name, address and country of incorporation of the firm awarded the contract (or the prime contractor, where a syndicate of firms is concerned). The above information should be provided on an annual basis and be reviewed in the context of the overall review procedures.

Annex II

Least Developed Countries (as at 1 January 2000)

Afghanistan
Angola
Bangladesh
tBenin
Bhutan
Burkina Faso
Burundi
Cambodia
Cape Verde
Central African Republic
Chad
Comoros
Congo, Dem.Rep.
Djibouti
Equatorial Guinea
Eritrea
Ethiopia
Gambia
Guinea
Guinea-Bissau
Haiti
Kiribati
Laos
Lesotho
Liberia
Madagascar
Malawi
Maldives
Mali
Mauritania
Mozambique
Myanmar
Nepal
Niger
Rwanda
Samoa
Sao Tome and Principe
Sierra Leone
Solomon Islands
Somalia
Sudan
Tanzania
Togo
Tuvalu
Uganda
Vanuatu
Yemen
Zambia

Annex III

AID PROCUREMENT LIBERALISATION: 1998 DAC HLM MANDATE

1. HLM participants mandate the Working Party on Financial Aspects to work on a Recommendation on untying ODA to the Least Developed Countries (LLDCs), including the relevant implementation issues, with a view to presenting a proposed text to the HLM in 1999. A status report should be presented to the Senior Level meeting (SLM) of the DAC in December 1998.

2. Participants recognised that in order to arrive at an agreed text, the following issues, in particular, will have to be satisfactorily addressed:

- The need for effective donor co-ordination and partnerships with developing countries that reflect responsiveness, efficiency and effectiveness of development co-operation.
- Assessment of potential effects on the quality, volume and direction of ODA flows.
- Helping develop the capacities of the private sector and procurement systems in partner countries.
- The importance of maintaining a basic sense of national involvement in donor countries (especially in certain forms of technical co-operation) alongside the objective of calling upon partner countries' expertise.
- The need to take into account differences in the structures and starting points of Members' programmes with respect to volume, ODA/GNP ratio, distribution and existing untying of aid.
- Initiatives to enlist the understanding and involvement of the business community in Member countries and promote wide public information and support.
- The impact of further procurement liberalisation on regional arrangements such as the Lomé Convention.
- Thorough examination of the modalities involved in the untying initiative, including:
  - ⇒ appropriate procurement modalities (including safeguards against corruption);
  - ⇒ manageable thresholds, coverage and exclusions (including with respect to technical co-operation and promotion of procurement from local and regional sources in developing partner countries);
  - ⇒ definitions and reporting arrangements on the tying status of ODA
  - ⇒ mechanisms for confidence building and transparency, including provision of relevant statistical information;
  - ⇒ monitoring and peer review.

TOTAL P.13

(C)

Ref G

c: Mr Manning
Mr Tilbrook, DfID
Mr Budd
Mr Bowden
Mr Butler
~~Mr Goodall, DfID~~
Mr Christie

Thank you for most of your points into the Communique. Any further comment

Ms Grand, Ms Saunders, Mr Wilk

G8
Okinawa Summit
July 2000

Ms AD(S), AD(E), LACD, SAD, SEAD, NEAD
Mr Jones, CFSPD
Mr Quarrey, MND
Ms Hill, EUD(E)
Mr Schwaderer, HRPD
Ms Hellyer, Planners
Mr Rankin, HMT
Ms Fox, NAUSD

NEAD

Mr Freeman
Ms White
Mr Sullivan
Mr Cantley

James Kariuki
EBD

African Development Bank

Asian Development Bank

European Bank for Reconstruction and Development

Inter-American Development Bank

International Monetary Fund

World Bank

GLOBAL POVERTY REPORT (*)

(Draft G8 Communique ~~attached~~ extract attached.)

(*) final draft circulated at G8 Plenary meeting 21/6/00

1. Mr Cody

pse copy to Mr Manning, Sands-Smith, Grant, Major, Mrs Lang and Mrs Taylor. Also spare copy for me. Then file.

2. Mr Manning

Here are the final version of the Poverty Report, and the latest version of the G8 communiqué, following the weekend Energy meeting. Any comments you'd like me to feed in?

Richard Tilbrook
3/7

* Note that our language on ongoing and effectiveness has been much pre

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 availability of knowledge, and flows of private and official capital have a powerful impact on poor countries and their ability to reduce poverty.

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 continue to search for ways to prevent conflict, and support countries emerging from strife.

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.

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 are providing a framework for enhanced collaboration between governments, IFIs and other external agencies, in support of country-owned programs.

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I. Global Poverty Conditions and Trends

1. Poverty is an unacceptable human condition. The goal of development is therefore to eliminate poverty. Economic growth is key 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]

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. 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

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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.oecd.org/dac/htm/bwa.htm

[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.

the number of people living below the international poverty line. Here, the incidence rose from 0.2 percent to 5 percent, translating into 24 million people in poverty.[4]

5. Experience has shown that countries with lower degrees of inequality have been more successful in reducing poverty, as lower inequality is associated with higher and relatively more labor-intensive growth. For instance, growth in East Asia was accompanied by high rates of job creation, whereas in Latin America and Sub-Saharan Africa,[5] the two regions with the highest inequality, manufacturing growth tended to be capital-intensive and did not create much employment.[6] 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. Clearly, policies that foster growth while reducing inequality have the largest impact on poverty reduction.

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.[7] 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 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.[8] 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.

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

5 Africa performed well in terms of economic growth and social development immediately after independence. The current crisis set in with the oil shocks of 1973 and 1979.

6 *Growth and Equity: An Agenda for Poverty Reduction*, Oxfam International, 1997. http://www.oxfam.org.uk/policy/papers/equity/index.htm

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

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

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)[9] 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.[10] 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 the Pacific, Eastern Europe, and Central Asia.[11] 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

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[9] 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

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

[11] 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.

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 gross primary school enrollment rates of 78 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 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 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 Special Program 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 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 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.[12]

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

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[12] *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_pl00.htm

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.[13] 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.[14] 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.

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.

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

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

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.

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 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.

(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.

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.[15] 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..

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

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[16] "Growth is Good for the Poor" by David Dollar and Aart Kraay, The World Bank, March 2000, shows that incomes of the bottom twenty percent of the population have risen one-for-one with the overall level of economic activity..

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 addition, the WTO proposal to grant duty- and quota-free market access to the less developed countries should be expanded to include all Heavily Indebted Poor Countries (HIPCs), which would increase the total coverage to fifty-nine countries. 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 helped reduce potential risks emanating from inadequate reporting and a lack of transparency by improving standards, statistical information systems, and disclosure and surveillance practices for financial information. Areas in which less progress has been made relate to collective action clauses and to distributing the burden between debtors and creditors.

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 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 a professional and transparently run security sector can also help assure durable peace (the DAC is therefore reconsidering if such assistance should not count as ODA). 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 in the nineties, up to 1998, and need to be restored. The target for OECD countries aid is 0.7 percent of their GNP, but only Denmark, the Netherlands, Norway, and Sweden have matched this. One important dimension of this is the Enhanced Heavily Indebted Poor Countries Initiative, under which more countries will be able to obtain deeper debt relief faster. Progress in its implementation has yet to be fully achieved and additional resources secured, without which the initiative is not likely to meet its objective.

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.

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.

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.

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	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.

[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	0.8	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

5. JUL. 2000 12:18 NO. 2501 P. 2

CB

cc: Michael Jay, (FSPi)
Diana Lee..., (Planners)
James Davies, (UN))

Jan Kinik
FPO.
for Communique.

cc: Mr Budd
~~Mr Brenton~~
~~Mr Kasinski~~
~~Mr White~~
Mr Quarrey, UND
Mr Tilbrooke } DFID
Mr Moye
Ms Goldin. 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 Plenary.
pla US plw Heywood letter
S. Harvey 5/7.

Dear Lael,

CONFLICT DIAMONDS, EDUCATION AND IT

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, Jr.

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.

E

Ref B

THE WHITE HOUSE

WASHINGTON

July 11, 2000

Dear Yoshi:

Please find attached our comprehensive set of comments to the G8 Communiqué that incorporates the edits from my letter yesterday.

I am also copying this letter to our G8 colleagues.

Sincerely,

Lael Brainard
Deputy National Economic Advisor

	and other ~~in~~-national poverty . . ."
• Page 6, Line 20-21	To clarify and avoid misleading, suggest " . . . of the Initiative.— Total debt relief under the HIPC Initiative for these countries should amount to freeing up [US$12.5] billion. The annual savings from debt relief will be used for the fight against poverty.
HEALTH	
• Page 7, Line 26	Add " . . . begun to control onchocerciasis, and must sustain our efforts to complete these campaigns.
• Page 7, Line 27	In order to appropriately emphasize HIV/AIDS, we suggest adding the following. "But we must go further. We therefore . . . actors of civil society to take on the devastating pandemic of HIV/AIDS as a primary task and work in strengthened partnership to deliver three critical UN targets:"
• Page 8, Lines 5-6	The target listed is not from the WHO Stop TB Initiative and there is no current plan to achieve it. We suggest instead that the tick read "Ensure that sufficient human and financial resources are available to meet the challenges of stopping TB (WHO Stop TB Initiative)."
• Page 8, Lines 7-8	We support the new language of burden vs. prevalence.
• Page 8, Lines 12	Add new 2nd sentence that would read " . . . maximum extent possible. "We welcome the World Bank's commitment to triple concessional IDA lending for AIDS, malaria, tuberculosis and immunization next year [from $200 million to between $600 and $700 million]."
• Page 9, Line 3	We suggest adding the following to the end of the sentence, " . . . public health goods, both through increasing basic research and developing incentives for private sector investment."
• Page 9, Lines 6-8	We believe that the last sentence should read " . . . to facilitate access to care and treatment for those affected by HIV/AIDS ~~treatment~~.
EDUCATION	
• Page 9, Line 24	Add " . . . with international organisations and private sector donors to achieve the goals . . ."
• Page 9, Line 27	Strike out *will* from " . . . poverty reduction strategies and ~~will~~ provide greater assistance . . ."
• Page 9, Line 28	Add " For example, if the World Bank were to increase overall education lending by 50 percent and it devoted this entire increase to basic education, then lending for basic education could be doubled -- a step that could galvanize all parties toward action in support of the Dakar Education For All Goals."
TRADE	
• Page 10, Line 1	I agree w/ Don's language and have tweaked it slightly.

Ref C

Draft G8-Communiqué as of July 7, 2000

Dear Yoshiji,

as agreed, please find enclosed some comments regarding the draft version of the G8-Communiqué you kindly sent on July 7, 2000. I hope the proposed amendments are acceptable to everybody.

(Health)

we would support deletion

Delete page 8, line 23-25 (~~for example by facilitating implementation of the TRIPS agreement, and assessing obstacles faced by developing countries~~)

It is not clear what it means. TRIPS does not contain elements concerning the access of drugs.

Delete page 9, line 4-8 — refers to conference in Japan and UN conference on HIV/S treatment

We are not convinced that we need another conference. There are too many conferences, about twenty this year. Concrete action is needed. Furthermore, we miss a sentence stating how important prevention is.

Education

page 9; line 18, add after "Conference on Women"

...and the 24th special session of the General Assembly entitled World Summit for Social Development and beyond (or short "UN-Conference on Social Development"): achieving social development for all in a globalising world.

Trade

We will send our comments soon.

Crime and Drugs

page 11, lines 8, 18 and 23: no objections to the proposed text amendments

page 11, line 26: In order to meet industry's expectations regarding further Industry/Government dialogue, I would like to propose the following slightly more substantial wording regarding the Berlin Follow-up Meeting on Cyber Crime:

„... with industry, and expect concrete and substantial results at the next joint meeting in Berlin in October.

...

DRAFT

10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

13 July 2000

WORLD SCHOOL FEEDING INITIATIVE

Thank you for your letter of 11 July about the World Food Programme's proposed World School Feeding Initiative. My letter of 5 July commented on the earlier paper that you handed me in Okinawa. Our experts have now studied the fuller WFP proposal. Whilst we fully accept that poor nutrition contributes to poor education outcomes we are not entirely convinced by the WFP approach. My experts have highlighted a couple of concerns.

Firstly, whilst poor nutrition is a contributing factor there are also many other factors that impede poor children's access to schooling and affect learning outcomes. These include poor health, HIV/AIDS, lack of clean water, inadequate latrines, lack of early childhood care, school infrastructure, gender discrimination, child labour, cost and quality of teaching and learning. There is no evidence to suggest that nutrition is the predominant factor. In our view developing country governments need to take all these elements into account when determining their education strategies and make hard choices about resource allocation.

We also have concerns about the effectiveness of "developmental" food aid - as distinct from emergency response food aid. A 1998 report by the UK's Overseas Development Institute (ODI) on the future of food aid found that "developmental" food aid had been "relatively ineffective as an instrument for combating poverty and improving the food consumption and nutritional and health status of very poor and vulnerable people". Financial aid was found to be "more effective in most circumstances than food aid". The ODI research also concluded that WFP's school meals programmes "had shown previously unimpressive performance in combating poverty or improving nutritional status".

Finally in our view it is important to consider food aid in the context of national food security policies. In the wrong circumstances such aid can do much damage to local markets and producers. We are not convinced that the WFP initiative is set in this context.

On this basis it would be inconsistent with the UK's international development priorities to lend specific support to the WFP proposal at Okinawa. We would of course have no objection to the US announcing its support for the programme as part of bilateral efforts to tackle poverty.

JEREMY HEYWOOD

Lael Brainard

and Mori's response

Development - Background

1. **Handling.** Key UK objective is to reach agreement that untying development assistance to the least developed countries should go ahead by the end of 2001 on the basis already worked out in the OECD. You wrote to Mori **(ref A)** in June stressing the importance we place on reaching agreement. The Japanese have not yet replied but are worried about seeing this issue go to the Summit. Two successive Summits have urged agreement (Birmingham and Cologne). We want to make more headway this time. There has been considerable NGO and UK media interest, largely as a result of a campaign by the British NGO Action Aid, with whom DFID has worked closely. The rest of this session should be uncontroversial. We have secured strong messages and commitments on health and should use this as a platform to announce new UK spending.

Untying

2. Japan, France (and Denmark) are blocking an OECD agreement on untying aid to least developed countries (LDCs). They will argue that the present scope of an agreement to untie aid to the LDCs is unbalanced (largely because the US provides a smaller proportion of its aid to LDCs than any other donor and very little of it will be untied under the proposed agreement). Japan is also concerned to ensure that EC development programmes are covered by an untying agreement, and are seeking a commitment from the Commission. It is difficult to offer the Japanese an assurance on this - the Council of Ministers would have to agree and then, under the Cotonou (successor to the Lomé) Agreement, African, Caribbean and Pacific Ministers. But we have said we will work wholeheartedly for untying of EU aid programmes.

3. On the other hand, Clinton may challenge the Japanese on extent to which they genuinely untie. The US wants transparency in order to see how far technical co-operation linked to investments is used to secure large-scale follow-on contracts (because they believe this to be the practice of the Japanese).

4. Discussions aimed at reaching agreement on this have been underway in the OECD for nearly 3 years. Significant progress has been made in the OECD but the question of some countries providing less aid to the least developed than others threatens agreement. We (along with all OECD countries bar Japan, France and Denmark) favour approaching this by agreeing by the end of 2001 - the date on which untying would commence - arrangements to assess donor countries' efforts to do more in the run-up to a review proposed for 2004. The 3 dissidents want to set entry criteria before any overall agreement on untying. They would aim to set criteria the US could not meet, thus making an OECD-wide agreement impossible.

Poverty Report

5. Discussion on the Report on Poverty Reduction should be uncontroversial. Called for by the Cologne Summit this is 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 on the importance of improving the effectiveness of aid (which includes aid untying).

Health

6. It is a key UK achievement that we have a headline statement linking health to prosperity: good health is the engine for development: investment in health brings economic and social gains. We also pressed for the inclusion of a specific action plan in the communiqué, to back up and fulfil the headline statement: this commits us to specific timed outcomes. These are achievable, but the G8 will need to play a strong role in mobilising political commitment and additional resources (hence the announcement of additional UK resources you will be making).

7. We have also been successful in moving the Japanese from a narrow disease-specific focus to a wider approach: the US and Canada have been key allies here. With the exception of HIV, there will be little appetite for a single disease-response at Okinawa, such as previous initiatives in malaria. We have pressed to ensure that the conference which Japan will host addresses the institutional response and partnerships needed for some of the poorest countries in the world to absorb more resources and achieve good health outcomes: a conference of key stakeholders will need to address new ways of working and (essential) report on progress towards the targets at Genoa. The UK's current expenditure of £340 million on international health excludes contributions through the EU and World Bank.

8. Ante-retroviral therapy (ART) dominated much of the discussion at the Durban International Conference on HIV/AIDS last week. We and the UN emphasised the importance of prevention, care of those infected and secondary treatment to prevent mother to child transmission. ART remains too expensive.

Education

9. The UK played a high profile role at the World Education Forum in Dakar in April. Dakar resulted in strong political commitment by national governments and the international community to Education for All, recognition of the importance of well conceived education sector policies as part of poverty reduction strategies, and agreement on the need for significantly enhanced 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 in its achievement of this goal 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.

10. 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, and will do more.

11. See also IT Background for details of your initiative on education and IT in developing countries – the Imfundo Project.

FCO

10 DOWNING STREET
LONDON SW1A 2AA

28 June 2000

THE PRIME MINISTER

Dear Prime Minister,

As we approach Okinawa, I wanted to share with you my concern that we may not be offering least developed countries enough positive messages from the Summit. As you know, it is the least developed countries which are most at risk of marginalisation in a globalising world, and most of them are heavily dependent on assistance from our own and other OECD countries.

Given the risk that fewer countries than originally hoped might progress through HIPC this year, and the obstacles still in the way of extending liberal duty free access to least developed countries, I was particularly concerned to learn that the OECD initiative on untying aid to least developed countries did not reach a positive conclusion last week. As you know, both the Birmingham and Cologne Summits urged the completion of such an agreement. I believe that we must aim to have a positive result to report to Okinawa.

The case for untying aid to least developed countries is a strong one. We have already liberalised almost all other forms of Government procurement. We know that tying reduces value for money. Untying would reduce the transaction costs of aid for least developed countries, and help us all to provide assistance in an effective and a joined-up manner.

As I understand it, we are in fact extremely close to an agreement covering financial aid to least developed countries. Compromise wording on difficult issues

such as food aid and investment related technical co-operation appears to have general support. The issue on which negotiations seem to have foundered last week was the use of benchmarks on levels of aid to least developed countries, which were to have been agreed in time for the agreement to come into force at the end of 2001. The issue is whether these benchmarks should be used to monitor progress, or, as I understand Japan, France and Denmark suggested, be criteria for countries' participation in an untying agreement from the outset.

We should not allow the agreement to fall on such an issue. I believe we should signal at Okinawa our firm agreement to untying of the categories of aid agreed by the OECD to least developed countries by the end of 2001, coupled with a commitment to agree by the same date benchmarks against which the performance of individual OECD countries would be monitored. These should not be treated as conditions for all OECD countries to participate in the agreement, but as a means of putting peer pressure on each of us to maximise the amounts of untied aid that we provide to least developed countries. I believe such an agreement would enable us to send a much more positive signal to least developed countries from the Okinawa Summit.

Yours sincerely

Tony Blair

His Excellency Mr Yoshiro Mori

EMBASSY OF JAPAN

LONDON

cc Jim K – Jy Fix

18th July 2000

Top ~~Left~~

cc JS
AC
Loren

Dear Prime Minister,

I am asked by Prime Minister Yoshiro Mori to forward the facsimile copy of his letter to you, together with a translation, which I have much pleasure in enclosing. The original letter will be sent as soon as it is received.

Yours sincerely,

S. Hayashi

Sadayuki Hayashi
Ambassador

The Rt. Hon. Tony Blair, MP,
Prime Minister, First Lord of the Treasury,
and Minister for the Civil Service,
LONDON.

(Translation)

17 July 2000

Dear Mr. Prime Minister,

Thank you very much for your letter of 28 June, which I have read with keen interest. You mentioned in the letter that we should send positive messages from the Okinawa Summit to developing countries, in particular to the least developed countries. I fully agree with you on this matter, and it is my understanding that the text of the Okinawa Communique is being prepared in line with this idea. With respect to development, the Communique places priority on three issues, namely debt, health and education, and deals with the issue of the digital divide in the context of IT. I am therefore convinced that the text of the Communique is indeed positive, placing maximum emphasis on the perspectives of developing countries.

Regarding the issue of untying ODA to LLDCs, a subject on which you have expressed your concern, I also deeply regret that we were unable to reach an agreement at the OECD meeting in June. As you may be aware, Japan has been actively promoting untying of ODA and, as a result, Japan's level of untying is one of the highest among DAC members. Japan is therefore in a position to urge other members to promote untying. Japan has also been positively involved in discussions on untying in the DAC.

The essential point of this issue is that the levels of untying of some members, including the United States, is considerably low compared with, for example, your country, Japan and France, and these countries do not seem to have the intention to focus their efforts on promoting untying. It is therefore important that countries with low levels of untying promote further untying so as to ensure that we are all on a "level playing field." From this perspective, Japan, France and Denmark have jointly proposed that a mechanism to ensure a balanced effort sharing be established before agreeing on untying. I would like you to understand that we are placing emphasis on fairness in this context.

I for my part am ready to affirm our political intention to promote untying at the Okinawa Summit. In terms of the technical side to the issue, however, I believe that it would be more appropriate to continue discussions in the DAC, in which other important countries participate including Denmark, which provides ODA equivalent to 1 % of its GNP, rather than in the G8, to which only some donors belong. I strongly hope, along with you, that each member will make further efforts toward reaching an agreement, and that such an agreement can be made as soon as possible.

I am looking forward to meeting with you in Okinawa, a most beautiful and picturesque setting in which to exchange frank views on the international issues.

Yours sincerely,

/S/

Yoshiro Mori

Prime Minister, Japan

His Excellency Mr Tony Blair

Development

The 21st century must be a century full of prosperity for all, and we commit ourselves to the agreed international development goals, including the overarching objective of reducing the share of the world's population living in extreme poverty to half its 1990 level by 2015. We welcome the Report on Poverty Reduction by Multilateral Development Banks (MDBs) and the International Monetary Fund (IMF) which we requested in Cologne, and we look forward to receiving an annual poverty report as we review progress each year in reducing poverty across the globe. This report shows that progress is possible where the right conditions are created for growth and social development. But it reminds us of the vast challenges that remain. While the percentage of poor in *developing countries* declined from 29% in 1990 to 24% in 1998, there are still 1.2 billion people living on less than one dollar a day and there are marked differences both within

page 5

and between regions. In particular, many developing countries, notably in Africa, are growing too slowly, partly as a result of the HIV/AIDS pandemic, with adverse implications for poverty reduction.

As the report indicates, many countries have made significant progress in overcoming poverty in the past quarter century, and their example is a beacon of hope for others. From their success, we have learned that poverty can best be overcome in resilient, peaceful, and democratic societies with freedom and opportunity for all, growing and open economies and dynamic private sectors, and strong and accountable leaders and institutions.

Robust, broad-based and equitable economic growth is needed to fight poverty and rests on expanding people's capabilities and choices. Government must, in co-operation with the private sector and broader civil society, establish economic and social foundations for broad-based, private sector growth. Small and medium sized enterprises, together with the opportunities presented by IT can be powerful tools for development. We will work with developing countries to put in place policies, programmes and institutions that offer people a fair chance to better their lives. We therefore welcome the constructive discussions of UNCTAD X in Bangkok, and will work in the United Nations and other fora to further reduce poverty, especially in the least developed countries.

Trade and investment are critical to promoting sustainable economic growth and reducing poverty. We commit ourselves to put a higher priority on trade-related capacity-building activities. We are also concerned that certain regions remain marginalised as regards foreign direct investment, and that the 48 Least Developed Countries attract less than 1% of total foreign direct investment flows to the developing countries. We urge multilateral development organisations and financial institutions to support developing countries' efforts to create a favourable trade and investment climate, including through the Poverty Reduction Strategy Papers (PRSP) and the Integrated Framework (IF).

Official development assistance (ODA) is essential in the fight against poverty. We commit ourselves to strengthening the effectiveness of our ODA in support of countries' own efforts to tackle poverty, including through national strategies for poverty reduction. We will take a long-term approach favouring those countries where governments have demonstrated

page 6

a commitment to improve the well-being of their people through accountable and transparent management of resources devoted to

development. We resolve to reach an agreement on untying ODA to the least developed countries in order to increase the effectiveness of aid. We will, therefore, vigorously continue our efforts in the OECD to reach such an agreement as soon as possible, [*on the basis of /bearing in mind the need for*] a balanced effort sharing mechanism and *on the basis of* the progress made in the OECD to date. In the meantime, we urge those countries which maintain low levels of untying to improve their performance. We will also seek to demonstrate to the public that well-targeted ODA gets results, and on that basis will strive to give increased priority to such assistance. Well co-ordinated assistance is helpful for developing countries and we will consider how best to improve such co-ordination.

