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FILE TITLE: SUMMITRY		SERIES SHERPA
Annex: <i>Steering Bief - G8 Sherpa Meeting (8-9 December)</i> <i>Missing at Review</i>		
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Series : SHERPA

Title : SUMMITRY

Part : 8

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Faxed to E. Lindsay

① Matrix
② file



10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

24 January 2003

Dear Andrei,

HIPC

At our last meeting I undertook to provide you with further details of the 100% debt relief provided by all G7 countries through the Heavily Indebted Poor Countries (HIPC) initiative.

Under the enhanced HIPC initiative agreed at Cologne in 1999, the Paris Club first provides 'traditional debt relief', on Naples terms – typically a 2/3 reduction in the stock of debt. Other bilateral and commercial creditors are expected to follow suit and provide comparable treatment.

If the HIPC-eligible country is still judged to have an unsustainable burden of debt (defined as an external debt in Net-Present-Value terms in excess of 150% of its exports), it can benefit from HIPC relief. To provide HIPC relief all creditors, including multilateral creditors, provide further debt relief on an equal basis to reach a debt-to-exports ratio of 150% (on average for HIPCs, a 70% reduction in the remaining stock of debt).

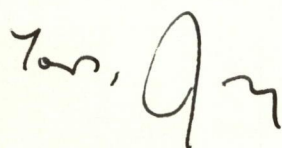
This means that through the provision of traditional debt relief and enhanced HIPC relief, bilateral creditors typically provide 90% debt relief under the terms of the enhanced HIPC initiative. However, many bilateral creditors, including all of the G7, go further and provide debt relief above and beyond the terms of the HIPC initiative on the remaining debt i.e. 100% debt relief.

Paris Club creditors' delivery of debt relief beyond the HIPC initiative is explained in detail in the *HIPC status of implementation report*¹. With the exception of Spain and Russia all members of the Paris Club provide 100% debt relief on all Overseas Development Assistance (ODA) debts.

¹ <http://www.worldbank.org/hipc/>

Moreover, all of the G7 provide 100% debt relief on all non-ODA debt incurred prior to the cut-off date agreed by the Paris Club. The US, UK, Italy and Canada go even further and provide 100% debt relief on all non-ODA debt, irrespective of the date it was contracted.

As you know I believe that Russia can contribute further to the success of HIPC, not only in terms of the bilateral relief provided but also through its contribution to the HIPC Trust Fund.

A handwritten signature in black ink, appearing to read "Jer, JH".

JEREMY HEYWOOD

Mr Andrei Illarionov

Faxed to R Lindsay

① Matrix
② File



10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

24 January 2003

Dear Ichiro,

JAPANESE PROVISION OF HIPC DEBT RELIEF

At the end of last year your Embassy briefed us on the recent change in Japanese law regarding the Heavily Indebted Poor Countries (HIPC) initiative. I strongly welcome this move which will now allow Japan to cancel debt directly, and to provide HIPC debt relief in the same way as other G7 nations. As you know HIPC remains a high priority for the UK and we are keen to maintain the strong leadership that the G7 has shown on this issue.

Of course as creditors we have a duty to act responsibly, and to ensure that any debt relief provided through the enhanced HIPC initiative is used to promote poverty reduction. There are rigorous criteria within the HIPC framework that have to be met before debt relief is provided:

- to reach Decision Point when debt relief is provided a HIPC must develop an interim Poverty Reduction Strategy Paper (PRSP) that shows how the proceeds of debt relief will be used to reduce poverty; and
- to reach Completion Point when debt is irrevocably cancelled a HIPC must develop a full PRSP and make progress in implementing it for at least a year.

The UK has always been fully confident in these safeguards, and the country monitoring provided through the Poverty Reduction and Growth Facility (PRGF) of the IMF.

We have also heard that the Japan Bank of International Cooperation will waive Yen loans of some 900 billion over the next several years in support of the HIPC initiative. I fully appreciate the significant costs of the HIPC initiative for Japan, and the competing pressures we all face on our budgets. Nonetheless, I

believe it is crucial that the G7 continues to make international development a priority and I very much welcome Japan's continuing support for the HIPC initiative.

Perhaps our Financial Sous Sherpas can be in touch to discuss these changes in more detail?

Tom,
JH

JEREMY HEYWOOD

Mr Ichiro Fujisaki

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JJM (f)
ALL

From: Tim Cole, Pan-Africa Unit
Date: 20 January 2003

cc: PS
PS/Ms Short, DfID
Jeremy Heywood, No 10
Michael Arthur
Peter Ricketts
James Bevan
Creon Butler, EcPol
Alan Goulty, Sudan Unit
Frank Baker, AD (E)
Andrew Pocock, AD (S)
Nicholas Armour, NAD
Biddy Brett-Rooks, AD (E)
Richard Lindsay, EcPol
Graham Stegmann, DfID
Liz Lloyd, No 10

Reference: PAF/020/002//2003

To: PS/Baroness Amos

SUBJECT: Record of meeting with Walter Kansteiner, 17 January

1. The Minister met Walter Kansteiner, the US Under Secretary for State for Africa on 17 January.
2. On the **G8 process**, Kansteiner said he would no longer be attending the meetings of the G8 Africa Personal Representatives as he cannot afford the time. Constance Newman of USAID would be attending in his place. Baroness Amos expressed her disappointment as there were many areas where US engagement was key e.g. conflict, access to medicines, transparency of payments/revenues. Kansteiner agreed that the US ought to publish the matrix they are producing which will show what they have done in each sector of the Africa Action Plan.
3. Kansteiner said that Securities Exchange Commission (SEC) and New York Stock Exchange (NYSE) sensitivities about the **transparency initiative** focussed on who would regulate and what leverage they would have on companies/host governments. He said the US executive would stay 'neutral' as Congress would write and push through legislation

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(probably by September 2003); this legislation would test whether SEC/NYSE sensitivities were real or not.

4. Baroness Amos asked about the **Millenium Challenge Account (MCA)** and whether Africa would benefit significantly. Kansteiner said a US\$1.3bn budget is being presented to Congress this week and that Bush is committed to 'hard and fast' money going to Africa. However, the decisions on which countries will benefit depend on which meet the criteria set out. Kansteiner said that the cancellation of President Bush's visit to Africa did not mean Africa was being sidelined and that a visit would take place in this calendar year (probably the second half).
5. Kansteiner had just returned from **Kenya**, which he said had a great feel – 'just like independence'. He had seen Uhuru Kenyatta and had discussed with him how he needed to act in opposition. He said the US was looking at focussing efforts in the housing sector (e.g. mortgage loan guarantees) and building toll roads.
6. Baroness Amos asked whether the US would consider debt relief for **Sudan** once a political solution had been found. Kansteiner said that if a peace accord was signed, and the parties lived up to it, then the US would not stand in the way of Sudan entering the HIPC process. He said that given the Iraq context, the US was pushing hard for an agreement in Sudan.
7. The Minister and Kansteiner agreed that the sands were shifting in **Zimbabwe** and that Mugabe is not as strong as he thinks he is. Kansteiner said that the US wanted to move things along. With the anniversary of the elections coming up in March, the US wanted to work with the UK on showing the southern African region how the humanitarian and economic crises were a result of the political situation, asking how the international community and the region should deal with this and demonstrating that the only solution was to have new elections. Baroness Amos agreed this would be a constructive way forward although South Africa, who were key, would need to change their position.
8. Baroness Amos said the UK was currently focussing on post-election scenarios in **Nigeria** particularly with regard to the economy and that the UK would be flexible on debt relief but that Nigeria would have to show a track record. Kansteiner agreed with this approach. On the allegations of corruption against Obasanjo, Baroness Amos said that we would look again at the details to establish whether the funds involved had been moved to the UK, the US or neither. **Action: Biddy Brett-Rooks (AD(E))**.
9. Baroness Amos and Kansteiner agreed that the humanitarian situation in **Ethiopia** was looking very bad. Baroness Amos agreed to lobby the Europeans to support the UN Appeal; Kansteiner said the US would focus on the Japanese.

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Tim Cole
Pan-Africa Policy Unit
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FROM: RICHARD CRABTREE
European Secretariat
DATE: 15 January 2003

(F)
JEREMY HEYWOOD
MARTIN DONNELLY

cc: Stephen Wall *
Rachel Green * * w'out attachments
Michael Roberts *
DOs *
Richard Lindsay FCO *

G8/EU ECONOMIC ISSUES MEETING

Objectives

The first meeting of a new group of senior officials from key Whitehall departments.

The **objectives** of the group are to:

- ensure the **coherence** of our international economic policy agenda as it is taken forward in various forums (in particular the link between **G7/8** work and EU developments, but also potentially drawing in the IFIs, OECD and WTO as appropriate);
- ensure that **synergies** between work going on in different groups are identified and exploited.

General papers

- A Your agenda letter of 22 October**
- B Jon Cunliffe's reply of 29 October**
- C FCO record of G8 Sherpa meeting**

Handling and cast list

We are expecting Jon Cunliffe and Ed Balls (HMT), Michael Arthur and Richard Lindsay (FCO), Richard Carden (DTI), Peter Grant (substituting for Richard Manning, DfID) along with Arnab Banerji, Geoff Mulgan and Derek Scott.

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You might begin by setting out the reasons for setting up this group. The purpose is not to duplicate existing procedures for co-ordinating G7/8 and EU work but rather to spot and exploit the **linkages** between them, something that has generally only been considered on an ad hoc basis to date.

Then you can take the four specific agenda items set out in your letter. Because the PM's meeting on economic reform follows immediately afterwards we will only have around 40 minutes for this session so you will need to run through the agenda at a fair pace. It will be important to avoid the discussions getting dragged into detail better considered by the usual Whitehall EU and G8 mechanisms.

Trade probably only merits a very brief discussion since most attendees will have attended your recent meeting on WTO issues. If we are over-running you may wish to drop this item.

Given sensitivities you may wish to take discussion of **savings tax** right at the end in a restricted group – perhaps just HMT and Michael Arthur (who has been closely involved in the dossier because of the need to get our DTs on side).

But before doing this it would be worth having five minutes in plenary at the end to consider **future meetings of the group**: both what specific issues might be discussed (some Secretariat thoughts below) and, more generally, **how the group should function**.

For each of the four main agenda items there are four generic questions that might help give the discussion some structure:

- **What are UK objectives for this work in the G7/8, EU and (where relevant) other international organisations?**
- **Where have discussions of these issues got to in the G7/8, EU, key next stages etc?**
- **Are we doing as much as we can to push forward our objectives coherently in the G8 and EU?**
- **Scope for positive synergies: opportunities to use the G8 to move EU discussions along in helpful direction? Areas where EU co-ordination may advance UK ideas in G7/8?**

The lead department for each item might kick off discussion with an outline of where things are.

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1. Sustainable development

- D Report of recent UK-France bilateral on climate change
- E Note on UK work in EU on environmental technology
- F UK paper on approach to EU development issues

The post-WSSD challenge is to demonstrate **what sustainable development actually means in practice.**

There is an **economic focus to our bilateral work in both the EU and G8** to explore this, building on the broad theme of environmental technology. In the G8, we are working with the French to develop **technology to tackle climate change** (Annex C gives details of latest discussions with them on this). In the EU work is in hand with the Swedes to animate a broader agenda on the **wider application of technology to complement economic reform** (Annex D sets out the terms of this). DEFRA are responsible for taking forward work on both of these.

The next Spring Council will include a review of WSSD and confirm the EU's commitment to following it up. But there is **little concrete evidence of how the Commission are addressing this** in their future workplans and whether they will be giving a lead to EU work on eg resource productivity and energy efficiency.

As Jon Cunliffe has pointed out, a separate aspect of sustainable development to that set out in your letter is the nexus of issues around development. One aspect of this where there are strong G8 and EU interests is **increasing the effectiveness of development aid.**

The EU has a development policy but no separate development budget. Category 4 of the EU budget covers money spent overseas for a variety of purposes and is classified according to **geography** not purpose. So DGRelex runs all the money for South America for example, regardless of whether it is for poverty alleviation. And overall 45% of EU Aid money goes to LDCs while we have a target of 70%.

DfID are content with Council policy on development as defined in November 2000, but want to see a greater focus **on development objectives** as we would define them. With the current situation Clare Short takes the view that our policy should be to minimise money spent

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through Europe, which goes against the grain of our overall policy of engagement in Europe.

Improving the performance is likely to be a longish haul. We are encouraging those with Development expertise to enter DGRelex. And we are lobbying for the Commission to use better performance indicators.

One obvious solution is to define a **separate development budget**, with a single Development Regulation, and External Relations budget.. But this is controversial in Whitehall and not negotiable in the EU. A domestic sacred cow is that a separate external relations budget would require a large FCO budget under our allocation system with the relevant management shadowing of EU programmes. And some of our partners would worry that their pet regions (Mediterranean, South America) would receive less money. So our contribution to the External Relations Working Group (paper attached at D bis) deliberately fell short of these goals.

Can the G8 be used to put greater pressure on our partners and the Commission to be more forward looking on improving the effectiveness of Community Aid?

2. Savings Tax and exchange of information [restricted session – take at end of meeting]

- G Outline of possible deal on EU savings tax (CONFIDENTIAL)
- H Ukrep reporting of Ecofin discussion
- I Letter from PS/ChX to PS/Foreign Sec of 8 November
- J PS/SoS FCO's reply
- J bis Reporting telegram on German domestic withholding tax plans

The Feira European Council in June 2000 set a deadline of the end of 2002 for agreement to the EU tax package (**savings tax**; code of conduct on unfair tax competition and an uncontroversial technical directive), on terms that the UK could sign up to. Critically for us, it envisaged **automatic exchange of information** relating to savings income between tax authorities in the EU rather than the **withholding tax** or mixed withholding tax/exchange of information (EoI) (“**co-existence**”) approach to taxing savings income, which the Chancellor was strongly opposed to. Belgium, Austria and Luxembourg were given

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a **seven year transitional period** to move to full EoI. They strongly favoured a withholding tax or co-existence based approach.

The main difficulties have been with two aspects of the deal:

- Whether sufficient assurances have been received from **six third countries** (notably the **US** and **Switzerland**) that they will adopt "**equivalent measures**" to the EU's savings tax directive;
- Whether sufficient assurances have been received from the UK (and the Netherlands) that certain named **dependent territories** under their control would adopt the "**same measures**" as the EU.

The relevant **UK territories**, with the exception of the **Caymans**, are now fully on board. FCO and HMT have agreed that **legislation** will be **imposed** on the Caymans if necessary.

Following an emergency meeting before Xmas, **Ecofin** has nearly reached agreement on the dossier now. Luxembourg and Austria have not formally signed up to this and knowledge of the private understanding reached at Ecofin last week is being tightly held. Belgium now appears to be firmly on board. Flag G sets out the terms of a likely deal. It embodies **permanent co-existence** to the extent that Austria, Belgium and Luxembourg do not have to move from withholding to EoI unless and until Switzerland signs up to at least the **OECD standard** of EoI on request in both civil evasion and criminal fraud cases. They have offered only the former.

The fly in the ointment might be recently announced plans by the German Government to introduce a domestic withholding tax combined with a partial amnesty. The Luxembourgers (and Swiss) have already indicated they will need to consider how this affects their position.

The **US Treasury** - whilst privately willing to sign up to something very close to automatic EoI - is reluctant to go public on its commitment due to political sensitivities with the White House.

John Cunliffe will be able to provide an **update** on the state of play with the EU discussions and **preview** the discussion at Monday's **Ecofin**.

Apart from a general stock-take you might raising three or four specific points:

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- whether there is any further lobbying that might be done on the **No 10 net with the Americans.**

If there are any remaining concerns at HMT that Luxembourg or Austria will look for a clearer commitment to equivalent measures from the US, there may be mileage in you (Jeremy) raising the issue directly with **US Sherpa Edson**. One idea is a letter from the EU Presidency at a technical level setting out an understanding of what the US are actually offering, to which there could be a short "we agree" reply. This might strike the best balance between the US providing sufficient assurances whilst avoiding the kind of domestic publicity that would lead to White House rejection.

- impact on possible deal of **German withholding tax plans?**
- Possible **linkages** with other tax dossiers, notably **the Code of Conduct Group** on unfair tax competition (raised by Belg/Lux/Aust at the last Ecofin discussion) and **energy tax** (the French have sometimes mentioned this).
- Whether and how we can use the G7 and OECD to promote our agenda on **exchange of information** and **tackling unfair tax competition.**

G7 Finance Ministers have previously been helpful in pushing for wider adoption of EoI. They have included references in past statements calling on non-compliant countries to adopt best practice, though have thus far stopped short of "naming and shaming" specific countries in the way the FATF has in the context of terrorist finances. The **OECD** has a code of practice on **unfair tax competition** and has also reached agreement (Switzerland and Austria abstaining) that EoI on request should be adopted in criminal cases by 2006 and civil cases by 2007 (the "OECD standard").

Can we use G7 statements and/or further action in the OECD to put pressure on the Swiss to adopt the OECD standard on EoI? This would remove the main obstacle to

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Austria and Luxembourg moving to EoI in the savings tax context and put an end to co-existence. It might also help to extend the EoI model to other aspects of the tax system than savings income.

There may also be scope to use the OECD to ensure major non-EU countries and, through its outreach efforts, offshore tax havens, adopt a similar approach to **unfair tax competition** as the EU has in its Code of Conduct Group, chaired by Dawn Primarolo. (ie freezing and then rolling back rules **special tax regimes** that treat some – footloose – companies more favourably than they would be under generally applicable tax rules.) This would help mitigate any loss to EU **competitiveness** from unilateral action. It could help to reduce the difficulties with our **OTs**, who feel other offshore centres will benefit from the move to EoI they have been forced to make as part of the savings tax deal.

3. Corporate Governance

- K HMT brief on G8 corporate governance [as in the G8 pack]
- L French G8 paper on corporate social responsibility (CSR)

DTI and HMT share the lead on corporate governance. DTI and DfID have the lead interest on CSR.

EU action

The High Level Group of Company Law Experts, chaired by Jaap **Winter**, produced a report in early November covering many aspects of company law with a specific section on corporate governance. It includes recommendations on strengthening the role of **shareholders**, empowering **non-executive directors** and board committees, **directors' conduct**, remuneration and responsibilities and the need for compatible, but not harmonised systems in the EU.

The Report's emphasis on best practice and shared minimum standards (which we comfortably exceed) is welcome to the UK. Next step is for the Commission to bring forward a draft Action Plan in February, which will be finalised by the end of 2003. We are working to influence the content of the Commission's draft, and to welcome it –

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and if possible highlight and fast-track one or two measures – at the Spring Council on economic reform.