We also agree to give special attention to three issues – debt, health and education, as a spur to growth.

Debt

Last year in Cologne, we agreed to launch the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative to deliver faster, wider and deeper debt relief, releasing funds for investment in national poverty reduction strategies. 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. [Nine] countries (Bolivia, Uganda, Mauritania, Tanzania, Mozambique, Senegal, [Honduras, Burkina Faso and Benin]) have already reached their Decisions Points and are seeing the benefits of the Initiative. *Total debt relief for these countries should amount to* [US$? -- to be confirmed).

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 must for our part promote more responsible lending and borrowing practices to ensure that HIPCs will not again be burdened by unsupportable debt.

page 7

In this regard, we welcome the establishment of the Joint Implementation

5 Education

Every child deserves a good education. But in some developing countries access to education is limited, particularly for females and the socially vulnerable. Basic education not only has intrinsic value, but is also key to addressing a wide range of problems faced by developing countries. Without accelerated progress in this area, poverty reduction will not be achieved and inequalities between countries and within societies will widen. Building on the Cologne Education Charter, we therefore support the Dakar Framework for Action as well as the recommendations of the recently concluded follow-up to the Fourth World Conference on Women, and welcome the efforts of developing countries to implement strong national action plans. We reaffirm our commitment that no government seriously committed to achieving education for all will be thwarted in this achievement by lack of resources.

We therefore commit ourselves to strengthen efforts bilaterally and together with international organisations and private sector donors to achieve the goals of universal primary education by 2015 and gender equality in schooling by 2005. We call on IFIs, in partnership with developing countries, to focus on education in their poverty reduction strategies and provide greater assistance for countries with sound education strategies. These strategies should maximise the potential benefits of IT in this area through distance learning wherever possible and other effective means.

TRADE

Okinawa G8 Summit **Sherpa Brief**

TRADE (WTO)

Objectives

(Presidency text only)

1. Insert language calling for better and not just more capacity building for developing countries [page 1, line 11].

2. Insert language on a timetable for market access for developing countries[page 1, line 15].

3. Avoid use of US proposed text on labour standards and the environment and any text directly linking environment and social standards.

4. Insert language on need for greater political will and flexibility [from US text].

References

A. EC/Canada proposed text circulated to FASS – end June.
B. US comments on EC/Canada text – 11 July 2000
C. Russian comment on Japanese text – 11 July 2000
D. Letter from Heywood to Nogami – 12 July 2000

Points to Make

Back to Back contains drafting points on Presidency text.

Included below are drafting points (if needed) on US text (modification of EC/Canada text)

- US text on labour and environment is not acceptable [end of para 2], (see above).

- US text would also benefit from concrete announcements on the developing country market access package, as bullet (1) above.

- [para 2] US text good on need for political will and flexibility in order to launch a new Round. Defend the sentence starting "Strong political will and greater flexibility...".

- [para 2] US text on transparency and accountability also useful. Defend sentence starting "Building the desired consensus…".

Okinawa G8 Summit **Sherpa Brief**

Background

1. **Handling.** There are currently two texts: the Presidency text and also a very different US text loosely based on an informal EC/Canadian proposal some time ago. Non-US Sherpas, including the Commission, have been commenting on the Japanese text, and we would expect this text to be the one discussed. However, this brief also takes into account the US text.

2. The Presidency text is acceptable to us as it stands although it lacks strength in places, and we have made some suggestions in this regard. The US text is similarly weak in places, and furthermore contains unacceptable language on labour standards and the environment. We should therefore aim to support the Presidency text. But the US text is useful in places, and we have indicated where including bits of US text into the other text would be helpful.

3. **General G7 Positions vis a vis new Round:** All support new Round this year. The current obstacles to a new Round, as seen from here, are as follows. The US needs to be more willing to include issues which may be sensitive to them but are of importance to others such as anti-dumping. They must also be prepared to compromise on labour issues if developing countries are to be persuaded to sign up (their proposed communiqué language on labour standards and the environment was harsh). The EU needs to show flexibility over investment and competition rules. With these, as with the environment, we need to take account of developing countries' concerns. Canada does not pose significant problems. The G7 countries all need to demonstrate clear commitment to meeting the concerns of developing countries on agricultural market access issues, labour standards, environmental standards, competition and investment, implementation of Uruguay Round commitments, and inclusion in WTO processes.

4. **Russia/WTO**. In the G8 context, we (and the rest of G7) are very supportive of Russian WTO accession as soon as possible. But there is a long way to go before Russia will be in a position to accede.

5. **WTO reform**. Not likely to be an issue at Okinawa, but if raised we would want to support momentum for internal and external reform of the WTO.

Background to specific points to make

Presidency text

6. **LDC market access**. The EU has agreed to implement the developing country market access package by 2005. We have been urging the Commission (your letter, ref. B) to propose that any Communiqué text commits G8 partners to such a deadline since without this, the risk is that market access package will have little practical effect. We have also been pressing both the Commission and other G7 partners for product exemptions in the access package to be kept to an absolute minimum. The Commission has pushed for this, but not as strongly as we would have wished. Subject to events leading up to Okinawa, we may need to lead on pushing G7 partners to follow this line. We should receive Commission and EU partner support on this; however, the French may be more reluctant

than us on product exemptions. Both Japan and the US have been reluctant to commit to a deadline and have consistently sought to avoid making offers on key products. The Quad language on tariff-free and quota free treatment "consistent with domestic requirements and international agreements" insisted on by Japan and the US effectively excludes the need to cover agricultural and textile products where the LDCs have the greatest chance to increase their trade.

7. **More effective capacity building**. It is clear that the amount of capacity building and technical assistance is not the only problem at the moment. The effectiveness and quality of the programmes is also important. Our (relatively minor) proposal should receive wide support – for instance the US text has something similar.

8. **Political will and flexibility will be needed to launch a new Round**. This is widely accepted by the G8. The reference in the US text is very similar to the OECD Ministerial Communiqué language agreed at the end of June, and there should not be any problem with its inclusion into the Presidency text.

9. The US text on **WTO transparency and accountability** is also useful, given the UK concerns for genuine reform of the WTO. G8 states should have no problem with the inclusion of text along these lines, as all are known to be supporters of WTO reform: the Commission have proposed similar language which is useful.

10. **Labour standards and the environment**. The US text on labour and environment (the same wording as in the May EU/US Summit statement) is too strong for developing countries, who are very sensitive to developed nation protectionism under the cover of labour standards and environmental protection. Inclusion in the Communiqué would not help get developing country support for a new Round. In addition we want to avoid linking environment and social concerns as there are important differences in EU objectives on these issues. The Presidency text, that a new Round should "contribute to the goal of sustainable development including environmental protection", is of course acceptable to the UK. But given that even the reference to "environmental protection" is likely to disturb the developing countries, and that the text on sustainable development covers this aspect, the Russian suggestion to delete the words "including environmental protection" would be acceptable to us.

11. **An "ambitious, balanced and inclusive" agenda for a new Round**. The UK and EU support a comprehensive new Round of negotiations in order that all countries' proprieties would be met, including developing countries. The current language is close enough to that aim, but we would be wary of attempts to water this down further towards the narrower round favoured by the US in particular, but also acceptable to Canada and Japan.

12. **A launch this year**. The UK and the EU, together with the rest of the G8, support the launch of a new Round this year. We should aim for the communiqué language to reflect this.

13. **Developing countries**. The text is rightly balanced to give priority to developing countries, given how important it is to meet their concerns and to integrate them into the world trading system. UK would resist any attempts to change this balance.

Declan,

Pls could you fax to: Matthew Lownds, EUD(E) and Oliver Jones, DTI for comments. then p/w Trade.

00/06/30

G8 Communique

Canada / EC proposed Text on Trade

The multilateral trading system embodied in the World Trade Organization (WTO) has played an important role in promoting international trade and investment and meeting the challenges of globalization and development. To this end, enhanced multilateral liberalization, based on strengthened multilateral rules and combined with well-designed domestic institutions and policies, will support poverty reduction and sustainable development. We reaffirm our determination to work towards the launch as soon as possible of an ambitious, balanced and broad-based WTO round of multilateral negotiations reflecting the needs and aspirations of all WTO Members. Strong political will and greater flexibility on all sides are needed if we are to build consensus for a new Round. We will broaden our engagement with our publics to establish a constructive dialogue on the benefits and challenges of trade liberalisation.

More must be done to address the particular and various concerns of developing countries in the multilateral trading system. By reinforcing the mutually supportive effects of trade and development cooperation, a more comprehensive partnership should be developed. In this regard, we emphasized the importance of immediate confidence-building measures at the WTO: we must offer appropriate flexibility on implementation of Uruguay Round undertakings, increased market access for the least developed countries and technical assistance for enhanced capacity building. We agreed that the Integrated Framework for coordination of multilateral trade related capacity building programs in least developed countries should be reinvigorated and steps be taken to ensure that these programs are a coherent and integrated part of development strategies. At the same time, we urge developing countries to recognize the contribution that economic and trade liberalization can make in the context of their national development strategies to promoting sustained, widely-shared economic growth.

Matthew/Oliver – this text is not tabled for discussion – as Presidency are due to present pair trade text later. But if you do have any immediate comments (ie by cop today) that I should be aware of Declan (2704289) has fax nos for me. Else consider in slower time. (post Plenary)

Fax – Roy Collins/Patricia Norton, DTI

From – Sophia Honey.

30/6.

URGENT – K2/R4 LANGAUGE

Roy/Patricia,

I am at the Plenary at the moment - it's absolutely roasting! - Jeremy is trying to work up some language in the margins with Gretschmann on Ukraine.

JH wants to propose (G7) language along the following lines:

"We look forward to receiving a report by [x] from the EBRD on the cost of the proposed K2/R4 project and the reform of the energy sector of the Ukraine, and reaffirm our commitment, in line with the MOU to [y]"

I need by return:

[x] - obviously we want this as soon as possible but what timing can we put?

[y] - can you fax me the MOU? and tell me what language (from MOU) should go in here?

Tel no is +81 980 46 1688
Fax no is +81 980 46 1689

Declan 15/6

– don't have Roy/Patricia's fax no here – pls could you fax to them as soon as you are in – urgent!

Thanks, Sophia

(B)

USLANGUAGE

	and other ~~in~~ national poverty . . ."
• Page 6, Line 20-21	To clarify and avoid misleading, suggest " . . . of the Initiative. Total debt relief under the HIPC Initiative for these countries should amount to freeing up [US$12.5] billion. The annual savings from debt relief will be used for the fight against poverty.
HEALTH	
• Page 7, Line 26	Add " . . . begun to control onchocerciasis, and must sustain our efforts to complete these campaigns.
• Page 7, Line 27	In order to appropriately emphasize HIV/AIDS, we suggest adding the following. "But we must go further. We therefore . . . actors of civil society to take on the devastating pandemic of HIV/AIDS as a primary task and work in strengthened partnership to deliver three critical UN targets:"
• Page 8, Lines 5-6	The target listed is not from the WHO Stop TB Initiative and there is no current plan to achieve it. We suggest instead that the tick read "Ensure that sufficient human and financial resources are available to meet the challenges of stopping TB (WHO Stop TB Initiative)."
• Page 8, Lines 7-8	We support the new language of burden vs. prevalence.
• Page 8, Lines 12	Add new 2nd sentence that would read " . . . maximum extent possible. "We welcome the World Bank's commitment to triple concessional IDA lending for AIDS, malaria, tuberculosis and immunization next year [from $200 million to between $600 and $700 million]."
• Page 9, Line 3	We suggest adding the following to the end of the sentence, " . . . public health goods, both through increasing basic research and developing incentives for private sector investment."
• Page 9, Lines 6-8	We believe that the last sentence should read " . . . to facilitate access to care and treatment for those affected by HIV/-AIDS ~~treatment~~.
EDUCATION	
• Page 9, Line 24	Add " . . . with international organisations and private sector donors to achieve the goals . . ."
• Page 9, Line 27	Strike out *will* from " . . . poverty reduction strategies and ~~will~~ provide greater assistance . . ."
• Page 9, Line 28	Add " For example, if the World Bank were to increase overall education lending by 50 percent and it devoted this entire increase to basic education, then lending for basic education could be doubled -- a step that could galvanize all parties toward action in support of the Dakar Education For All Goals."
TRADE	
• Page 10, Line 1	I agree w/ Don's language and have tweaked it slightly.

Some of this language has taken from past agreed upon bilateral language.

"Th : multilateral trading system embodied in the World Trade Org nization (WTO) has played an important role in promoting inte national trade and investment, and meeting the challenges of glol alization and sustainable development. Further multilateral libe alization, based on strengthened multilateral rules and combined witl well-designed domestic institutions and policies, will support pov rty reduction and sustainable development, spur economic growth and social progress.

We are therefore firmly convinced that the launching of an ambitious, bal: nced and broad-based new Round during the course of this year is the most desirable way forward, and will facilitate the successful con clusion of the mandated negotiations already underway in agr culture and services. Strong political will and greater flexibility on all ides are needed if we are to build a consensus for a new Round that refl cts the needs and aspirations of all WTO Members, in particular our less advanced partners. Building the desired consensus also will require tha we broaden our engagement with our publics to establish a cor structive dialogue on the benefits and challenges of trade libe ralization, and at the same require collective action by WTO Me nbers to make the WTO more open and accountable to stakeholders. We reiterate our common view that the WTO agenda should include the soc al issues of labor and environment, not as a matter of protectionism, but as a matter of social justice and sustainability.

Co ncurrently, we recognize that action is necessary to address the par icular and varied concerns of developing countries in the mu tilateral trading system. We note that steps have already been taken to xpand market access opportunities for the least-developed countries and encourage other partners to join us in this endeavor; serious work is und erway to improve the delivery of technical assistance and capacity bui lding programs. By reinforcing the mutually supportive effects of tra le and development cooperation, a more comprehensive partnership mu st be developed. We call upon international organizations, including the WTO, the World Bank, IMF, UNDP, UNCTAD and ILO, among oth ers, to join with us in working to meet this shared goal. Coordination of nultilateral technical assistance and trade capacity building pro grams, including for the least-developed countries, should enable the se programs to be a coherent and integrated part of development str ategies. At the same time, we urge developing countries to recognize the contribution that economic and trade liberalization can make in the co ntext of their national development strategies to promoted sustained, wi idely-shared economic growth.

Fi nally, we welcome the efforts to integrate additional economies into

	the trading system, including the progress to date on China, and will work closely with our partners to achieve the successful conclusion of remaining accession negotiations on terms that strengthen the system."
CULTURAL DIVERSITY	
• Page 10, Line 12	Add the following EC-proposed language after the second sentence that ends: " . . . combats racism and xenophobia. We renew our strong support for the work of the United Nations in its preparations for the UN World Conference against Racism to be held in South Africa in 2001."
CRIME AND DRUGS	
• Page 12, Lines 16-17	Strike out the entire tick "~~examine, by means of an international conference hosted by the UK, the global economy of illegal drugs.~~"
BIOTECHNOLOGY/FOOD SAFETY	
• Page 16, Lines 7-11	We cannot accept the first bracket WITHOUT the UN reference.
HUMAN GENOME	
• Page 16, Lines 7-11 Please find Armando's text with Francesco's edits underlined and our edits in bold.	Our strong preference is to track as closely as possible the language from the Clinton/Blair statement as the markets have already internalized that language. However, we can accept the following language below with the following edits. Advances in **the** life sciences continuously improve **our quality of life.** ~~*human living conditions*~~. ~~Actively exploring~~ Opening new, uncharted medical frontiers points to unprecedented ~~opens new~~ opportunities for the benefit of mankind; ~~and will have to be achieved~~ their pursuit requires due consideration of ~~taking account of~~ the 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.
	We consider this mapping to be the **critically important for all humanity** ~~*common heritage of 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 ~~open~~ **suitable** multilateral collaboration.

СОВЕТНИК
ПРЕЗИДЕНТА
РОССИЙСКОЙ ФЕДЕРАЦИИ

«11» июля 2000 г.

№ _____

Москва, Кремль

G8 SHERPA
CORRESPONDENCE

To: Mr. Yoshiji Nogami

Deputy Minister for Foreign Affairs of Japan
Tokyo

July 11, 2000

Dear Yoshiji.

I would like to thank you for sending me the draft communiqué on trade. The text is acceptable. I have the only proposal:

to delete words "including environment protection" (p.1, lines 28-29) due to the fact that the concept of sustainable development itself has already this dimension among others;

I've spent some time analyzing the results of the Paris meeting of experts on the "Okinawa Charter on Global Information Society". My proposals are as follows:

to delete words "and application of existing WTO trade disciplines to e-commerce" (page 3, lines 23-24);

to delete the paragraph starting with the words "Continuing the practice..." (page 3, lines 28-29);

keep the second proposed wording "take into account..."(page 11, lines 19-20).

I'm copying this letter to all Sherpa colleagues.

Yours truly,

Andrei Illarionov

(D)

cc: Mr Budd
Mr Bremner
Mr Butler
Mr Kasmir
Ms White
Mr Bye, EUD(E)
Mr Cresswell, DTI
Mr Tilbrook, DFID
Ms Malvin, EPD
Ms Fleming, OST
Mr Stafford, DETR
From the Principal Private Secretary
Mr Addison, OGC
S. Honey 13/7.

Your trade brief needs to focus on below.

pls circ further as nec.

10 DOWNING STREET
LONDON SW1A 2AA

for Commerce + Heywood Letters.

12 July 2000

G8 COMMUNIQUE COMMENTS

I think that you have done an excellent job on the Communique and I agree with colleagues that we are close to a final draft. At this late stage we should certainly not be reopening discussion on agreed language. So I will limit my comments to the outstanding issues – bracketed text and text not discussed at the Plenary. I have written separately on conflict diamonds.

Trade

Thank you for the draft language that you circulated. Like Armando I welcome the thrust of the text. I also strongly support Armando's comment that we should think further about how to ease market access for the least developed countries. Tony Blair believes that we must use the Summit to re-build developing country confidence in the multi-lateral trading system. The best way of achieving this would surely be if our Heads could announce at Okinawa a breakthrough on enhanced market access for the least developed countries.

Whilst this may seem ambitious I believe that we should aim high. After all the whole point of the Summit process is that our Heads come together in person to tackle issues that may move slowly on the normal channels. I would suggest that we try to up the initial Quad offer in two respects. Firstly, we should seek Quad commitment on an early and specific deadline for duty free access for LDC goods. Secondly we should look to limit any exemptions, within that time-frame, to only a few of the most sensitive products, with a view to removing all exemptions in the longer term.

I would suggest that we look to work through these issues in the time remaining. Agreement would enable us to win back wider confidence in the

multi-lateral trading system and would go some way towards meeting the expectations of the developing world.

Development

I remain of the view that we must deliver on untying. I could accept a reference to either "fair" or "appropriate" burden sharing. Lael's suggestion that we refer to untying "on the basis defined in the OECD at the DAC Ad Hoc Meeting on June 19" is correct.

I also support your editorial comments in the final paragraph (p6 lines 7-9) and agree to the deletion of the bracketed text.

Food Safety

I welcome Armando's support for the revised text I circulated on 10 July. I believe that this offers the best basis for compromise between our positions, and meets Lael's request to include a reference to the UN. I understand that the UN Secretary General's office is sympathetic to our proposal.

Regarding Jean-Marc's comments, I am comfortable with the idea that the scientists on the Panel might include reputable scientists nominated by NGOs and consumer groups. It is important that the Panel is not seen to represent one or other lobby. However I believe it is essential that the Panel is seen as independent of government so I do not think that representatives of national or international regulatory authorities should be involved. Nor do I believe it would be right to involve non-scientific representatives of consumer associations.

I do share Jean-Marc's instinct that we need to bring civil society along with us. But our view is that the best way to do this is through a process of external dialogue, in which the independent scientific Panel might participate in events to which a broader cross-section of civil society, industry and governments would be invited. The idea being that the Panel's conclusions should be available to all. I attach a note my experts have prepared which sets out in a little more detail how this might work, although we are flexible on some of the details.

Human Genome

As I said in my letter of 10 July I welcome Armando's text. I would also be content with the additional suggestions made by Francesco, Klaus and Lael.

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Trade

The multilateral trading system embodied by the WTO, which represents the achievements of half a century of untiring efforts on the part of the international community to realise rule-based free trade, has provided its Members, developed and developing countries alike, with enormous trade opportunities, spurring economic growth and promoting social progress. In order to extend these benefits to a greater number of countries in a more tangible manner, the system needs to *better* address legitimate concerns of its developing country members. *The adoption of the short-term package in Geneva, regarding implementation of Uruguay Round undertakings, increased market access for the least-developed countries, technical assistance for enhanced capacity building as well as improvement in WTO transparency, was an important first step in this direction and must be pursued expeditiously. We recognise the need to go further in this area.* In particular, in view of critical importance of trade for the development of developing countries, trade-related capacity building should be substantially expanded, which would be conducive to the more effective participation of developing countries in the system, and especially to fuller utilisation of improved market access in their favour. *We also commend bilateral and regional initiatives in this regard.* We commit ourselves to playing a leading role by strengthening our support to developing country members for capacity building in line with their individual needs. We also call on international organisations including WTO, the World Bank, IMF, UNDP, and UNCTAD, to join with us in working collectively toward this objective.

page 10

We must ensure that the multilateral trading system is strengthened *and continues to play its vital role in the world economy.* Recognising this responsibility, we are firmly committed to a new round of WTO trade negotiations with *an ambitious*, balanced and inclusive agenda, reflecting the interests of all WTO members. We agree that the objective of such negotiations should be to enhance market access, develop and strengthen WTO rules and disciplines, support developing countries in achieving economic growth and integration into the global trading system, and *ensure that trade policy and broad social goals including environmental aspects are compatible and mutually supportive.* We are firmly convinced that the launching of such a new round during the course of this year is the most desirable way forward, *and will facilitate the mandated negotiations as a part of the round.* We commit ourselves to resuming substantive preparation for the new round, and call for intensive and expeditious consultation among the WTO Members for this joint endeavour.

We recognise that more comprehensive partnership must be developed to help address the challenges of globalisation. In this regard, international and domestic policy coherence should be enhanced, and cooperation between the international institutions should be improved. We also underline the importance of our engagement with our publics to establish a constructive dialogue on the benefits and challenges of trade liberalisation.

page 11

It is in our common interest to integrate all economies into the multilateral trading system. We therefore welcome the progress made on China's accession to the WTO and support the efforts of other applicants toward early accession.

CULTURAL DIVERSITY

Cultural Diversity

Handling: Unlikely to be controversial. No priorities here.

Additional Points

- Understand concern that globalisation erodes cultural diversity. But believe globalisation can also promote and enable us to celebrate diversity. Today we live in more diverse societies, more opportunities to travel, experience other ways of life. Engenders understanding, tolerance and appreciation.

- UK proud of its cultural diversity. Believe that cultural wealth brings social and economic prosperity. Key to our successes in the arts; diverse Britain draws visitors.

- eg British Tourist Authority attracts visitors by promoting diverse aspects of UK - our cultural cities - sports tourism – architecture – Movie Map of famous film locations.

Cultural Diversity - Background

1. **Handling**. Unlikely to be controversial. A possible tendency for the French and Canadians to believe globalisation to be the enemy of Cultural Diversity. The UK view, and that adopted in the Communique, is that globalisation can be an engine for the promotion of Cultural Diversity. (French and Canadians basically object to Americanisation, but will not say this with the Americans present.)

2. **UNESCO**. (United Nations Educational, Scientific and Cultural Organisation) The UK rejoined UNESCO in July 1997, and is becoming a key player. The US remains outside UNESCO. The new Director-General of UNESCO, Mr Koïchiro Matsuura, is Japanese. To speak positively of UNESCO would please Japanese hosts.

CULTURAL DIVERSITY

Background

1. **Handling**. Unlikely to be controversial. Neither the US nor the Italian comments on the text (see below) are contentious. Our only (slight) problem is the inclusion of the specific reference to a UNESCO programme (see below).

2. **US proposal**. Page 10, line 12, a new sentence after "...combats racism and xenophobia. We renew our strong support for the work of the United Nations in its preparations for the UN World Conference against Racism to be held in South Africa in 2001." Both the UN Department and the Human Rights Department at the FCO are aware of this conference and welcome reference to it in the draft communique.

3. **Italian proposal**. Page 10, line 22, a new sentence after "...and world wide. Experience shows that diversity can arouse interest, engender initiative, and be a positive factor in communities seeking to improve their economies, particularly when assisted by the extraordinary means of the IT society." The use of the word "extraordinary" is a bit heavy-handed, but the proposal is acceptable.

4. **Canadian proposal**. Page 10, line 22. The Canadians wish to revert to the phrase "cultural content", replacing the currently drafted "cultures". This would make the meaning slightly more restrictive, and less to our taste. In the interests of not opening up the text it may be worth resisting the Canadian suggestion, although we could live with it. However, if the text were revisited for this point it would give us greater grounds for seeking the removal of the last sentence of the second paragraph (see below).

5. **Last sentence of second paragraph**. The communique would be a better document without this. It refers to a specific UNESCO project, *Masterpieces of Oral and Intangible Heritage of Humanity*: this is a pet project of the new (Japanese) Director General of UNESCO, and Nogami will have been nobbled about this. It is unnecessary because a) UNESCO has already been singled out in the previous paragraph; b) there is no need to mention such specific projects in this very broad context (although objection on this point is undermined by our acceptance of the US proposal); and c) the specific projects to which the sentence refers are given sufficient focus (for the purposes of the comminique) in the preceding sentence. Effectively the sentence is a crude plug for UNESCO, its new Japanese DG, and one of its new projects. But we can live with it.

Cultural Diversity

Cultural diversity is a source of social and economic dynamism which has the potential to enrich human life in the 21st century, as it inspires creativity and stimulates innovation. We recognise and respect the importance of diversity in linguistic and creative expression. We welcome the work of relevant international organisations, in particular UNESCO, in this field.

Increased interaction among peoples, groups and individuals is bringing greater understanding of and appreciation for what is interesting and good in every culture. Promoting cultural diversity enhances mutual respect, inclusion and non-discrimination and combats racism and xenophobia. *We renew our strong support for the work of the United Nations in its preparations for the UN World Conference against Racism to be held in South Africa in 2001.* The first steps towards enhancing cultural diversity are the preservation and promotion of cultural heritage. We welcome efforts already made to preserve tangible heritage and call for further efforts toward the preservation and promotion of intangible heritage. We encourage programmes dedicated to protect movable art and archaeological wealth in developing countries, as well as UNESCO's projects on Masterpieces of the Oral and Intangible Heritage of Humanity.

Increased encounters between different cultures foster creative cultural interaction. IT opens up unprecedented opportunities for individuals to create and share cultural content and ideas inexpensively and world wide. Experience shows that diversity can arouse interest, engender initiative and be a positive factor in communities seeking to improve their economies, particularly when assisted by the extraordinary means of the IT society. We shall strive to promote the digitalisation of cultural heritage through, for example, fostering international links between national museum systems, with a view to enhancing public access.

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To maximise the benefits of cultural interaction, we must encourage our peoples to learn to live together by nurturing interest, understanding and acceptance of different cultures. We therefore welcome the results of the G8 Education Ministers' Meeting on the promotion of education that fosters understanding of different cultures and non-mother tongue languages and encourages competent authorities to promote exchange of students, teachers, researchers and administrators with the goal of doubling the rate of mobility over the next ten years.

ROLE OF THE G8 IN THE 21ST CENTURY

DEEPER PEACE
OF MIND

G8: TOWARDS A CENTURY OF DEEPER PEACE OF MIND

Handling

1. Chirac will be invited to lead on this session which covers Crime and Drugs; GM Food; Environment; the Human Genome; and Ageing.

2. There are a number of UK initiatives in this area - you will certainly be expected to **lead** discussion on **GM food/crops**; and on **drugs**:

   a) Our proposal, for an Independent Panel of Eminent Scientists to discuss emerging issues in **GM food and crop safety** - initially an idea of Sir Bob May and Sir John Krebs – aims to refocus public debate on the science. This has been one of the toughest subjects in Sherpa negotiations and the media are looking for EU-US divisions. Not yet fully signed up are the US (who want to limit the scope and permanence of any new group) and France (who want the panel to include non-scientists and to cover all issues) – our proposal is a delicate compromise between the two. But we believe Clinton and Chirac may in the end be able to come on board. **Objective: agree the panel on the basis of the current draft.**

   b) On **drugs**, the UK has really set the agenda with a set of initiatives, including a conference on the economics of the global drugs industry. **Objective: present UK ideas (which have now been accepted by all).**

3. You may also want to raise a couple of other areas where the UK is in the lead:

   a) Under **Environment** we have secured agreement on a public-private task force to look at ways in which **renewable energy** can promote sustainable development for the poorest countries (2bn people – a third of the world's population - have no electricity, so forget IT, decent health care etc). We expect to confirm Shell's Mark Moody Stewart as co-chair of the group. We have worked this idea up with Italy who, as next year's Presidency, will provide the public sector co-chair.

   b) We have also been pushing for agreed domestic action for **procurement policies that discourage illegal logging**. This is a priority for UK environmental NGOs, including Greenpeace who, having written to you a number of times, will be considerably impressed if we can secure language here (only Canada has been resisting).

4. On the other issues, you could support the Europeans in putting pressure on Clinton and Chretien to be firmer in their commitments to the Kyoto Protocol on **Climate Change** – we expect Chirac to raise, but the US has little flexibility in the election run-up. We are happy with Chirac's initiative on **oil tankers**. There is some tension on **the human genome** text (the US wants to stick closely to the language of your and Clinton's joint declaration; others are moving towards harmonisation of patent policy), but we are in the middle of the pack. **Ageing** is in as a Japanese domestic priority: Mori may thank you for a UK paper (recycled from last year's PIU work) that kicked of discussion amongst Sherpas.

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. US objected at the last moment to our proposal to have a conference on the economics of the global drugs – concerned that this might fuel debate within their domestic lobby about legalisation of soft drugs. [However they have backed down and the conference is now agreed.]

2. The UK conference proposal, based on an idea from Keith Hellawell, 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.

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.

1. Work in the G8 Lyon Group and a high profile meeting of regulators, law enforcement and industry 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. There is a reference to the crime aspects in the Okinawa Charter.

2. 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.

CRIME AND DRUGS

Reference

A. Heywood letter on Drugs, 16 June

Background

Crime

1. There have been no substantive comments on the communiqué text.

2. The Italians jumped the gun in proposing a conference in Italy in 2001 to follow up the UN Transnational Organised Crime Convention and have now deleted the reference to it. This seems to have been an Italian initiative, rather than a response to popular G8 demand for another conference and there is not likely to be pressure on other G8 members to take on this conference. Our position is neutral but we would not want it in UK. We have done well enough with the two drugs conferences.

Drugs

1. The US sought deletion of the Communique reference to the proposed UK-hosted conference on the global economy of illegal drugs. Their Sherpa appeared not to have consulted fully in Washington. The Department of Justice favour the conference, State agree that the theme is important, and Janet Reno told Jack Straw on 17 July that she liked the UK paper. This, and a letter from Hellawell to McCaffrey, seem to have overcome fears from the US Drug Czar's team (the Office of National Drug Control Policy, ONDCP) that the conference and related media coverage will be hijacked by the legalisation lobby to promote debate on soft drugs.

cc SK.
This is a full list of people for drugs distribution from now
m JK 20/6
pa Drugs
p/w Heywood letters

Mr Heywood?
Mr Nath, SNO10
Mr Hellawell, Cabinet Office
Mr Budd
Mr Manning
Mr Ryder, DICD
Mr Grayson, DICD
Mr Hogg, Hd AADU/Home Office
Mr Swanberg, POLU/Home Office
Mr Bradley, JCU/Home Office
Ms Killen, Director, UK ADCU
Mr Melbourne, CACD
Mr Shulman, PIU
Mr Coppin
Mr Jones, CFSPD

Sent 16/6/2000 to CS offices

10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

16 June 2000

Dear Toshi,

Also attached is letter from Genenus which crossed with this + is now largely overtaken.

DRUGS

At Karuizawa I promised to elaborate on our proposal for an International Conference on the Global Economy of the Illicit Drugs Trade. I attach a note setting out our ideas. Understanding the economics of illicit drugs markets and attacking the profit motive behind production and trafficking is an important and, we believe, underused tool for tackling the scourge of illicit drugs. For more information on some interesting work being done by our Cabinet Office on tackling the proceeds of crime more generally you might look in the report on "The Recovery of Criminal Assets" at the website http//www.cabinet-office.gov.uk/innovation. The UK would be prepared to host and finance such a conference.

James Kaviraki
ECRD/FCO
19/6

I also attach some draft communique language for our Heads' discussion of drugs. I have tried to preserve the sense of the language drafted by our Foreign Affairs Sous-Sherpas at Tokyo, as well as including the points made by others at Karuizawa and in correspondence since. I have indicated in brackets where each bit of language comes from and left in italics proposed language on our conference. As your letter of 16 June notes, the Lyon Group gave broad endorsement to the ideas aired at Karuizawa, agreeing to include assets confiscation in its future work programme and confirming that an ad hoc meeting on other drugs issues covered at Okinawa would indeed be useful. The UK would be happy to host such a meeting, covering precursor chemicals in particular. This meeting could also cover amphetamines and other synthetic drugs. Alternatively we would welcome a meeting in Japan on amphetamines.

Finally, could I comment on the language on drugs that currently appears in the draft Foreign Ministers' communique? I don't think we or our Foreign Sous-Sherpas ever discussed whether Foreign Ministers should cover drugs, and

it doesn't seem to make sense for them to duplicate the ground our Heads will cover. Perhaps we should discuss this further at the Plenary meeting.

I am copying this letter to our G8 colleagues.

Yours, Jeremy

JEREMY HEYWOOD

Yoshiji Nogami

[JAPANESE SHERPA]

OKINAWA SUMMIT: DRAFT COMMUNIQUE LANGUAGE ON DRUGS

We reaffirm our concern at the increasing global threat posed by the trafficking and abuse of illicit drugs. We remain committed to reducing 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 under the principle of co-responsibility [**Fr**]. *We will support regional initiatives, such as the efforts of the Colombian Government, to end narcotics production and trafficking* [**US**]. We urge universal implementation of the conclusions of the 1998 UN Special Session [**Fr**]. We have committed ourselves to intensify cooperation in this field, and pledge to give new impetus to existing international efforts by:

- accelerating, bilaterally and in the Lyon Group, the pace of work on assets confiscation;[**UK**]
- combatting the illicit diversion of precursor chemicals for the production of illegal drugs;[**UK**]
- increasing cooperation on the growing new threat from amphetamines and other synthetic drugs. [**Jp**]

We will convene an ad hoc meeting of drugs experts by the end of this year to take forward our work on precursor chemicals and synthetic drugs. [**Agreed by Lyon Group Experts**]. *We also welcome the UK's offer to host an international conference on the Global Economy of Illegal Drugs to help base policy on the best available analysis of drugs markets, and to reduce economic incentives for traffickers and cartels by strengthening measures to recover the illicit proceeds of the illegal drugs trade.* [**UK**]

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.

FOOD SAFETY

Objectives

1. To press for agreement on establishment of an independent international panel on GM crops and foods.

References

A. Heywood letter to Brainard, 5 July
B. Heywood letter to de la Sabliere, 5 July
C. Commission letter to Heywood, 6 July
D. Compromise communique language and back pocket amendments
E. Proposed Model for International Panel

Handling

1. At the time of writing we have three dissenting voices on our Panel proposal. **Italy** formally supports the US language which leaves the question of a panel open. In contrast **France** supports the idea of a Panel, as signalled in Chirac's earlier commitment to the PM, but is looking for broader civil society participation.
There has been intense interagency discussion on this, but the French Elysee and MFA teams who support our compromise have so far failed to persuade others to accept our model. Some fear a scientists-only Panel could be used as a vehicle to validate the views of the pro-GM scientific community and would threaten French interests in promoting a more holistic approach to dealing with GM and food safety issues. We must convince France that a science-based Panel is the only winnable first step to achieving the broader international stakeholder dialogue they favour.

2. The **US**, on the other hand, are still wary of creating a new standing body, particularly one with a self determining, roving mandate in such a politically sensitive area. They have expressed a strong preference for a UN agency (WHO/FAO) Panel rather than one linked to UNHQ. While we have some flexibility on the part of the UN system which might provide the Secretariat, we want to avoid playing into US hands on this. We suspect that they may be seeking to align the Panel to the newly established WHO/FAO expert rosta that operates on an ad hoc basis to address specific issues related to GM food safety. A difficult call: if in the final analysis we accept a reference to WHO/FAO to secure agreement we will somehow need to safeguard our ambitions for more than an ad hoc arrangement.

3. **Canada, Russia, and Germany (and Japan)** support our proposed language on the Panel as in the Presidency's July 8 text. The **Commission** have confirmed they can support our compromise (UN facilitated) proposal but there is some risk they may switch to support the French position **(Reference C)**.

Background

4. Following the Plenary you wrote to the US and France **(References A and B)** proposing compromise language on the Panel, later copied to all sherpa colleagues in your letter to Nogami of 10 July.

WHO/FAO

5. FAO and WHO are the home of greatest technical expertise on biotechnology in the UN camp, particularly in relation to food. They are keen to offer their services to G8. This year they launched a new joint body to provide independent scientific expert opinion inform the work of Codex and others. This falls a long way short of our Panel idea. It provides only ad hoc consideration of discreet issues, being no more than a rosta of experts, rather than a standing, self determining group of eminent scientists, and covering only GM food safety issues, (not environment). Accepting the US preference for a UN agency link for the panel rather than a UNHQ link therefore presents us with the strong risk that the Panel might be relegated to a similar format, which would suit US interests, or even get subsumed by the existing body.

Contacts with UN Secretary General

6. Our contacts with Kofi Annan, through John Ruggie, his biotechnology expert, have been positive. To avoid bureaucratic in-fighting it would be helpful if the G8 language were to request the S.G. to mobilise the UN system (unspecified) behind the G8 ideas. We need to avoid singling out a particular agency (such as FAO). Some back pocket amendments to our compromise language, cleared with UND, are attached at **Reference D** to provide for this. WHO, FAO and UNEP may all be in his thinking to play a part.

Civil Society participation in the Panel

7. Several possible models exist for dialogue between a scientific expert Panel and wider stakeholder groups (academia, producers, labour, farmers and consumers, as described by the Commission). These include :

- Primary function for scientific deliberation, with secondary built in mechanism for wider stakeholder dialogue;
- Solely scientific deliberation, in parallel with, but separate from, ongoing stakeholder dialogue process;
- Solely scientific deliberation, with possibility of later engagement with other stakeholders on an ad hoc basis.

Our proposal if for solely scientific deliberation whereas France, the Commission (and Italy) have preferred a Panel with built in wider stakeholder dialogue. But it's clear that solely scientific deliberation is the only model acceptable to the US (and Canada). Our model will be valuable for public confidence in its own right, and still allows dialogue with a wider constituency, as in the second and third options above. French recognition of the validity of these options will be crucial to agreement.

InterAcademy Council

8. The US has backed off their suggestion that the InterAcademy Council could provide the Panel, due in part to the US Science Adviser's (Neal Lane) agreement with Bob May that the Council was unsuitable for this. (They agreed at the meeting of G8 Science Ministers in June that not only would the Council fail to provide the necessary inclusive consideration of the issues, involving NGO voices, but the Council could be wrecked in the attempt.) However, our compromise text includes a reference to the scientific academies as part of the consultative process with US interests in mind. The InterAcademy is well-placed to provide high quality scientific expertise.

UN Secretary General's Millennium Report

9. Kofi Annan's Millennium Report includes an intention to establish a public policy network on biotechnology issues. There is little information available but the concept appears much broader than our Panel, covering technical, social and ethical issues well beyond the science of food and crop safety. At this stage we can't be sure in what direction the S.G.'s proposal may move. It will not be up for substantive discussion until the Summit in September. This allows a Panel concept agreed by G8 to be worked into the S.G.'s plans and to ensure no conflict arises between the UN and G8 activities. The S.G.'s ideas may provide a further opportunity for considering how to address broader ranging stakeholder dialogue of particular interest to France (and Italy and the Commission).

Selection of Experts

10. The paper at Reference E outlines an open and transparent process for appointment of experts to the Panel. This is of particular concern to France. They, with us, have criticised WHO/FAO appointments to expert groups in the past for lack of transparency. WHO/FAO are responding positively to these criticisms.

Issues to be addressed by Panel

11. The Panel would determine their own work plan but the following illustrate the sort of issues that might be addressed:

- general overview of understanding of impact of GMOs on human health and environment to suggest areas of uncertainty where further research needed;
- food safety implications of emerging developments e.g. multiple gene inserts, nutritional changes;
- gene transfer: methods of assessing how much it happens and methods for avoiding it (e.g. "terminator" technologies);

Draft Communiqué Language

12. We should ensure that the reference to 'food and crop' safety in the final paragraph of this section of the text is maintained. These words are important to ensure recognition of the food and environment scope of the Panel's remit. This is different from other elements of the proposals which refer to food only. Also important is recognition that the Panel will deal with GM issues not broader food safety issues.

REFERENCE D

BACK POCKET AMENDMENTS

NEW LANGUAGE PROPOSED BY UK FOLLOWING PLENARY (1/7/00) (FOOTNOTES FOR EXPLANATORY PURPOSES ONLY – NOT PART OF COMMUNIQUE)

Final Para

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] *stand ready* to work closely with the UN and other relevant international organisations[1], scientific academies[2] and other expert bodies towards 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] *recommend* that, drawing on the IPCC model[3], the self-standing independent panel would be facilitated by[4] the UN system[5] and would help integrate the best scientific knowledge available into the process of international consensus building[6]. []

Alternative last sentence providing more specific request in line with Kofi Annan's comments (ref. S.Eldon minute of 10 July), cleared with UND:

We request that the UN Secretary General considers facilitating, through the UN system, a self standing independent panel drawing on the IPCC model to help integrate the best scientific knowledge available into the process of international consensus building.

---

[1] Could include OECD – but secretariat (drawing on experience of setting up Edinburgh etc), as opposed to inviting OECD Council to deliberate.

[2] From below – could include the InterAcademy Panel.

[3] Drawing on the IPCC model (see attached).

Similarities: independent; based on broad based science; facilitated by UN, but not managed by it (NB the IPCC commands widespread international respect and credibility, whereas one of its 'parent organisation' UNEP is in many areas inefficient and low in credibility); publishes findings for all (public, govt, industry); identifies areas not only of consensus, but also gaps in scientific knowledge; responds to emerging challenges – setting its own agenda (i.e. Panel, not UN, decides what Panel will discuss); informs public and political understanding, but does not make policy.

Differences: IPCC includes governments – this doesn't. IPCC bigger, multilayered (with working groups) – this will be small, at least to start with.

[4] Rather than 'under the auspices of' which implies some degree of control or hierarchy.

[5] Open to discussion as to whether this is FAO/WHO or UNSG's office. If we secure agreement we should approach UNSG before Okinawa, or at least before Millennium Summit.

[6] From below – and one of the key similarities between IPCC and this Panel.

REFERENCE E

Proposed Model for International Panel

Role

The Panel will be a UN-facilitated independent body for inclusive science based consideration of emerging issues in respect of biotechnology and food and crop safety. Assessment will be based mainly on published and peer reviewed scientific technical literature.

The Panel will play an important role in informing public understanding of the science of GM food and crops and provide an authoritative source of scientific opinion for discussions in other fora. It will not engage in policy making or regulatory activities such as risk assessment.

The task of the Panel will be to provide scientific advice to the public, international organisations, inter-governmental organisations, and governments. It will report periodically on the state of knowledge of the impact and potential of GM food and crops, and options for response. As well as publicising areas of scientific consensus, the Panel will also report on areas of disagreement and gaps in scientific understanding.

Progress of the Panel will be reviewed after three years.

Secretariat

The Panel will have a small Secretariat (2-4 people) provided by the UN and its Agencies. The Secretariat will :

- organise sessions of the Panel;
- manage the Trust Fund;
- coordinate public information and outreach activities;
- publicise and disseminate reports to the wider scientific and policymaker community, including translation of summaries into all UN official languages;
- monitor progress of activities;
- liaise with other international organizations, expert bodies and governments;

The Panel will meet about twice a year, with intervening communication by internet. It will accept/approve reports compiled by Panel members and sub-groups, decide on the mandates and work plans of the Panel and sub-groups, the structure and outlines of reports, Panel Principles and Procedures, including membership, and the budget.

Appointment of Panel experts

The Secretariat, working to the UN Secretary General, will be responsible for a transparent process to appoint a Panel of scientific experts with credibility across all stakeholder groups. The process to be followed will involve wide consultation with expert stakeholder groups, such as UN Agencies (including UNEP), InterAcademy Council, OECD, and other expert groups, including international non-governmental organisations, to identify criteria for selection (such as the range of expertise and different constituency interests required), and possible eminent scientists. The Secretariat will make recommendations to the UN Secretary General who will select a chair and a core group of about twenty scientists. The Panel may also, once in operation, themselves co-opt additional experts onto the Panel to facilitate their considerations on specific issues.

Steps to Launch the Panel following G8 agreement

- UN formally accepts G8 request (Millennium Summit)
- UN appoints Secretariat and sets up Trust Fund
- UN appoints Panel of approximately 20 scientists based on consultation with expert stakeholder groups.
- Secretariat convenes first meeting of Panel to formally elect Chair, agree Principles and Procedures, etc.

5. JUL. 2000 20:26 NO. 2555 P. 2

(A)

PERSONAL

fax Nick Westcott. 00.1.202 588 7818
from James Kinki we spoke.

cc Daniel North
Robin Bodel
John Ashton
Annabelle Malins
Paul Britton, Cab Off
Helen Fleming, OST
Sophie Haney — + pm biotech/food safety.

Not for further circulation.

10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

James Kinki EPS.

sent 5/7

5 July 2000

SHERPA LETTERS TO US + FRANCE ATTACHED

Dear Lael,

BIOTECHNOLOGY AND FOOD SAFETY

It was good to see you in Okinawa (despite the heat!) and I hope you and your family got back safely.

After you left, my biotech experts developed a slightly revised text on the scientific panel, designed to meet the concerns expressed by Armando and Jean-Marc. I wanted to share this text with you (see attached), to see if we can get this issue resolved before we get to Okinawa.

As you know, Tony Blair strongly favours the idea of a Panel because he believes that the current debate on GM technology - increasingly in Japan and even North America as well as Europe - lacks a solid scientific base, partly because the public is sceptical about the neutrality of 'government scientists'. He believes that the best way to bring the debate back onto an informed, science-based footing is to ensure that the public has direct access to the best available independent and internationally agreed scientific opinion. This can best be achieved by means of a single, independent scientific panel, through which the views of all scientists with an interest and the relevant expertise are rigorously analysed and put in context.

This logic has been the basis of our argument for an Independent Panel. Since Cologne we have been developing the idea that something akin to the IPCC - an independent body that commands the confidence of even those who do not like its pronouncements - could fill the gap in public understanding of the science. There are important differences between our Panel and the IPCC, in particular the fact that the latter includes participants from governments, and its remit and membership are much broader. But there are important similarities. For example the Panel would set its own agenda within broad parameters and make its conclusions freely available to all, eg by posting its work on the Web.

We think the proposal that the Panel is 'facilitated by the UN' more effectively captures the idea that, like the IPCC, it would have a secretariat in the UN system, but would be independent from interference from member states. As the US and Canada have argued, the UN link is essential to ensure developing countries but into the proposal. It is also an important way of ensuring that come the Millennium Summit, the G8 and Kofi Annan do not give the impression of pulling in opposite directions.

We have worked hard to rein in the ambitions of others to involve the OECD in the Panel idea, and to move this debate beyond science into ethics or social issues. At the moment, I understand that Canada, Germany, Japan and possibly Italy can support our proposal as drafted, and that the Commission at a technical level considers it an improvement. Jean-Marc has indicated that he is very likely to come on board - following personal assurances given by Chirac to the Prime Minister – he just has some domestic interdepartmental issues to iron out. So I hope that the US will be able to support the current text and help move us towards consensus. This would be a major positive step in reducing transatlantic tensions on such a delicate subject.

Yours,

JEREMY HEYWOOD

Lael Brainard

US IMFRA

(B)

10 DOWNING STREET
LONDON SW1A 2AA

Just 6/7 am.

From the Principal Private Secretary

5 July 2000

Dear Jean,

BIOTECHNOLOGY AND FOOD SAFETY

It was good to see you in Okinawa (despite the heat!) and I hope you got back to Paris safely.

I was wondering if we could try to resolve the outstanding issues on the International Panel before we get to Okinawa. I understand that Jerome Bonnafont has shown you the new draft that my biotech experts worked up on Saturday morning to try to take account of the comments made around the table on Friday night. In particular we have clarified the idea that the Panel could draw on IPCC model – it would be 'facilitated by the UN' rather than 'under UN auspices'.

It is important that the Panel has legitimacy with the developing world. While we in the developed world have the luxury of choice, developing countries potentially have as much to gain or lose from the new technology in the long term. That is why we are so determined to spread information through a forum in which developing countries consider themselves equal partners. We are also very concerned that what the G8 proposes in this area is not inconsistent with what the UN Secretary General is proposing in his Millennium Report.