We also hope to agree a communiqué on economic reform at **the UK-France** summit on 4 Feb, which might include a commitment to work together on this at EU level.

Read across to G7

All this goes with the grain of wider **G7/8 post-Enron work**, covered in HMT's brief for your G8 sherpas meeting (also attached here for info).

The other obvious overlap is the follow-up to your 30 September agreement with Matignon/Elysee that we should aim for a shared approach to corporate governance reform at EU or G8 level, for endorsement at the postponed **Franco-British summit**. Geoff Norris is the lead contact here. The plan was for DTI (Robert Burns) to prepare a joint paper/statement with the French Tresor to feed into the No 10/Matignon system. This is tricky but attractive: the French are not natural allies on this agenda in the EU, but by the same token it would be helpful to agree some common principles. DTI say that they haven't pushed this forward since talks in Paris on 6 November (partly due to summit postponement) but will now do so.

It might be clearer after your main G8 meeting whether it would be better for DTI to focus on a statement for an EU or G8 audience. Jon Cunliffe has flagged up that another part of the G8 corporate governance agenda is **corporate social responsibility**. The French appear keen on an initiative of some sort being launched at Evian.

In the EU, after some difficult discussions, we have secured agreement on a **voluntarist**, as opposed to a legislative, approach to CSR. The G8 ought to be a useful forum in which we can lock in the European G8 members to this approach. You might want to explore the scope to do this.

4. Trade/WTO

Your meeting two weeks ago considered progress in **the WTO Round**. The French do not intend to put trade issues formally on the agenda for their G8 Presidency but we should look for opportunities to use G8

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meetings to advance our trade objectives. The follow-up to the **Africa Action Plan** should enable us press the case for liberalisation of agricultural trade, both with and between African countries. You might ask Richard Manning to comment on this.

We will need to consider how far to play up the development case for **CAP reform** ahead of Evian. This could be a useful opportunity to get NGOs and others to put pressure on Chirac ahead of key MTR decisions. But we need to get the rhetoric right if we are to persuade Chirac and not simply antagonise him, especially given French sensitivities about being seen to cave in to US pressure. Edson has suggested making trade a theme at Evian. One possibility would be a call from Evian for significant progress to be made on the Doha round by the time of the Cancun Ministerial. Is this practical?

On **EU/US trade disputes**, G8 Sherpa meetings are a useful opportunity for you to discuss difficult issues with Gary Edson. You might note that you will need good lines on GMOs for the December meeting. It is possible that by Evian the temperature will have risen on GMOs or on the steel or the FSCs disputes. You might ask Richard Carden to comment on the risks on each of these.

Future meetings

Cast list: Is the composition of this group right? Should we tailor the cast list according to the subjects on the agenda? We think a variable cast list is probably optimal. Then we could discuss some of the more sensitive issues (eg those that fall to G7 Finance Ministers rather than the G8 summit process) in more restricted groups with HMT. But we would also have the flexibility to invite a wider range of OGDs to participate for particular agenda items (eg DEFRA could have come along for the sustainable development section)?

Frequency of meetings: quarterly may be about right. Does linking timing to the wider G8 cycle help focus discussion or is it better to avoid bunching of meetings on similar themes?

Possible future agenda items

Our ideas include:

- **EU/world economic situation.** This could be a standing item.

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It could also prove a useful way in to check progress on reform of **EU economic governance (including the Stability and Growth Pact) and its impact on the world economy and G7/8 representation.**

Discussion of economic governance would need to be in restricted session so an alternative would be to have a separate discussion of economic governance, perhaps combined with the item below.

- EU representation and co-ordination in **the International Financial Institutions (IFIs)** and link to discussion of external representation in the **Convention** on the Future of Europe.

- impact of **EU enlargement** on the balance of power in the EU and its implications for **EU representation in and engagement with the G7/8.**

- **EU/Russia** dialogue and a **common economic space.** Clearly affects both EU and G8 discussions.

Richard

RICHARD CRABTREE



10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

22 October 2002

Dear Jon,

G8 ECONOMIC ISSUES: CO-ORDINATING APPROACHES TO THE FRENCH PRESIDENCY AND BEYOND

Looking ahead to the French G8 Presidency there are various economic policy issues that involve several negotiating tracks:

- sustainable development post-Johannesburg; developing environmental technology solutions bilaterally with the French, within the EU as part of the Lisbon agenda, and internationally;
- tax, with the OECD harmful tax initiative linking into our work to persuade the Swiss to except genuine equivalence on the saving tax agenda, a US dimension, and our negotiations with the overseas territories;
- corporate governance which has a development dimension, is becoming a major EU issue with the forthcoming Winter report and has a strong US angle post-ENRON;
- trade/WTO issues including EU-US tensions, the EU position on agriculture and prospects for Cancun.

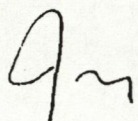
Much of the economic policy agenda that we are taking forward in the G8 is linked to issues being negotiated in the European Union, international financial institutions or the OECD.

With this in mind, it would be helpful for the main representatives to these meetings meet informally to discuss how effectively we are pursuing our objectives in these different negotiations and to ensure a co-ordinated approach. We might take the above list as an agenda for a first review though no doubt there are also other relevant issues.

I would envisage such meetings to happen maybe once a quarter with a castlist of perhaps yourself, Ed Balls, Michael Arthur, Richard Carden, Stephen Wall and Martin Donnelly.

If you and colleagues agree that a short meeting on these lines would be helpful we will aim to set something up around the end of the month.

I am copying this letter to Ed Balls and Stephen Pickford (HMT), Michael Arthur (FCO), Richard Carden (DTI), Martin Donnelly (CO) and Stephen Wall.

Tom. 

JEREMY HEYWOOD

Jon Cunliffe
HMT



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29 October 2002

Jeremy Heywood
Principal Private Secretary
10 Downing Street
London SW1A 2AA

Dear Jeremy,

G7/8 Economic Issues

Thank you for your letter of 22 October. As you and I have previously discussed, I agree that it would be valuable to take stock of the linkages between the work of Finance Ministers in the G7/8 and HMG's ongoing negotiations in a number of other economic policy fora.

On the specific items you identify, I would want to draw out two distinctions:

- under your sustainable development heading, I would separate "environmental technology" from the G7/8 work on broader development issues, particularly increasing development financing and improving aid effectiveness;
- under corporate governance, I would make clear the separation between accounting, auditing and financial management processes and "corporate social responsibility".

Given these points, I think it would be valuable to include DfID in our discussions, and would propose that we ask Suma Chakrabarti or Richard Manning to join us.

I am copying this letter Michael Arthur (FCO), Richard Carden (DTI), Martin Donnelly (CO), Stephen Wall (No.10), Ed Balls and Stephen Pickford (HMT).

Jon Cunliffe

Jon
Jon



INVESTOR IN PEOPLE

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Jeremy Heywood
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① cc Martin
Rachel
Michael
DOs
Tom McKone (OD Sec)

Various bits of interest to us -
I've marked up the sections
that might be of interest to
each of the DOs.

Grateful if Kirstin, Mark + Jonathan/John
could consider whether the ~~G8~~ briefs for
the EU/G8 mtg (now on 19/12)
need to be updated to take
alc of these discussions.

RECORD OF G8 SHERPA MEETING: 8-9 DECEMBER

Herewith the record of the 8-9 December G8 Sherpa Meeting in Ottawa with the references A to N attached as separate documents.

RC

World Economy

1. Edson (US) said that the US was in recovery phase; unemployment was still rising but this was not particularly worrying - unemployment typically lagged the cycle. Inflation was low, productivity was still growing rapidly and retail sales this Christmas were expected to be up on last year. The Administration were deliberately not overplaying the recovery but the US economy remained a central engine for world economic growth. However, the uncertainty due to terrorism was impacting on business decisions across the world. It was vital to make progress on the Doha round in 2003. This was an issue that the G8 would have to address at Evian.
2. Tacke (Germany) painted a gloomy picture. He predicted German growth of 0.5% this year and between 1 and 1.5% next. Conflict in the Middle East could have a major impact upon investment and bank lending. There was insecurity in the financial markets and a reduction in both reserves and capital. SMEs were finding it more difficult to get credit. There were deflationary risks associated with pressure from competition with China etc.
3. Castellaneta (Italy) hoped that the recent reduction in ECB rates would help to give an impetus. Fear of terrorism was reducing consumption and deterring investment - in particular the risk of the impact on oil prices of an Iraq conflict was damaging confidence. The only strong area was real estate. He said that the Stability and Growth Pact has been a real constraint over Euro members' ability to expand their economies. Italy supported the SGP but it needed to be a *Growth* as well as a Stability pact; perhaps there should be scope for a more flexible interpretation.

Richard
Crabtree
12/xi;
② Back to
RC

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4. Fujisaki (Japan) said Japan had been “muddling through” for the last few years. This was likely to continue. There had been a slight export-led recovery, but the risks of a fall in export growth, failure of social security reform and the NPL problem remained. To deal with these there had been tax cuts, supplementary budgets and regulatory reform. But much would depend on what happened in the US.
5. Gordault-Montagne (France) said that France was embarking on a massive structural reform programme – pension reform, energy market liberalisation, privatisation and a big increase in military spending. Falling interest rates were expected to help in the short-term.
6. You said that the UK economy was doing relatively well supported by a proactive monetary policy, and by full use of the automatic stabilisers. Structural reforms in the EU were vital; you highlighted weaknesses in the ECB and the SGP. It was also important to continue to examine how to get oil prices down to a more sustainable level. This would really help the world economy. You agreed with Edson that success at Cancun in the Doha round was vital too.
7. Sannino (EC) agreed with you that countries in the EU should have worked harder to strengthen their underlying fiscal positions during the recent period of strong growth. The Commission had tried to address the main concerns about the SGP by taking into account the economic cycle, and the need to show flexibility on medium term objectives. He agreed that Doha was crucial, and needed to be addressed comprehensively.
8. Laverdure (Canada) described strong Canadian performance with 4.4% growth in Q3 2002. There had been over six years of budget surpluses – the question was how best to spend the money. They were focussing on health and infrastructure, and poverty in Canada. He also hoped there would be an increase in the defence budget.
- AK 9. Illarionov (Russia) reported fairly good progress – GDP would grow by 4% or more in 2002 driven primarily by domestic consumption (retail sales growth of over 8%). There would be a fiscal surplus of 0.7% in 2002. The stock market was up sharply in dollar terms and net capital flight had reduced from between \$10 and \$20bn to about \$2bn. Russia was repaying its foreign debt at a rate of \$14bn this year, and \$17bn in 2003. It would have a remaining external debt burden of \$120bn in 2003.
10. Illarionov explained that Russia had increased oil output by 8% in 2002 and was now producing more than 8mbd of which 50% was exported. It was very important to ease the pressures that high oil prices imposed on the world economy - and on producer countries too, such as Russia which was suffering from an inflated exchange rate. Russia was building a new oil facility at Murmansk to allow them to export more to the USA and EU. Privatisation was being taken forward and all restrictions on foreign banks investment in



the Russian system had now been removed. He said that reform of the natural monopolies (power, gas, railways) was now a key priority.

11. Edson said that trade would be the key issue for 2003. The Evian Summit presented an important opportunity to send a political message ahead of Cancun. Doha was more important to the world economy than the Uruguay round had been.

RC/MS Financial Crisis Prevention/Resolution

12. Tacke suggested the need for more strategic direction and harder work on SDRM/CACs (including the Trichet compromise on SDRMs), corporate governance (including the excellent UK/German initiative) and global accounting standards. Gordault-Montagne agreed, and thought that it was likely that this would include IMF ROSCs. Edson favoured the CAC market-based approach, but would also analyse a more top-down SDRM approach.
13. You and Laverdure argued that this should be dealt with by Finance Sous-Sherpas and they should report back after the Spring Meetings. Leaders would want reassurance before or at the latest by Evian that there has been concrete progress on SDRM/CACs. You were concerned that the private sector was dragging its heels on CACs.

RC Argentina

14. On Argentina Edson said that the only solution was to support a pro-growth strategy; although the risk of contagion was limited, the G7 needed to address the problem. The US were in favour of a transitional programme pending elections. This would keep the lid on the problem until a new government was in place; but even such a transitional programme needed some minimum level of policy implementation (eg on budget priorities). It was important to signal to the IMF that the G7 did still care about Argentina.
15. Illarionov argued in favour of avoiding moral hazard; the IFIs had to avoid loosening subject discipline. The IIF (Institute of International Finance) should be consulted. You said you were happy to look at a "transitional programme" but it must not undermine the credibility of the IMF. Fujisaki agreed on this last point. Tacke said that member states were being too polite: they needed to send a clear signal to Argentina to take certain actions. Edson suggested that FSS/G7Ds coordinate more closely on exactly what these actions should be.
16. Laverdure concluded that he would communicate to FSS the need for a deliverable at (or preferably before) Evian on SDRM/CACs, and an early FSS discussion on Argentina.

MS Corporate Governance

17. Tacke suggested a further push on the Anglo/German initiative dating from the pre-Spring Meetings G7 Deputies. Edson said he was suspicious about any new codes of



conduct (there were too many already); instead he favoured more concerted action on corruption more generally.

JB/RC Debt Relief

(i) HIPC

18. You said you wanted to address three issues: extra debt relief at Completion Point (i.e. topping up should not take into account the G7's extra 'beyond HIPC' contributions – you circulated a note (Ref A)); Russia's treatment of HIPC (you passed a note to Illarionov in the margins (Ref B)); and the need for all G8 countries to provide 100% debt relief for non-aid debt to HIPCs. Gordault-Montagne agreed on the need to finish the job and suggested that FSS look again at these technical issues; there had to be real debt sustainability at Completion Point. Castellaneta and Edson agreed with you that all countries should give 100% debt relief post cut-off date. Laverdure concurred with the need for fair burden sharing within the G7 and G8.

19. Tacke argued in favour of retaining "for now" the existing methodology for calculation of topping up requirements at Completion Point, but said he was willing to discuss the scope for a package to reach agreement on this. Edson was concerned that if the extra G7 debt relief was not counted, the others would not pay and the G7 would end up paying more anyway.

20. Tacke said that the G7 must not continue to pour money into a black hole. He repeated his call for more emphasis on good governance; and suggested that topping up should be linked to governance performance. Recalling the Kananaskis pledge to fund up to \$1bn, Edson said that the size of the \$650m shortfall was a fact, but the cost of topping up was unknown. He was worried about rushing countries through the process, and giving more money up front.

21. You pointed out that leaders had agreed at Kananaskis to make available another \$1bn. The UK's proposals to ignore the G7's extra contributions in calculating the extra debt relief required for topping-up was fully financeable within that agreed envelope. The effect of the current rules was simply to let the non-G7 off the hook. A \$200m extra contribution from the HIPC trust fund could lever in total additional debt relief of \$1.5bn.

JB/RC

(ii) Lower to Middle Income Country Debt

22. Gordault-Montagne said there was a debt problem with LDCs that were not HIPCs, such as Haiti, Lesotho, and Cambodia. Tacke argued against giving a signal that countries could renege on deals and treaties and get help from the G8. He described Nigeria's huge oil resources and their non-payment of debt. Laverdure and Edson were equally troubled by the idea. The price tag would be enormous, and there was a danger of creating a sense that borrowing was an opportunity and not an obligation. Gordault-Montagne said there were a number of ideas including debt swaps for non-HIPC African countries, and developing tools to address the problems of LMIC/MICs within the framework of the



Paris Club. He hoped for some rationalisation of the recent initiatives taken to help developing countries. The focus would be on countries that could play the role of regional motor. He circulated a revised draft of the paper we have previously seen (Ref C).

23. Edson refused to give FSS a mandate to develop a new initiative for Evian – instead they should simply consider it and report back before the next Sherpa meeting. You said that much more detail was needed: was it LDCs, LMICs, regional motors or MICs? What was Chirac's political objective? Agreement in this area would need to be reached within the framework of the Paris Club. And for the UK the priority for extra resources was HIPC. Laverdure agreed. Tacke and Edson wanted to exclude MICs immediately. Gordault-Montagne said he was not advocating debt forgiveness in return for nothing; he would prepare a paper in mid-January on the potential objectives, and would ask FSS to examine the scope – it could be very limited. You were happy for FSS to look at debt swaps, and to try to develop a clearer and more coherent Paris Club treatment of non-HIPCs based on the concept of debt sustainability, but reiterated that HIPC should remain the first priority.

TF

Education

24. Castellaneta thought the process was working well, and reiterated the traditional Italian mantra on the importance of the DOT-force and e-capacity. Edson countered that the US thought the programme was going "off the rails"; the process was still far too heavily focused on filling financing gaps, whereas there were also important gaps in policy, data and capacity. The World Bank was being heavy-handed, and he argued against any further Task Force reports for Evian.
25. You suggested that FASS keep a close eye on the process and send a clear message to the FTI Secretariat that they risked losing G8 support – and much more attention should be given to the high population countries. Gordault-Montagne agreed, although he noted that France had committed \$65m at the recent donor meeting. Fujisaki suggested that the FTI philosophy was too focused on the best performers.

JS

WSSD

26. You introduced the proposal for more work on oceans/fisheries and circulated the Defra non-paper (Ref D) – in following up on WSSD. There was a need to be operational and specific rather than rhetorical. Sannino agreed that the focus should be on deliverables; the EC would pursue more partnerships with business. Fujisaki said that Japan was hoping the outcomes from the Kyoto Water Summit would be a Ministerial declaration (likely to be bland and general), and a blueprint for action detailing what each country was willing to do in the field. Next year was also TICAD 3 and Japan would have some related ideas with make the link with Kyoto.



JS

Transparency of Payments in the Extractives Industry

27. You opened the discussion by taking colleagues through your latest letter. Illarionov said that Russia was interested in the UK proposal but they needed more detail; would it go wider than extractives, did it apply to domestic SOEs or just multilaterals? The key issue was the transparency of budgets, not just corporations. Castellaneta and Sannino fully supported. The latter thought it fitted well with the themes of CSR, and agreed the need to start with a specific focus. The EC would be happy to organize a high level roundtable meeting on CSR to put this in a wider context.
28. Edson appreciated the focus on increasing the transparency of government accounts – it was important to focus this initiative against corruption. He suggested publication of MDB and IMF analyses of countries, raising the IMF standards for budgets and expenditure tracking, bringing forward WTO proposals on transparency of government procurement, and using FTAs to seek greater transparency of procurement. Also denying safe haven to corrupt kleptocrats, better recovery of stolen assets and acceleration of the OECD Bribery Convention country reviews. On extractives, he suggested negotiating compacts with countries to reward transparency.
29. Gordault-Montagne generally supported the UK proposal, but noted that it was highly sensitive and political for both corporations and countries. The approach needed to be balanced, and not too moralistic. He agreed on the need for further work and discussion at the next Sherpa meeting. Tacke warned against creating a bureaucratic monster, although as Germany did not have an extractives industry he was relaxed. Fujisaki thought the real dilemma would be whether to go for a voluntary or mandatory approach. But any solution had to apply to developed as well as developing countries and not just to the extractive industries.
30. You thought that we might end up with aggregation of company payments compiled by trusted third parties working on a consensual basis with involved countries, including for example Angola and Nigeria, who would want to participate to achieve an improved investment climate. You concluded that US and UK officials should try to create a joint paper to be put to FSS and FASS for discussion ahead of the next Sherpa meeting at the end of January.