In the system we are proposing the Panel, like the IPCC, would be independent from the UN system, merely using it as a secretariat to help organise meetings, publish documents and organise dialogue with wider groups to help spread the information to civil society. The Panel would set its own agenda and work programme; it would not have member states controlling it. And like the IPCC, the Panel would represent a broad base of scientific opinion (indeed, as you know, I would like to see the leading NGOs nominating scientists to sit on the Panel) – publishing information not only where consensus exists, but also highlighting differences in scientific opinion or gaps in scientific knowledge.

I believe our objectives are very close. We want a clear understanding of the science to inform the broader debate on the future of this technology and its possible risks and benefits. And we want that information to be freely and readily available for all - public, policy makers, industry - in both developed and developing countries.

Since President Chirac put this issue on the G8 agenda last year, we have made good progress in reducing tensions between G8 countries. Considerable differences remain. But the North Americans are becoming more sensitive to the concerns of European consumers. Canada has accepted this proposal, as have Germany, Japan (and, I believe, Francesco). And I believe that Lael is close to securing the agreement of the US administration. If we can agree to this proposal, I believe we will have taken an important step towards promoting better global understanding of one of the greatest challenges of our new millennium.

Yours,

JEREMY HEYWOOD

Jean-Marc de la Sabliere

FRENCH SHERPA

GB Sous-Sherpa correspondence

Food Safety - Commission reply to our proposal

EUROPEAN COMMISSION
SECRETARIAT-GENERAL

Deputy Secretary General

pa Food Safety JK 6/7.

Brussels, 6 July 2000
SG/D/2/NMC D(2000)

RECEIVED IN REGISTRY
06 JUL 2000
DESK OFFICER | INDEX | ACTION TAKEN

FAX

To:	Jeremy Heywood UK Sherpa	**Telephone:**	
		Fax:	(44-207)270.22.66
From:	Bernhard Zepter SG/D/2 BREY 11/14	**Telephone:**	(+32-2)295.80.24
		Fax:	(+32-2)299.19.29
Number of pages:	1		
Subject:			

now attached to all for info.

Message:

I am writing on behalf of Armando Varricchio who is currently out of Brussels. Thank you for the fax dated 5 July concerning the issue of food safety and your updated draft proposal.

The compromise solution you propose is now acceptable to us. In particular replacing of the wording "under UN auspices" with "facilitated by the UN". If at all possible, we would suggest amending line 5 so as to make it clear that the panel should be open to all stakeholders. (not quite ...

We understand you will be sending your text proposal to Mr Nogami later today. (or possibly tomorrow - with the rest of the GB comments.

Regards,

Breakthrough!

Bernhard Zepter

cc Mr Heywood
Mr North
Mr Broad
Mr Bruton
Mr Ashton } FPD
Ms Mahieu }
Mr Bruton, Cabinet Office
Ms Fleming, OST
Mr Tomkinson, Food Standards.
Ms Heaney

James Nogami FPD 6/7

Rue de la Loi 200, B-1049 Bruxelles/Wetstraat 200, B-1049 Brussel - Belgium - Office: BREY 11/14.
Telephone: direct line (+32-2)295.80.24, switchboard 299.11.11. Fax: 299.19.29.
Telex: COMEU B 21877. Telegraphic address: COMEUR Brussels.

Internet: bernhard.zepter@cec.eu.int

FOOD SAFETY ETC: UK DRAFT: 1/7/00
(FOOTNOTES FOR EXPLANATORY PURPOSES ONLY – NOT PART OF COMMUNIQUE)

Final Para

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[1], scientific academies[2] and other expert bodies towards 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 model[3], the self-standing independent panel would be facilitated by[4] the UN system[5] and would help integrate the best scientific knowledge available into the process of international consensus building[6].

---

[1] Could include OECD – but secretariat (drawing on experience of setting up Edinburgh etc), as opposed to inviting OECD Council to deliberate.

[2] From below – could include the Interacademy Council.

[3] Drawing on the IPCC model (see attached).

Similarities: independent; based on broad based science; facilitated by UN, but not managed by it (NB the IPCC commands widespread international respect and credibility, whereas one of its 'parent organisations' UNEP is considered less effective); publishes findings for all (public, govt, industry); identifies areas not only of consensus, but also gaps in scientific knowledge; responds to emerging challenges – setting its own agenda (ie Panel, not UN, decides what Panel will discuss); informs public and political understanding, but does not make policy.

Differences: IPCC includes governments – this doesn't. IPCC bigger, multilayered (with working groups) – this will be small, at least to start with.

[4] Rather than 'under the auspices of' which implies some degree of control or hierarchy.

[5] Open to discussion as to whether this is FAO/WHO or UNSG's office. If we secure agreement we should approach UNSG before Okinawa, or at least before Millennium Summit.

[6] From below – and one of the key similarities between IPCC and this Panel.

The International Panel on Climate Change (IPCC)

Role

The IPCC was established by the World Meteorological Organisation (WMO) and the United Nations Environment Programme (UNEP) in 1988, to assess scientific evidence on the risk of human-induced climate change. Assessment is based mainly on published and peer reviewed scientific technical literature.

The IPCC played an important role in establishing the Intergovernmental Negotiating Committee for a UN Framework Convention on Climate Change (UNFCCC) by the UN General Assembly. The UNFCCC was adopted in 1992 and entered into force in 1994. It provides the overall policy framework for addressing the climate change issue.

The IPCC has continued to provide scientific, technical and socio-economic advice to the public, as well as to the 170-plus Parties to the UNFCCC. It publishes periodic reports on the state of knowledge of the causes of climate change, its potential impacts and options for response. The IPCC report, Climate Change 1995, provided key input to the negotiations, which lead to the adoption of the Kyoto Protocol to the UNFCCC in 1997.

Secretariat

The IPCC has a small Secretariat (8-9 people), based in Geneva and hosted by the WMO. Staff are provided by UNEP and the WMO. The Secretariat plans, oversees and manages all IPCC activities. In particular, it:

- organises sessions of the Panel, and its working groups;
- manages the IPCC Trust Fund;
- coordinates IPCC public information and outreach activities;
- publicises and disseminates IPCC reports to the wider scientific and policymaker community, including translation of summaries into all UN official languages;
- monitors progress of IPCC activities and ensures co-ordination among IPCC Working Groups;
- liases with member governments and international organizations;

The Panel meets in plenary sessions about once a year. It accepts/approves IPCC reports, decides on the mandates and work plans of the working groups, the structure and outlines of reports, the IPCC Principles and Procedures, and the budget. It also elects the IPCC Chairman. As well as publicising areas of scientific consensus, the Panel also reports on areas of disagreement and gaps in scientific understanding.

CHANGES ON CURRENT DRAFT HIGHLIGHTED.

FOOD SAFETY ETC: UK DRAFT: 1/7/00
(FOOTNOTES FOR EXPLANATORY PURPOSES ONLY – NOT PART OF COMMUNIQUE)

Final Para

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[1], scientific academies[2] and other expert bodies towards establishment of an independent international panel, ~~[under UN auspices]~~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 model[3], the self-standing independent panel would be facilitated by[4] the UN system[5] and would help integrate the best scientific knowledge available into the process of international consensus building[6].

[1] Could include OECD – but secretariat (drawing on experience of setting up Edinburgh etc), as opposed to inviting OECD Council to deliberate.
[2] From below – could include the Interacademy Council.
[3] Drawing on the IPCC model (see attached).
Similarities: independent; based on broad based science; facilitated by UN, but not managed by it (NB the IPCC commands widespread international respect and credibility, whereas one of its 'parent organisations' UNEP is considered less effective); publishes findings for all (public, govt, industry); identifies areas not only of consensus, but also gaps in scientific knowledge; responds to emerging challenges – setting its own agenda (ie Panel, not UN, decides what Panel will discuss); informs public and political understanding, but does not make policy.
Differences: IPCC includes governments – this doesn't. IPCC bigger, multilayered (with working groups) – this will be small, at least to start with.
[4] Rather than 'under the auspices of' which implies some degree of control or hierarchy.
[5] Open to discussion as to whether this is FAO/WHO or UNSG's office. If we secure agreement we should approach UNSG before Okinawa, or at least before Millennium Summit.
[6] From below – and one of the key similarities between IPCC and this Panel.

(D)

REFERENCE D

BACK POCKET AMENDMENTS

NEW LANGUAGE PROPOSED BY UK FOLLOWING PLENARY (1/7/00) (FOOTNOTES FOR EXPLANATORY PURPOSES ONLY – NOT PART OF COMMUNIQUE)

Final Para

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] *stand ready* to work closely with the UN and other relevant international organisations[1], scientific academies[2] and other expert bodies towards 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] *recommend* that, drawing on the IPCC model[3], the self-standing independent panel would be facilitated by[4] the UN system[5] and would help integrate the best scientific knowledge available into the process of international consensus building[6]. []

Alternative last sentence providing more specific request in line with Kofi Annan's comments (ref. S.Eldon minute of 10 July), cleared with UND:

We request that the UN Secretary General considers facilitating, through the UN system, a self standing independent panel drawing on the IPCC model to help integrate the best scientific knowledge available into the process of international consensus building.

---

[1] Could include OECD – but secretariat (drawing on experience of setting up Edinburgh etc), as opposed to inviting OECD Council to deliberate.

[2] From below – could include the InterAcademy Panel.

[3] Drawing on the IPCC model (see attached).

Similarities: independent; based on broad based science; facilitated by UN, but not managed by it (NB the IPCC commands widespread international respect and credibility, whereas one of its 'parent organisation' UNEP is in many areas inefficient and low in credibility); publishes findings for all (public, govt, industry); identifies areas not only of consensus, but also gaps in scientific knowledge; responds to emerging challenges – setting its own agenda (i.e. Panel, not UN, decides what Panel will discuss); informs public and political understanding, but does not make policy.

Differences: IPCC includes governments – this doesn't. IPCC bigger, multilayered (with working groups) – this will be small, at least to start with.

[4] Rather than 'under the auspices of' which implies some degree of control or hierarchy.

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[6] From below – and one of the key similarities between IPCC and this Panel.

E

REFERENCE E

Proposed Model for International Panel

Role

The Panel will be a UN-facilitated independent body for inclusive science based consideration of emerging issues in respect of biotechnology and food and crop safety. Assessment will be based mainly on published and peer reviewed scientific technical literature.

The Panel will play an important role in informing public understanding of the science of GM food and crops and provide an authoritative source of scientific opinion for discussions in other fora. It will not engage in policy making or regulatory activities such as risk assessment.

The task of the Panel will be to provide scientific advice to the public, international organisations, inter-governmental organisations, and governments. It will report periodically on the state of knowledge of the impact and potential of GM food and crops, and options for response. As well as publicising areas of scientific consensus, the Panel will also report on areas of disagreement and gaps in scientific understanding.

Progress of the Panel will be reviewed after three years.

Secretariat

The Panel will have a small Secretariat (2-4 people) provided by the UN and its Agencies. The Secretariat will :

- organise sessions of the Panel;
- manage the Trust Fund;
- coordinate public information and outreach activities;
- publicise and disseminate reports to the wider scientific and policymaker community, including translation of summaries into all UN official languages;
- monitor progress of activities;
- liaise with other international organizations, expert bodies and governments;

The Panel will meet about twice a year, with intervening communication by internet. It will accept/approve reports compiled by Panel members and sub-groups, decide on the mandates and work plans of the Panel and sub-groups, the structure and outlines of reports, Panel Principles and Procedures, including membership, and the budget.

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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

page 16

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.

page 16

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.

If you want to say something

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.

forest logging

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.

ENVIRONMENT

Objectives

1. To strengthen the language on **climate change** referring to the entry into force of the Kyoto Protocol, and the importance of domestic action by G8 countries to reduce emissions. To raise Russian awareness of their potential for gain if Kyoto enters into force.

2. To agree language on forests which encompasses the UK ideas on **illegal logging**.

3. If raised: To support language encouraging "G8 countries" rather than the "parties concerned" to work for the **Biosafety Protocol's** early entry into force.

References

A. Olivieri letter to G8 on co-Chairs
B. UK Terms of Reference for the G8 energy taskforce

Background

Renewable Energy

1. At the last minute Germany proposed deleting the text on the taskforce. They were concerned that the G8 initiative could duplicate the work of the 9th Commission on Sustainable Development. While it is true that CSD will discuss 'Energy and Sustainable Development', there is no reason why this should overlap the G8 work. We have always made the point- in the various non papers we have produced and in the Terms of Reference- that our initiative should complement CSD and Rio +10. CSD will take a 'broad brush' approach to energy (including nuclear and fossil fuels). The G8 taskforce will have a much more specific focus on renewable energy, particularly for rural and rapidly urbanising areas.

2. Far from duplicating the work of CSD the G8 initiative should complement it. The CSD papers on energy are long on questions but very short on answers. Many of the difficulties they identify- eg in dealing with renewable energy- are precisely those which should be addressed by the taskforce.

3. The Commission has proposed text to encompass this point- while we can live their proposal - we should propose a couple of minor amendments to improve it. The G8 initiative is not a part of the CSD process so it would be better to say 'complement' rather than 'contribute', and the name of the CSD process is 'Energy for Sustainable Development' instead of 'sustainable energy'.

Climate Change

4. The current text is quite weak – and both France and Germany have proposed substantial amendments strengthening the text on the importance of domestic action by G8 countries to reduce emissions, and entry into force of the Kyoto Protocol, which we can support. But if Franco-German attempts to re-open the text fail, the very least we should settle for would be the retention of the two phrases in brackets.

5. On entry into force, the EU was joined by Russia and Japan at the G8 Environment Ministers' meeting in calling for entry into force by 2002. The US and Canada are opposed to setting a deadline, but it should be possible to agree compromise language

along the lines of the Environment Ministers' communiqué. We should not accept any less than entry into force "as soon as possible".

6. On domestic action by developed countries, we can support the German proposals, but could also accept the slightly weaker French proposals (as amended by the US). Neither the US or Canada will be able to accept the French reference to "the implementation of" the Kyoto Protocol, and we should not push on this.

7. The Sixth Conference of the Parties (COP6) to the Climate Change Convention in The Hague in November is likely to be crucial in determining whether or not Kyoto enters into force. Heads could help prepare the ground by reaffirming their commitment to tackling climate change, and to resolving outstanding issues so that CoP6 creates the conditions for the ratification and entry into force of the Kyoto Protocol as soon as possible.

8. We are also keen to sensitive the Russians, at the highest possible level, to their enormous potential for gain from Kyoto, through foreign investment in emissions reduction technology, as well as through selling its excess emissions allowances on the international carbon market. However, they would only be able to benefit from this once Kyoto enters into force - therefore clearly in Russia's interest to ratify the Protocol early. We have been informed that Schroeder has been briefed to raise this with Putin.

9. We should reject any suggested text (most likely to come from the US, but possibly from France) calling for greater action from developing countries in tackling climate change. We could however accept language calling for greater future action by all countries, with a recognition that developed countries must take the lead, or language calling for a dialogue to be initiated to address future commitments for all countries. We should also resist any attempts to place a greater emphasis on the Kyoto mechanisms than on domestic action (G8 Environment Ministers followed the wording of the Kyoto Protocol, and stated that use of the mechanisms "will be supplemental to domestic actions").

Greening Export Credit Agencies

10. We can fully support US calls to reinforce the G8's commitment to this process by adding the language agreed by the Environment Ministers in Otsu. We also support proposals to strengthen the OECD mandate (common approaches) to bring it into line with the G8 mandate (guidelines), and to bring the OECD deadline (end 2001) forward to the 2001 G8 Summit.

11. The US had previously been pressing for stronger language, referring to the use of a single set of ex ante qualitative and quantitative (MDB) standards, but now appear to have withdrawn this. We, and other G8 countries, do not support a further strengthening of our objective to include a reference to common standards.

12. The US, Canada and UK are still in the vanguard in pressing other OECD countries to adapt their systems to give effect to the Action Statement. France, Germany and Japan are also 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 (the US are in a minority of one on this issue). Italy, have been largely silent. Although we should support moves to "unify" the OECD Ministerial and G8 mandates, there are sensitivities in the OECD forum to the G7 countries dictating action.

13. The UK can support US calls to strengthen the OECD mandate (common approaches) to bring it into line with the G8 mandate (guidelines). However, the US has been pushing for the introduction of ex ante qualitative and quantitative standards, which have been rejected by all.

14. There are very strong tactical reasons as to why language referring to common standards should be rejected. The US is alone in the G8 in wanting this reference included. The consensus reached within the OECD is fragile. We need to be wary of sensitivity in the OECD forum to the appearance that the G7 is dictating the process. If we try to push countries too hard too soon by introducing a reference to the adoption of standards into the OECD mandate this is likely to halt progress and damage the current level of consensus rather than increasing the momentum of the process.

15. Further, the ECGD Mission and Status Review, which has been endorsed by the Prime Minister and other Cabinet Ministers, says that ECGD should use relevant internationally recognised standards as benchmarks for assessing projects (rather than a single set of (MDB) standards).

16. In addition to the potential impact on the OECD process, ECGD also argue that ECAs have a different role from MDBs in that they act as an insurer and do not design or fund projects. Therefore in most cases, except where they are co-financing projects, they lack the leverage of MDBs. Second, it would be very difficult to develop and continuously update one set of standards covering diverse project sectors which would be acceptable to all. US Eximbank has, since 1992, developed its own set of standards based to a great extent on those of the World Bank but also to fit its own operating context. Others (e.g. the French) may be planning to develop their own standards based on commercial practice. It would be more practical and preferable to make use of the existing range of established standards rather than develop another OECD variant.

17. The best tactic would be to throw our full weight behind fulfilment of the OECD Work Plan to give effect to the Action Statement agreed in February. There are encouraging signs that hitherto recalcitrant countries (e.g. Italy and the Netherlands) are taking steps to adapt their export credit systems. We should support the US proposal to add the Environment Ministers' agreed language: 'We will co-operate to reinvigorate and intensify our work to fulfil the Cologne mandate'.

Rio + 10

18. CSD 8 agreed a decision on the 10-year follow up to the Rio Conference (UNCED) which will go forward for further discussion at the 55th Session of the General Assembly in the Autumn. South Africa have offered to host the event and there have also been bids from Korea and Indonesia. Brazil's offer to host has been withdrawn in favour of South Africa.

19. Germany has proposed additional text setting out themes for Rio +10. If possible we should avoid doing this. There has been no formal discussion on themes for the conference; this will be discussed at GA55. The G8 should therefore be cautious about being seen to be trying to impose its own agenda for Rio +10. It also runs the risk of becoming a shopping list- with every G8 country setting out what they want.

20. If it is not possible to see this suggestion deleted we should see k to have it amended as suggested above. The UK would like to see Rio +10 concentrate on a few key areas such as the International Development Targets, National Sustainable Development Strategies and the ratification of the Kyoto Protocol.

Forests

21. Previous agreement was that this would be handled by Foreign Ministers with the Heads endorsing their conclusions. Need to include the word "local" along with "indigenous" to be more inclusive on those we help to practice sustainable forest management, some might argue that "indigenous people" already practice sustainable forest management. There is increasing civil society interest in the action programme in particular the issue of illegal logging and heads may wish to underline their commitment to the sustainable management of the worlds forests. On illegal logging Canada, Russia and the USA will probably be uncomfortable with language that highlights domestic action.

22. Since Houston, G7/G8 Summits have taken an interest in forestry. The Houston Summit launched the G7 Brazil Pilot Programme (PPG7), the Denver Summit initiated the G8 Action Programme on Forests and the 1998 Birmingham Summit agreed its content.

23. There is increasing civil society interest in the G8 Action Programme. Much of the concern is around illegal logging (especially from Greenpeace, but also Environment Investigation Agency (EIA) and Friends of the Earth). Clare Short has agreed that DFID will co-sponsor, with the USA and others, a World Bank Institute South East Asia regional meeting (scheduled for late 2000) to address questions of forest law enforcement. Given the sensitivities around specifying individual activities under the Action Programme, the UK will not seek formal G8 endorsement (but should support USA if raised).

Oil/ Maritime Safety

24. **Lines 14-15:** We understand that France has proposed deleting altogether the text that refers to "the control of access to coastal areas by such ships" (i.e. those carrying dangerous or polluting cargo). The UK supports the French proposal to delete this wording.

25. If the text is not deleted then we should propose that, after the words "the control of access to coastal areas by such ships", there should be inserted the words "**within internationally accepted rules**". This should not cause G8 partners any difficulty.
Lines 21-26: There is sensitivity - specifically on the part of Japan - on the question of **international compensation regimes on maritime pollution**. Japan is the major contributor to the IOPC Fund, with Japanese oil importers paying approximately one third of every oil spill compensated through the IOPC Fund.

26. It is important to note that improvements to the CLC and IOPC Fund regimes need to be developed through international negotiation. It is for the IMO rather than G8 to take concrete action to ensure that standards are adhered to/reinforced as necessary. We must ensure that any action we propose is compatible with this. We cannot rule out regional (e.g. EU) solutions, but that would be second best - given that shipping is a global business which demands global solutions - and for consideration only in the event that IMO fails to deliver what is required.

27. France is under considerable pressure at home to be seen to be taking action to prevent a repeat of the *Erika* oil spill disaster. It (with the support of the European Commission) has proposed a package of measures to be taken forward by IMO and within the EU, and is according oil tanker safety high priority during its EU presidency. While France would prefer regulatory action to be taken forward on a global basis by the IMO, they have made it clear that they would strongly support regional measures (e.g. on the accelerated phasing out of single hull tankers) if IMO fails to act promptly and decisively. The UK

could support regional EU action on single-hull phase out only as a last resort, as it will be less effective than a global measure. There is also the question of the economic impact of accelerated phasing out.

28. Canada and the US support the communiqué text as it stands. The US already has in place unilateral legislation (OPA 90) that will result in single hull oil-tankers being banned from trading within its waters ahead of the existing MARPOL timetable agreed by IMO. Our concern is to avoid the risk of these displaced older tankers being 'dumped' onto European trades.

Biosafety Protocol

29. At US insistence, a reference to the Cartagena Protocol was removed from the Food Safety section of the communiqué to the Environment section. The US and Canada, in particular, are sensitive about the Protocol because it affects environmental safety aspects of traded agricultural products which are GMOs. Arguably, reference to this issue should have remained in the Food Safety section of the Protocol because the Cologne mandate on biotechnology went wider than food safety. This argument is strengthened by our call for the proposed independent Panel to cover both food and crop safety. We should try to mitigate luke-warm support for the Protocol among other states.

30. The language on the Protocol in the Environment section of the communiqué calls on "the parties concerned to work for its early entry into force". This is weaker than the language in the G8 Environment Ministers communiqué, which says that "G8 countries will make all possible efforts for its early entry into force", ie the former language implies that countries which have not signed the Protocol (US, Canada, Russia and Japan) are less committed to working towards implementation.

Heywood Nogami letter

Il Rappresentante Personale
del Presidente del Consiglio
per il G7 - G8

RENEWABLE ENERGY

Following our agreement on communiqué language at the Plenary, I have been considering, in discussion with Jeremy, how we might best take the initiative on renewable energy forward. In our view it would be excellent to announce at Okinawa who will chair the task force. This will give the initiative immediate momentum and will enable the task force to start work promptly with a view to delivering a report to G8 Heads early in 2001.

We propose that the G8 appoints two co-Chairs from the public and private sectors respectively. As discussed it is important that the group seeks balanced views from government and business and this will help ensure a good balance. Please find attached revised terms of reference that reflect these ideas and give a little more detail on the time-scale we suggest.

I would like to propose an Italian figure for the public sector chair. The person that I have in mind is Dr Corrado Clini, Director General of our Environment Ministry. He has gained remarkable experience on renewable sources as Chairman of the Italian Government's Task Force on implementing the Kyoto Protocol. This remit includes the drafting of sectoral strategies for the improvement of energy efficiency and of renewable sources. Dr. Clini has also chaired the European Working Group on energy and environment that drafted the European Council decision on climate change strategies. He was also chairman of the organising committee of the UN International Symposium on Environmental Sound Energy Technologies and their Transfer to developing countries.

I have also discussed the private sector role with Jeremy who has proposed an excellent candidate - Sir Mark Moody-Stewart, the Group Managing Director of the Royal Dutch/Shell group. As well as his sound background in the energy industry Sir Moody-Stewart has a particular interest in expanding energy from renewable sources. The Shell Foundation has recently launched a Sustainable Energy Programme with the aim of developing solutions to the environmental impacts of growing energy use

Il Rappresentante Personale
del Presidente del Consiglio
per il G7 - G8

and overcoming related poverty in developing countries. As head of a large multinational group Sir Moody-Stewart will also bring a global perspective to the issues.

With such a strong partnership in the chair we believe that the taskforce would achieve a great deal in time for Genoa. I hope that we can discuss these ideas further at the Summit. After Okinawa, and once the co-chairs are in place, I would suggest that G8 members not represented in the chair nominate task force members. To keep the structure light I would suggest that we need not all seek to nominate business sector representatives and officials. The UK will be setting an example by not proposing an official for the group.

We look forward to seeing you in Okinawa.