AD

Differential Pricing of Medicines

31. Sannino described the recent EC draft regulations on tiered pricing. You outlined the recent UK agreement. Gordault-Montagne supported this agenda as a strong deliverable for Evian. Laverdure said that the Canadian Health Ministry had thought that the UK report was superb. In contrast, Illarionov thought that the UK initiative could be very dangerous; two tiered pricing undermined the whole basis of market economics, and he was very sceptical about the ability to restrict re-exports. Edson was also dubious – he thought that TRIPS would deal with the problem, and it was addressing the wrong problem anyway – the real issue was lack of money. You explained UK understanding



that industry wanted a clear framework. Edson said that he had agreed to send over US experts to meet their UK counterparts.

JB

Global Fund for Health, TB and Malaria

32. Tacke was outraged that no money had yet been spent on programmes. The Global Fund should not consider spending more until they were using what they had. Staffing costs were spinning out of control; admin expenditure was predicted to be \$40m next year. He suggested sending in the auditors. Illarionov agreed. Edson was more positive: the CEO had not been hired until July, and spending was about to begin. In fact, the Fund had got up and running quickly and the staff of 53 was fairly lean. The first round of projects had been in line with US expectations.
33. However, Edson said that the Fund was likely to run out of money in Autumn 2003. Funding should be additional and complementary to national programmes. Gordault-Montagne said that France was considering organising a donor conference in July, with the aim of getting more from the private sector. They were also considering a seminar on mechanisms for longer term funding. Castellaneta and agreed with Edson, but was worried by the private sector's poor contribution. Fujisaki thought that admin costs could be cut. There needed to be a better balance between HIV AIDS and the other communicable diseases. It also had to avoid becoming too Africa-focused, and to strike the right balance between prevention and treatment, and between government and the private sector. You suggested postponing the donor conference until it was possible to see initial evaluation results – perhaps next autumn; and recommended that FASS keep a closer eye on the Fund's overall performance against the Okinawa objectives. There should be no rush to a third round of projects – sensible spending should be tailored to the money available. However your overall impression was that Feachem businesslike and sensible.
34. Edson said that the way in which the Fund was hitched to the WHO was a problem. They had paid \$1.2m to the WHO to conform to regulations but this hampered its ability to be entrepreneurial. The solution could be found by changing the status of the Fund under Swiss law into a quasi-governmental entity which would free it from WHO bureaucracy and allow it to make its own decisions. The Board could decide to do this in January. He claimed that the UK was blocking this sensible decision. Sherpas agreed that FASS should report back on what the Global Fund's money was being spent on, and why they were giving \$1.2m to the WHO and \$5.4m to the World Bank.
35. You called for action to meet the financing gap on polio and circulated a table of donor pledges to the PEI. Laverdure strongly agreed.

JB

Africa

36. Laverdure said that Chretien remained committed. You were concerned to ensure that APRs kept in close touch with Sherpas to ensure a smooth path towards the Summit.



Fowler's recent letter had worried – APRs should not be tasking FSSs and PDs without taking into account work on the wider Summit agenda. Edson and Gordault-Montagne agreed; he had asked Camdessus to report back to each Sherpa meeting. There was consensus that the APR mandate ended at Evian. Laverdure undertook to write to Fowler to task an ad-hoc working group to develop the joint plan for African peace support operations, but with a clear mandate to complete its work in June 2003. You argued, however, that we might need to keep the ad hoc group in being beyond June 2003

JB

Famine

37. Edson circulated a paper on African famine, and three charts of donor pledges (Ref E). He called for action to match non traditional donors with non traditional surplus producers, more flexible national strategies, better early warning systems with more analysis and early action, and work to address the biotech issue. Sherpas agreed that FASS should consider these proposals.

38. Sherpas agreed to ask PDs to look at the options on Zimbabwe.

CS

Transport Security

39. Laverdure circulated a collation of FASS replies on G8 implementation of the Kananaskis plan (Ref F). You said that the UK was very concerned about ICAO standards and the implementation of tighter security regimes in non-G8 countries. FASS should assess what more should be done on the maritime and aviation areas. Edson agreed, and added that they should consider what further resources were required and also focus on biometrics. Gordault-Montagne noted the importance of the existing bodies (WCO, IMO, ICAO) in the implementation.

40. Castellaneta asked for G8 support for the Italian candidate to head ICAO.

JB/AG

Roma/Lyon Group

41. Gordault-Montagne wanted to expand the remit of the Roma/Lyon Group to include terrorist financing, non-proliferation, cyber terrorism and propaganda. Castellaneta suggested they also look at Hawala banking. You and Edson were sceptical of the value of their involvement in terrorist financing and non-proliferation, given other work going on. Hawala banking might be a suitable subject for CT practitioners. Fujisaki called for much more coordination to avoid duplication. Tacke suggested closing the groups down and remitting the terrorism/security work to FASS. Sherpas concluded that FASS should report back on the future of the Roma/Lyon group later in the year.

42. You said that the G8 needed to focus on bringing coordination and prioritisation to all areas of terrorism-related technical assistance, building on the work of the CTC, FATF and avoiding unnecessary further analysis. Edson strongly agreed, and Sherpas concluded that FASS meet with senior experts and report back on this issue before the next Sherpa meeting.



JB

Afghanistan

43. On drugs, Castellaneta circulated the UNDCCP report on Afghanistan and a sheet highlighting actions that the international community needed to take (Ref G). It was a major problem – particularly in 4-5 regions. Tacke thought that the G8 had failed. Fujisaki said the problem was now much worse than under the Taleban – people needed to have alternatives to opium. Sannino said that opium was 30 times more valuable than any other crop so it was extremely difficult to persuade farmers not to plant. It would be impossible to solve the drugs issue in Afghanistan without sorting out the other problems. Gordault-Montage circulated a paper detailing the Conference on Drug Routes that the French plan to host in May (Ref H). They were extremely worried about the overall situation; reporting indicated that Karzai was barely even President of Kabul, and the rest of the country was run by warlords. Unless the political situation improved there was no chance of success. Illarionov said Russia was also extremely concerned. There was lots of drugs trafficking through FSU countries – the sums involved were immense; up to \$1bn per year. He thought some sort of Marshall Plan might be necessary.
44. You outlined the UK strategy on drugs but argued that it was difficult to make progress in this area while the rest of the country remained in such a parlous state. There is a need for much more urgency; there was a general problem of losing focus in Afghanistan – you urged on others the need to clear its arrears to the IFIs and subsequently issued a letter (Ref J). You suggested using the conference to force the G8 to be better coordinated. Edson agreed, and strongly supported the UK's ongoing work on drugs in Afghanistan. The focus needed to move from humanitarian to reconstruction, and the international community needed to meet the budgetary gap of \$390m.

hB/Ak Nuclear Safety

45. Gordault-Montagne recalled the benchmarks agreed upon during 2002 for Russian participation in a G8 group. Although he supported the Canadian proposal for a G8 workshop to discuss the establishment of a G8 Nuclear Safety and Security Group, the principles had to be respected. He envisaged launching a G8 NSSG by Evian. You agreed on the need to measure progress against the benchmarks; for example the Kursk 5 seminar must be held before Evian. The proposed workshop should discuss this.
46. Illarionov strongly objected to the idea that Russia had not satisfied the G7 on the benchmarks, and noted that no complaints had been raised. This launched a debate about why the report from the last G7 NSWG (Ref K) had not been shared with Russia. Laverdure said he would reconsider.
47. Sherpas also discussed the reporting structure for the next NSWG meeting and, after opposition from Illarionov to any joint reporting to both Sherpas and Senior Officials, agreed that it should report only to Sherpas.



48. You raised Ukraine, and wondered how this was going to be handled after the creation of a new G8 NSSG. Fujisaki supported - it should not be discussed at G8. Tacke was concerned about huge cost overruns on the Chernobyl Shelter Fund, he suggested that Chretien send a letter to Kuchma immediately and commission an assessment from the NSWG. This was agreed.

JB

Global Partnership

49. By Evian Edson hoped to have achieved funding commitments totalling \$20bn, concrete action to solve implementation problems, the launch of significant new projects, and engagement of non G8 donors (Norway, South Korea, Switzerland, Australia) and recipients (Ukraine, Kazakhstan, Uzbekistan). Tacke said that Germany was optimistic. They were starting a new project on chemical weapons in early 2003, and were near agreement on dismantling 100 nuclear submarines, and the protection of fissile material (totalling €1.5bn). He suggested others send a senior official to Moscow to work up specific projects.
50. Castellaneta had a different perspective. Italy had given Russia a draft agreement and were awaiting a response. They remained committed to spend €1bn and were focusing on chemical weapons and nuclear submarines; they hoped to be able to show progress by Evian. You detailed our ongoing difficulty over the taxation and liability issues in MNEPR, and said that until Russia was able to satisfy our concerns we could not spend money in this area. Edson agreed with these concerns. Fujisaki said that Japan still had great difficulty over liability and conditions. Gordault-Montagne expected a French contribution of €750m, but said that they had not yet had proper discussions with the Russians. Laverdure said that that Jim Wright had made good progress on his recent trip to Moscow but they had not yet got to the point of agreeing specific projects.
51. Illarionov responded that the Russians had suggested that MNEPR would meet the UK and Italian concerns. He genuinely believed that this could provide a solution, but said he was happy to go down the bilateral route if this proved quicker. (In a subsequent bilateral Illarionov agreed to your proposal to include the MNEPR language in a bilateral Supplementary Agreement – you will write to him to clarify exactly what we require).

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Non-Proliferation

52. Edson had four ideas for operationalising the NPEG principles: bolstering IAEA efforts to improve security of fissile material used in medicine and research (e.g. export controls and registers); joint G8 demarches to major transshipment states such as UAE, Jordan, Singapore; a G8 Foreign Minister's statement on North Korea; and action through export controls and UNSCRs against the spread of MANPADS (shoulder-mounted surface to air missiles). Sherpas agreed to reflect on whether to merge the NPEG and the Senior Officials Group.



Evian Summit - French Priorities and Themes

53. Gordault-Montage introduced his ideas for the Evian Summit:

- **Implementing the Africa Action Plan** and maintaining the momentum of NEPAD remained a key priority for Chirac. There was a rising skepticism about NEPAD even in Africa (French Embassies were reporting this). But France saw 2003 as the year for Africa with the EU/Africa Summit in Lisbon in April, TICAD in the autumn, and the Evian Summit. France would be increasing its own ODA from 0.39% in 2003 to 0.5% in 2007;
- **Water** would be a key theme building on the Kyoto Forum and the ambitious water and sanitation targets. The substance of this would be decided after Kyoto. In this context France saw an opportunity to develop more widely the Anglo/French PPP proposal from WSSD. France would circulate a paper on this before the next Sherpa meeting;
- **Follow up** from previous Summits including Health (esp HIV/AIDS), Terrorism, Financial Stability and Middle Income Country Debt relief;
- **Corporate governance** French non-paper entitled Global Corporate Responsibility circulated (Ref L). He envisaged a CSR charter to restore confidence. It would reaffirm strong support for current standards (OECD, ILO etc), welcome strong involvement of private sector (not being defensive or apologetic), identify tools to promote CSR, and develop further information on extractives and public and private sectors. FSS and not FASS should lead in this area.
- **Research for sustainability:** French non-paper circulated (Ref M). This proposes new patterns of consumption and helping developing countries to take up the challenge. Research and Development Ministry experts should meet to consider this and report to FASS in February.

Reactions

54. Edson thought that terrorism was seriously underplayed. Castellaneta agreed, but also called for some free discussion at Heads level. Fujisaki agreed with the sustainability proposal and circulated a similar paper (Ref N). He proposed ideas around recycling, biotechnology and alternative energy sources. You gave general support to this and the French paper, and suggested a specific case study on climate change. You circulated the ICCEPT report. Tacke said there was an urgent need to establish a realistic framework to encourage investment in Africa (poor governance, corruption, legal problems, and Zimbabwe were hugely damaging). Edson agreed, and said the agenda had to include trade, corruption/transparency, and reconstruction of Afghanistan (but thought that the agenda was already overcrowded). You envisaged five main blocks of discussion for

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Heads: world economy and trade; climate for business and enterprise (corruption /transparency / PPPs); sustainability and water (including oceans); the Africa Action plan (focussed on health, conflict and education); and regional issues.

55. Fujisaki and Edson wanted action on illegal logging and promised to circulate proposals

A separate note will issue on the logistics of the Evian Summit, the St Petersburg event on 31 May and the proposed G25 Summit.

I am copying this letter to Michael Arthur and Peter Ricketts (FCO) Stephen Pickford (HMT), Richard Manning (DFID), Anna Wechsberg and Liz Lloyd (No 10), Ian Downing (DTI), Niki Tompkinson (DfT), Shaun Gallagher (DoH), John Ballard (Defra), Peter Storr, (Home Office), Richard Crabtree (Cabinet Office) and PS/Baroness Amos. I will follow up directly with them and others on the various pieces of work that flow from this.

Richard Lindsay
Economic Policy Department

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Liz Lloyd, No 10

cc. Michael Arthur
Jeremy Heywood
Joanna Key
Henry Derwent
Jackie Jones
Robert Mason
Richard Lindsay
Hugh Elliot, BE Paris

PM's Climate Technology Initiative: Talks with the French, 22 November 2002

1. I agreed with Joanna Key that I would record my impressions of discussions earlier today in Paris with Jerome Bonnafont (Elysee adviser on G8 issues), Emmanuel Glimet (Raffarin's Office), Bernard Bachelier (Research Minister's Office) and Dominique Dron (Interministerial Commission on Climate Change). The UK side spoke to the ICCEPT and the DEFRA mechanisms papers handed over to the French in advance. This record focuses on the French presentation and reactions.
2. The French handed over a one-page non paper setting out ideas on how G8 might take forward President Chirac's proposal at Johannesburg on maximizing the contribution of scientific research and technological innovation to sustainable development. They said that the intention was to hand it over to all partners at the 8-9 December Sherpas' meeting in Ottawa.
3. Bonnafont said the French had in mind a two-stage approach: first, explore what G8 countries might do to stimulate research and new technologies; second, explore with developing countries how joint mechanisms might be established to enable them to take on these technologies. A French non-paper setting all this out should be ready by mid-January.
4. Bonnafont added that the approach needed to be broad in scope, setting out a wide range of actions in different sectors-although not necessarily listed by sector-all tending towards the same sustainability goals; and at the same time it should contain one or more in-depth case studies. He could envisage UK work on climate change possibly becoming such an in-depth study, provided that France and the UK could agree that it should do nothing to cut across the Kyoto Protocol.
5. Bonnafont and other French speakers returned several times to this point during the working lunch which followed. Mme Dron said she had studied the UK's papers and remained unsure whether what we were proposing was compatible with the Kyoto Protocol or not, despite UK assurances. Perhaps it was a question of being clearer about the time-frame. If we could say that the technology work we had in mind was for the very long term, post Kyoto, then it would be acceptable. Glimet indicated he remained sceptical.
6. Bonnafont said that it was clear that there could be no agreement in G8 on Kyoto. France saw its initiative as demonstrating how Kyoto protocol countries would proceed on innovation to move to more sustainable technologies and that we considered that such moves would not be costly to our economies. Asked how France envisaged handling this in G8, given that they did not appear to be aiming for consensus, Bonnafont replied that there was a precedent (from the Genoa Summit?) for a statement to agree to disagree.

7. Despite some signs of reluctance from others on the French side Bonnafont suggested that, when Mrs Beckett and Mme Bachelot met on 5 December they might agree to set up a joint experts' group to examine each other's approaches to see if agreement could be reached on a joint non-paper by the January Sherpas' meeting ,(provisionally fixed for 20 January), or perhaps by the next one(currently set for 5-6 March). This was agreed.
8. Bonnafont suggested that when the French Sherpa presented the short non-paper at Ottawa, Jeremy Heywood might like to speak in support and announce that UK_French work was in hand on climate technology aspects.
9. Asked whether France had prepared the ground with other G8 partners, Bonnafont said that no-one else had seen the short non-paper but that the French had spoken to the US(Edson), Germans and Japanese, as well as the Commission. They had not yet approached the Russians or Canadians.

COMMENT

10. I was struck by the French desire , first, to build bridges to developing countries; second, to draw a clear line inside G8 between Kyoto and non-Kyoto countries. Bonnafont's analysis of Delhi COP 8 was that it had been a disaster for the EU because the EU had failed to keep the developing countries constructively engaged, allowing a perverse alliance to form between the US and developing countries to obstruct progress. Clearly, the French regard their initiative as a means of attempting to break that objective alliance.
11. We therefore now need to weigh where our own interests lie. There is nothing inherently contradictory between the UK and French approaches at a technical level. The French approach is much broader but climate technology fits very well as a case study. Like the French, we have a strong interest in bringing key developing countries to accept the need for longer term common action. But the potential for the French to seek to drive a wedge between the US and other G8 members on climate issues is there and will need careful handling in the run-up to Evian.
12. It would be useful if Jeremy Heywood could have an early word with his US opposite number to see how he has reacted to the French briefing and to test the water for a climate technology initiative before the Ottawa meeting.

Valerie Caton

Environmental technology

Areas for joint work between Sweden and the UK

1. A meeting on 28 October between Swedish and UK delegations identified the following areas for joint work on the application of environmental technology to illustrate and advance sustainable development.

Our basic approach

2. We agreed that our joint work should aim to:

- **Showcase existing national or local policies** which would be of wider interest to ourselves or other EU countries.
- Illustrate successful and innovative approaches to the use of environmental technology, and **to promote benchmarking and best practice** based on these.
- Make **joint representations to the Commission and Council** to encourage the development of EU policy in a particular direction.
- Give suitable **political focus** to this work; with issues raised at the Spring Council under the Greek Presidency, and also carried through to discussions under the Irish Presidency in 2004 and beyond.