We are copying this letter to G8 colleagues.

FRANCESCO OLIVIERI

JEREMY HEYWOOD

Renewable Energy – G8 Task Force

Terms Of Reference

Introduction

At the Okinawa Summit G8 Heads will deliver a message on energy, calling on stakeholders to identify the barriers and solutions to achieving a step change in renewable energy supply and distribution. The recommendations should be presented to G8 Sherpas in early 2001 so that concrete proposals for action can be developed in time for the Genoa Summit in June. A small task force will be asked to take this work forward.

Task Force Mission

- To identify the main barriers to achieving a step change in the level of supply, distribution and use of renewable energy for sustainable development world-wide.
- To recommend key actions which G8 governments can take to remove these barriers, promote growth in this sector and improve the potential for exploiting, developing and distributing clean energy in developing countries.

Scope

- Industrialised, transition and developing economies all face challenges linked to renewable energy. The broad issue is how to facilitate the development of large-scale sustainable markets in renewable energy.
- But the challenges are different for industrialised countries, with high levels of existing investment in centralised power systems, and for developing economies, looking to increase energy services to rural and urbanising populations.
- The task force should focus on the latter, considering how to address the gaps and barriers, that currently dampen the development of well-functioning markets in this field.
- In addition it is important to consider how existing investment patterns and government policies affect the global market for renewable energy, as this helps to determine energy choices in developing countries.

Specifically, the task force should consider the following areas:

- How government/donor action, can enable communities to exploit the employment and development opportunities offered by renewable technologies.
- How public resources (including ODA) can best support these aims and catalyse private sector involvement
- How to ensure better coordination of existing bilateral and multi-lateral programmes.
- Identifying commercial, institutional and regulatory barriers to the development of a sustainable and fast-growing global market in renewable energy.
- Identifying barriers to ensuring renewable energy services reach poorer communities and the poorest countries
- Identifying barriers to improving the efficiency of renewable energy use.
- How government/donor action, coupled with private sector involvement, can help reduce these barriers and actively enable market growth,

Criteria for action proposals

The Task force should put forward proposals for concrete action. Actions proposed should meet some or all of the following criteria:

- Should increase provision of sustainable energy and help reduce poverty
- meet the demands of small-scale customers
- recognise the important role of the private sector
- focus on releasing the energy of market forces
- foster public/private partnerships
- include key role for business from the developing world and help encourage entrepreneurs
- assist in removing perverse subsidies and facilitating new types of assistance
- encourage technological innovation and best practice in design and implementation
- complement and catalyse current and future initiatives eg bi/multi-lateral programmes

Participants

- Task force should be limited to manageable size
- Should include a balance of G8 government and (CEO level) business representatives plus probably representatives from the World Bank/IFC and International Energy Agency
- Business representatives should include those providing energy services to poor communities in developing countries
- Task force will need to engage with key stakeholders from the outset, particularly players from developing countries, so that proposals reflect the realities of poor peoples' lives
- Will also need to bring in experts to look at particular details or technical issues

Timetable

- July – G8 to announce public/private co-Chairs for task force at Summit
  Co-Chairs and G8 to nominate and identify other Task force members
- Sept – 1st Task force meeting – finalise on major areas of work, decide on division of labour and timetable for further meetings and consultation
  Task force to consult widely eg by inviting papers from stakeholders and through conference/seminar process
- Feb – Task force report to G8 Sherpas

(B)

Renewable Energy – G8 Task Force

Terms Of Reference

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- Will also need to bring in experts to look at particular details or technical issues

Timetable

- July – G8 to announce core task force members (eg public/private co-Chairs) at Summit
  Core members and G8 to nominate and identify other Task force members
- Sept – 1st Task force meeting – finalise on major areas of work, decide on division of labour and timetable for further meetings and consultation
  Task force to consult widely eg by inviting papers from stakeholders and through conference/seminar process
- Early March – Task force report to G8 Sherpas

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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.

Okinawa G8 Summit **Sherpa Brief**

HUMAN GENOME

Objectives

To finalise draft Communiqué text taking into account the differing G8 positions. The text still under discussion relates to intellectual property protection.

References

A: Blair/Clinton Agreement on Genome Data, March 2000
B: Brainard/Nogami letter, 15 July

Handling

1. Most of this section of the communiqué is uncontentious. The exception is the final paragraph relating to intellectual property. The current communiqué text (13 July) is heavily based on text proposed by the Commission and incorporates revisions made by Italy, Germany and Canada. The US proposed removing the sentence in the Commission text referring to the need for further international harmonisation of IP rules on biotechnology: the Japanese did not accept this proposal. The French have confirmed that they are content with the Commission drafting.

2. The US want to see a minimalist reference to intellectual property in the communiqué, arguing that the Commission text goes further than the Blair/Clinton statement on human genetic data. The Commission, together with the French, Italian and Germans, would prefer a commitment to continuing international co-operation. The Canadians accept a reference to further international links, but wanted to remove the reference to harmonisation.

3. Your letter to Sherpas of 12 July said you were content with the Commission drafting plus all comments on it. We have therefore effectively said that we are happy with either approach. In all likelihood Sherpas will stick to their existing positions and the US will be isolated. Having agreed the original Commission proposal, we should support the compromise language that the Japanese have prepared.

4. However, there is an outside possibility that some G8 members will move from their current positions. National patent offices have become increasingly concerned that the current text (i) may lead to discussions on this issue in unhelpful international fora (i.e. the wording "relevant international fora" is indiscriminate); and (ii) the wording "broad international harmonisation" may suggest an industrialised plot to impose our patenting standards on developing countries. The UK patent office shares this concern. If the debate opens out and a number of other Sherpas begin to support the US position (the Commission and Japan are the likely candidates), we should propose compromise text that is less committal ("We support continuing co-operation between our experts in this area") or support text the Canadians have proposed, subject to slight amendment. (See back to back for more detail.)

Background

1. The starting point for this section of the communiqué was the Blair/Clinton agreement on open access to human genome data arising from the Human Genome Project. Other G8 countries were reluctant to make a straight endorsement and the language on intellectual property – apparently agreed in May - has become the subject of dispute. The US is pressing quite hard to exclude this section from the Communiqué. They are clearly nervous about the impact of any statement on the jittery high tech stock market, and the reaction of their own biotech companies.

2. The concerns which have arisen on this section of the text and which on reflection are shared by the UK Patent Office are that "relevant international fora" leaves the door open for a forum where patents are controversial to seek harmonisation which overturns agreed European standards of protection. Examples might be WHO (in relation to gene-based pharmaceuticals) or UNCTAD (in relation to patents based on genetic resources). In addition, reference to "harmonisation" implies that we expect other countries to agree to European standards. In relation to biotechnology patents this is highly controversial, for example in the WTO TRIPs context, where we have recently had to indicate to developing countries that the EU is not seeking to import the EU directive into the TRIPs agreement. The difficulty is linked to arguments about protection of genetic resources (including of individual persons) and indigenous knowledge, which developing countries have used to derail negotiations on other subjects on several occasions.

3. The Japanese Patent Office was earlier seeking a commitment by the G8 that experts will continue to discuss differences in patenting practice in relation to gene patents. The proposed UK compromise wording might be a useful fall-back position and compromise between the Europeans and the US if discussion develops in this way - it also limits the context to G8 and does not imply harmonisation. The concept of continuing co-operation is key to this approach.

(A)

JOINT STATEMENT TO ENSURE THAT DISCOVERIES FROM THE HUMAN GENOME ARE USED TO ADVANCE HUMAN HEALTH

In the last decade of the twentieth century, scientists from around the world initiated one of the most significant scientific projects of all time: to determine the DNA sequence of the entire human genome, the human genetic blueprint. Progressing ahead of schedule, human genome research is rapidly advancing our understanding of the causes of human disease and will serve as the foundation for development of a new generation of effective treatments, preventions, and cures.

To realize the full promise of this research, raw fundamental data on the human genome, including the human DNA sequence and its variations, should be made freely available to scientists everywhere. Unencumbered access to this information will promote discoveries that will reduce the burden of disease, improve health around the world, and enhance the quality of life for all humankind. Intellectual property protection for gene-based inventions will also play an important role in stimulating the development of important new health care products.

We applaud the decision by scientists working on the Human Genome Project to release raw fundamental information about the human DNA sequence and its variants rapidly into the public domain, and we commend other scientists around the world to adopt this policy.

Telefax

To: Sophia Harvey
Fax:

From: Dr Sarada Tew
Date: 17/7/00 Pages: 1

Post-it® Notes 7669

THE WHITE HOUSE

WASHINGTON

July 15, 2000

Dear Yoshi:

We remain very concerned about the draft wording in the communiqué dealing with the human genome. The main points of the original Clinton-Blair proclamation were to highlight the importance of the human genome project as a scientific endeavor, encourage free access to raw fundamental sequence data, and endorse the need for intellectual property protection to promote the development of gene-based inventions. The current communiqué text introduces issues such as harmonization of patent policies and the human genome as the "common heritage of humanity," which are outside of the scope of the original Clinton-Blair proclamation. Even the careful wording of the proclamation resulted in a significant reduction in value of many biotechnology stocks. Based on this experience, we are very concerned that the proposed communiqué language would likely lead to a repeat of this unfortunate occurrence. Therefore, we strongly recommend that the communiqué keep to the intent of the original proclamation.

I am copying this letter to our G8 colleagues.

Sincerely,

Lael Brainard

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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.

AGEING

References

UK paper on Ageing - 'Economic and Community Activity Among Older People'.

Background

1. The Communiqué statement 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. The language agreed at the Sherpa Plenary is satisfactory, although last-minute French efforts to delete the reference to removing inappropriate disincentives for people below retirement age to stay in the labour market caused some slight tension. The US and Germany supported our strong resistance to this change.

3. The French's efforts to water down the text stem from their attachment to the idea that reducing the size of the workforce is an answer to persistent unemployment. That is at odds with the conclusions of the Lisbon EU Special Council which emphasised the need to expand employment in order to make pensions and other social provision affordable with an ageing population. The need to remove disincentives for older people to stay in the labour market is an essential part of the statement and we must resist any efforts to open up any discussion aimed at re-negotiating the agreed text .

pw Ageing.

ECONOMIC AND COMMUNITY ACTIVITY AMONG OLDER PEOPLE

SUMMARY

1. This paper discusses the phenomenon of ageing populations and, for many OECD countries, increasingly inactive older populations. It highlights the significant economic and social consequences of these changes and proposes some principles to guide policy responses. Integrating older people with other sections of society is a key theme. The paper concludes by recommending joint action to (a) enhance the active contribution of older people to the labour market and their communities and (b) ensure that communities and employers enable and welcome that contribution.

TRENDS

2. Almost every industrialised country is experiencing three phenomena:

- the population is ageing rapidly as a result of the post-war baby boom and falling fertility rates;
- individuals are living longer; and
- in most OECD countries, people are retiring from the labour force at earlier ages.

3. These trends are discussed in more detail in Annex A.

4. Economic shocks and labour market changes in the past twenty years have helped trigger a loss of jobs by older workers as firms have restructured. Voluntary early retirement schemes have been a well used tool for shedding staff, though surveys suggest that many people may have not accepted retirement on a wholly voluntary basis.

Version 3. Prepared for Dublin Sherpa meeting (5-6 April).

5. Once shaken out, older workers have been less successful at finding new jobs than younger ones. There are a variety of reasons, of differing importance across G8 members.

- negative attitudes towards older workers and the weakness of the mechanisms to retrain them, for example as qualifications become more dated, and reconnect them with work are contributing factors;
- incentives and signals built into occupational pension and social security regimes[1];
- early withdrawal from the labour market has become more culturally acceptable, often supported by more flexible pension schemes and retirement ages. Although this is a positive aspiration for many, it is undoubtedly reinforced by the continuing trend of "youth is best" and an associated decline in the value that society places on older people;
- where labour markets experience high unemployment with few job vacancies, these factors exacerbate the difficulties in obtaining new work for older people.

IMPLICATIONS

6. The combination of these phenomena may have significant social and economic consequences both for individuals and national economies:

(i) **foregone national output and income**. The potential contribution of older workers to national output and income is lost, including their knowledge, skills and experience. For countries with shrinking workforces this will exert a negative effect on GDP. One question is whether increasing the number of older people in the labour market will

[1] For example, tax incentives in the UK for personal pensions have subsidised higher retirement incomes, encouraging people to leave the workforce earlier than they would otherwise have done. Under the UK social security system, Incapacity Benefit (for the sick and disabled) is higher than the Job Seekers Allowance (for the unemployed); those who have the option, choose the IB regime for financial reasons but lose out under the latter's less active job searching assistance, thus inadvertently becoming disconnected from the world of work. The number of people in the UK over 50 and on Incapacity Benefit has tripled over the last twenty years.

reduce opportunities for other age groups and aggravate youth unemployment. There is plenty of evidence to show that this is not the case[2]; on the contrary the number of the potential jobs in the economy is increased if larger numbers of people are competing effectively for work. If there are fewer people in the labour force economic growth which creates jobs will be inhibited as employers experience shortages of labour and as inflationary pressures build up as the labour market tightens.

(ii) **rising dependency rates**. A smaller number of people in work to support a growing dependent population. In 1960 there were over 4 employees for every older person in the OECD. This will fall to about 3 over the next 10 years. By 2030, there will only be 2 employees for each older person.

(iii) **adverse effects on individual incomes now**....There may be an immediate economic impact on individuals retiring earlier, particularly those from lower socio-economic groups. In the UK nearly half of those without work between 50 and 65 are dependant on state (non-pension) benefits for more than half of their income;

(iv) **...and in retirement**. Saving for retirement may also be affected for these individuals. The final years of working life can be an important time for saving for retirement when other commitments, such as supporting dependant children, have reduced;

(v) **social costs of involuntary inactivity in older age**. There can also be significant social costs for individuals who want to work but cannot. These include low-self esteem, divorce, ill-health and low participation in other activities and can lead to social exclusion;

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[2] For example countries with high net immigration see their employment rise. Israel had substantial immigration in the 1980's with a sharp growth in employment and with virtually no change in the proportion of population in work.

(vi) **the increasing challenge of funding pensions and other benefits for older people (including early retirees)**. The cost of pensions and other benefits, including disability benefits, paid to older people are already very significant and will rise further. This will be particularly important for countries which do not have significantly funded private pension provision.

POSSIBLE RESPONSES

7. The ageing of the population and increasing longevity are not factors which are susceptible to reversal. Declining rates of participation in the labour market, however, are and such a reversal would help mitigate the effects of the other factors. There is some evidence that this is happening in the US: the economic boom, changes in the nature of jobs towards more part-time, service-based and home working are all contributors.

8. IT skills are becoming an increasingly important requirement within many jobs and for interacting within the community. The 50+ age group is the least likely to be "internet literate" – by some way. However, in cases they are showing signs of catching up - for example, the early-retired sector is showing the fastest growth of internet use within the US - and of being able to participate in e-business employment opportunities.

9. A key question is whether declining participation rates are the result of voluntary, undistorted choices or are involuntary or driven by the way tax and social security systems operate. If they are voluntary, undistorted choices, the policy response will need to examine the cultural and structural influences on those choices and may need to consider incentives to work longer. The UK has just completed a study of the effects of falling employment rates among older people. Its conclusion was that in practice much of the decline is involuntary or the result of incentives created by the tax and social security

systems. In response it identified the following principles and key building blocks.

Principles

10. Access to jobs and to the labour market should be determined by ability not age and should not be distorted by the tax and benefit system or other barriers. Prejudice and irrational discrimination, which remove people from the labour market simply on the grounds of age, are neither morally acceptable nor economically rational.

11. People over 50 need greater opportunity and choice, to allow each to make their own distinctive contribution. Like all adults, they should have:

- the opportunity to contribute to society and be fully integrated into it;
- confidence that their contribution is valued, and that they are not discriminated against on the grounds of age;
- the opportunity to provide for a decent income in later life;
- the opportunity to update and retrain, particularly to take advantage of new technology;
- the freedom to mix various types of activity (paid work, voluntary and other community activity, leisure) within the constraints of what they can afford;
- genuine choices which are well-informed and undistorted.

Key building blocks

12. Labour markets have different national characteristics which are important in responding to national trends and situations. But key building blocks can be identified which are likely to feature in any programme to improve economic and other activity rates among older people. These are:

Getting the culture right.

13. Many OECD countries need to bring about a culture change to raise expectations of older people and discourage judgements by employers based on age rather than real value and potential. Governments can take a lead in stimulating this change by prominently setting out the case for valuing the skills and experience of older people in work and beyond, by taking effective steps to counter age discrimination in employment and by setting a good example as an employer.

Enabling and encouraging over-50s to stay in work.

14. Governments can encourage and support employers to create better working arrangements to encourage the employment of older people. These include:

- better training and skill development for workers of all ages (lifelong learning) so that skills do not become out of date as workers age;
- ensuring that information and communications technology (ICT) is a key focus of training and skill development;
- more flexible working arrangements so that older workers can choose to move into retirement gradually and care for elderly relatives;
- measures to improve occupational health for both young and older workers to ensure that future generations remain as fit as possible as they age and to reduce involuntary early retirement as a result of stress or ill health;
- reform of Government programmes which encourage the early retirement of older workers;

- removing or reducing incentives in benefit regimes and incentives in pension schemes which encourage early retirement or discourage people from working longer.

15. Employers and trade unions are also key players in employment promotion for older workers, for example through employees investment in their human capital. Lifelong learning is of crucial importance in enabling older workers to remain active and in work. This was recognised in the G8 Koln Charter on the Aims and Ambitions for Lifelong Learning.

Helping and encouraging displaced workers to re-enter work.

16. There tends to be a strong expectation that over-50s who have drifted away from the labour market will not return. But Governments can:

- ensure that encouragement and support to return to the labour market, including retraining, is available for and accessible to people of all ages who are able to participate in work, including those who have a disability;
- work to reduce incentives in the benefit system which discourage those out of the labour market from re-entering it.

Helping older people to make use of their skills and experience for the benefit of the wider community.

17. There may be a role for Governments in improving access to, motivation for and availability of volunteering opportunities for older people by;

- building on efforts to encourage and enable volunteering among all sections of the community; and/or

- developing initiatives specifically designed to make use of the experience and availability of people in this age group, and to offer them incentives to participate. For example, Italy is currently strengthening its legislation to foster voluntary civic service by older people, including fiscal treatment of senior citizens undertaking activities within the service sector.

It is important that the contribution which older people make to their communities without remuneration should be recognised and valued.

POSSIBLE CONCLUSIONS

Culture and Age Prejudice

18. Heads could agree on the importance of a culture which values the experience and contribution of older people and commit themselves to taking the lead in setting out their vision of the role and value of older people in society. Promoting such a culture is important in helping prevent age *prejudice* – attitudes based on unreasoning opinion.

19. There is a danger that age prejudice can result in age discriminating policies and actions. Heads could agree that age discrimination in employment is unacceptable and economically damaging and could commit themselves to effective action to counter it. The OECD, perhaps in collaboration with the World Bank, could be asked to analyse and evaluate existing measures to combat age discrimination in employment in G8 countries to promote understanding of what works. This work would need to take account of the OECD study on reforms to the pension insurance system. Alternatively Heads could agree to evaluate their own measures internally.

Community activity

20. Heads might agree to share information and expertise on collecting data on community involvement, particularly by older people, and how communities seek to involve groups of different ages. There is much less good quality international data on voluntary and community activity than on participation in the labour market. In many cases this is because national data is poor. 2001 is the UN Year of the Volunteer and this might provide a good opportunity to focus on the role of older people in communities.

21. The OECD could also be asked to look at what is known about participation rates internationally, with particular reference to older people, and to identify best practice in ensuring that the skills and expertise of people no longer in the labour market are not lost. For example, the UK is considering reform of some tax and benefit rules to facilitate volunteering. This may include relaxing tight "availability for work" requirements for declared volunteers receiving benefits. The UK is also piloting a special package of training advice and grants and job searching support for the over fifties.

22. Either or both of these might feed into an international conference or workshop, as part of the UN Year of the Volunteer.

Supply side measures to encourage labour market participation

23. Heads could agree to exchange information on the effectiveness of measures both to help workers remain in work and to help them re-enter work once they are displaced.

24. In particular Heads could agree on the importance of getting the work/life balance right for workers of all ages, and that this has particular relevance for older people.

25. They could agree to exchange information on: how to ensure older people have the same access to information and communications technology (ICT) and to ICT training as other age groups; and on the role ICT can play in

improving the welfare of older people e.g. through new services and new links between people, business and government. For example, the UK's "NHS Direct" telephone and internet medical advice service is particularly useful for enabling older people to get immediate advice without leaving home. G8 colleagues may wish to consider whether further initiatives on IT for older people would be useful, possibly working through other initiatives, such as the work on the digital divide?

26. Heads could also encourage employers' and employees' organisations to exchange information and best practice on measures and initiatives that have been effective.

Pension and benefit reform

27. A good deal of work has been undertaken by the OECD and others on the incentives affecting older employment in the pension and benefit systems of OECD countries. Heads could agree to bilateral or multilateral exchanges of information on the issues raised by seeking to remove such incentives and to share any experience they have of doing so.

PIU March 2000

ANNEX A

BACKGROUND

1. Populations of OECD countries are on average the oldest in the world. They are all ageing but at different rates and with different timing. Italy and Japan are among those ageing most rapidly and soonest. In the next 25 years, the number of persons of pension age in OECD countries will rise by about 70 million while the working age population will only rise by 5 million.

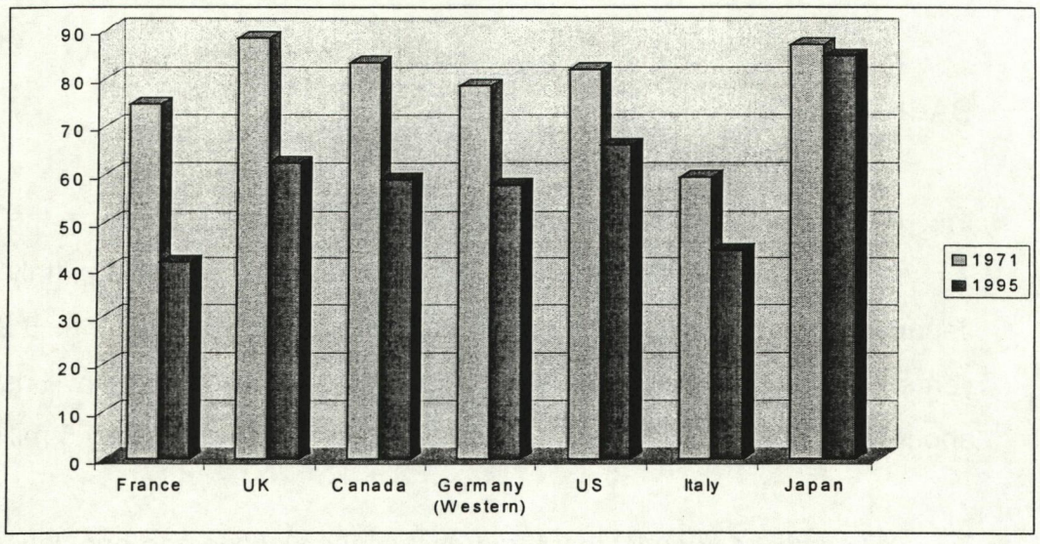
2. Projections suggest that the growth in the working age population in the European Union will slow down over the next 10 – 15 years and by 2015 will be declining in almost all member states. In 2015, almost 22% of EU citizens will be between 55 and 64, as against only 16% at present.

3. In the non-OECD world, the rate of growth in the number of older people is much faster than in the OECD but the percentage of older people in the overall population is still relatively small compared to the OECD.

4. At the same time, people are leaving the labour force at younger and younger ages in most OECD countries. The decline in labour force participation by older men has been one of the most dramatic features of labour market change in the past few decades. Chart 1 below shows that the long-term decline in male employment rates is universal, but is far more pronounced in some countries than in others.

CHART 1: EMPLOYMENT RATES OF MEN AGED 55-64, 1971 AND 1995

G7 countries, ranked in order of size of decline



5. Moreover, the decline has affected various age-groups to different degrees in different countries. In Japan, for example, the greatest fall has been in the employment rates of people above 65, which have been and remain high by international standards. In many European countries, on the other hand, the biggest change is in the numbers withdrawing from work in their 50s or early 60s. Policy responses have been targeted correspondingly.