Types of initiative

3. We agreed the importance of **systemic solutions** to problems; with innovative technologies properly backed up by action by Government, industry and regulatory systems. We identified three particular areas where further work was needed at national and EU levels:

- **Incubating environmental technology.** A potential barrier to the development of environmental technologies was the difficulty in bringing good ideas to market. Work in the University of Gothenburg is a promising model for tackling this. Outputs should focus on UK academic institutions looking at the Swedish model, and on fostering collaboration between institutions in the two countries. UK financial institutions or venture capital might also be involved. Could such an approach be developed at national or EU level?

- **Reform of EU funding structures** to promote development and adoption of environmental technologies. EU research frameworks and the LIFE programme should be more closely linked and geared to developing and testing technology which will deliver sustainable development. Outputs. Both countries should encourage EU instruments to address this work as a priority.

- **Regulatory systems.** As part of the better regulation agenda, the Commission should be encouraged to produce fewer, better, environmental regulations with clearer goals to promote sustainable development. Issues like resource productivity and energy efficiency in the EU could only be addressed by well-prepared, result-oriented regulations. Environmental audit, and review of procurement policies would also contribute to this. Outputs. Both countries would give political focus to this work and encourage the Commission to pay particular attention to developing the application of sustainability impact assessments and monitoring progress.

Areas to highlight

4. We also discussed at length the **different policy areas** which would best allow us to work on all of these fronts, and to tackle the issues which were most relevant to the Gothenburg Council conclusions, the outputs from WSSD and the focus of the EU sustainable development strategy.

5. We concluded that we should work up in more detail potential initiatives in the following areas:

- Work on **renewable energy** could highlight the potential benefits of technologies currently under research. A breakthrough on cheaper, more efficient, solar technology could help deliver the WSSD commitment to a radical shift in our use of renewables. Outputs could include initiatives to help implement the 2010 EU target on renewables, or setting national targets to illustrate our commitment to more ambitious EU action to follow up WSSD. We could also showcase technology under development in both countries, for example in more energy-efficient housing.

- **Urban transport** was a political priority in both countries, where congestion in cities was a severe problem. Swedish expertise on bus design and use, and the availability of biofuels would be complemented by UK experience in the design of catalytic

converters, the use of fiscal instruments to encourage more energy efficient cars, and the adoption of congestion charging. Outputs could include bilateral exchanges of information on policies; a joint conference in Brussels to highlight work and lead development of wider EU policy including to deliver the Gothenburg goal.

- **Conserving fish stocks** was a politically sensitive issue, but nonetheless one of great importance. Outputs could include showcasing technology to track fish stocks and to inform EU-level decisions on the CFP.
- **Biotechnology** was an area of great potential. Both countries had strong nascent biotech sectors specialising in the medical rather than the agricultural applications of this technology. Outputs could include joint political commitment to effective regulation of this sector, and continuing development of EU expertise, particularly in applications that combat pollution and offer more environmentally friendly solutions to industrial development. It would be important to challenge the negative image of biotech that GM crops were fostering.
- **IT, design and architecture.** IT systems had huge potential in ensuring more efficient use of resources and energy; to illustrate sustainable production and consumption goals. This was particularly important in energy efficiency in buildings, where the Swedish record was particularly good. Outputs could include exchange of best practice between countries, benchmarking of the UK against Swedish standards, competition for designers in both countries.

Recommendations

6. A joint UK and Swedish approach to the discussion of sustainable development at Spring Councils might take the following form:

- **By Christmas 2002.** Agree at official level the priorities for this work, drawing on the most politically relevant issues that we can identify. Submit recommendations to No10.
- **Beginning 2003.** PMs set out shared vision for importance of environmental technology to deliver sustainable development. Identify the main themes of this work.

- **Before Spring Council 2003.** Run events to highlight specific areas of this work. These could include seminar on urban transport, exchange of best practise on incubators, launching initiatives on IT/ design and architecture.
- **At Spring Council 2003.** Encourage Commission to address these issues in its future work programme, as part of sustainable development agenda.
- **Irish Presidency 2004.** Review progress against the 2003 conclusions, and highlight next steps. Check on further issues to be worked on in future years.

CONVENTION – EXTERNAL RELATIONS WORKING GROUP
REFORM OF EC DEVELOPMENT POLICY

Introduction

The Convention is an opportunity to bring the EU's approach to international development up to date. The international development agenda has evolved significantly since the Development Co-operation Title of the Maastricht Treaty was drafted. There is now an internationally agreed set of objectives – the Millennium Development Goals - and wider recognition of the links between development policy, security and sustainable development. For the EU to achieve its wider external goals of promoting security and stability it needs to have a more effective and coherent development policy and to ensure that its development activities are coherent with other areas of policy.

The EU has overarching external goals of promoting stability, prosperity, security and sustainable development. The EC's development policy and programmes need to be more streamlined and better targeted in order to make a more effective contribution to these objectives. This paper proposes some principles to achieve this, which should be reflected in the output of the external relations working group.

Principles

- *Policy objectives:* the EC's external programmes are intended to serve a range of objectives: promotion of stability, prosperity and security. The Treaties need to recognise that, as stated in the Council/Commission declaration of November 2000, poverty reduction is the principal aim of the Community's development policy, a policy which concerns all developing countries. The EC programmes involved should therefore be refocused to reflect this objective by pursuing internationally agreed targets (eg the MDGs) and promoting good governance, economic reform, respect for human rights and conflict reduction. The importance given to development objectives should be reflected in resource allocation, which should be done through a longer-term, strategic approach, based on objective criteria, not an annual negotiation in which political and sectoral interests tend to prevail.
- *Links with other External Policies:* the EU's external policies should be mutually supportive. External action on poverty reduction will help achieve a range of the EU's wider objectives, including those identified by successive European Councils, most recently Seville, on security, stability, migration flows and the environment. Equally, policies on eg trade and environment have a crucial role in delivering development objectives. The European Council, supported by the GAERC, should ensure that programme decisions reflect the range of EU's longer-term objectives, particularly

development objectives. The Council should review annually the implementation of these programmes to ensure this.

- *Coherence with other EU policies:* the EU is the world's largest single market and the main trading partner of many developing countries. To ensure genuine coherence across EU policies, the Council needs to consider whether internal aspects of EC policies, eg in agriculture, environment or health, might have negative implications for EU external actions, including development objectives. Ministers need to be able to take decisions in an integrated manner with a full assessment of the potential impact of proposals, including for developing countries.
- *Competence:* international development should remain an area for which both Member States and the EC have competence. At national level, there is extensive experience and expertise and the present authority of Member States to act in this area must be safeguarded. At EU level, an enhanced collective development effort can mobilise resources from across the Union and the ability of the EC to act must therefore also be safeguarded. However, EC programmes need to provide added value. In particular they need to be based on collective, objective, long-term strategies about promoting development, rather than short-term and more narrow considerations. There should be close collaboration and complementarity between national programmes and EC programmes.
- *Effectiveness and simplification of instruments:* in order to secure the necessary improvements in effectiveness it is essential to simplify the highly complex set of instruments established for EC development programmes. Along with clearer objectives, there should be a significant reduction in the number of regional and sectoral Regulations and greater autonomy for the Commission in managing the programmes to achieve those objectives. This simplification should also be reflected in the budgetary arrangements for external programmes.

External representation: there is a widely shared international development agenda, which EU countries have significantly influenced. In international fora in which international development policy is established, the EU should establish an agreed common position or view, wherever possible. In bodies whose main purpose is to exercise management responsibility in accordance with shareholdings or other contributions of its members, member states should continue to exercise their responsibilities in accordance with their membership of those organisations. In exercising such responsibilities they should respect common policy positions adopted by the EU. In third countries, individual representation of member states will continue to be essential in order to implement national development

Brussels, 11 December 2002 (21.30)

NON PAPER

- 12 Member States will implement automatic exchange of information from 1 January 2004
- Austria, Belgium and Luxembourg will from the date of entry into force of the directive operate a (transitional) withholding tax with revenue sharing and will
- implement *automatic* exchange of information, if and when the EU enters into an agreement, by unanimity in the Council, with Switzerland, Liechtenstein, San Marino, Monaco, Andorra and the USA on exchange of information *upon request as defined in the OECD agreement*¹ for the purposes of the directive. From that moment, these Member States will cease to apply a withholding tax with revenue sharing,
- set the withholding tax at 15/20 % during the first three years of the transitional period and 25% as from ~~X~~^{3 years} and 35% five years after entry into force of the directive and of the agreements with third countries as well as the dependent or associated territories.

[address in para 5
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¹ The OECD Agreement on Exchange of Information on Tax Matters as developed by the OECD global forum working group on effective exchange of information (DAFFE/CFA(2002)24/final).

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RESENT AT REQUEST OF FCO COMCEN

FCO PSE PASS INREV
HMT FOR CUNLIFFE, ROGERS, RICHARDSON
INLAND REVENUE FOR CONNORS, MAKHLOUF
CABINET OFFICE FOR WALL, DONNELLY

FRAME ECONOMIC
SUBJECT: ECOFIN 11 DECEMBER 2002: TAX PACKAGE

Summary

1. Progress made although agreement not reached. But Presidency concludes that agreement on the tax package can be reached at ECOFIN on 21 January. All other agenda items held over until that ECOFIN.

Detail

2. The Presidency (Pedersen) and the Commission (Bolkestein) outlined the basis of the draft agreement between the EU and Switzerland (my telno 1478) following the meeting with Swiss Finance Minister Villiger on 5 December. The Chancellor then reported to the Council on progress with the UK's dependent and associated territories (MIFF). The key new point was that, on the basis of the Presidency proposal tabled on 3 December for either automatic exchange of information or a 35 percent withholding tax, Jersey, Guernsey and the Isle of Man were all now prepared to apply automatic exchange of information from 1 January 2004.

3. Germany (Eichel) said that the Presidency proposal was a balanced offer. It was the basis for a deal today. He welcomed the Chancellor's statement on dependent territories. There were elections in Switzerland in 6 months time. It would be more difficult to do a deal then than it would be today. A deal was also needed ahead of EU enlargement. Finland (Niinisto) supported.

PAGE 1

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The meeting had started well with the Chancellor's statement.

4. Italy (Tremonti) said that the Presidency proposal represented a step back from Feira. It was positive for the Swiss but not very good for the EU. Tackling banking secrecy and promoting transparency in financial and tax issues was vital.

5. The Chancellor noted that the principled way forward was automatic exchange of information. It was the only way of ensuring that all EU citizens paid the tax due on all their savings income. The same could not be said for a withholding tax. Even with a 35 percent withholding tax in Switzerland, EU residents investing there would pay a lower rate of tax than the marginal rate which applies in 10 of the Member States. Nonetheless as he had indicated last week we were prepared to support the Presidency compromise. But we needed to reach agreement today.

6. Belgium (Reynders) emphasised that the 35 per cent rate proposed from 2007 for the 3 Member States operating a withholding tax was far too high. It broke the terms of the Feira deal. Luxembourg (Juncker) supported. There were a number of unanswered questions in the draft agreement between the EU and Switzerland. This Swiss cheese had a lot of holes in it. The Council needed to resolve clear technical and legal problems before any agreement could be reached. If the final 3 EU Member States moved to automatic exchange of information then Switzerland should also move. He noted that dependent territories had achieved rollback of harmful tax measures under the Code of Conduct by applying a zero general rate of corporate tax. This was unacceptable. He could see nothing new in the Presidency proposal which would allow him to reach agreement today.

7. Austria (Grasser) supported. Austria had 3 conditions for agreeing to the draft directive on taxation of savings. First, dependent territories had to apply the same measures. He was pleased with the clarification given by the Chancellor. But he asked whether the UK had the right to legislate for dependent territories given the recent letters questioning that from the Cayman Islands. Secondly, third countries needed to apply equivalent measures. He agreed with the concerns raised previously on Switzerland but noted that no agreement was on the table for the other 4 small European States. Thirdly, agreement was required on the Code of Conduct. However since the Code had not yet been evaluated this was not possible. Finally, Grasser noted that his political position had not been made any easier by the comments yesterday of the Danish Foreign Minister who had appeared to trivialise Austrian concerns on transit questions (ecopoints) and on nuclear issues (Temelin) in the context of the

enlargement negotiations.

8. The Chancellor clarified the UK position on its dependent territories. For the overseas territories of the Caribbean the UK had the ability to legislate. As he had previously indicated to the Council the UK would exercise that right if the territories did not voluntarily agree to automatic exchange of information in 2004.

9. France (Mer) noted that we were in a period where pragmatism was important. But he was wary of the proposed agreement with Switzerland. The EU appeared to be giving a number of concessions to Switzerland which were unjustified. It was not necessary for the EU to reach agreement today simply for the sake of it. Sweden (Ringholm) supported and proposed a 6 month delay in trying to reach agreement. The Chancellor disagreed. Twelve or possibly 13 Member States were prepared to reach agreement on the basis of the Presidency's draft proposal. We needed to try and secure agreement today.

10. The Presidency then suspended the Council at 12.30pm. 'Confessionals' were held with Luxembourg, Belgium, Austria and then the UK and Germany together. There were then a large number of small meetings with various compositions. A number ended up being effectively chaired by the Chancellor and Eichel. The Presidency also failed to keep a number of Member States who were less central to the deal fully informed. This caused some resentment. At 9.30pm the Presidency re-convened the Council to announce that progress had been made, but that agreement was not possible at today's ECOFIN meeting. However, the Presidency felt that agreement on the tax package could be reached at ECOFIN on 21 January. No further details were made available to the Council.

11. Luxembourg (Juncker) asked the Presidency to confirm that further negotiations would take place with Switzerland before the next ECOFIN. Belgium (Reynders) complained about the procedure that the Presidency had adopted through the day and noted that agreement on the tax package required agreement on the Code of Conduct.

ENERGY TAXATION

12. The Presidency (Pedersen) confirmed that this item would be taken on the agenda of ECOFIN on 21 January 2003. France pointed out that for them this delay would cause problems in respect of their arrangements for taxing diesel duty at a reduced rate. Their derogation was due to expire at the end of 2002. Italy, which has a similar problem agreed.

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13. The Commission (Bolkestein) announced that the Commission Services would put in place internally the necessary steps so that the derogations would be extended and that appropriate conditions for this could be met.

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HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

8 November 2002

Jonathan Sinclair
Private Secretary
to The Rt Hon Jack Straw MP
Secretary of State for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
King Charles Street
LONDON
SW1A 2AH

- Head, EUD(1)
- cc: PS/Baroness Amos
- EUDist
- Hdw: Eudist; CNMED,
- OTD

Grateful for advice +

draft reply pls, in
co-ordination with OTD.

Jonathan

Dear Jonathan

The Chancellor has been considering how to deal with the issue of the Cayman Islands in relation to the Savings Tax Directive, and their letters of 21 October to the Council and the European Commission. As he has previously discussed and agreed with the Foreign Secretary it is vital that we are able to tell ECOFIN on 3 December that the Caymans and the other Caribbean Overseas Territories will adopt the same measures as in the draft Savings Directive.

The Chief Minister of the BVI has agreed to call a meeting of the Caribbean OTs, and Baroness Amos has asked for a response by 15 November. The Chancellor believes that, if the Caymans (or any other of the Caribbean OTs) do not give assurances within the next two weeks that they will adopt the necessary measures, they should be told that legislation, for example Orders in Council, will be adopted to ensure their compliance. Copies of this letter go to Sarah Albon PS/ Lord Irvine, Jeremy Heywood, Sir Stephen Wall and Sir Nigel Sheinwald.

Yours sincerely

WILLIAM PRICE
Private Secretary

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Handwritten initials and 're Matrix' note.

14 November 2002

Mr. Crabtree
SSW
MD
MR
RO

Foreign &
Commonwealth
Office

London SW1A 2AH

Dear Mark,

EU Taxation of Savings Directive: Caribbean Overseas Territories

Thank you for your letter of 8 November in which you raise the issue of ensuring that the Caribbean Overseas Territories (COTs) adopt the same measures as EU Member States to give effect to the draft Taxation of Savings Directive. You note the Chancellor's view that, should the COTs fail to do so by 22 November, they should be told that legislation would be adopted to ensure their compliance.

As you are aware, the Foreign Secretary has discussed this issue with the Chancellor and agreed the importance that, at the 3 December ECOFIN, the Chancellor can announce that the COTs will comply with the measures specified in the draft directive. Naturally, we hope that current negotiations with the COTs will result in a satisfactory and co-operative solution to this issue. Nevertheless, the Foreign Secretary has made clear to the Chancellor his willingness that legislative means should be used if the COTs fail to provide the necessary assurances that they will comply.

I note the Chancellor's desire to inform the Caymans (or other COTs) that we would proceed down a legislative route if they fail to provide sufficient reassurances on compliance by 22 November. I would strongly caution against such an action as it may precipitate the instigation of a judicial review by the Caymans, thus attracting the very attention we seek to avoid prior to the ECOFIN meeting. Therefore, if necessary, we believe any announcement of legislative action be saved for the ECOFIN discussions.

I am copying this letter go to Sarah Albon (LCO), Jeremy Heywood and Sir Stephen Wall (No 10) and Sir Nigel Sheinwald (Brussels).

Yours ever,

Jonathan

(Jonathan Sinclair)
Private Secretary

Mark Bowman Esq
PS/Chancellor of the Exchequer

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Handwritten note at bottom right.



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16 December 2002

David Richardson Esq
Head of EU and International Tax Team
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

Dear David,

GERMAN ECONOMY: PLANS TO INTRODUCE WITHHOLDING TAX

SUMMARY

1. Press report Government plans to introduce once-and-for-all withholding tax on income from savings interest. Claims Government hopes to raise revenue in medium term through repatriation of undeclared savings from bank accounts abroad. Aim may also be to stifle internal squabbling over possible reintroduction of wealth tax. Could have unhelpful implications for German line on EU Savings Tax Directive.

DETAIL

2. Today's German press carries extensive reports of Government plans – which our Finance Ministry contacts have not so far been able to substantiate – to introduce a 25 per cent withholding tax on savings interest income.

3. Savings interest is already subject to a UK-style withholding tax (*Zinsabschlagsteuer*) of 30 per cent, transferred by the banks to the fiscal authorities. Savers must declare their interest income in their tax return, so that they can pay the difference between the 30 per cent and their marginal income tax rate (currently anything up to 48.5 per cent). The new proposal would involve a once-and-for-all deduction of 25 per cent tax at source (*Abgeltungssteuer*), after which the saver would have no further liability for income tax on the savings interest. As before, those whose income tax liabilities were below the level of the withholding tax would be able to claim a refund from the tax office.