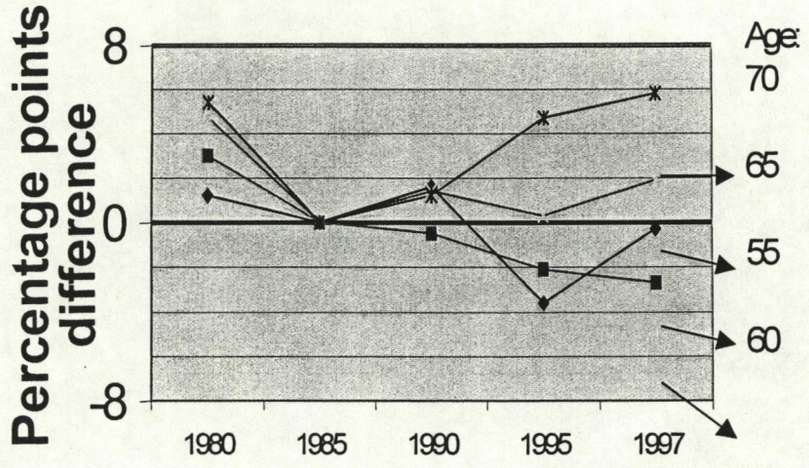
6. In general, the falls have continued, but at a more modest pace, through the 1990s. Some countries have even begun to experience an apparent reversal of the trend for workers in their 60s. For instance, employment rates for 55 to 65 year-olds in Germany have been relatively constant within Germany. Chart 2 shows recent changes in employment rates for various age-groups in the United States, where the change from a downward trend has been clearest at age 65 and over. This reversal is, so far, hard to interpret, especially in the context of a sustained employment boom, but analysis has shown that macroeconomic factors cannot account

for all the growth[1]. The importance of this development is to suggest that a one-way decline in older men's employment is not inevitable.

7. The picture for older women is similar but not so dramatic.

8. There is no evidence that falling rates of participation in the labour market are matched by increased participation by older people in voluntary or community activity; in the UK participation in voluntary activity is lower for 55 – 65 year olds than for both younger and older age groups.

Chart 2: US male employment rates, by age, compared to 1985



PIU

March 2000

[1] Joseph F Quinn, Retirement Patterns and Bridge Jobs in the 1990s, Employment Benefit Research Institute Brief No 206, Boston College, Boston, Mass. USA.

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Ageing

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

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

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

- Counter age prejudice in employment;

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

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

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

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

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

We look forward to the upcoming meeting of G8 Labour and Social 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
UK	Tony Blair	Gordon Brown	Robin Cook	Jeremy Heywood	Emyr Jones-Parry	Jon Cunliffe	Colin Budd	Gus O'Donnell	Jon Cunliffe
Canada	Jean Chretien	Paul Martin	Lloyd Axworthy	Donald Campbell	Paul Heinbecker	Bruce Montador	Jonathan Fried	Ian Bennett	Joy Kane
France	Jacques Chirac	Laurent Fabius	Hubert Vedrine	Jean-Marc de la Sabliere	Gerard Errera	Stephane Pallez	Dominique Perreau	Jean-Pierre Jouyet	Bruno Deletre
Germany	Gerhard Schroder	Hans Eichel	Joschka Fischer	Klaus Gretschmann	Klaus Scharioth	Michael Roskau	Joachim Boudre-Groger	Ciao Koch-Weser	Axel Nawrath
Italy	Giuliano Amato	Vincenzo Visco	Umberto Dini	Francesco Olivieri	Giuseppe Baldocci	Lorenzo Bini-Smaghi	Valerio Astraldi	Mario Draghi	Lorenzo Bini-Smaghi
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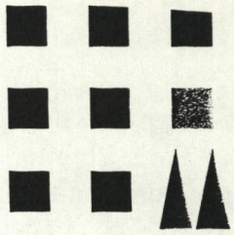
Russia	Vladimir Putin	Alexei Kudrin	Vladimir Ivanov	Andrei Illarionov	Georgi Mamedov		Georgi Petrov		
EU	Romano Prodi	Mira Solbes	Chris Patten	Armando Varricchio	Guy Legras	Giovanni Ravasio	Bernhard Zepter		

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.

FINANCE MINISTERS' REPORT

Strengthening the International Financial Architecture

Report from G7 Finance Ministers

to the Heads of State and Government

Fukuoka, 8 July, 2000

Strengthening the International Financial Architecture

(Report from G7 Finance Ministers to the Heads of State and Government)

A. Introduction

1. Following a series of crises that began in Asia in 1997, conditions in the world economy have stabilized and prospects for expansion have improved. However, in view of the rapid changes occurring in the global financial landscape, and in particular in light of the opportunities and challenges presented by the increasing size and importance of private capital markets, 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.

2. We, Finance Ministers of the G-7 countries, submitted a report on strengthening the international financial architecture to the Cologne Economic Summit last year and set out a number of specific proposals toward reform. Since then, we have made substantial progress :

   a) Many developing countries are making efforts to enhance their financial stability by, for example, strengthening financial sectors, adopting appropriate foreign exchange regimes, improving debt management, and adopting internationally agreed codes and standards. Many of them are also making substantial investments in the information they provide to financial markets.

   b) The IMF has taken steps to implement an assessment framework for internationally agreed codes and standards and to make operational our approach to private sector involvement (PSI) in forestalling and resolving crises. Private sector investors and lenders have been more involved in the financing of recent IMF-led programs. In addition, the IMF Executive Board has deepened its discussions on exchange rate regimes, countries' experiences with capital controls, and other important issues. The transparency of the IMF and the Multilateral Development Banks (MDBs) has been significantly improved, including through greater publication of

documents.

c) The Interim Committee has been transformed into the permanent " International Monetary and Financial Committee (IMFC) "

d) The Financial Stability Forum (FSF) was created last year to enhance financial stability, improve the functioning of markets, and reduce systemic risk. As we requested, the FSF examined the issues of, and published reports this spring on highly leveraged institutions (HLIs), capital flows, and offshore financial centers (OFCs). The FSF also carried out work on the implementation of codes and standards on which it recently released a report.

e) The G-20 was established as an informal mechanism for dialogue among systemically important countries within the framework of the Bretton Woods institutional system. The first meeting of G-20 Finance Ministers and Central Bank Governors was held successfully in December of last year in Berlin. The next meeting will be held in October of this year in Montreal.

3. In this report, we discuss how we can further enhance our efforts to strengthen the international financial architecture, carrying forward the reform program that we identified in Cologne. Given the leading role of the International Financial Institutions (IFIs) in implementing a significant part of the Cologne reform program, this report focuses on i) reform of the IMF - especially reform of its facilities, the promotion of the implementation of codes and standards, the enhancement of governance and accountability, and private sector involvement; ii) reform of MDBs; iii) responses to the challenges posed by HLIs, OFCs and cross-border capital movements; and iv) regional cooperation.

4. We are determined to implement all the measures in this report, as well as the broad range of measures endorsed at the Cologne Summit. We will work together with other members of the international community to make steady progress.

B. IMF Reform

5. In view of the changing global financial landscape, and in particular the increasing importance of private global capital markets, we believe it is essential that the international community continues to examine the role and functioning of the IMF and other IFIs. We look forward to exploring this agenda further in Prague this fall at the next meeting of the IMFC and at the next Annual Meetings of the IMF and the World Bank .

Key principles for reform of the IMF

6. At our meeting with Central Bank Governors in April, we laid out the following key principles, which reflect our shared understanding of the IMF's role as we move forward:

   a) The IMF should play the central role in promoting macroeconomic and financial stability as an important precondition for sustainable global growth and should continue to evolve to meet the challenges of the future.

   b) The IMF is a universal institution which must work in partnership with all its member countries, based on their shared interests in these goals.

   c) To be effective, the IMF and its activities must be transparent to the public, accountable to its members and responsive to the lessons of experience and external and independent evaluation.

   d) In order to foster strong policies and reduce countries' financial vulnerability to crisis, preventing crisis and establishing a solid foundation for sustainable growth should be at the core of the IMF's work. Surveillance of economic and financial conditions and policies in member countries and the implementation of internationally agreed codes and standards are primary tools for accomplishing these aims.

   e) IMF's financial operations should continue to adapt to reflect the realities of global capital markets while preserving the flexibility to support all member countries, as appropriate, including those with no immediate

prospects of market access. They should encourage countries to take preventive measures to reduce vulnerabilities and provide temporary and appropriately conditioned support for balance of payments adjustment, including in cases of crisis, and medium-term finance in defined circumstances in support of structural reform, while avoiding prolonged use.

f) IMF lending should not distort the assessment of risk and return in international investment. To this end, the IMF should take appropriate steps to ensure that the private sector is involved both in forestalling and resolving crises, which should help promote responsible behavior by private creditors.

g) While the World Bank is the central institution for poverty reduction, macroeconomic stability – a key tool for the achievement of poverty reduction and growth – is the responsibility of the IMF. The IMF has a crucial role in supporting macroeconomic stability in the poorest countries through the Poverty Reduction and Growth Facility, integrating its efforts with those of the World Bank in working with countries on poverty reduction strategies.

These principles will continue to guide our efforts on IMF reform moving forward in discussions within the IMF Executive Board and the IMFC, and in other fora as we work to implement concrete steps in advance of the Annual Meetings in Prague this fall.

Strengthening surveillance to prevent crises

7. There is consensus within the international community that, as we emphasized in our April meeting, strong surveillance must be at the center of the IMF's efforts to strengthen the world economy and the international financial architecture. In this regard, we reaffirmed the importance of a substantial qualitative shift in the nature and scope of the Fund's surveillance needed in light of globalization, large scale private capital flows, and the emerging framework of internationally agreed codes and standards.

a) The IMF should, in conducting its surveillance work, continue to sharpen its focus on macroeconomic policy, capital flows and structural issues which have an impact on macroeconomic stability, in particular in the financial sector, and on exchange rates with a view toward encouraging countries to avoid unsustainable regimes.

b) The IMF should continue to work to develop and make systematic use of indicators of national liquidity and balance sheet risks as a key part of the surveillance process. We believe that the IMF should begin publishing such indicators regularly together with relevant explanatory material.

c) The IMF has an important role to play in promoting transparency and the flow of information. We support the IMF in its efforts to promote the publication by countries of comprehensive, timely, high quality and accurate information in line with the Special Data Dissemination Standard (SDDS) and welcome the IMF's decision to highlight in a quarterly publication countries' achievement in this respect. We also support further actions to enhance the transparency of IMF surveillance through, inter alia, more general use of Public Information Notices following Article IV consultations and Reports on the Observance of Standards and Codes (ROSCs). In this respect, we support the principle of the release of IMF Article IV staff report, and look forward to the conclusions of the IMF Board review on the pilot project in this area.

Implementation of international codes and standards

8. We are determined to strengthen our efforts to promote the implementation of internationally agreed codes and standards as follows.

a) We confirm the IMF's leading and coordinating role in the assessment of countries' observance of international standards and codes and welcome the IMF's ongoing work in this area through Reports on the Observance of Standards and Codes (ROSCs) as well as through the joint IMF-World Bank Financial Sector Assessment Programs (FSAPs). We also welcome commitments by over 30 countries to undertake ROSC modules and the recent decisions by the IMF and the World Bank to expand the FSAP

program. We look forward to consideration of the modalities for voluntary publication of Financial System Stability Assessment (FSSA) reports.

b) We agree that the assessment process should cover the 12 key codes and standards highlighted in the Financial Stability Forum's Compendium of Standards, and be carried out on a modular basis. The IMF and national authorities, in consultation with the standard-setting bodies where appropriate, should be responsible for identifying priority standards for implementation by individual countries within the framework of a country's overall economic reform agenda. To enhance credibility, we encourage countries to articulate publicly their adoption of standards, announce their plans of action and participate in IMF-led assessment programs. In this regard, we welcome the commitments by the G-20 Ministers and Governors and by the Western Hemisphere Finance Ministers.

c) We agree on the importance of addressing market and official incentives in promoting observance of codes and standards. In this context, we underscore the need for greater disclosure and transparency about countries' intentions and progress in implementing codes and standards. We call on the IMF to ensure that the results of assessments of observance of codes and standards are published, and to continue its work on integrating such assessments into its regular Article IV surveillance process. We look forward to the results of further work by the Financial Stability Forum (FSF) on promoting market and official incentives, specifically regulatory and supervisory incentives. We also call on the IMF to explore further ways of promoting compliance with codes and standards. We look forward to further progress on an overall framework for the implementation of codes and standards at this year's Annual Meetings in Prague.

d) We agree that work to implement codes and standards will be most effective if combined with further efforts to foster ownership across a broad range of countries for the codes and standards processes. The IMF and the World Bank should assist countries in the development of action plans for the implementation of codes and standards. We agree to work together and with the IFIs, the FSF, and international regulatory and supervisory bodies

to provide technical assistance and training to emerging market and developing countries in this area.

e) In order to facilitate the conduct of consistent and objective assessments of countries' adherence to codes and standards, there must be regular, transparent, and constructive dialogue and cooperation between the institutions and agencies responsible. To this end, we call upon the IMF to chair a meeting of the relevant bodies to determine and report on how best to ensure that inputs from the relevant bodies concerned can be most effectively integrated in the surveillance process managed by the IMF.

Reform of IMF facilities

9. We reemphasize that the IMF's financial operations should continue to adapt to the globalization of capital markets, while preserving the flexibility to support all member countries, as appropriate, including those with no immediate prospects of market access, in light of their specific circumstances. Therefore, we attach priority to early progress in achieving a streamlined, incentives-based structure for IMF lending that encourages countries to develop stable access to private capital markets on a sustainable basis.

10. The IMF has already begun to simplify its facilities. Going forward, we continue to attach priority to the creation of a more effective structure for IMF lending consistent with this approach that would:

a) provide contingent support and incentives for countries to put in place strong ex ante policies to prevent crises, to observe internationally agreed standards and best practices, and to maintain good relations with private creditors (as is currently the case under the Contingent Credit Line (CCL)) ;

b) address temporary balance of payment imbalances as well as medium-term financing in defined circumstances in support of structural reform, while at the same time encouraging countries to move toward sustainable access to private capital (as is currently the case under the Stand-By Arrangement (SBA) and the Extended Fund Facility (EFF));

c) allow the IMF to respond rapidly and on an appropriate scale to systemic crises with appropriate terms to mitigate moral hazard and encourage rapid repayment (as is currently the case under the Supplemental Reserve Facility(SRF));

d) maintain a strong, focused role for the IMF in supporting sound macroeconomic policies in the poorest countries, integrating its efforts with those of the World Bank given the latter's responsibility for promoting poverty reduction and growth-oriented programs (as is currently the case under the Poverty Reduction and Growth Facility (PRGF)).

11. Specifically, we expect that reform of IMF facilities will be conducted as soon as possible based on the following:

a) The pricing of non-concessional IMF facilities should be fair and reflect their underlying objectives. The new pricing structure should establish more consistent incentives across facilities, encourage access to private capital, discourage prolonged use of, and deter inappropriate large scale access to IMF resources, thus contributing to their more efficient use. For all non-concessional facilities, the interest rate should increase on a graduated basis the longer countries have IMF resources outstanding. The possibility of adding a premium when the scale of financing goes beyond certain thresholds should be explored. In addition, for countries that continuously resort to IMF facilities, the IMF should make more intensive use of prior actions and limit access to its resources.

b) We also look forward to consideration of steps to encourage early repurchases once the IMF borrowers have returned to a sustainable economic and financial path.

c) We call upon the IMF to explore, in the context of the review of its facilities, appropriate uses of any resulting increase in IMF income within the existing framework of the Articles with the objective of targeting support to poorest countries.

12. Concerning specific IMF facilities:

a) The SBA should remain the standard facility to provide short-term assistance.

b) The EFF should be used in well-defined cases where medium-term structural reform is important, and longer-term maturity is appropriate due to the country's structural balance of payments situation and its limited access to private capital. This facility is expected to help countries to carry forward structural reforms necessary to achieve access to private capital over time.

c) The CCL should be reviewed with a view to enhancing its effectiveness without compromising the initial eligibility criteria. Specifically:

- The commitment fee for the CCL should be abolished.

- The initial rate of charge of the CCL should be reduced to a level below the initial rate of charge of the SRF. In this context, the progressive structure of the rate of charge of the CCL should be reviewed.

- The activation of the CCL should move to greater automaticity with regard to the initial drawing and within a predetermined limit, provided that appropriate reviews are conducted and that the ex-ante conditionalities are fully met.

- After approval of the arrangement committing CCL resources, frequent reviews, at least twice a year, on whether the user country continues to meet eligibility criteria should be conducted. A country should be required to exit the CCL when it becomes clear that eligibility criteria are no longer met. We call on the IMF to develop an appropriate exit strategy for these cases. If a country exiting the facility carries the risk of having a balance of payments problem, it should be encouraged to conclude an appropriate IMF program.

- In light of the abolishment of commitment fee, the reduction of the initial rate of charge and introduction of greater automaticity, the high

standards for qualification should be maintained.

d) The SRF should retain its character as an emergency instrument to respond rapidly and on an appropriate scale to crises of capital market confidence, with appropriate terms to mitigate moral hazard and encourage rapid repayment.

We will work together with other members of the IMF to implement the specific changes proposed and other steps needed to put in place this simplified and incentive-based framework of lending instruments.

13. Going forward, conditions on IMF lending should be focused and address issues of macroeconomic relevance, while adhering to high quality standards. The IMF should sharpen its focus on macroeconomic policies, capital flows, structural issues having an impact on macroeconomic stability, in particular those in the financial sector, and exchange rate regime with the view toward encouraging countries to avoid unsustainable regimes. Success of IMF-led programs depends on strengthened ownership of borrowing countries.

Safeguarding IMF resources

14. The IMF's new framework for the conduct of safeguard assessments adopted last spring, strengthened measures to discourage misreporting and a requirement that countries making use of Fund resources publish annual financial statements independently audited by external auditors in accordance with internationally accepted standards should be implemented vigorously to ensure that IMF funds are used appropriately.

Post-program monitoring

15. It is important that the IMF enhances its capacity to monitor performance while funds are outstanding in order to help ensure that countries maintain strong policies and avoid the need to return to the IMF for financial support. We therefore attach priority to early action by the IMF to strengthen procedures and policies with respect to post-program monitoring.

Strengthening governance and accountability

16. We continue to stress that high priority be placed on increasing the transparency and accountability of the IMF.

a) The IMF should continue its efforts to make its documents public.

b) We welcome the recent decision to publish quarterly the financial transactions plan and encourage the IMF to take further steps to explore a mechanism for simplifying its financial accounting, in order to make its financial operations and statements more understandable to the public.

c) The involvement of the IMF Executive Board in the process leading to the formulation of country programs should be further enhanced. The Board should be briefed at an early stage on important and sensitive cases.

d) We welcome progress made toward establishing a permanent independent evaluation office inside the IMF, and urge that steps be taken to bring this office into operation by the time of the Annual Meetings in Prague. We look forward to reports on the result of the evaluation by the office to the Executive Board, and regular reports on the activity of the office to the IMFC.

e) For the IMF to maintain its legitimacy, credibility, and effectiveness as a global institution in the international financial system, it is essential that IMF's decision-making structure and its operation remain accountable. We take note of the effort now underway in the IMF to examine the formula for calculating country quotas, which need to be able to reflect changes in the world economy.

We look forward to discussing these proposals constructively and cooperatively with other members of the IMF.

Private Sector Involvement (PSI) in Crisis Prevention and Resolution

17. We welcome that private external creditors, including bondholders, have contributed to the financing of several recent IMF programs of policy reform and recovery. This has confirmed the importance of making operational the framework we laid out in our report to Heads in Cologne.

18. Private sector involvement is crucial for crisis prevention and resolution, and further efforts must be quickly made to implement the following measures;

    a) Emerging market economies participating in international capital markets and their private creditors should seek in normal times to establish a strong, continuous dialogue.

    b) The IMF should also encourage the use of appropriate measures, including collective action clauses, to facilitate more orderly crisis resolution.

    c) The use of collective action clauses in international bonds issued by emerging market economies in our own financial market should be facilitated.

    d) The World Bank and other Multilateral Development Banks are urged to work to have such clauses used in international sovereign bonds or loans for which they provide a guarantee.

19. The approach the international community adopts towards crisis resolution should be based on the IMF's assessment of a country's underlying payment capacity and prospects of regaining market access, informed by the country's economic fundamentals, payment profile, history of market access, and the market spreads on its debts.

20. All IMF programs need to include analysis of the country's medium-term debt and balance of payments profile, including a section explaining the assumptions taken about the sources of private finance.

    a) In some cases, the combination of catalytic official financing and policy adjustment should allow the country to regain full market access quickly.

b) In some cases, emphasis should be placed on encouraging voluntary approaches as needed to overcome creditor coordination problems.

c) In other cases, the early restoration of full market access on terms consistent with medium-term external sustainability may be judged to be unrealistic, and a broader spectrum of actions by private creditors, including comprehensive debt restructuring, may be warranted to provide for an adequately financed program and a viable medium-term payments profile.

21. In the case of c) above, where debt restructuring or debt reduction may be necessary, IMF programs should be based on the following operational guidelines.

a) Put strong emphasis on medium-term financial sustainability, with the IMF determining the appropriate degree of economic adjustment required by the country and the IMF and the country agreeing on a financing plan compatible with a sustainable medium-term payments profile.

b) Strike an appropriate balance between the contributions of the private external creditors and the official external creditors, in light of financing provided by IFIs. In cases where a contribution from official bilateral creditors (primarily the Paris Club) is needed, the IMF financing plan would need to provide for broad comparability between the contributions of official bilateral creditors and private external creditors. The Paris Club, if involved, should of course continue to assess the comparability desired and achieved between its agreement and those to be reached with other creditors.

c) Aim for fairness in treatment of different classes of private creditors and for involvement of all classes of material creditors. The IMF should review the country's efforts to secure needed contributions from private creditors in light of these considerations, as well as medium-term sustainability.

d) Place responsibilities for negotiation with creditors squarely with debtor countries. The international official community should not micromanage

the details of any debt restructuring or debt reduction negotiations.

e) Provide greater clarity to countries at the start of the process about the possible consequences for their programs, including in terms of official financing, of any failure to secure the necessary contribution from private creditors on terms consistent with a sustainable medium-term payments profile. Such consequences could include the need for a program revision to provide for additional adjustment by the country concerned or the option of reduced official financing, or, conversely, a decision by the IMF to lend into arrears if a country has suspended payments while seeking to work cooperatively and in good faith with its private creditors and is meeting other program requirements.

f) When all relevant decisions have been taken, the IMF should set out publicly how and what certain policy approaches have been adopted, in line with the Cologne framework.

22. We look forward to further progress at the IMF by this year 's Annual Meetings in Prague in making operational our approach, agreed last April, to PSI in the design of IMF programs so as to provide greater clarity to countries and market participants.

C. MDBs Reform

23. We affirm that accelerating poverty reduction in developing countries must be the core role of the Multilateral Development Banks (MDBs). An increased focus on poverty reduction should underpin all aspects of the MDBs' work, including in programs of policy reform, investment projects and capacity-building. MDBs need to adapt their organization and operations in order to fulfill this mission more effectively and consistently in a continuously changing international environment characterized by: a new understanding of the necessary elements of a more effective fight against poverty; growth of private financial markets in the developing countries; new opportunities and challenges arising from globalization; and stakeholders' stronger interest in efficient use of overall aid resources, and higher standards for transparency and accountability of MDBs.

24. Economic growth is the primary determinant of a country's ability to raise incomes and reduce poverty and inequality. Successful and equitable development also depends upon good governance, sound structural and sectoral policies, including social policy and trade liberalization, accountable and transparent institutions, and investment in human capital and public goods. Therefore MDBs should assist poor countries not only to meet such social priority as education and health, but also with economic and social infrastructure support where this has a clear additional impact on poverty reduction.

25. MDBs can also make an important contribution to poverty reduction in emerging market and/or middle-income countries. MDB activities in countries with access to private capital should be more selective in order not to supplant private capital. At the same time, in case of temporary closure of emerging market countries' access to capital markets, MDBs should stand ready to respond quickly by helping to cushion the effects of exceptional shocks on the poorest and most vulnerable groups.

26. In all cases, MDB multi-year operational frameworks should be established and should include clear commitments to increase support for core social investments such as basic health and education, clean water, and sanitation. They should respect appropriate country exposure limits.

27. MDBs should place high priority on good governance and the full commitment to the poverty reduction by recipient countries. They should allocate their support increasingly on the basis of borrower performance. Experience has shown that aid is only effective in reducing poverty where governments are committed to sound policies. In this regard, we stress the importance of the following:

a) 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; and

b) performance-based lending frameworks, such as agreed under IDA-12,

should be extended in an appropriate manner to all MDB programs.

28. In addition, MDBs should include support for capacity-building and structural and institutional reform in their broad-based approach to assistance for developing countries. In particular, they should:

a) strive to enhance the overall financing capacity of recipient countries themselves, including by increasing domestic saving and by helping catalyze private capital flows;

b) address institutional and structural issues that hamper poverty reduction, to ensure transparency, accountability, the rule of law, and appropriate social and human investments for the poor; and

c) strengthen the financial sector in recipient countries so as to help them prevent and manage financial crises.

Since Country Assistance Strategies (CASs) are comprehensive tools for effective and efficient MDB support for developing countries, MDBs should work to improve their quality and broaden their scope. These strategies should take full account of a borrower's policy environment including governance as well as the legal, institutional and regulatory frameworks. Public Expenditure Reviews should be an essential building block of the strategies. Every CAS should provide an assessment of the country's financial sector and governance.

29. MDBs should avoid competition with the private sector, assume a catalytic role and focus their activities more selectively on projects with clear development and/or transition impact. As the private sector increasingly finances projects traditionally funded by MDBs, more public resources are likely to be available for investment in social sector and public goods.

30. MDBs, and especially the World Bank (WB), should take the lead in facilitating the provision of global public goods, by deepening their engagement in global issues such as infectious diseases and environmental problems closely related to development. In this regard, the comparative

advantage of various international institutions, including UN agencies (e.g. such as World Health Organization (WHO) and Joint UN Programme on HIV/AIDS (UNAIDS)) and private institutions should be carefully reviewed given the scarcity of concessional resources.

31. MDBs should emphasize a selective, quality-oriented approach rather than a quantity-oriented or profit-oriented one on the basis of clear definition of their roles as public institutions and their development mandates. MDBs which provide resources to private sector should better define their roles, organizations and operations in this respect.

32. It is important for MDBs to look afresh at the instruments available to fulfill their development and poverty reduction mandate in light of the principles described in the preceding paragraphs and in view of the changing international financial environment. In this regard, we call for a prompt initiation of a comprehensive review of loan pricing policy, including the question of price differentiation for the different types of operation. MDBs should also explore the possibility of some separation of lending and non-lending services to enable a wide range of countries to continue to benefit from MDBs' expertise.

33. Concessional lending by MDBs, focused on the poorest countries, has a critical role in poverty reduction. Replenishment of the concessional funds of the MDBs should be based on the principle of fair burden sharing and we encourage new donors to participate actively.

34. The quality of aid may, in some cases, be improved through healthy competition between the WB and some Regional Development Banks (RDBs). It is nevertheless essential that these institutions strengthen collaboration and coordination in order to ensure efficient use of scarce aid resources. The CDF initiated by the WB and PRSP can be useful tools in coordinating of bilateral and multilateral donors. The WB and the RDBs should conclude Memoranda of Understanding to frame their coordination and closer partnership taking into account circumstances of each RDB. In this regard, we welcome the recent agreement between the WB and the African Development Bank (AfDB). Collaboration in the field is particularly important

and, in this respect, a comprehensive review of the progress of the decentralization of the WB operations and the impact of this process on cooperation with the RDBs and on the quality of its projects and its administration would be welcomed.

35. The IMF and the WB have different mandates and need to respect them. Nevertheless, the issues they deal with are increasingly interrelated and in some countries their activities are interdependent. In this respect, 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.

36. Finally, we call for greater accountability to shareholders and those affected by MDB actions. We therefore support the recent substantial progress that MDBs have made toward this goal. Nevertheless, there is a clear need for additional progress in such crucial areas as information disclosure, public participation and accountability to the shareholders:

a) A greater range of operational documents should be released to the public, particularly all country strategies and evaluation reports, while paying due attention to the influence on the market.

b) Independent inspection panels should be in place in an appropriate manner in all institutions.

c) Each institution should establish a compliance unit to certify full compliance of project proposals with its policies prior to submission to the Executive Boards.

d) Monitoring and ex-post evaluation function, internal financial controls, procurement policies and practices and auditing procedures of each MDB should be strengthened and all MDBs should have strong and independent evaluation units.

D. HLIs, Capital Flows and OFCs

37. We stress the importance of the implementation of the recommendations set out in the reports of the Financial Stability Forum (FSF) Working Groups on highly leveraged institutions (HLIs), Capital Flows, and Offshore Financial Centers (OFCs), which were released last March. In this regard, we call on the IMF, World Bank and other bodies to contribute actively to the implementation of the various recommendations by the FSF Working Groups.

38. To respond to concerns about the potential consequences of the activities of HLIs, which may contribute to systemic risks or affect the dynamics of certain markets, it is important to promote the implementation of the following measures:

a) Better risk management by HLIs and their counterparties.

b) Better disclosure practices by financial institutions, including enhanced disclosure by HLIs and their creditors. We call on all jurisdictions to consider the adequacy of their own disclosure requirements and introduce, where necessary, appropriate changes to legislation or regulations to ensure that major hedge funds located in their jurisdictions are subject to disclosure requirements. This recommendation should apply, in particular, to offshore centers, since they currently host a significant proportion of unregulated hedge funds.

c) Enhanced regulatory and supervisory oversight by national authorities of financial institutions which provide credit to HLIs.

d) Enhanced national surveillance of financial market activity in view of concerns about systemic risk and market dynamics caused by HLIs' activities.

e) Review by leading foreign exchange market participants of existing good practice guidelines for foreign exchange trading and the articulation of model guidelines for possible adoption by market participants in smaller economies.

f) Improved market infrastructure

We will review these measures and their implementation to determine whether additional steps are necessary. In this light, we note that the FSF considered in March, but did not recommend, at this stage, direct regulation of the currently unregulated HLIs, but emphasized that direct regulation would be reconsidered, if, upon review, the implementation of its recommendations were not adequately addressing concerns identified.

39. It is also important that each country manages debt-related risks appropriately. In this regard, we welcome the work being carried out by the IMF and World Bank, and urge prompt development of guidelines for public debt and reserve management, with special attention to the risk created by short-term foreign currency liabilities, and taking account of countries' vulnerability to capital account crises, including those vulnerabilities arising from the liabilities of the private sector. The establishment of efficient domestic bond markets is also important. Prudential limitations in the banking system to reduce the risk of excessive exposure to short-term capital flows may be appropriate in some circumstances.

40. Regarding offshore financial centers that do not meet international standards adequately, and therefore, that are potential threats to the international financial system, we welcome the identification by the FSF of priority jurisdictions, and urge the IMF to conduct quickly a specific assessment in these jurisdictions. We urge all the listed jurisdictions to demonstrate their commitment to improve their implementation of standards, for instance, through a public declaration of their intention to implement relevant international standards, completing assisted self-assessments of adherence to these standards, and eventually addressing shortfalls identified through detailed action plans.

41. To respond to risks caused by large and abrupt international capital movements, it will continue to be important for each country to pursue sound macroeconomic policies, proceed with structural reform for the better functioning of the market, strengthen the financial system, choose an

appropriate foreign exchange rate regime supported by consistent and credible macroeconomic policies and other measures, liberalize the capital account in a well-sequenced manner, and take other appropriate policies as needed.

42. Recognizing the crucial role of deposit insurance in contributing to confidence in the financial system, we look forward to further development by the FSF of guidance on deposit insurance schemes.

E. Regional Cooperation

43. As discussed above, IMF surveillance of, and appropriate financing support to, the member countries are important for the stability of the international financial system. In addition, member countries may strengthen, on a regional basis, their cooperation in these areas, in a way which is supportive of the IMF's objectives and responsibilities in the global economy, taking into account their common interests in international trade and investment and shared concerns about the risk of regional contagion. Such regional cooperation can improve regional stability and thus contribute to the stability of the global economy.

44. In this context, we welcome the recent developments in the area of regional cooperation at various levels. In the Asian region, frameworks for regional surveillance and for cooperation in finance including bilateral swap mechanisms have been expanded. In North America, a trilateral swap arrangement is maintained with a process for surveillance and regular consultation on economic matters.

45. Regional cooperation through more intensified surveillance can help contribute to financial stability by strengthening the policy framework at the national level. Cooperative financing arrangements at the regional level designed to supplement resources provided by the IFIs in support of IMF programs can be effective in crisis prevention and resolution.

46. In a different institutional context, economic and financial integration mechanisms, and monetary unification in Europe are also contributing to the economic and financial stability of the global economy.

cc: CB
– sorry I didn't get you anything earlier. Have been trying all day to get read out from HMT – including what was said on Financial Crime + Oil (No 10 concerned about HMT doing their own thing). We get these two off the web.
JK 10/7

Impact of the IT Revolution on the Economy and Finance

Report from G7 Finance Ministers

to the Heads of State and Government

Fukuoka, 8 July, 2000

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Impact of the IT Revolution on the Economy and Finance

(Report from G7 Finance Ministers to the Heads of State and Government)

1. We, Finance Ministers of the G7 countries, note that the advance of the Information Technology (IT) revolution holds the promise of becoming a major force in the global economy in improving productivity, raising maximum potential output, and promoting higher living standards. In order to ensure that the benefits of IT are promptly reaped by our societies and do not lead to increasing inequalities, countries must put in place appropriate macroeconomic and structural policies.

2. In this report, we focus on the macroeconomic impact of the IT revolution, its policy implications, and issues relating to financial transactions and tax systems.

A. Macroeconomic Impact and Its Policy Implications

Acceleration of Productivity and Increase in Demand

3. We recognize that IT has the potential to increase growth in our economies although the impact of IT is still at an early stage and it is difficult to anticipate its exact timing, nature and strength. The increase in production potential due to IT will not be limited to IT-related industries, but will extend to the overall economy. First of all, the IT revolution can increase the rate of growth of the capital stock by stimulating active IT-related investment. This kind of investment leads to increasingly sophisticated IT technology being built into capital and, accordingly, raises the quality of capital as well. More importantly, by increasing the speed with which information is disseminated and shared inside and outside corporations, the IT revolution can drastically alter the combination of capital and labor, bring about greater efficiency in conducting business, facilitate corporate restructuring, induce a synergistic effect, and thus lead to productivity increases that cannot be attributed to either capital or labor (total factor productivity). For instance, it can reduce the need for intermediary business, make inventory management more efficient, and enable businesses to procure inputs or conduct outsourcing in the business-to-business (B-to-B) market that is networked globally.

4. In addition to the supply side, the IT revolution will have effects on the demand side through increased IT-related investment, expansion of demand for IT-related services, and the development of new consumer-oriented services,

including business-to-consumer (B-to-C) electronic commerce and electronic financial transactions. A two-way flow of information between businesses and consumers made possible through the Internet can generate new types of demand and new business opportunities. IT-related investment and services would involve "network externalities" in which benefits increase dramatically as the number of users increases, and "increasing returns to scale" in which costs are reduced and profits increase as the market grows in size. These are likely to contribute to the further expansion of demand.

5. As a result of this accelerated growth potential on the supply side in parallel with expansion on the demand side, IT can contribute to stronger growth. Like many other technological innovations, IT may bring job losses in certain areas, but create jobs in IT-related businesses. Overall, we can expect a positive impact on employment due to stronger economic growth.

6. Given that the IT revolution has just begun, over the course of time it can have wide-ranging and in-depth effects on our economies, in the same way that important general-purpose technologies had in the past. Already, significant effects on potential growth can be seen in some countries, but there are disparities in the pace at which countries are benefiting from the IT revolution. Indeed, there is nothing automatic about the productivity gains and higher standard of living that come with major innovations such as IT. Deriving the benefits of IT will require sound policies and a robust, but also flexible, open economy as an essential backdrop.

Macroeconomic Policy

7. We agree that the most important role to be played by government, in order to help our economies maximize the potential returns from IT, is to develop an environment that is conducive to private-sector creativity and entrepreneurship. We emphasize that, from this perspective, sound macroeconomic policy continues to be, or is becoming even more, essential. A growth- and stability-oriented macroeconomic environment will stimulate investment and help businesses and consumers to confidently plan for the future and exploit the advantages presented by IT.

8. The IT revolution can make the environment, in which macroeconomic policy is conducted, more complex and uncertain. In the initial stages of the IT revolution, estimating productivity gains and their impact on potential growth becomes more complex. Similarly, traditional yardsticks for gauging financial market performance may appear less applicable, and this has made it more

difficult to appropriately assess risk and return on investment decisions. These increased uncertainties can complicate the choices policy-makers face in calibrating macroeconomic policy management and promoting sustained non-inflationary growth. We must remain mindful of these realities in framing our policies.

9. In addition, in an increasingly globalized economy in which capital can be easily and quickly transferred across borders, differences in the degree to which countries adapt to the IT revolution may lead to large capital flows, and widen the divergence in economic performance between countries even further. Such divergences and the ensuing flows may further create challenges for the promotion of stable and balanced macroeconomic conditions. Achieving greater equality in the pace with which countries benefit from the IT revolution will contribute to promoting a balanced pattern of growth among our economies.

10. In the longer term, the IT revolution may have implications for monetary aggregates and their role in the conduct of monetary policy and for the stability of financial system more generally as electronic financial transactions and digital money become major elements of our national economies.

Structural Policy

11. We agree on the importance of structural policy to develop an environment for vigorous private-sector activity for maximizing the results of IT, and to ensure that people can fairly and widely share benefits from IT opportunities. From this perspective, we emphasize the necessity of:

a) Continuing to remove regulatory impediments in order to promote competition and new entry in key IT-related sectors.

b) Increasing the adaptability of labor markets. Retraining and learning opportunities can help workers successfully transition into new, better-paying jobs.

c) Putting in place appropriate competition and other policies to facilitate dissemination of new technologies and to ensure competition in the new environment.

d) Maintaining an open international trade system.

We note the importance of an efficient and high- quality allocation of our public

resources, with the view to contribute to needed structural reforms.

12. It is also crucial that financial markets be designed in a strong, secure and flexible way to channel resources to their most productive uses. A financial system that can properly match the demand for and supply of capital, and diversify and reallocate risks, is essential in order to meet the funding needs for new businesses and investment opportunities. For startup firms that lead in technological innovation and that seek to take the greatest possible advantage of their technology, a highly transparent and deep capital market will be of particular significance from the point of view of risk-taking and corporate governance.

B. Implications for the Financial Sector

13. We observe that the financial sector is undergoing many changes, including the emergence of financial transactions on the Internet. It is important that government provides an appropriate environment for maximizing the efficiency and convenience of this innovation.

Impacts of the IT Revolution on Financial Services

14. As the financial sector deals with information and data that are easily digitalized, this is one of the industries with the most advanced use of, as well as under the heaviest influence of, IT. Specifically, the IT revolution has enabled the following changes in the financial sector:

a) In electronic financial transactions, utilization of the Internet, with its characteristics of speedy, low-cost, and broad communication, can permit a drastic reduction in transaction costs and improvements in customer convenience.

b) By eliminating the limitations of time and distance, electronic financial transactions can make cross-border transactions easier and, thus, make it possible to provide services to customers on a global scale.

c) Electronic financial transactions have enabled new financial services such as the "virtual financial site" that includes services crossing the traditional borders between financial services as well as "aggregation" that allows consumers to obtain consolidated information about their financial accounts in one place.

d) In addition, under the IT revolution, globalization, and resulting competitive environment, we are seeing innovative developments in the unbundling of risks, the evolution of derivative transactions, and the entry of non-financial companies into the financial sector.

15. On the other hand, we note that, since electronic financial transactions, especially those of B-to-C, are being conducted on open networks centered on the Internet, many challenges will arise in terms of transaction security, consumer protection, and privacy.

Financial Regulation and Supervision

16. We recognize that, while financial regulation and supervision should be technology neutral, they should respond to the above-mentioned characteristics of electronic financial transactions. The objective should be to preserve market integrity without inhibiting the initiative of the private sector.

17. It is important that consumers have confidence in the security of electronic financial transactions. We should encourage the development of systems to combat computer hacking, and the use of encryption and electronic signatures to ensure the security of data. In addition, we need to ensure the development of reliable settlement systems on the Internet; the security of existing settlement systems, such as credit cards, will remain important.

18. For consumer protection in electronic financial transactions, it is important to ensure there is no erosion in the level of protection currently enjoyed by customers of financial services. Rules in areas such as disclosure to investors, explanation and information provision at the time of solicitation and purchase, the provision of documents to customers, and dispute resolution, should also apply to business conducted on the Internet, while methods of applications of those rules may need to be adapted. Also, as the transfer of personal data has become extremely easy, we need to promote strengthening of policies for privacy protection.

19. We should promote international cooperation in establishing as well as implementing principles for financial regulation and supervision, paying due attention to the current rules in each country. From this viewpoint, we welcome the work being done by the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO), and the International Association of Insurance Supervisors (IAIS) in establishing

principles or guidance for the regulation and supervision of electronic financial transactions. We encourage further work by these institutions in line with the following focus:

a) Consistent regulation and supervision irrespective of the means of transactions, including electronic financial transactions.

b) Transparent regulation and supervision in a more complicated business environment, and flexibility to continuously review our supervisory activities to reflect new developments.

c) Fostering the potential of electronic financial transactions within prudent risk parameters without unduly constraining its innovation.

d) Security of transaction and customer protection pertinent to the characteristics of electronic financial transactions.

e) Enhanced cooperation among supervisory authorities in response to the increase in cross-border transactions.

20. We welcome the mapping exercise by the Financial Stability Forum (FSF) on electronic financial transactions, including their potential impact on financial safety, as a basis for possible future work.

21. Management and board members of financial institutions must understand the risks and challenges arising from the development of electronic financial transactions. Financial regulators and supervisors must also ensure that they have the necessary knowledge and skills to deal with the new development. From this viewpoint, we encourage our national authorities to promote methods and techniques for training supervisory staff in IT-related knowledge and skills, and ensure that adequate supervisory resources are devoted to this issue. We should also consider providing technical assistance to help developing countries in their efforts to train regulators and supervisors.

Financial Business Patents

22. With the revolutionary changes in technologies through computers and the Internet, patents have been granted to an increasing number of business method inventions, including in the area of financial services. We recognize that, with the development of IT in finance, our policies toward financial business method patents could have implications for innovation and competition in financial

markets. This issue needs to be addressed in the context of international cooperation with the view to enhancing common understanding of treatment of business method patents.

23. In this respect, we welcome the joint work already underway among our patent authorities on business method patents, and look forward to further development. We have asked our financial experts to meet with our patent authorities and to discuss whether and how the issues of common interest are being dealt with at the international level and how international cooperation in this field is progressing.

C. Taxation and Customs Procedures

Electronic Commerce and Taxation

24. We recognize that the IT revolution, especially the development of electronic commerce, has important implications for tax systems and their administration, in particular, through the changes discussed below.

a) Digitalization: IT provides innovative ways of offering "digital" services such as on-line supply of music and images, and for providing information services. Moreover, while broader use of electronic means for recording information improves the efficiency of business activities, it may make it easier to falsify data.

b) Disintermediation: Electronic commerce often eliminates the need for intermediation and thus reduces the opportunities of monitoring and compliance for taxation purposes.

c) Further internationalization: Cross-border transactions between parties in different tax jurisdictions can increase substantially through the Internet which is open and borderless.

25. We note the importance of the key elements for addressing issues on electronic commerce and taxation which were identified in the report of the Committee on Fiscal Affairs (CFA) of the OECD, entitled "Electronic Commerce: Taxation Framework Conditions" and welcomed by OECD Ministers in October 1998 in Ottawa.

a) It is important to provide a fiscal climate within which electronic commerce

can flourish, weighed against the obligation to operate a fair and predictable tax system that provides the revenue required to meet the legitimate expectations of citizens for publicly-provided services. In addition, efforts should also be made to improve taxpayer service by making utmost use of information technology.

b) Conventional taxation principles, such as neutrality, equity, and simplicity, should underlie the taxation of electronic commerce. At this stage, existing tax rules can implement these principles for electronic commerce. While there may be cases where some adaptation to the existing rules is required, such adaptation should not discriminate among forms of commerce, be they electronic or traditional.

26. We welcome the OECD's ongoing work on relevant taxation issues, focusing on the following points:

a) How to ensure efficient and effective tax administration: Electronic commerce can be conducted in more invisible and anonymous ways. It is vital, therefore, to secure access for tax administrators to transaction information to the same extent as for traditional forms of commerce.

b) How to apply the existing international rules for direct taxation to electronic commerce: As electronic commerce further facilitates cross-border economic activities, there should be clarification of how the concepts in the OECD Model Tax Convention, such as "permanent establishment" and classification of income, apply to electronic commerce.

c) How to apply consumption taxes to cross-border, on-line transactions: Consumption taxes should be applied where consumption takes place. In order to explore the practical application of this principle, issues, such as the definition of the place of consumption and effective collection mechanisms, are being addressed.

27. We recognize that the CFA of the OECD is taking the lead in the examination of these tax issues related to electronic commerce with contributions from business and non-OECD economies. We support this work and encourage the CFA to make further progress.

Customs Procedures

28. Regarding customs procedures, we endorse our customs experts' report on their efforts to standardize and simplify electronic customs declarations. We urge them to set a timetable for implementation, in which other countries and organizations are invited to participate; take steps to develop "single window" systems to allow traders to report data required by customs and other agencies once when they release goods; and so adopt the principles for the use of IT set out in the revised Kyoto Customs Convention.

Poverty Reduction and Economic Development

Report from G7 Finance Ministers to the Heads of State and Government

Okinawa, 21 July, 2000

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Annex – The Heavily Indebted Poor Countries Initiative: Progress in Implementation

Poverty Reduction and Economic Development

(Report from G7 Finance Ministers to the Heads of State and Government)

A. A Comprehensive Approach to Development

1. With the dramatic change in the world economy that has come as a result of the rapid progress in globalization, it is vital that the international community take action to ensure that developing countries have the opportunity to benefit from the forces of globalization and to play their role in the world economic system. It is a key objective to take a forward-looking approach in a strategic and intensive manner, in order to assist these countries in their efforts to attain sustained poverty reduction and economic development, and achieve the International Development Goal of a reduction by one half of the proportion of people living in extreme poverty by 2015.

2. Experience has shown the importance of sustainable growth as a necessary condition for poverty reduction. All development partners should focus on priorities that will bring about the robust growth necessary to meet the 2015 goals. These priorities should include achieving macroeconomic stability, encouraging private sector development, promoting good governance, investing in social development, accelerating trade liberalization, and strengthening financial sectors.

3. While growth is crucial in the fight against poverty, greater attention must be paid to a more equitable distribution of the benefits of growth. To this end, the right social policies are essential, including institution building, education and skills development, and the improvement of health including through the fight against infectious disease. These are the foundation for poverty alleviation and greater social equity. Social investment secures high returns over the longer term.

4. Combating global poverty requires a multi-dimensional approach. To achieve this, poor countries need to produce their own comprehensive Poverty Reduction Strategies, centered on the International Development Goals. These strategies will provide a vital link between social and economic policies needed to reduce poverty and increase growth. They should emphasize transparency, accountability, elimination of wasteful expenditure, and good governance. These strategies should also be developed through participatory processes involving civil society. The International Financial Institutions (IFIs) and bilateral donors should assist countries in developing and implementing these strategies, including through technical assistance.

B. HIPC Debt Relief

5. For the heavily indebted poor countries (HIPCs), debt relief through the enhanced HIPC Initiative is a crucial part of establishing a virtuous circle of poverty reduction and economic development. Last year in Cologne, we

agreed to launch the Initiative to deliver faster, wider, and deeper debt relief, releasing funds for poverty reduction. We welcome the endorsement of this initiative by the international community last autumn.

6. Since then, the implementation of the Initiative has begun. [Nine] countries have reached decision points and are receiving debt relief under the new framework which should total [12.5 billion US dollars]. Up to [eleven] further countries could reach the decision point by the end of this year. Further details on the progress of the enhanced HIPC Initiative are set out in the attached annex.

7. We encourage those HIPCs that have not done so to embark quickly on the process by beginning to develop Poverty Reduction Strategies, in close cooperation with the World Bank and the IMF, and thus benefit from debt reduction. We will work together to ensure that as many countries as possible reach their decision point, in line with the targets set in Cologne, giving due consideration to the progress of economic reforms and the need to link debt relief to poverty reduction. In this respect, we are concerned by the fact that a number of HIPCs are currently involved in 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. In that eventuality, we stand ready to strengthen our efforts to help them prepare and come forward for debt relief.

8. We encourage the World Bank and the IMF to continue to make efforts toward speedy and effective implementation of the Initiative. In this regard, we welcome the establishment in April of the new Joint Implementation Committee by the World Bank and the IMF, and urge the Committee to effectively facilitate the implementation of the HIPC Initiative and provide regular information on the status of individual countries.

9. We note the progress made in securing the required financing of the IFIs for effective implementation of the enhanced HIPC Initiative. We encourage effective and timely participation of all multilateral and bilateral creditors, including non Paris Club members. Resources for the IMF and World Bank's share of the costs of debt relief have been identified and substantial contributions to the financing needs of other IFIs have been pledged. We urge MDBs' active engagement in the Initiative through the maximum use of internal resources. We welcome the recent progress made in putting together financing that will promote debt relief for HIPC countries in Latin America and Africa.

10. We reaffirm our commitment to make available as quickly as possible the resources we have pledged. In this context, we recognize the importance of fair burden sharing among creditors. We encourage new contributions by bilateral donors to the HIPC Trust Fund.

11. We reaffirm our commitment to bilateral debt reduction within the HIPC framework. In this respect, we have now committed ourselves to grant

100% debt reduction on our commercial claims eligible for treatment in the framework of the Paris Club. We welcome the announcement made by some other countries that they too will provide 100% debt relief, and we urge other creditors to follow suit.