4. In the short term, the proposal would cost money: Spiegel (weekly news magazine) quotes an estimate of EUR 1 to 1.5 billion. In the medium term, the Government would hope to raise revenue through repatriation of some of the estimated EUR 400 billion of savings held by German citizens in financial institutions outside Germany. This would require some form of amnesty for tax-dodgers. Financial Times



Deutschland (FTD) claims that the Government is considering requiring those repatriating funds to make a one-off payment of 25 per cent, which would excuse them from any further liability. FTD is sceptical about the prospects of substantial sums being repatriated under such penal conditions. But the form of the amnesty appears to be open – other papers mention the idea of repentant tax-dodgers having to put their funds for a period of time into a non-interest-bearing “Education Fund”.

COMMENT

5. Unlike most of the Government's other tax plans, this one – assuming it is in due course adopted by the Cabinet – stands a good chance of being agreed quickly by the opposition-controlled Bundesrat. The CDU and FDP (liberals) support the principle of a once-and-for-all withholding tax. At the same time, Schröder seems to be hoping that the introduction of such a tax will end calls, particularly from the left wing of the SPD, for a wealth tax (*Vermögenssteuer*). It is odd, on the surface, that the two are being equated, as the withholding tax would effectively almost halve the rate of tax on income from savings interest for the wealthiest citizens – those who would have most to lose from a wealth tax. The logic seems to be that simplification and reduction of the tax level will lead to repatriation and to a higher overall tax take in Germany. Some trade unionists however have already expressed their opposition to a withholding tax and remain committed to the idea of reintroducing the wealth tax.

6. Regardless of the merits of the withholding tax plan, the way in which it has been made public before the lead department, the Finance Ministry, has had a chance to produce a properly thought-out proposal is symptomatic of the piecemeal, *ad hoc* approach to policy making under the current Government. There is no discernable overall fiscal policy framework into which this plan can be fitted. It seems rather to be a politically-inspired move, to end the SPD's internal squabbling over the wealth tax idea, and to take some of the wind out of the Opposition's sails.

7. There is a question over the effect of a new, once-and-for-all withholding tax on the Government's attitude to the EU Savings Tax Directive. It would bring the German domestic position into line with supporters of the co-existence model, such as Austria and Belgium. It would reduce the need for banks to reveal details of savers' accounts to the tax authorities, although the press claim that Eichel wants to maintain the requirement on banks to provide such information. Schröder restates his commitment to implementing the EU Directive in an article in today's *Handelsblatt* (leading business daily). But if it eventually proved impossible to reach agreement on the Feira package, the change in the domestic position might push Germany from the “exchange of information for all” into the “co-existence” camp.



8. I am copying this letter to Rebecca Lawrence (EUC/S, HMT), Steve Cook (EUD(I), FCO), Richard Crabtree (Cabinet Office), John Connors (Inland Revenue), David Bendor (Paris) and Lynne Clare (UKRep).

Yours ever,

Mike

M A BOLTON
First Secretary (Economic)

mk

CORPORATE GOVERNANCE

Objectives

- Keeping lead on corporate governance with G7 rather than G8.

References

A. Corporate Failure Core Brief

Points to Make

(May not need to intervene unless there is a concerted attempt for G8 to take a lead on this).

- G7 have already looked at this, is familiar with the subject and, although unable to agree a precise way forward in Washington, have achieved broad agreement on the important issues. The responsibility for this should remain with G7 Finance Ministers due to the implications for international financial stability.

(If meeting insists on discussing).

- It should be every state's priority to establish robust, transparent frameworks for corporate governance to revive investor confidence in financial markets. These systems should be based on principles compatible with those of other nations. This will reduce the fragmentation of international systems and increase the integration of international capital markets.
- It is important that different nations develop regimes that acknowledge the same key principles of corporate governance. These may then be implemented in ways suitable for each country's regulatory regime, but in ways compatible and coherent with the solutions of other countries.

Handling

[Request made to FCO for news of G8 members preferences/approach to handling corporate governance in G7/G8 arena. Responses thus far]

Canada and Japan agree that this should remain within the scope of G7. Moscow says OECD has recently expanded its regulatory reform activities in Russia, giving a good alternative to a G8 discussion.

Background

1. Corporate governance is the principal area of concern internationally since Enron. This covers the internal governance of public companies, looking at corporate structures, board composition, committee responsibilities and composition and the roles and remuneration of executive and non-executive directors.
2. The independence of related parties is also questioned, particularly auditors – the Andersen debacle is well known but may not be unique – financial analysts – most Wall Street investment banks are under investigation – and credit rating agencies, who also failed to spot any of the impending collapses.
3. In the EU, although free of high profile problems, the High Level Group of Company Law Experts, chaired by Jaap Winter, have produced a report covering many aspects of company law with a specific section on corporate governance. Recommendations concentrate on strengthening the role of shareholders, empowering non-executive directors and board committees, directors' conduct, remuneration and responsibilities and the need for compatible, but not harmonised systems in the EU.
4. Member organisations of the Financial Stability Forum (FSF), particularly OECD, IOSCO and IASB have work underway looking at the problems mentioned.
5. G7 Finance Ministers looked at corporate governance in Washington in the autumn. Political momentum was established to agree core common principles for implementation in individual countries as a possible basis for mutual recognition of systems, reducing fragmentation of international capital markets.
6. Individual nations have responded. The US passed the Sarbanes-Oxley Act introducing new regulations and systems in all areas of concern. The Canadians have also produced new commercial laws, while the French and Germans have approved stronger regulation of financial analysts. The French are also drafting new company laws.
7. The UK established the joint HMT/DTI Coordinating Group on Audit and Accounting Issues and the independent Higgs Review of Non-Executive Directors. Also, the company law White Paper makes recommendations for corporate governance reform, as will the ongoing review of the UK Listing Authority Listing Rules.

8. The French are keen that corporate governance is a priority for their G7 Presidency. However, they also view corporate governance as a broad subject that stretches across to corporate social responsibility and ethical reporting, including the "publish what you pay" initiative in the extractives industry. It is important that a clear line is drawn between these areas and the more technical aspects of the G7 work. In G7, agreements on common core principles of corporate governance can be the foundation for mutual recognition of standards and systems and be a significant contribution to the long-term integration of capital markets.
9. Much less of this kind could be achieved in G8 where corporate governance would have to be approached from a different standpoint to be relevant to all members. The meeting would have to look more closely at the IMF/World Bank Reports on Observance of Codes and Standards (ROSCs). While no G8 member has been examined against the corporate governance ROSC, this would be more relevant for Russia given the more primary state of development of Russian corporate governance at the moment. The UK has just applied to submit to examination against the final three ROSCs – corporate governance, accounting and auditing, and insolvency and creditor rights, and so can be seen to be giving a lead. The UK will be the only country to be examined against all 11 ROSCs.

Mike Noakes
Financial Stability and Markets Team, HMT
020 7270 4347

CORPORATE FAILURES - CORE BRIEF

This should be read in conjunction with the accompanying table

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CORPORATE FAILURES

CORE BRIEF

1. UK Objectives and Lines to Take

Objectives:

- to ensure that responses to recent corporate failures are well-considered and proportionate, but not complacent;
- to work internationally to ensure that responses help underpin and improve the workings and integration of capital markets, and do not fragment them.

Lines to take

- Reliable financial statements and sound corporate governance remain vital for sustained investor and market confidence. Need to act and decisively to restore confidence lost through recent US corporate failures;
- Corporate governance arrangements and audit and accountancy standards in UK are different, and in some respects better, than those in US. But no room for complacency. Know from past experience that failures can happen here.
- Established thorough, coordinated review of auditing and accounting issues (CGAA) raised by Enron collapse, which delivered interim conclusions in July, and a separate review of the role of non-executive Directors;
- Main CGAA July conclusions, on which Government has committed to act were that:

- tougher mechanisms are needed to underpin the independence of auditors from companies they audit;
 - role and membership of company audit committees need to be strengthened;
 - there should be more proactive and wide-ranging enforcement of accounting standards in company financial statements;
 - UK arrangements for regulating accounting and audit professions should be reviewed.
 - Important to work towards having in place by 2005 a robust set of international accounting standards, which promote transparency in company accounts, and address issues such as accounting for share based payments and revenue recognition.
- Recognise that many of these issues have important international aspects (eg accounting standards). We are working with international partners to ensure measures deliver consistent and coherent outcomes, and are proportionate.
 - We wish to guard against actions that damage integration of financial markets, which (for example) make it unreasonably harder for EU firms to raise capital in the US or elsewhere.

2. What has triggered this spate of corporate failures?

In excess of 20 companies in the US – headlined by Enron, WorldCom and Global Crossing, but also including smaller companies as well as international giants such as AOL and Xerox – have suffered high profile failures in corporate governance and/or auditing and accounting procedures. These have caused severe losses of value, even bankruptcy.

The following circumstances are not specific to any one company but are stylised features of many of the recent failures.

- 2.1. Many were highly geared “Wall Street darlings”, which enjoyed swift growth in earnings per share (EPS), often linked to the dot.com

explosion and utilities capacity trading. Share prices also increased rapidly.

- 2.2. Many senior executives benefited (sometimes by hundreds of millions of dollars) from stock options, giving them a strong incentive to generate rising share prices. However, early rapid growth rates, touted as the norm by senior management and expected by Wall Street, were unsustainable through normal commercial activities.
- 2.3. A variety of aggressive accounting practices were employed to boost reported performance. Common were those involving revenue recognition distortions, sometimes with a multi-period contract being allocated to one period, artificially inflating that period's revenue and profits. A tax loophole also permitted the booking of derivative contracts gross rather than net, wildly inflating their revenue value.
- 2.4. "Round trip" or "wash" trades were also common in utility businesses, where companies simultaneously traded identical capacity. While this would only cause a moderate increase in profit figures, it would enhance the favoured Wall Street measure EBITDA (Earnings before Interest, Taxation, Depreciation and Amortisation), as the sales of capacity were booked as revenue, while the corresponding purchase was booked as a capital investment and depreciated rather than treated as a running cost.
- 2.5. WorldCom allocated \$3.8bn of running costs to capital expenditure, artificially boosting EBITDA, while adding back approximately \$3 bn of bad debt reserves into the profit and loss as income. Further misallocations of over \$3 bn more are expected.
- 2.6. Some investment bankers were eager to manage companies' investment and funding strategies, and issued "buy" recommendations

on the stock. With WorldCom and Enron, "buy" recommendations were still being issued by analysts regarded as favoured by the companies days before their collapse.

2.7. Searching for rapid earnings growth, many sold their core, physical asset-based activities, often involved in production, to buy extra "new economy" capacity, usually trading, often derivative and Net-based. Some like Enron also over-diversified.

2.8. Particular to Enron (at least in scale) was the use of off-balance sheet accounting to conceal \$40 bn in debt in over 3,000 Special Purpose Entities or Vehicles (SPE/Vs). Enron also made very aggressive use of "mark-to-market" accounting. Adelphia also used off-balance sheet accounting to hide \$3.1bn of loans to directors.

2.9. Tyco stands out as being unique, inasmuch as the issues here centre largely on tax evasion and directors' gross over-compensation and misuse of corporate funds.

3. What has been the fallout?

3.1. Stock Markets Main impact has been across world stock markets. An already febrile sentiment amongst investors has been exacerbated. Investor confidence has been damaged, particularly in the US causing a substantial outflow of investor funds. The euro has strengthened against the dollar to parity. Stock market problems are also a threat to life assurance companies' reserves.

3.2. Arthur Andersen are the principal casualty. Strong in new economy telecoms and energy sectors, now convicted for obstructing justice. Andersen were involved with Enron, WorldCom, Global Crossing and Qwest amongst others (incidentally including the troubled Vivendi Universal in France). European branches are negotiating link-ups with

other Big 4 firms, mainly Deloitte and Touche, to maintain international coverage and so try to work through the crisis.

3.3. Energy and Communications Services There has been no noticeable to disruption to either, operating assets being sold away in the US, UK and abroad as efforts are made to restructure some of the companies – including WorldCom and Enron – into a form that might trade their way out of trouble. It should be borne in mind that WorldCom carried 2/3 of the US – and 1/2 of the world – e-mail traffic, which may improve its survival chances in some form or other, but presents a visible, if remote, threat to stability.

4. What potential weaknesses did these cases expose?

(The areas below were identified by the DG Markt (Commission) paper prepared for the Oviedo Informal ECOFIN – attached).

4.1. Auditing standards and procedures

- Potential ***conflicts of interest arising from audit and non-audit services provided to a company by the same firm.*** (In 2000 Andersen earned \$25m from audit and \$27m from non-audit services with Enron, and \$4m and \$12m respectively from WorldCom in 2001; other examples of auditors being paid in stock options have been cited);
- Potential ***conflicts of interest arising from the practice of hiring internal auditors from a company's external audit team.*** (Enron, like many others, hired many of its internal auditors from its Andersen audit team);

- Whether ***audit committees are sufficiently independent*** if they fail to pick up the misreporting (or creative reporting) of earnings. (Enron's code of ethics was suspended to allow its Chief Financial Officer Andrew Fastow to run some of the off-balance sheet SPEs);

4.2. Accounting standards

- Whether ***accounting standards are sufficiently rigorous*** to ensure the appropriate treatment in financial statements of: SPEs and other complex structures, revenue recognition practices, and derivatives and other financial instruments;

4.3. Corporate governance

- Whether ***corporate governance arrangements more generally are sufficiently robust as to ensure that companies are run in the best interests of shareholders***. This includes issues such as strengthening the role and responsibilities of non-executive directors and separation of the roles of chairman and CEO, placing greater emphasis on the role of the audit committee, giving the board more independence from day-to-day running of the company (in Enron's case it is argued this might have made it more difficult to suspend its code of ethics).

4.4. Financial regulation/stability

- whether ***credit derivatives are properly understood and regulated***, and, more widely, how credit risk is transferred to sectors such as insurance, and what concerns that might raise;

4.5. Independence of external commentators

- whether ***external commentators on a company's performance (investment bank analysts, credit rating agencies) act***

sufficiently independently. For example, the collapses of Enron, WorldCom et al coincided with revelations regarding analysts privately deriding stock – mainly dot.coms – that they publicly recommended. And there have been accusations of analysts coming under heavy pressure to recommend investment clients' stock in return for IPO business.

● National reactions and attitudes

(Accompanying table gives overview of responses in different sectors).

5.1. UK

- DTI and HMT set up the co-chaired Coordinating Group on Audit and Accountancy Issues (CGAA) with the FSA and accounting regulators, to coordinate the analysis of and response to the auditing and accounting issues raised. The interim report (published in July) recommends:-
 - Audit committees:-
 - Role and membership should be strengthened. Committees should have principal responsibility for making recommendations on auditor appointments, and should approve the purchase of any non-audit services from auditors.
 - Auditor independence;
 - welcome decision by leading professional bodies to extend requirement for audit partner rotation beyond lead partner. But recommend rotation period should be cut from 7 years to 5. The case for mandatory rotation or mandatory re-tendering of audit firms should be examined further.
 - No ban on provision of non-audit services. But further work needed to identify the kind of non-audit work compatible with auditor independence.
- Accounting standards, and regulation of the accountancy profession

- Government should bring forward the review of the Accountancy Foundation.
- welcome ASB and IASB's efforts to introduce high quality standards and EU's adoption of international accounting standards by 2005.
- Enforcement of accounting standards should be more wide-ranging and proactive. Government to review enforcement arrangements more widely.
- Auditing Standards
 - Welcome the adoption of International Standards of Auditing in the EU in 2005 and the work of the Audit Practices Board.
- Also the CGAA recommend discussions with OFT regarding the effect on competition the concentration of business with the remaining Big Four firms has.
- Additionally, DTI and HMT have also asked Derek Higgs to review the role of non-exec directors (NEDs). His work is concentrating on:-
 - identifying who current NEDs are and how their constituency might be widened,
 - NEDs' independence, accountability and relationship with institutional investors, and their remuneration
 - the Combined Code,
 - what can be done to strengthen the quality, independence and effectiveness of NEDs.

A consultation document has been launched with a deadline for responses of 6 September. A report is expected early in 2003.

29/11/2002

- The FSA issued a discussion paper on the regulation of financial analysts in July entitled "Investment Research: Conflicts & Other Issues", aiming to report before the end of the year.
- There are ongoing reviews of Company Law and the Listing Rules which will acknowledge the issues these problems have raised.
- The Chancellor has announced in October that the UK will submit for assessment against the IMF/World Bank Reports on Observance of Codes and Standards (ROSCs) for corporate governance, accounting and auditing and insolvency and creditor rights.

5.2. EU

- The Commission have largely taken the lead, reviewing the Financial Services Action Plan to see if it needs to be adjusted in the light of Enron and other failures. Our concern has been to ensure that this is not used as an excuse (eg by the French) to interfere with the liberalising agenda promoted by the FSAP.
- As a result of this review, legislation has been fast-tracked to deliver the previous agreement to adopt international accounting standards across Europe by 2005.
- And the Winter High Level Group of Company Law Experts (Winter HLG) - originally established to find a way around the Takeovers and Mergers Directive impasse - after Oviedo were asked to look into corporate governance. Their report makes recommendations on:-
 - Directors' remuneration and the role of non-executive directors;
 - each Member State having a corporate governance code, with greater harmonization across the EU, (but not a common code) ;

- better company disclosure of shareholder structures and corporate governance practices;
- greater shareholder involvement to be encouraged, particularly via more flexible voting facilities.

These generally chime with UK practices or those being considered.

- An action plan is to be developed covering all the report's recommendations and will be published, after Member State discussions, early 2003.
- There was also agreement at the Oviedo informal ECOFIN that the Committee of European Securities Regulators (CESR) should look at derivatives and financial analysts, though subject to ongoing relevant Financial Stability Forum (FSF) work is delivered.
- While this may obviate the need for further substantive work, a new Commission Forum has just been established to look into the work of financial analysts and their independence from their investment banking colleagues.
- Both German and French regulators have already introduced stricter regulations relating to financial analysts' independence, transparency and conflicts of interest.
- The MEDEF/FEP-AGREF (French CBI) have produced their own CGAA-type document, advocating market measures rather than regulation. However, the French Government seem unlikely to accept this as being enough.

5.3. US

- Domestic responses have been varied. Both the SEC and the FASB have concluded, in varying degrees, that some of the core problems

lie within USGAAP and its extremely prescriptive rule-bound character, which breeds a "box-ticking" mentality and can cause the overall picture to become obscured.

- Financial Analysts – see 4.6. *Independence of external commentators* above. Merrill Lynch (ML) were heavily implicated in the malpractice that may yet turn out to be common throughout the industry. They "settled" with Eliot Spitzer, the NY Attorney General, for a fine of \$100m, over the initial allegations, plus agreed alterations to business practices:-
 - analysts' incomes no longer being based on investment banking success;
 - disclosure/monitoring of possible conflicts of interest,
 - greater insulation of analysts from investment bankers.

Subsequently ML are being investigated for dismissing analysts under pressure from Enron. CreditSuisseFirstBoston are also accused of this.

- Other Broking Houses - including Goldman Sachs and Salomon Smith Barney (SSB) - also adjusted their systems. Offers of settlements were made but ignored pending investigations. Also embroiled in other investigations, SSB removed their CEO in September 2002. Investigations continue into the remaining investment banks by Spitzer, the SEC, Justice Dept and various state regulators, who have each agreed different "targets". Sample fines of \$200 m each have been suggested.
- Investment Banks In late July 2002, the SEC began investigations into the role of JP Morgan Chase and Citigroup in suspected

fraudulent energy trading at Enron. Allegations have been made that they actively assisted in the incorrect booking of several billions of dollars of loans to Enron as energy trading income rather than debt. This improved the reported cashflow and, in the light of subsequent problems, possibly saved Enron from triggering hard-wired conditions relating to other financial ratios connected to existing structured debt. The banks are accused of setting up offshore entities used as third parties to cover the fabricated trades

- These investigations are at an early stage, and both banks deny any wrongdoing, again claiming their practices were the industry norm. The fallout, were they to be found guilty, is difficult to judge, but it is possible that this was a common practice amongst Enron's many bankers. **NB** The two UK banks most involved with Enron are Barclays and Royal Bank of Scotland (NatWest).
- Further to the problems detailed above relating to ML, they are also accused, with most other investment banks, of favouring large clients' senior management – including Bernie Ebbers of WorldCom – in the allocation of oversubscribed initial public offers, creating an immediate profit for those favoured. The SEC may also insist that any IPO function also stands alone in future.
- Legislation – the Sarbanes-Oxley Act – was rushed through Congress to reform the accountancy and auditing professions. The main provisions are:-
 - Oversight body for accounting profession answerable to the SEC;
 - Strengthened auditor independence;
 - Clearer definition to corporate responsibility requirements;

- Improved information for investors, particularly enhanced financial disclosures;
- Enhanced firewalls between securities research analysts and investment bankers to control analyst conflicts of interest;
- Increased funding for SEC - authorizes \$776m for SEC in FY 2003. (*N.B. including approx. \$200m for IT and other infrastructure improvements*).
- Requires various studies and reports, including studies on investment banks, credit rating agencies, and SEC enforcement actions;
- Tougher criminal penalties, including making it a crime to retaliate against corporate whistleblowers.
- Prescriptions on board committee membership, particularly audit, nomination and remuneration committees.
- Domestic CEOs and CFOs to sign off last SEC filings and annual accounts and all future filings and annual results. This has been extended to companies with secondary listings in the US, including those from the EU, for whom CEOs will have to certify all future reports.
- Strict requirements for overseas accountants and auditors to comply with US standards, but may be some exemptions depending on native jurisdictions;
- **NB** The last three points have extra-territorial aspects. Informal negotiations are underway to achieve exemptions and/or a mutual recognition system for UK (or EU) and US firms, though those relating purely to corporate structure are unlikely to be successful.

The SEC can exercise exemptions for foreign audit firms. The precise impacts of the Act will not be known until the new Public Company Accounting Oversight Board (PCAOB) becomes operational in April 2003. Early contacts with the SEC have been promising, encouraging detailed discussion of the problems. How Chairman Pitt's resignation in Nov 2002 will affect this is unclear.

- The SEC, Nasdaq and NYSE have also issued new guidelines relating to corporate governance and listing requirements, but these differ only in detail and emphasis from the provisions of the new act.

5.4. International

- Various FSF member organisations have ongoing programmes, some triggered by recent events, others that have been expanded or amended to take into account the issues raised by Enron et al. More specifically:-
 - International Organisation of Securities Commissions (IOSCO) completed work in May relating to the unreliability of company specific, non-GAAP measures of earnings;
 - OECD is carrying on earlier work into the misuse of corporate vehicles, producing a standard set of regulatory options for different circumstances;
 - Basel Committee on Banking Supervision (BCBS) have produced reports on transparency and disclosure in international banks and the effectiveness of internal audit principles in banks;
 - BCBS, the International Association of Insurance Supervisors (IAIS) and IOSCO are evaluating IASB and International Federation of Accountants (IFAC) accounting standards,

particularly in relation to banking, with recognition and measurement of financial instruments, and generally encouraging convergence towards IAS compatible standards;

- IOSCO Chairmen's Committee is looking into the roles of rating agencies; accounting and audit consolidation; professional oversight and disclosure issues generally;
- OECD has a wide-ranging project to promote and establish standards of corporate governance across the world, and although this concentrates primarily on emerging economies the basic principles have read across to the EU and US.
- Since May, IASB has launched exposure drafts on 14 IASs for comment, including those covering presentation of financial statements, related party disclosures, accounting for investments in subsidiaries and associates(x2).
- IFAC has begun restructuring the oversight of the auditing profession, including the establishment of common standards for transnational firms and, to increase transparency and strengthen processes.

Crockett in his September letter to the G7 Annual Meeting emphasised the need for prompt, internationally coherent action based on agreed principles. Efforts to take forward an Action Plan from the G7 meeting foundered over issues of mutual recognition of standards and Canadian provincial logistics, but broad, though informal agreement on the need for coherent, balanced actions was achieved.

Contact: Mike Noakes

FSM

x4347

Global corporate responsibility

The primary G8 responsibility is to ensure sound economic growth. And yet, we face a confidence crisis in the current functioning of our financial capitalist system (stock exchange crash; future of pensions). Shareholders expect better accountability and transparency. The need for sustainability is recognised by companies themselves, as demonstrated in Johannesburg, and by the public opinion, as shown by the growing request for ethical funds.

We are all involved in national efforts to improve our national situation, but we need now to provide a global response that would receive the broadest possible support.

The proposal is to develop a holistic framework for our market-based economy, combining transparency, competition and efficiency in the one hand, with ethical, social and environmental requirements on the other hand. The objective would be to help restore confidence by demonstrating our commitment and the commitment of our private sector to the principles of responsible market economy. It is not a new form of regulation but a common response for the long term. We would thus reconcile the need for progress and risk-taking inherent in entrepreneurship with the need for responsibility required in complex societies.

These principles would related to issues such as:

- a) Transparency and economic efficiency
 - corporate governance, accounting standards
 - strengthening auditing and accountability procedures
 - better information of shareholders
 - better functioning of markets, in particular for reducing volatility.
 - better monitoring of financial professions.

- b) Ethical, social and environmental responsibility:
 - respect for fundamental rights (e.g. child labour, bonded labour, human trafficking)
 - fight against corruption.
 - respect for environment standards, better use of natural resources.

Method: First, G8 discussion (Finances and Foreign Affairs sous-sherpas). We could then consult with other stakeholders (private company representatives, ethics funds, trade unions, NGOs, etc.)

Outcome: No final option at this stage -could be the adoption of a set of guidelines able of receiving broad endorsement.



10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

7 January 2003

Dear Maurice,

AFGHANISTAN - DRUGS

We discussed the difficulties of tackling Afghan opium cultivation at our meeting in Ottawa on 8-9 December.

Obviously progress on this has been slower than we would like; and it is important to keep up the momentum. But it is also important that we do not lose sight of how far we have already come from a very low base. A year ago Afghanistan was a completely failed and divided state with an opium market that was the only functioning part of the economy. Traffickers were able to act with impunity under the protection of powerful local leaders who took a share of the profits. Opium cultivation had already reached record levels under the Taliban with bumper crops in 1999 and 2000. Their ban on cultivation a year later was enforced with bribery and fear. These are not methods we would want an accountable government to apply. Crucially the Taliban did nothing about drug processing and trafficking, activities which they taxed. The benefits they received were indeed enhanced by the ban which effectively created a short-term shortage and drove up opium prices after two years of over-supply. Poppy farmers suffered the most from an approach that removed their only source of income without providing them with an alternative, licit livelihood.

The post-Taliban Afghan Government has commendably taken a consistently tough line against all parts of the drug trade. A ban on cultivation, processing and trafficking was introduced in January 2002 and followed up with an eradication programme which resulted in the destruction of approximately 25% of last year's opium crop. President Karzai reiterated his personal determination to eliminate drugs in a public address in September. The Afghan National Security Council, the lead drug control institution, is working on a national drug strategy which envisages the complete elimination of opium cultivation in ten years. That is an ambitious target, but one we fully support.

The experience from countries such as Thailand and Pakistan is that drugs can be defeated with a sustained and consistent long-term commitment by the international community.

Since April last year the UK has been leading international anti-drugs support for Afghanistan. In consultation with the Afghan authorities, other donors (in particular in the G8) and international (mostly UN) agencies we have developed a strategy to co-ordinate international counter-narcotics support for the Afghan Government. This strategy was endorsed at the Kananaskis Summit. It outlines four areas where international efforts should be concentrated:

- building up an effective counter-narcotics law enforcement capability with the capacity to operate throughout Afghanistan and to co-operate with neighbouring states on anti-drugs operations;
- ensuring that reconstruction programmes rehabilitate the rural infrastructure of drug-producing regions so that legitimate alternative livelihood opportunities, including from outside agriculture, become available to those currently dependent on opium cultivation;
- developing horizontal Afghan governmental institutions and an anti-drugs legislative framework which ensure coherence between the criminal, health and education aspects of drugs policy; and
- designing programmes to address Afghanistan's growing problem with drugs consumption.

Although this is a long-term task, it does not mean that we cannot also make a difference in the short-term. British Customs officers are already delivering anti-drugs training to the Afghan police. More generally we are currently considering measures to support Afghan action against the 2003 opium harvest starting in April. Our approach has three emphases:

- encouraging the development community to accelerate implementation of rural reconstruction programmes in drug-producing areas so that their impact is felt quickly;
- support for short-term Afghan-led interdiction operations to hit traffickers, the real villains of the drug trade, and take away in-country demand for opium;

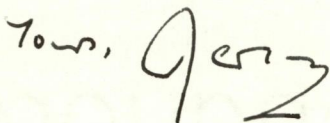
- enforced uncompensated eradication in areas where farmers persist with opium cultivation even though alternative sources of income and employment are available.

The Afghan Government has endorsed this approach. We hope our G8 partners will fully support it. The G8 can play a key role in ensuring that the international community continues to treat the elimination of drug production in Afghanistan as a priority.

But the drug problem does not end at the Afghan frontier. It is important to consider the regional context. In this respect your Government's proposal for a conference on drug trafficking routes out of Afghanistan is extremely timely and welcome. We intend to work closely with you to ensure that the conference is a success, with clear operational conclusions. And we urge other G8 countries to play a full part in achieving such an outcome. It would be useful to take stock at our next meeting of how we as Sherpas can best support and reinforce this.

We should also not forget the substantial progress in other areas that Afghanistan has made over the last year. A political process has been put in place which has enabled the Afghans to choose their national leader. A new constitution is being developed. The economies of some major cities have returned to relative normality, three million children have returned to school, nearly two million refugees have returned from abroad and many of the internally displaced have gone home. The country has a budget and a new currency. The international community has remained engaged and donor disbursements have been good. Following the UK's lead, and our own discussions at Ottawa, donors have now cleared Afghanistan's arrears to the International Financial Institutions. This will facilitate Afghanistan's access to significant levels of concessional lending paving the way to more large-scale reconstruction projects.

I am copying this letter to our G8 colleagues.

A handwritten signature in black ink, appearing to read "Tom, Jeremy".

JEREMY HEYWOOD

Mr. Maurice Gordault-Montagne

H M Treasury



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Director
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cc: DFH
LL
AW.

19 December 2002

Dear Jeremy, 

Jon Cunliffe and I attended a G7 Deputies' Retreat in Paris on the 15th and 16th December. I thought it would be useful to give you a brief readout of the main topics covered of relevance to the Sherpas' process.

Russia and the G7

We discussed how the Kananaskis decision impacted on the Finance Ministers' process. There was agreement amongst all the G7 (except Germany) that we should distinguish clearly between our regular business and our summit preparations. Clearly we need to facilitate Russia's involvement at Heads' level, which may mean significant participation in our pre-Summit Ministerial, but there was scepticism that it would be appropriate to involve her substantially in our core work through the rest of the G7 calendar.

Concern was expressed about setting explicit criteria for entry for Russia as this could provide other countries with a lever to push for membership. Rather, it was felt that Russia should be encouraged to achieve some specific economic goals before its full G7 involvement could be reconsidered. Meantime (as part of a wider process of G7 outreach to other countries), it would be involved in thematic discussions on an ad hoc basis – starting with terrorist



INVESTOR IN PEOPLE

financing and development at the February Ministerial. G7 Ministers will discuss the broader question of Russia's role there.

In general terms there was little appetite to add countries to the core of seven members for the bulk of business. However, more efforts would be made to engage in outreach, to involve other key partners in policy development, on an issue by issue basis. But there was a feeling that the composition and nature of the group as it stands worked well. Deputies agreed to focus more on medium and long-term issues.

Corporate Social Responsibility

Deputies agreed that there was a distinction to be made between the primarily G8 work on Corporate Social Responsibility (where FSSs would have a role when financial instruments were discussed) and the issue of Corporate Governance, (covering auditing, accounting standards and corporate disclosure) which was already being pursued through the Finance Ministers' net. The French emphasised that they were proposing nothing new on the Corporate Social Responsibility agenda, they just wanted to reinforce existing measures.

Lower and Middle Income Country (LMIC) Debt

Two tracks were proposed by the French for progress on this: some form of debt "help" (i.e. swaps) for MICs, and reforms in the Paris Club. All but the French had real problems with any "MIC" debt relief, and there was general agreement to our line that poor countries should remain the priority. But the French were unbowed: suggesting it be encompassed under NEPAD. They commented that Chirac was personally keen to see progress here, so there was likely to be high-level pressure for action. There was general support for further work on Paris Club reforms, along the lines we had suggested to the French.

HIPC

FSSs noted the remit from Sherpas to report back by the end of January. Their work will have three themes: the status of implementation; the status of financing (these two will necessarily be based on World Bank work); and "live issues". The last should

be the opportunity to raise our topping up points. A very short draft will be produced for Sherpas by end-January.

Crisis Prevention and Resolution

Deputies discussed the causes of recent crises, focusing particularly on the role of indexed and foreign-currency-denominated debt. One policy conclusion was that there needed to be more independent surveillance by the IMF in this area. DDs were commissioned to prepare a paper on this.

There was little progress on crises resolution. There was general consensus that these issues needed to be taken forward with more consultation of other partners (especially emerging markets). FSSs would prepare a short note for Sherpas on these issues by January (on the basis of a Presidency draft).

Financial Abuse

It was noted that G7 Experts would meet in January and report (through FSS) to Sherpas. Jouyet (France) explained that the FATF 40 recommendations are due to be revised by June and that this process might need political level support.

I am also circulating this letter to Michael Arthur (FCO), Richard Manning (DfID) and Richard Lindsay (FCO)

Stephen

STEPHEN PICKFORD

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From: Peter Ruskin, NPD
Date: 18 December 2002

cc: Peter Ricketts
William Ehrman
Michael Arthur
Linda Duffield
Philippa Drew
Heads: Eastern Dept, EPD, NPD
Richard Lindsay, EcPol
Jeremy Heywood, No10
Ian Downing, DTI/INPP
James Harrison, PACS, MOD
Andrew Crook, HMT
Nick Toogood, OD Sec
Political Sections, G8 Posts

(F)

cc: DFH
LL
AJ

Reference: NPT083/039/2002

To: Edward Oakden

**SUBJECT: G8 SENIOR OFFICIALS' MEETING ON THE GLOBAL PARTNERSHIP
(G8GP), BRUSSELS, 13 DECEMBER 2002**

Summary

1. As at the last meeting in September, discussion focused on continued Russian obstacles to implementation of nuclear-related projects. The Canadian Presidency used their last meeting to leave the Russians in no doubt that without timely resolution of the remaining issues (especially tax and liability), G8GP was going nowhere. There was little sign that they succeeded. On outreach, it was agreed that Canada would host informal meetings in Ottawa with potential donors, and that partners would approach friendly countries that may consider joining G8GP. The next meeting was set for the last week of January. The Chair's summary, which was largely written before the meeting, is attached.

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Detail

2. You attended this meeting accompanied by Ian Downing (DTI) and me. It was chaired by Jim Wright, Assistant Deputy Minister, Global & Security Policy and Political Director, Canada. Cast list attached

Outcomes and direction from G8 Sherpas on the Global Partnership

3. The Chairman summarised the outcomes of the G8 Sherpas meeting in Ottawa 8-9 December 2002:
 - Sherpas were anxious for results by the Evian Summit (June 2003) and to progress implementation. Meanwhile, the key problem discussed with the Russians was lack of consistency in their treatment of G7 countries.
 - The Multilateral Nuclear Environmental Programme for the Russian Federation (MNEPR) was raised but there was no resolution of the disagreement on its tax and liability provisions. Doubt remained about whether the MNEPR would require Duma ratification.
 - The role of the G8 Nuclear Safety & Security Group (NSSG) was unclear, in particular its relationship to this forum. Canada expressed concern that Sherpas may receive two sets of advice, and suggested that the NSSG should advise through the Senior Officials forum. No-one dissented.

Recent actions partners had taken to implement the initiative

4. **Canada** said it had created a separate bureau within DFAIT to take charge of G8GP policy and implementation. Canada was also in the process of defining its national priorities.
5. **Italy** said it had established an interministerial task force; it intended to focus on chemical weapon destruction and submarine decommissioning.
6. **Germany** said it was focusing on submarine decommissioning, physical protection of fissile material and chemical weapons destruction. It had agreements already in place with Russia.
7. **France** said its work in recent months had concentrated on preparing for its upcoming presidency, and also the internal identification of projects. They planned to visit Moscow soon to present their plans.
8. **Russia** said it was trying to resolve the remaining issues of tax and liability. In November Russia had concluded an agreement with Canada on chemical weapons destruction. On

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domestic co-ordination of G8GP policy, Prime Minister Kasyanov had held a meeting with all ministries involved in the G8GP. In early December it had been decided that the PM would chair the interagency mechanism, which would meet at intervals. Other agencies had also been instructed to improve their co-ordination.

9. For the **UK**, Ian Downing said we had had a number of bilateral discussions with Japan, Canada and Norway. Since October we had joined the International Science and Technology Centre (ISTC). We were also hoping to join the Norwegian Arctic Military Environment Co-operation (AMEC) programme, and were in the process of finalising projects in the Andreeva Bay area. We had also finalised the financial mechanism for the G8GP. The UK was ready to start work straightaway, once the issues of tax and liability had been resolved and the agreement finalised.
10. **Japan** said it had a positive impression of its project in Vladivostok following a visit there. The visit of the Japanese Prime Minister in early January could be an opportunity for progress in reaching agreement with Russia.