C. Going beyond Debt Relief

12. Official Development Assistance will continue to be crucial to support and encourage efforts for poverty reduction and economic development by poor countries. In this context, we welcome the recent reversal in the trend of declining aid levels. In order to ensure that those countries to which the Initiative is applied do not face again excessive debt burden, we have committed ourselves to extend ODA mostly in the form of grants for these countries.

13. Experience shows that economic assistance to countries with sound management raises growth and improves social conditions. Donors can play their part by directing aid more effectively to those poor countries that are serious about tackling economic reforms and poverty reduction. Donors should also improve the effectiveness of their support by coordinating their aid better in support of well-considered and recipient-led programs, and simplifying, and where feasible harmonizing, aid procedures.

14. In order to ensure responsible lending practices, it is vital that donors reaffirm their commitment to discourage unproductive expenditure. In this context, we call upon the OECD to review through its export credit group strengthened measures toward 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 soon as possible. In addition, we welcome efforts by the IFIs and other donors to encourage poor countries to pursue sound debt management policies to ensure the productive use of resources.

15. Global public goods such as environment and health deserve priority attention and require strong involvement of the IFIs, in particular the World Bank and the regional development banks, and also by bilateral donors. To be effective, the involvement of the international community in global public goods should be built on the principles of comparative advantage and priority-setting.

D. Improved Trade and Investment Environment

16. In view of the close link between trade and investment growth and economic growth, trade and investment will play a critical role in promoting effective poverty reduction and sustainable economic growth. We must find ways to give HIPC and other low-income developing countries a stake in world trade and to improve access for these countries to international

markets. We should ensure that the forthcoming WTO round actively promotes the interests of these countries, so that they too can benefit from trade liberalization. We should also promote regional cooperation among these countries in accordance with WTO rules, which often represent a welcome first step towards further integration in global economy. We call on the relevant international organizations, particularly the WTO and the World Bank, to strengthen their efforts to help build trade-related capacity in the poorest countries. We should also support the efforts of poor countries to create a welcoming environment for productive investment.

E. Faster Integration into the Global Economy

17. In view of the rapid progress of globalization and the IT revolution, it is important for developing countries including the poorest to harness the benefits of new advances in IT and prevent digital divide. It is crucial that the international community emphasize capacity and institutional building including those related to IT, such as investment in human capital.

18. In the longer term, there will be a need to ensure that all developing countries have the ability to progress up the ladder of development. In many countries, domestic savings and private capital flows already play an important role in financing development. Putting in place the conditions for increased levels of stable forms of private financing and investment is key to achieve sustainable development.

19. While many developing countries will continue to be reliant on concessional aid flows for the foreseeable future, the IFIs should give some consideration to ways for these countries to participate in the global financial marketplace in the future. The objective must be to provide a "roadmap" to support developing countries make the journey from isolation to integration, growth and development.

ANNEX— The Heavily Indebted Poor Countries Initiative: Progress in Implementation

1. The enhanced HIPC Initiative launched at Cologne last year is aimed at providing faster, wider and deeper debt relief for the HIPC countries and at ensuring that the benefits of debt relief are used to reduce poverty. The link between debt relief, economic and social policy reforms and poverty reduction in the HIPC process is made through the development of comprehensive Poverty Reduction Strategy Papers (PRSPs). PRSPs are developed by the HIPC country itself, through a participatory process involving civil society and with the support of the International Financial Institutions and donors.

2. 9 countries (Bolivia, Honduras, Mauritania, Mozambique, Senegal, Tanzania, Uganda, Benin and Burkina Faso) have reached their decision point under the enhanced initiative. For the 9 countries, a reduction of [$ billion] billion in net debt service terms has been agreed ([$ billion in net present value]). This represents, on average, a reduction in countries' stock of debt of about 45 per cent in addition to traditional debt relief mechanisms. This figure will be further increased by the reduction in Official Development Assistance (ODA) debt which we agreed at Cologne ([around a further $[ ]billion in debt service terms]) and by the commitment we have now made to give debt relief on 100 per cent of the eligible commercial debt owed to us by HIPCs which achieve debt reduction under the initiative.

3. Going forward, according to the latest IMF and World Bank estimates, up to 11 additional countries could reach decision points before the end of this year (Cameroon, Chad, Cote d'Ivoire, Guinea, Guinea-Bissau, Guyana, Malawi, Mali, Nicaragua, Rwanda and Zambia). This would bring debt relief agreed under the HIPC initiative to around $30 billion in debt service relief terms (around $17 billion in net present value terms). Again this amount will be increased by the reduction in ODA debt ([around $[ ] billion in debt service terms]) and our commitment to go to 100 per cent of eligible commercial debt.

4. The decision point for these countries will depend on their commitment to poverty reduction and economic growth, as demonstrated by their progress in developing poverty reduction strategies and their performance in relation to their IMF programmes. Progress in implementing these commitments would clearly be undermined by situations of armed conflict or significant political unrest.

5. There remain 20 HIPC countries. Of these:

   - Four countries (Angola, Kenya, Vietnam and Yemen) are not expected to meet the indebtedness thresholds for the higher, enhanced HIPC debt reduction;

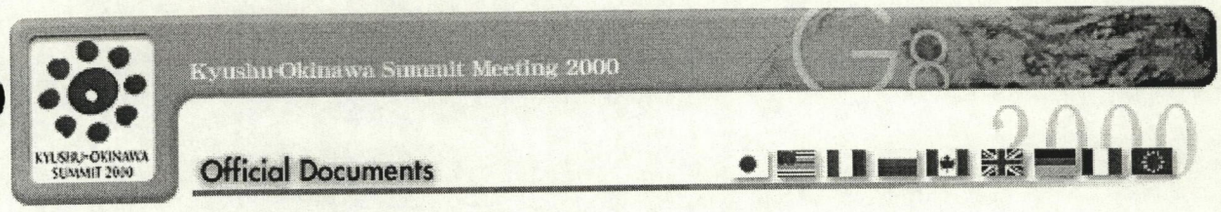
   - Two countries have decided not to seek relief under the enhanced

initiative (Ghana, Lao PDR);

- Two countries with IMF programmes are in the process of establishing the necessary track record. In the meantime, both countries are receiving traditional debt relief (Paris Club Naples Terms (67%)) in the context of their current IMF programme (Madagascar and Sao Tome and Principe);

- Twelve countries have not at present agreed programmes under the IMF's Poverty Reduction and Growth Facility, performance against which is necessary for decision point (Burundi, Central African Republic, Democratic Republic of Congo, Republic of Congo, Ethiopia, Liberia, Myanmar, Niger, Sierra Leone, Somalia, Sudan and Togo). The speed at which these countries can go forward to decision point will vary greatly. A few are close to embarking on the process. Ten countries are affected by conflict. Some are experiencing political unrest and macro economic instability. In such circumstances, many remain unable to commit to the HIPC framework which is intended to ensure that the resources made available through debt relief are used for poverty reduction within a policy framework directed to economic growth.

FOREIGN MINISTERS' CONCLUSIONS



Conclusions of the G8 Foreign Ministers' Meeting Miyazaki, 13 July 2000

1. We, the Foreign Ministers of the G8, met in Miyazaki on 12 and 13 July 2000. We discussed the various challenges ahead and drew the following conclusions.

2. In this era of rapid globalization, we believe that an enduring commitment to peace and the fundamental principles of democracy, the rule of law, human rights and an open economy will remain indispensable. We reaffirm our commitment to human security through the creation of an environment where the dignity, well-being, safety and human rights of all people are ensured.

3. This requires intensified cooperation between sovereign states, international and regional organizations and civil society. It is imperative that the United Nations continue to play a pivotal role in the century to come. We welcome the leadership of the UN Secretary General in the preparation of the Millennium Summit.

GLOBAL ISSUES

Conflict Prevention

4. We reaffirmed our commitment in Berlin in December 1999 to a sustained effort to promote a "Culture of Prevention" throughout the global community and to develop conflict prevention initiatives. We emphasize the importance of pursuing a "Comprehensive Approach", drawing from the range of political, security, economic, financial, environmental, social and development policies, in an integrated manner, from the pre-conflict phase to prevent conflicts from breaking out, to the post-conflict phase to ensure that conflicts do not recur. We will therefore continue to monitor carefully potential areas of armed conflict around the world. We underline the leading role of the United Nations in the prevention of conflict but recognize that the main responsibility rests with the protagonists.

5. To follow up the Berlin meeting, we endorse the following measures, that are detailed in our separate document made public today:

- dealing with the uncontrolled and illegal transfer of small arms and light weapons, as well as their destabilizing accumulation, with a view to restricting the means for armed conflict, and achieving concrete results at the UN Conference in 2001
- ensuring that development policies are constructed so as to contribute to the elimination of potential causes of armed conflict
- addressing the illicit trade in diamonds, particularly those coming from conflict zones in Africa, which provide funds for those engaging in armed conflict

- addressing the impact of armed conflict on children including ending the use of children as soldiers
- addressing the importance of international civilian police (CIVPOL) as a critical element of conflict prevention

We encourage further effort by all concerned and we commit ourselves to continue to cooperate closely and further identify effective measures to prevent conflicts, including supporting the role of women, combating cyber crime and developing the principles of corporate citizenship in conflict prevention.

Disarmament, Non-Proliferation and Arms control

6. We stress the need to maintain and further strengthen the international non-proliferation regime. We remain committed to universal application and full implementation of the NPT, which is the cornerstone for global nuclear non-proliferation and the essential foundation for the pursuit of nuclear disarmament. We welcome the success of the 2000 NPT Review Conference and call for full implementation of the conclusions reached at the Conference. We are pleased at the increase in the number of states which have ratified the CTBT. We call on all those states which have not yet done so to sign and ratify the Treaty without delay, particularly on those whose ratification is needed for its entry into force.

7. We welcome the interest of the international community in the Expanded Threat Reduction Initiative and similar efforts of the European Union and others to address arms control and non-proliferation. In particular, we commit ourselves to cooperate to establish multilateral arrangements necessary for a coordinated and integrated program for the safe management and disposition of weapon grade plutonium no longer required for defence purposes, and call on other states to join us in supporting this effort.

8. We look forward to the early entry into force and full implementation of START II and 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.

9. We welcome the Final Document of the NPT Review Conference urging the Conference on Disarmament to agree on the immediate commencement of negotiations on the Fissile Material Cut-Off Treaty with a view to their conclusion within five years. We commit ourselves to work together to meet this goal. We will make utmost efforts with others to conclude the negotiations on a Protocol which will effectively strengthen the Biological Weapons Convention as early as possible in 2001. We agree on the need for the international community to increase the level of funding for the Russian chemical weapons destruction program as called for at the 5th Conference of the States Parties to the CWC.

10. We remain deeply concerned at missile proliferation, and we call upon the international community to continue to address this issue on a multilateral basis. We will continue our efforts to address the issue. Adherence to the MTCR plays a key role in this respect.

11. We also remain concerned by the scourge of anti-personnel landmines which have caused harm to so many innocent civilians throughout the world and by the continued existence of vast stockpiles of anti-personnel landmines. We are determined to support efforts, including those under the Ottawa Treaty, aimed at the total elimination of such landmines, and welcome the progress that has been made to date in mine clearance, humanitarian demining activities and stockpile destruction, and in the development of technologies for mine action. We will continue encouraging these activities.

Terrorism

12. We renew our commitment to fighting all forms of terrorism regardless of the perpetrator's motives. We commit our governments and our people to this struggle. All states, groups and individuals must recognize that, in accordance with the UNSCR 1269, no haven shall be given to terrorists, no support granted and no criminal act tolerated. We welcome our experts' work and encourage them to continue efforts to improve practical cooperation on counter-terrorism among G8 states. We furthermore emphasize that international counter-terrorism cooperation remains a key factor in defeating international terrorism and will continue to work closely with other like-minded countries to this end. We call for all governments to adhere strongly to the UNSCR 1267 sanctions and for all states to work to close down terrorist camps under the control of the Taliban.

13. We call upon all states to become parties to the twelve counter-terrorism conventions, especially the Convention for the Suppression of Terrorist Bombings and the Convention for the Suppression of the Financing of Terrorism so that they can enter into force and be speedily and effectively implemented. We are engaged in discussions to this end. We condemn absolutely any form of taking hostages. We reiterate our concerns about aviation security, and welcome the initiative to hold a G8 workshop on hijacking in October. We also support the initiative of negotiating an effective comprehensive convention on terrorism.

War Criminals

14. We remain deeply concerned at the flagrant violations of international humanitarian law around the world. Ending the impunity of war criminals is an important step toward peace and reconciliation. We support the work of existing international criminal tribunals, fully cooperate with them, and look forward to the establishment of an effective international criminal court enjoying the widest possible international support.

UN Reform

15. In this year of the Millennium Summit and Assembly, and in view of the challenges posed to the organization, we reaffirm our commitment to reform, strengthen and enhance the effectiveness of the UN system, including the Security Council, which has primary responsibility under the UN Charter to maintain international peace and security. We encourage the United Nations to strengthen partnership and coordination between relevant organizations and other actors in the area of humanitarian and development assistance. We also confirm the need for the UN to operate on a sound financial basis, with efficient budgetary arrangements, as well as equitable financial contributions among the Member States. We call for all UN members to make a significant contribution toward achieving these objectives.

UN Peacekeeping

16. We reaffirm our support for UN peacekeeping which is playing a crucial and growing role in maintaining peace and stability in the world. We believe that recent events have underlined the need for a comprehensive review of the UN's peacekeeping systems and capacities to improve their effectiveness. We welcome the fact that the UN Secretary General has commissioned a report on this, and look forward to discussions on the basis of the report for the improvement of UN peacekeeping practices. We believe that these discussions should start at the Millennium Summit.

Democracy

17. We reaffirm our commitment to democracy, and underline the positive interaction between democracy, respect for human rights and fundamental freedoms. We also note the mutually reinforcing reciprocal benefits of the democratic process and economic growth. We welcome in this respect the important exchanges of views and experiences shared by the countries who participated in the recent Warsaw conference. We also recognize the valuable contributions of other initiatives, notably the "new and restored democracies" with the conference to be held in December in Cotonou, with the support of the United Nations, to bolster democratic processes and encourage more countries to choose this path.

Crime

18. International criminal activity increasingly threatens peaceful human life and social, economic and political stability, both nationally and internationally. We therefore call for the adoption of the United Nations Transnational Organized Crime Convention and related Protocols by the end of this year. Corruption also undermines democratic institutions and accountability, economic development and international cooperation. We call for the ratification and effective implementation of the OECD Anti-Bribery Convention.

Environment

19. The international community has achieved a great deal on sustainable development since the Rio Earth Summit in 1992, but there is more to be done. Our governments will continue to work with all regions and stakeholders in preparation for Rio+10. We will continue to address the need for capacity building to assist developing countries implement commitments made in multilateral environmental agreements.

20. We welcome the report on the Implementation of the G8 Action Program on Forests, and direct our experts to provide a final progress report in 2002. We welcome the outcome of the Intergovernmental Forum on Forests (IFF), including the proposal for a new international arrangement on forests, and agree to take initiatives to implement the proposals for action agreed by the IFF and the Intergovernmental Panel on Forests (IPF). We look forward to further collaboration among the FAO and ITTO and other relevant international organizations.

21. We reaffirm our commitment to and practice of sustainable forest management, including combating illegal logging. We also note the important contribution to this end of the 1990 Pilot Program to Conserve the Brazilian Rain Forest, the International Model Forest Network, the several ongoing processes on criteria and indicators for

sustainable forest management and ITTO work underway to protect mangroves.

22. We welcome the work of the World Water Forum. Cooperation in addressing water resource issues can help alleviate regional tensions and contribute to conflict prevention. We will also work in international organizations and fora such as UNEP, UNDP, UNESCO, and the World Bank in addressing international water resource issues.

23. We urge conclusion of negotiations on a legally binding instrument on persistent organic pollutants by the end of this year.

24. We also underline the significance of the ARGO Project, which will enhance the capacity to predict global environmental change through accurate oceanographic observation. We stress the need for rapid and effective sharing of information to alleviate the effects of natural disasters.

REGIONAL ISSUES

East Asia

25. In East Asia, various destabilizing factors still remain. It is of prime importance that all outstanding issues be solved peacefully and without the threat or use of force. We underline the importance of taking confidence-building measures in this region, and call for the full support of the international community to further promote peace and stability in the entire region.

26. In this respect, we warmly welcome the first ever ROK-DPRK Summit Meeting in June, and look forward to further dialogue and the reduction of the tension in the region. We reiterate our support for the implementation of the Agreed Framework, including KEDO. We reaffirm our support for the ROK's policy of engagement. We welcome the recent steps taken by North Korea toward dialogue with the international community. In this context, we look forward to a constructive response to international concerns over security, non-proliferation, humanitarian and human rights issues.

27. We welcome the democratic developments in Indonesia, and reaffirm our commitment to continuing support for the country's democratic and economic reform efforts. Recalling the importance of Indonesia's territorial integrity, we are determined to provide full support for the efforts of Indonesia toward stabilization of the situation in Aceh, Maluku, Irian Jaya and other regions and we welcome the recent Joint Understanding on a Humanitarian Pause for Aceh.

28. We commend the assistance provided by the UN and other actors toward the independence and nation building of East Timor, and reiterate our firm commitment to continue supporting the people of East Timor in these efforts and we invite other countries in the region to join us.

South Asia

29. We are deeply concerned at the level of tension between India and Pakistan. We call on both countries to refrain from any action which would aggravate the situation and to resume dialogue as soon as possible in the spirit of Lahore.

30. We furthermore call on both India and Pakistan to join international efforts to

strengthen the non-proliferation and disarmament regime, including continuation of their unilateral undertakings not to resume nuclear testing. We call on both countries to sign and ratify the CTBT and to take further steps to meet non-proliferation goals elucidated by the international community in the UNSCR 1172.

31. We are also concerned at the continuing conflict in Sri Lanka. We support efforts to facilitate a peaceful resolution of the conflict.

Middle East Peace Process

32. 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.

33. 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.

34. 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.

35. We underline the importance of resuming the activities of the multilateral working groups recognizing that progress in the multilateral tracks is related to and supports the bilateral tracks.

Iraq

36. We call on Iraq to comply fully with the relevant UN Security Council resolutions. Stressing the importance of the implementation of UNSCR 1284 in all its aspects, we call on the Iraqi Government to cooperate in all aspects with UNMOVIC and the IAEA. Given our continued concern about the plight of the Iraqi people, we call for a coordinated effort to improve the humanitarian situation in Iraq. We reaffirm our commitment to the territorial integrity of all the states of the region and underline the importance of regional stability and security.

Iran

37. We welcome the democratic developments in Iran, including the parliamentary elections in February and the seating of the Majles in May. We look to Iran to strengthen respect for freedom of speech, the rule of law and human rights, ensuring for all the application of universally recognized standards of law. We welcome Iran's efforts to develop positive relations with the international community, and look

forward to a more extended dialogue with Iran. We recognize the serious effort of the Iranian authorities in fighting drug trafficking on its borders at a high human and financial cost. We call on Iran to take constructive steps for further progress in the Middle East Peace Process and for the deterrence of terrorism in the region. We call on Iran to sign with the IAEA an additional safeguards protocol. The G8 calls on Iran to cooperate fully in not developing and in preventing the proliferation of weapons of mass destruction and missiles for their delivery.

Afghanistan

38. We welcome recent proposals for reconciliation in Afghanistan. We call for all parties concerned to make further efforts toward a comprehensive peace and stability. Recognizing the international community's growing concern about human rights abuses, narcotics trafficking and terrorism emanating from territory of Afghanistan, especially that controlled by the Taliban, we call for all states to implement fully the UNSCR 1267 and to consider further measures.

Balkans

39. We remain committed to the full implementation of the UNSCR 1244. Successful, carefully prepared municipal elections in Kosovo proposed for the autumn will be an important step in the establishment of a democratic and multi-ethnic society. We will make every effort to encourage and enable the national communities of Kosovo, particularly Serb and Roma, to participate freely in the elections. We reaffirm our support to the efforts made by UNMIK and KFOR to achieve the goals set out in UNSCR 1244 and urge all parties to cooperate fully with them. We stress the need for UNMIK to be given the necessary resources to fulfil its mandate. We recognize the role played by the EU, and welcome the contributions of the OSCE, other states, and the NGOs. We look forward to the effective functioning of the Joint Interim Administrative Structure with the full participation by all parties concerned, and we consider it important that the representatives of the Kosovo Serbs resume their participation in it. Stability, peace and prosperity in Kosovo are conditional upon respect for human rights, the rule of law and democracy. We call for all those with political responsibility in Kosovo to help ensure that all Kosovars, regardless of ethnicity, can enjoy freedom, security and benefit from access to international assistance and essential public services.

40. We look forward to a democratic FRY, so that it can be reintegrated in the international community and play its rightful part in contributing to the stability of the entire region. We are very concerned about the motivation for and the possible consequences of the revision of the FRY constitution. We call on the government in Belgrade to refrain from any action which could contribute to the further escalation of violence. We also call on the opposition to contribute to the peaceful democratic development of the FRY. We strongly oppose the recent restrictions on the free press in the FRY. We welcome the continued consolidation of democracy in Montenegro, reiterate our support for its democratically elected authorities, and urge them to continue to practice restraint.

41. We reiterate our commitment to the full implementation of the Dayton accords for peace in Bosnia and Herzegovina, and will continue to encourage all parties concerned within the country, the citizens and the officials, to assume their responsibilities and to

take ownership of their future. We welcome the significant progress made by Croatia towards democracy and reform and encourage the Croatian authorities to continue such efforts. We encourage Albania to continue to make further efforts in the improvement of democracy and in respect for the rule of law.

42. Stability and sustainable development in South Eastern Europe depends on efforts for strengthening political, economic, social, cultural cooperation in the region, thereby promoting harmony among ethnic groups. We warmly welcome the various initiatives and progress to help achieve this objective taken over the past year, both by individual states and by international and regional organizations, in particular within the context of the Stability Pact, which will contribute to effective regional cooperation. We also look forward to further economic reform efforts in the region, and will continue our support in this regard.

Cyprus

43. We recommend that the Heads reiterate their strong support for the UN Secretary General's efforts to reach a comprehensive settlement in Cyprus.

Africa

44. Recognizing that political stability is a prerequisite for development, we remain deeply concerned at the continuing armed conflicts in Africa. We particularly urge the promotion of a "Culture of Prevention" in Africa and will contribute to it. We commend the initiatives of the OAU, ECOWAS, SADC and IGAD, neighboring African countries and other actors, in cooperation with the UN, to prevent conflict from occurring, and to promote the peaceful resolution of individual conflicts, particularly the long-standing and destructive civil war in Sudan. Concerned by the current crises in various African countries, we call for the full compliance by all parties concerned with relevant peace agreements and UN resolutions, particularly in Great Lakes Region, Angola and Sierra Leone. We welcome the cessation of hostilities agreement between Ethiopia and Eritrea signed in Algiers last month, and support its full implementation, and reaffirm our full support for all efforts to promote a peace settlement in Ethiopia and Eritrea.

45. We support African efforts to promote the rule of law, good governance and democracy. We also commit ourselves to support Africans' efforts to reduce poverty through growth with equity, and to participate as full partners in the global economy by means including trade and investment liberalization and promotion. We will participate in efforts to combat infectious and parasitic diseases, particularly HIV/AIDS, TB and malaria, and to address the severe economic and social impact of these diseases. We welcome the electoral evidence of a well-rooted democracy in Senegal, as well as the return to democracy in Guinea-Bissau and Niger, and call for the international community to further support the efforts at reform in Nigeria. We call for a just and early settlement to the serious situation in Zimbabwe, based on the rule of law, democracy and human rights. We also call for the early restoration of democracy in Comoros and Cote d'Ivoire. We recognize the need for international support for the Horn of Africa and Southern African countries suffering from drought and flood respectively.

Colombia

46. We fully support the Colombian Government's programs and initiatives to lay the foundations for a stable, lasting peace and the end of the cultivation of and trafficking in illicit crops in Colombia, taking into account the aspirations and needs of local communities. We call on all parties to respect the principles of international humanitarian law and to negotiate an end to the conflict. We reaffirm our commitment to combat money laundering, the illicit trade in arms and chemical precursors usable for illegal drug manufacturing, with a view to eliminating financing sources for the illegal armed groups in the country.

Peru

47. We encourage the Government of Peru to cooperate with the OAS in the implementation of its recommendations for reforms, inter alia in the judiciary, the security sector, the electoral process and press freedoms.

DIALOGUE WITH NAM, G77 AND THAILAND

48. We met the Foreign Ministers of NAM Troika (South Africa, Colombia and Bangladesh), G77 Chair (Nigeria) as well as Thailand (Chair of UNCTAD X and ASEAN), and discussed various global issues of common concern. We see value in sustaining the partnership in the future.

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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

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.