Discussion of ongoing problems and solutions associated with the application of the guidelines to new and existing co-operation projects

11. The Chairman outlined the current situation: Russian law did not give sufficient protection for partners' participation in the G8GP; on the MNEPR, everyone agreed that VAT should not be paid by donors. The Chairman asked how significant MNEPR was. France said it was fundamental, Germany that it was thinking about using MNEPR instead of its standing bilateral agreement, Italy that it would use MNEPR if it was compatible with the Kananaskis guidelines, Canada that it would consider joining MNEPR, US that it intended to rely upon its Co-operative Threat Reduction Treaty. You reported on the Heywood / Illarionov agreement to use language from the MNEPR in the UK / Russia Supplementary Agreement. The MNEPR text was therefore vital to the UK, too.
12. Russia responded. On access, rights depended on specific projects. On liability, Prime Minister Kasyanov was fully aware of the importance. The G8GP was a new partnership that needed new approaches. The best approach was to rely on MNEPR and use its precedent in formulating other agreements. On ratification, it was not clear whether the MNEPR would require Duma approval: as things currently stood it would, but if there were further compromises it might not. The issues of tax and liability were closely linked, and Russia had already accepted some compromises. On VAT, "we have differences – you say exemption, we say reimbursement." MNEPR participants should come to Moscow to discuss taxation and liability anytime – the Russian side was ready. Russia did not yet have a response to the Norwegian counter-proposal on tax and liability.

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13. The Chairman responded robustly. On VAT exemption or reimbursement, it was not merely a matter of timing. Rather, it was "about the principle of supplying \$20bn of assistance." The EC delegation supported: in its projects "reimbursement was not happening"; this was a source of irritation. The US and UK supported the Canadians. Germany said this discussion was worrying: if the group had nothing to report by Evian, "we are in for a hard time from our leaders." Japan then outlined its concern that their projects are for exclusively peaceful use.
14. In response to a Russian suggestion that progress in resolving tax and liability should be worked on in parallel to work on designing new projects, the Chairman became more direct. He said that projects were ready to go, but that with current Russian VAT rates, \$2-4bn of the \$20bn programme could be lost, since if the tax was reimbursed, it would go to Partners' Treasuries, not back to MFAs. "The Russian government would do well to consider the Norwegian proposal."

Specific projects for new co-operation

15. **Canada** said that it was talking to partners about possible involvement in CW destruction, also that it was interested in submarine decommissioning, and hoped to join the ISTC.
16. On submarines, **Germany** said that of the 120 in the Murmansk area, 50 had had their spent fuel removed. Germany hoped to complete the project in five years.
17. For the **UK**, Ian Downing said we had a series of projects ready to go. The UK planned to spend 80% of its money in Russia, not, as Russia had suggested about the G8GP as a whole, 80% in the donor country.
18. **Canada** suggested a submarine working group and Japan agreed this was a good idea. Russia suggested Germany should co-ordinate the submarine programme.
19. **Russia** said that the first destruction facility for Chemical Weapons had been commissioned in the last few days, and the delegation expected the OPCW to arrive on 17 December 2002.

Parties' planned financial contributions

20. At the Sherpas meeting, France had pledged 750 Meuros, Russia had pledged \$204.2m for 2003 of which three quarters would be spent on Chemical Weapon destruction, and one quarter on submarine decommissioning.

Indicators of success

21. You said the UK had reservations about including financial contributions in the indicators of success, because it was project implementation that counted, not just money in the budget. Four of the five proposed indicators were inputs rather than outputs. Canada appeared to take on board this point.

Outline outreach strategy

22. There was consensus on the importance of attracting new donors, and acknowledgement of the importance of the Norwegian contribution to work on submarine decommissioning. On the best way of progressing outreach, the French were inclined to stick to informal contacts. You said there would also be a need for a formal letter to be sent out at some point, presumably from the Presidency. You suggested a division of labour, with France concentrating on getting the initiative progressed, and Canada acting as a facilitator for informal outreach. This followed informal approaches to you in the margins from both Bolton (US) and Wright, who were concerned that, if the project was left to France, it would progress no further. The agreed strategy was as follows: the Canadian Presidency to have informal discussions with embassies in Ottawa, the results would then be reported back to the French Presidency; meanwhile individual partners would be encouraged to approach potential contributors with which they had particularly good contacts, and report back at the end of January.

Co-ordination

23. Canada referred back to the idea of a group to co-ordinate work on submarines, saying that it was important that this forum remained the core group for co-ordination of the G8GP. For the UK, Ian Downing said there were already many other groups, and we should look to draw on them rather than create new sub-groups. Germany said merging this forum with the Non-Proliferation Experts Group (NPEG) would be worth considering.

Incoming presidency

24. France outlined its plans, focusing on translating Kananaskis into concrete steps. The delegation stressed the importance of finalising the guidelines, and suggested an equivalent of an MFN clause to show potential donors that their projects would be covered.
25. France was planning meetings back-to-back with NPEG, with the first on 24 January 2003, then at the end of March, then mid-May. Japan and the US said they would rather move the first meeting.

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Canadian-drafted G8 response to events in North Korea

26. Wright introduced the Canadian draft statement circulated earlier. He explained the thinking behind it. It would need to be updated to reflect the events of the previous 48 hours. He had received some bilateral comments in writing (comment: including Peter Ricketts' letter).
27. Bolton (US) supported the approach in the Canadian draft. The DPRK and El Baradei had exchanged letters (UKMis Vienna telno 118). As he understood it, nothing had changed on the ground in the DPRK as of nightfall DPRK time Friday 13 December, either in terms of DPRK removing the IAEA seals, or expelling IAEA inspectors from the DPRK. The text of the statement needed to be updated to reflect the events of the last 48 hours, and should include references to the IAEA resolution, anything that came out of Copenhagen (he surmised) and the Nuclear Suppliers Group meeting. But the general approach in the statement remained right.
28. The Japanese spoke to this letter, and to yesterday's Japanese statement. The Russian, who talked as if he had not seen the draft, called for the inclusion of a series of elements which were already there, but basically could go along. The Italian called for dialogue (Bolton referred him to the last sentence of the draft, with its implicit reference to this); but the US would have no dialogue with the DPRK until the DPRK completely and verifiably dismantled their nuclear weapons programme. Meanwhile, the Agreed Framework was "deader than a doornail."
29. The French (Zourabchivili) said the statement should revert to more or less its original form (i.e. without the subsequent French amendments) in light of the DPRK declaration of Thursday 12 December. Key for France would be that whatever issued from the G8 should be compatible with whatever issued from Copenhagen.
30. You similarly endorsed the approach in the Canadian draft. It needed updating as Wright and Bolton had suggested, and some adjectives might need to be added to register strongly the G8 concern about DPRK actions. But the basic approach was right.
31. Wright concluded that he would circulate a new draft letter on Monday 16 December (Canadian time), on the Political Directors' net; and would ask for rapid reactions. The G8 response should be measured. But it needed to issue soon, i.e. in the early part of w/c 16 December, not a week after the event.

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NO. OF ATTACHMENTS: 2: Chair's summary of meeting & Cast list

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G8 Global Partnership Against the Spread of Weapons and Materials of Mass Destruction

Chair's Summary

The G8 Senior Officials Group met in Brussels on December 13, 2002 to discuss the on-going implementation of the G8 Global Partnership, which was launched by G8 leaders at the Kananaskis Summit last June. The group took note of the direction provided by G8 Sherpas on the Partnership coming out of their meeting on December 8-9 and worked on that basis.

Senior Officials described the actions they had taken since September to fulfill their respective responsibilities pursuant to the initiative, they described the ongoing problems related to the application of the guidelines and new and expanded projects for cooperation. Senior Officials welcomed the establishment of a Global Partnership coordination mechanism in the Russian Federation headed by its Prime Minister. The Chair reviewed all of the partners' planned financial contributions, after which Senior Officials discussed a list of indicators for success and milestones with a view to creating a concrete basis upon which the Global Partnership would be assessed at the next Summit in Evian-les-Bains, France. Following this discussion, the group agreed on an outreach strategy to encourage the participation of non-G8 members in the Partnership, exchanged views on coordination and ended with a description by the incoming G8 Chair of France's priorities and plans vis-a-vis the initiative.

With respect to the G8 Sherpas work plan for Senior Officials, the Group acknowledged the need to provide Sherpas with reporting on each member's application of the guidelines and on the status and experience in programming, in addition to drafting a public report on the Partnership for consideration by Sherpas and leaders for the next Summit. Finally, Senior Officials recognized the importance Sherpas' placed on operationalizing an outreach strategy vis-a-vis potential donors and recipients.

Partners described the activities they have each undertaken since the previous Senior Officials meeting in September, which included furthering the establishment of internal coordination mechanisms with a view to streamlining program delivery; development of project priorities and identifying strategic niches within broader non-proliferation, disarmament, counter terrorism and nuclear safety components of the initiative; consultations with Russia on these priorities and on the application of the guidelines (contained in legally binding agreements), and consultations with partners to ensure cooperation on the large capital projects (e.g. chemical weapons destruction and nuclear submarine dismantlement) and to exchange views on implementation experience. Partners emphasized the need to demonstrate concrete progress in time for the next Summit.

In the discussion of on-going problems related to the application of the guidelines, the Partners experiences varied. Some noted that where the legal agreements applying the guidelines were already in place, the cooperation was working well, while others emphasized that their continued inability to come to an agreement on liability and taxation in particular is impeding significant cooperation. In this context, Senior Officials discussed the MNEPR agreement and some partners indicated that its acceptance could facilitate resolutions of these issues under the Global Partnership.

G8 GLOBAL PARTNERSHIP SENIOR OFFICIALS' MEETING
BRUSSELS, BELGIUM
DECEMBER 13, 2002

List of Delegates

Canada

Mr. James R. Wright (Assistant Deputy Minister, Global and Security Policy)
Mr. Allan Poole (Senior Coordinator, Global Partnership Program)
Mr. Troy Lulashnyk (Director, Global Partnership Program)

France

Germany

Mr. Peter Ammon (Director-General for Economic Affairs and Sustainable Development /Sous-Sherpa)
Mr. Jörg Ranau (Head of Division for Nuclear Energy and Non-Proliferation)
Mr. Rolf Herden (Head of Division for Disarmament Cooperation)
Mr. Horst Schneider (Ministry for Economics and Labour, Head of Division for Nuclear Energy Economics)
Mr. Rudolf Gridl (Ministry for Economics and Labour, Sherpa-Division)
Mr. Christian Aulbach (Ministry for the Environment, Nature Protection and Nuclear Safety, Division for Multilateral Cooperation in the Field of Nuclear Safety)

Italy

Minister Carlo Trezza (Coordinator for Security and Disarmament)
Mr. Emauele Manzitti

Japan

Mr.Yukiya Amano (Director-General for Arms Control and Scientific Affairs, Ministry of Foreign Affairs)
Mr.Tokuro Furuya (Deputy Director, Arms Control and Disarmament Division, Ministry of Foreign Affairs)
Mr.Takehiro Okubo (First Secretary, Permanent Mission of Japan to EU)
Ms. Kazuko Hikawa (Arms Control and Disarmament Division, Ministry of Foreign Affairs)

Russia

Mr. Mikhail Lyssenko, Director of the Department for Security and Disarmament Affairs of the Ministry of Foreign Affairs of the Russian Federation
Mr. Anatoli Antonov, Ambassador at Large and Special Coordinator for the Global Partnership, Ministry of Foreign Affairs of the Russian Federation
Mr. Valery Semin, Branch Director, Department for Security and Disarmament of the Ministry of Foreign Affairs of the Russian Federation
Mr. Vyacheslav Kulebyakin, Deputy General Director, Russian Munitions Agency

Mrs. Ludmila Orletskay, Assistant to the General Director, Russian Munitions Agency
Mr. Serguei Dovguchits, Deputy Director of the Department, Ministry of the Finance of the Russian Federation
Mr. Andrei Bykov, Advisor to the Minister of Atomic Energy of the Russian Federation
Mr. Igor Ivanov, Deputy Director of the Foreign Economic Relations Department, Ministry of Atomic Energy of the Russian Federation
Mr. Leonid Stolbetskyi, Chief Expert of the Foreign Economic Relations Department, Ministry of Atomic Energy of the Russian Federation

UK

Mr. Edward Oakden (Director for International Security, Foreign and Commonwealth Office)
Mr. Ian Downing (Director, Nuclear Industries, Department of Trade and Industry)
Mr. Peter Rushkin (Non-Proliferation Department, Foreign and Commonwealth Office)

USA

Mr. John Bolton (Under Secretary for Arms Control and International Security)
Ms. Rozanne Olivier
Mr. Steve Ioki

EC

Mr. Lodewijk Briet (G8 Global Partnership Senior Official)
Mr. Marc Deffrennes (G8 Global Partnership Coordinator)
Mr. Isidro Lopez Arcos (G8 NSSG)
Mr. Guiseppe Busini (for MNEPR questions)
Mrs. Maria Castillo (for the point on DPRK)

Refs : are you note-taking?

File



10 DOWNING STREET
LONDON SW1A 2AA

FAXED - Via Fco
16 December 2002

From the Principal Private Secretary

Dear Gary,

G8 INITIATIVE ON TRANSPARENCY/CORRUPTION

Last week's Sherpa meeting - and our separate bilateral discussion - were very useful in helping to shape the Evian Summit. We are following up separately on climate change with a senior UK delegation meeting their US counterparts in Washington on Friday afternoon.

You and I also agreed that the UK and US should work up together the idea of a joint initiative on the corruption/transparency agenda. To set the ball rolling we have produced a first draft of a possible document which could be sent to G8 Financial and Foreign Affairs Sous Sherpas in advance of their meetings in mid-January. In advance of that, the meetings on Friday morning in Washington provide an excellent opportunity for our experts to discuss this in more detail.

I look forward to hearing from you in the light of those discussions.

JEREMY HEYWOOD

Mr Gary Edson

CORRUPTION / TRANSPARENCY – AN ACTION PLAN FOR THE G8

The Evian Summit provides the opportunity for the G8 to lead the way in tackling corruption and mismanagement of resources on both the revenue raising and public expenditure sides of government. By creating a framework of lower tolerance of corruption and increased transparency of resource flows, this complementary approach will help mitigate the risk of corruption moving from revenue to expenditure misuse.

There are a number of avenues through which this overall theme could be taken forward:

1. Extractive Industries Transparency Initiative

The G8 collectively have a significant stake in the global extractive industries. Promoting transparency over payments and revenues in the extractive industries is a key step to reduce the risk of corruption and to enable citizens to hold host-country governments to account over the equitable and efficient use of resources.

- The G8 should work with a multi-stakeholder coalition of governments, companies, NGOs, investors, trade associations and IFIs to develop effective mechanisms to create transparency. This should cover both the payments made by companies to host governments and government-linked entities in the extractives sector, as well as transparency in the revenues received by host governments. (An international stakeholder meeting will take place in London on February 11/12, followed by an April conference)
- We envisage starting this process through a voluntary compact between participating countries, companies and other stakeholders. This would be based on a set of principles and clear expectations on disclosure. Other voluntary approaches include greater adherence to existing codes (the IMF's Fiscal Code, NEPAD's economic and social codes) or greater provision for transparency in, for example, the OECD Guidelines on Multinational Enterprises. It is likely that no single mechanism will suffice. Companies will want assurances that adherence to a mechanism for transparency does not leave them at a competitive disadvantage, in breach of existing contracts or with an undue regulatory burden. Adhering governments will need to be assured that adequate capacity building can be provided to help them strengthen public financial management and accountability systems. These issues should be addressed by Sous-Sherpas and experts before the Evian Summit.

2. Bilateral trade agreements

- The G8 should continue to advocate the adoption of anti-corruption measures, either specifically written into Free Trade Agreements or as adherence to existing multilateral rules (such as the OECD Convention on Bribery).
- The G8 should also argue consistently for an inclusive multilateral agreement on transparency in government procurement. However, we need to be realistic,

taking care to balance strict conditionality with the likelihood that developing countries will accept such measures.

3. Transparency in government procurement

- G8 should give extra impetus to concluding the WTO working group on transparency in Government procurement to study procedures and identify elements for inclusion in a future multilateral transparency agreement (which can attract support from LDCs). Such an agreement would include rules on publication of laws, advertising of opportunities, clarity of conditions under which contracts will be awarded, and would permit contracting authorities, where they have sufficient grounds for concern, specifically to exclude tenderers from the procurement process if they can demonstrate specific instances of corruption. It would also provide for effective dissemination of tendering opportunities.

4. Public Financial Management

Urgent progress must be made in improving public financial management and accountability (PFMA) in developing countries, both in order to ensure that public and donor resources are used efficiently and effectively, and as a powerful contribution to anti-corruption efforts. This requires action by developing countries, the IFIs and donors, including more coherent and sustained efforts to build capacity in these countries. We propose a *new international framework on PFMA* that will measure and deliver progress.

- All developing countries to work up, as part of their poverty reduction strategies, plans for concrete action on PFMA, setting measurable targets;
- the IMF and World Bank should develop a common system for measuring and reporting on country PFMA performance based on an expanded HIPC Tracking exercise;
- based on country plans, the IMF and World Bank should develop a programme to achieve measurable annual improvements in PFMA in every low-income country with clearly set targets and a timetable for action over the next 3 years;
- the IMF and World Bank should develop a co-ordinated set of diagnostic tools, to allow donors and the IFIs to co-ordinate their support for effective technical assistance and capacity building and harmonise around a single procedure for assessing progress on PFMA reforms.

5. Promoting greater transparency through the IFIs

We must make further efforts to improve transparency. This applies to the international financial institutions as well as to developed and developing countries.

- The G8 should strengthen the effectiveness of IMF surveillance through the universal publication of Article IV surveillance reports building on the successful experience of voluntary publication over the last few years and a publication rate of 60 per cent.

- The G8 should support the universal publication of Reports on the Observance of Standards and Codes (ROSCs) and of PRGF documents (which should contain routine reports on progress to improve PFMA).

6. Recovery of stolen assets

- G8 countries should commit to the repatriation of assets stolen from developing country governments and lodged in G8 institutions, following a criminal conviction and confiscation order made in the requesting country.
- The G8 should require its own financial institutions to conduct enhanced due diligence on “politically exposed persons”, and to report transactions where they suspect underlying corruption. This should be reflected in the revised international standards of the Financial Action Task Force.
- The G8 should support regional initiatives to tackle corruption and money laundering, and increase technical assistance to enable developing country authorities to investigate and prosecute cases of corruption effectively in the country where the offences have been committed.

7. Action Against Corrupt Foreign Leaders

- G8 should use existing extradition laws more effectively, and seek to remove parliamentary immunity from corrupt leaders;
- G8 countries should encourage wider signature and ratification of the UN Convention on Transnational Organised Crime so that money laundering and corruption are criminalised, and countries have the power to identify, trace, freeze or seize and ultimately confiscate and dispose of assets from the proceeds of these crimes.
- G8 should encourage all global banking institutions to sign up to the Wolfsberg Principles, which encourages additional due diligence for Politically Exposed Persons.

8. OECD Bribery Convention

- G8 countries should ensure that the OECD anti-bribery convention is adequately funded to proceed rapidly to complete the cycle of Phase II country reviews, and to make progress in its other important work.

9. UN Convention Against Corruption

- G8 countries should commit to increasing technical assistance to enable developing country authorities to implement the requirements of the UN Convention Against Corruption when it comes into force, in particular through preventive measures, and to support a robust mechanism for monitoring countries' performance.



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Richard Manning CB
Director-General, Policy

12 December 2002

Henry Derwent Esq
DEFRA
Ashdown House
123 Victoria Street
London SW1

Dear Mr Derwent

G8 and the PM Climate Change Technologies Initiative

I am writing to offer some views in regard of the PM's initiative on climate change technologies. This I understand is likely to be included as a "case study" under a broader French sponsored G8 initiative on science, growth and sustainable patterns of consumption and production.

High-level interest in this subject is welcome and provides an opportunity to focus on the steps necessary to stabilise global atmospheric greenhouse gas (GHG) concentrations. DFID recognises that stabilisation is key to meeting and sustaining progress towards our poverty targets as defined by the Millennium Development Goals. At the same time, this must be achieved without unfairly hampering the growth prospects of poor countries. Balancing these potentially conflicting objectives is difficult; particularly as it now appears almost inevitable that stabilisation will require action by at least some developing countries to reduce their rate of growth of emissions. This, as we saw again at COP 8, is a fiercely resisted notion.

I have now had an opportunity to review the papers that have circulated on this issue and have a number of comments on the developing country aspects of the initiative, as I understand it.

First, it is clearly important that this initiative is not interpreted by developing countries as an attempt to transfer responsibility for action to them, or as a prerequisite to developed countries fulfilling their existing commitments. This would be detrimental to all of us.

Secondly, the papers I have seen speak rather generically of "developing countries." It is important to acknowledge that considerable variations exist in terms of the relative contribution to global emissions amongst this large group of countries. If the aim is stabilisation through slowing the growth of developing country emissions, it makes sense to focus on the major emitters and the major sources of those emissions. This would suggest a focus on addressing the major sources of emissions in India, China, Brazil and other rapidly industrialising middle-income countries rather than promoting action at the household level in the poorest countries.

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Thirdly and related to this, it is important to recognise that the most immediate reductions in GHG emissions are likely to come from price incentives and the adoption of existing clean technologies. The evidence of China clearly supports this. While accepting that Chinese statistics may be questionable, there is little doubt that the carbon intensity of China's growth has fallen, due largely to use of the price mechanism and the adoption of existing technologies introduced in response to demands for improved efficiency and improved air quality. Developing the non-climate case for the adoption of clean technologies is a positive message we should all seek to send.

Finally, it is important not to assume that finance is the only constraint to technology adoption. This may be true in some instances, but this ignores the institutional rigidities, inefficiencies and other market failures in the energy and industrial sectors which often inhibit the adoption of technologies, even those which can generate sufficient benefits in themselves to justify their adoption. In this regard, it is important that we do not lose sight of the important relevant work already being undertaken through the GEF, by other existing initiatives such as the Energy Sector Management Advisory Programme (ESMAP), and by the continuing dialogue with developing and transition countries over appropriate pricing policies. We should first aim to maximise the contribution of these existing initiatives. We do not envisage additional spending in climate change related technology beyond our existing levels of support. But we will continue to press for rational energy policies in the IFI Boards and at country level through poverty reduction strategies and through sector/policy reforms of the sort we have pioneered in India.

Yours sincerely

A. Lee
pp. R G M Manning

cc:

Michael Arthur, FCO
Michael Collins, Treasury
Terry Carrington, DTI

+ Liz Lloyd, No 10
Stephen Lowe, DPM's office

12 December 2002

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DM

PRIME MINISTER

G8/NEPAD: ACCRA PERSONAL REPRESENTATIVES MEETING

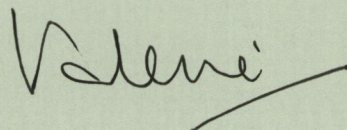
1. I attended an Africa Personal Representatives meeting in Accra on 7-8 December.
2. Our meeting, the last under the Canadian Chairmanship, went very well. We focussed on how we are delivering the G8 Africa Action Plan, both individually and together. Our UK Implementation Plan was welcomed by G8 and African partners. On transparency and access to medicines, I am seeking to ensure that these are key deliverables at Evian and we are already working closely with the French on the Extractive Industries Initiative. My G8 colleagues also attach great importance to progress on the specific commitments for building peace support capacity. We established an ad hoc working group to develop a joint plan to build African capacity to undertake Peace Support Operations, and will propose to the UN Security General that he provide a single point of contact at the UN on peace and security issues.
3. Bob Fowler's excellent chairmanship, and his role as a bridge between the APR and sherpa groups, will be missed. Michel Camdessus, who takes over as chair, is a very constructive member of the group, and is close to President Chirac. He reported that the French saw follow up on the G8 Africa Action Plan and NePAD to be their top priority for Evian. President Chirac hopes that each G8 leader will take responsibility for progress on one of the Millennium Development Goals during their chairmanship of the G8. We need to work closely with the French on this. I remain concerned about how well Michel Camdessus will be able to coordinate his work with the rest of the administration. Also worrying was the fact that my US colleague was absent for the second consecutive meeting. His replacement from USAid made a generally helpful contribution to the meeting, but she had been given a very restricted mandate by the White House on issues related to the role of the Personal Representatives group. There is a danger that the US could continue to avoid making serious commitments in the run up to Evian. It is also becoming clear that the terms for accessing resources from the Millennium Challenge Account may exclude many African countries. DFID are continuing to liaise with the US on this.
4. We also met NePAD colleagues, and representatives of the Ghanaian government, parliament and civil society. The NePAD representatives agreed that they needed to deliver on good governance if we are to maintain the momentum. They reported satisfactory progress on peer review. Twelve countries have volunteered and many hope to have the process in place by April next year. We discussed, in an open and honest way, the political complexities we all face, and the need for continued engagement with NePAD in what is a long term, difficult process, if we are to see concrete results.

GHANA

5. I was very encouraged by the evidence, both in these meetings and during a private dinner I had with President Kufuor, of strong Ghanaian understanding and commitment to NePAD. They were the first country to volunteer for peer review and we all consider them to be key partners in the NePAD/G8 process. More widely, President Kufuor, and his team, have decided not to pursue the IFC loan. However, President Kufuor feels very politically vulnerable. We will continue to work with Ghana and the IMF. DFID are organising a seminar on investment for early next year. They continue to look to the UK for support.

PEACE AND SECURITY

6. Our work on conflict is the focus of our immediate UK follow up to the meeting. On the **DRC**, the withdrawal of almost all foreign forces, including Rwanda and Zimbabwe, was a bold step towards implementation of the Pretoria and Lusaka agreements. South African mediation has been a positive factor. We are trying to strengthen MONUC and to hasten the process of reintegration of Rwandan Hutu forces. In **Burundi**, there is now a partial ceasefire in place. We are looking, with the US, at how to support a proposed African force to monitor it, and working on longer-term security sector reform. I visited **Angola** on 4-6 December. It is clear that sustainable peace requires an inclusive political dialogue and a transparent economic reform programme. We need to engage further with the Government and UNITA to deliver this, and DFID is helping to fund reintegration of UNITA ex-combatants. In **Sudan**, we continue to work with our partners, especially Kenya, the US and Norway to build the momentum in the peace process. We are supporting the ceasefire in the Nuba Mountains. This is the best chance for peace so far. Any settlement will need to be followed by extensive cease-fire monitoring and a serious post-conflict reconstruction effort. DFID are already working on this.
7. We have seen the emergence of a new conflict in **Côte d'Ivoire**. ECOWAS is seeking to mediate and police a peace settlement, but lacks capacity. The situation remains very volatile with the emergence of new rebel groupings. We are evacuating dependants of staff, and encouraging British citizens to leave. Escalation of the conflict would be disastrous for the region. There are worrying reports of ethnic killings. The problem needs a political solution and a serious effort to address the grievances of the rebels. We are providing financial support to a proposed ECOWAS monitoring force through Ghana, and I am in very close contact with key regional leaders and the ECOWAS Secretary-General on this. We are encouraging the UN to become more involved.
8. I am copying this note to Jack Straw and Clare Short.



Valerie Amos

01712706580



Foreign and Commonwealth Office

Fax Cover Sheet

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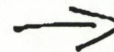
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To..... : Jessica Irvine
At..... : APD DFID
Fax Number..... : 7023 0342
From..... : Sally Healy
Date..... : 12 December 2002
Pages to follow..... : 3
Also fax to Liz Lloyd, No 10 on 7839 9044

I attach a set of follow up points from the 7-8 December G8 Africa meeting in Accra.

Bullet 3 refers to follow up on G8 Implementation post Evian and relates closely to the Aid Effectiveness elements of the UK Implementation Plan. During the Accra meeting there was some inconclusive discussion of a role for the SPA. Grateful if DFID could ensure that Baroness Amos has some clear proposals on this in time for the February meeting. Also need to bear in mind that representatives of other major OECD donors are going to be invited to the February meeting. It might be worth giving consideration to having a DFID rep to accompany Baroness Amos for that meeting.

Bullet 4 – partnerships - is fairly straightforward for us, though perhaps less so for some other G8 colleagues. Essentially we will need to have a list of the African countries with which we have, or are in the process of negotiating, partnership agreements.



Signed:..... *S Healy*

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Bullet 5 – the African virtual university. This is an initiative that Bob Fowler is very keen on. I have asked the Canadians to provide the documentation and will forward to DFID for consideration by either your education or ICT departments.

Bullet 6 – polio – no action required now, but Baroness Amos would find it useful to have at the next meeting an update of the very useful table DFID provided for the Rome meeting.

Bullet 7 – transparency. I will revert to the letter which Dianna Melrose had prepared before this meeting and liaise directly with her over its content.

Bullet 8 – peace and security. Tom Porteous will prepare this in liaison with Conflict Pool officials.

Happy to discuss any of these points. Tim Cole will be taking them forward rather than me – he starts on Monday 16 December.

01712706580

Accra Follow-Up (7-8 December 2002)

- 1 ● Chair to convey to Sherpas (meeting in Ottawa) the revised Terms of Reference for the *ad hoc* working group pursuant to paragraph 1.2 of the Africa Action Plan. (Done)
- 2 ● Chair to propose that the UN Secretary-General provide the G8 with a single point of contact at the United Nations on peace and security issues.
- 3 ● APRs to come to Paris (6-7 February) ready to discuss specific mechanisms/arrangements to manage AAP implementation and maintain the G8-NEPAD dialogue after the Evian Summit.
- 4 ● APRs to come to Paris (6-7 February) ready for a preliminary and informal discussion on potential enhanced-partnerships.
- 5 ● Chair to obtain additional information regarding the African Virtual University and its potential role in the implementation of specific AAP commitments.
- 6 ● Chair to obtain (for Giorgio in particular) additional information regarding polio eradication, including on prevalence rates and on donor coordination.
- 7 ● U.K. to provide NEPAD Secretariat with background documents regarding the transparency-and-natural-resources initiative.
- 8 ● APRs to provide Michel Camdessus, for onward transmission to the NEPAD Secretariat, notes on national initiatives in support of the implementation of AAP commitments on peace and security (deadline: 10 January 2003).

8 December 2002

Accra



FAXED
12/11/02 FCO

10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

12 December 2002

Dear Andrei,

GLOBAL PARTNERSHIP - UK SUPPLEMENTARY AGREEMENT

It was a pleasure to see you again in Ottawa for the Sherpa Meeting, and I found our subsequent bilateral discussion extremely useful and interesting.

I promised to follow up quickly on our discussion of the Global Partnership. If we can use the text from the MNEPR in the UK/Russia Supplementary Agreement I believe we will have satisfied the last outstanding point, namely the continuation of cover in respect of any potential third party liability. I attach our proposals to amend the text of the Supplementary Agreement as it stood at the end of August.

Conclusion of this important agreement will mean that UK funding for a range of projects already identified can commence.

I hope that you can pass this information to your officials in preparation for tomorrow's Senior Officials Group meeting, and I suggest that our officials meet as soon as possible thereafter to finalise the text for early signature.

Yours ever

JEREMY HEYWOOD

Mr Andrei Illarionov

December 2002

**Article 13(5) of the Supplementary Agreement
Draft using the provisions of MNEPR**

After termination of this Supplementary Agreement in accordance with paragraph 2 or paragraph 3 of this Article:

- a) the provisions of any Subsidiary Arrangements concluded within the framework of this Supplementary Agreement which relate to works which have not been finished shall continue to be valid;
- b) the provisions of paragraph 5 of Article 6 and Articles 10 and 11 of this Supplementary Agreement shall continue to be valid unless the Parties agree otherwise in writing;
- c) where,
 - (i) the Vienna Convention on Civil Liability for Nuclear Damage of 21 May 1963 (hereinafter called the "Vienna Convention") and the Joint Protocol relating to the Application of the Vienna Convention and the Paris Convention* of 21 September 1988 (hereinafter called the "Joint Protocol") have both come into force for the Russian Party, and
 - (ii) the Vienna Convention or the Paris Convention on Third Party Liability in the Field of Nuclear Energy of 29 July 1960 and the Joint Protocol have both come into force for the British Party,

the British Party may, in its discretion and by notice in writing to the Russian Party, terminate the application of paragraphs 2 and 7 of Article 11 of this Supplementary Agreement with respect to any activity undertaken pursuant to this Supplementary Agreement to which these instruments apply. Each Party shall inform the other in writing of the dates upon which such instruments come into force in their respective territories.

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Foreign &
Commonwealth
Office

12 December 2002

Jeremy Heywood
Principal Private Secretary
10 Downing Street

Economic Summits and Institutions
Section
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RECORD OF G8 SHERPA MEETING: 8-9 DECEMBER

Herewith the record of the 8-9 December G8 Sherpa Meeting in Ottawa with the references A to N attached as separate documents.

World Economy

1. Edson (US) said that the US was in recovery phase; unemployment was still rising but this was not particularly worrying – unemployment typically lagged the cycle. Inflation was low, productivity was still growing rapidly and retail sales this Christmas were expected to be up on last year. The Administration were deliberately not overplaying the recovery but the US economy remained a central engine for world economic growth. However, the uncertainty due to terrorism was impacting on business decisions across the world. It was vital to make progress on the Doha round in 2003. This was an issue that the G8 would have to address at Evian.
2. Tacke (Germany) painted a gloomy picture. He predicted German growth of 0.5% this year and between 1 and 1.5% next. Conflict in the Middle East could have a major impact upon investment and bank lending. There was insecurity in the financial markets and a reduction in both reserves and capital. SMEs were finding it more difficult to get credit. There were deflationary risks associated with pressure from competition with China etc.
3. Castellaneta (Italy) hoped that the recent reduction in ECB rates would help to give an impetus. Fear of terrorism was reducing consumption and deterring investment - in particular the risk of the impact on oil prices of an Iraq conflict was damaging confidence. The only strong area was real estate. He said that the Stability and Growth Pact has been a real constraint over Euro members' ability to expand their economies. Italy supported the SGP but it needed to be a *Growth* as well as a Stability pact; perhaps there should be scope for a more flexible interpretation.

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4. Fujisaki (Japan) said Japan had been “muddling through” for the last few years. This was likely to continue. There had been a slight export-led recovery, but the risks of a fall in export growth, failure of social security reform and the NPL problem remained. To deal with these there had been tax cuts, supplementary budgets and regulatory reform. But much would depend on what happened in the US.
5. Gordault-Montagne (France) said that France was embarking on a massive structural reform programme – pension reform, energy market liberalisation, privatisation and a big increase in military spending. Falling interest rates were expected to help in the short-term.
6. You said that the UK economy was doing relatively well supported by a proactive monetary policy, and by full use of the automatic stabilisers. Structural reforms in the EU were vital; you highlighted weaknesses in the ECB and the SGP. It was also important to continue to examine how to get oil prices down to a more sustainable level. This would really help the world economy. You agreed with Edson that success at Cancun in the Doha round was vital too.
7. Sannino (EC) agreed with you that countries in the EU should have worked harder to strengthen their underlying fiscal positions during the recent period of strong growth. The Commission had tried to address the main concerns about the SGP by taking into account the economic cycle, and the need to show flexibility on medium term objectives. He agreed that Doha was crucial, and needed to be addressed comprehensively.
8. Laverdure (Canada) described strong Canadian performance with 4.4% growth in Q3 2002. There had been over six years of budget surpluses – the question was how best to spend the money. They were focussing on health and infrastructure, and poverty in Canada. He also hoped there would be an increase in the defence budget.
9. Illarionov (Russia) reported fairly good progress – GDP would grow by 4% or more in 2002 driven primarily by domestic consumption (retail sales growth of over 8%). There would be a fiscal surplus of 0.7% in 2002. The stock market was up sharply in dollar terms and net capital flight had reduced from between \$10 and \$20bn to about \$2bn. Russia was repaying its foreign debt at a rate of \$14bn this year, and \$17bn in 2003. It would have a remaining external debt burden of \$120bn in 2003.
10. Illarionov explained that Russia had increased oil output by 8% in 2002 and was now producing more than 8mbd of which 50% was exported. It was very important to ease the pressures that high oil prices imposed on the world economy - and on producer countries too, such as Russia which was suffering from an inflated exchange rate. Russia was building a new oil facility at Murmansk to allow them to export more to the USA and EU. Privatisation was being taken forward and all restrictions on foreign banks investment in



the Russian system had now been removed. He said that reform of the natural monopolies (power, gas, railways) was now a key priority.

11. Edson said that trade would be the key issue for 2003. The Evian Summit presented an important opportunity to send a political message ahead of Cancun. Doha was more important to the world economy than the Uruguay round had been.

Financial Crisis Prevention/Resolution

12. Tacke suggested the need for more strategic direction and harder work on SDRM/CACs (including the Trichet compromise on SDRMs), corporate governance (including the excellent UK/German initiative) and global accounting standards. Gordault-Montagne agreed, and thought that it was likely that this would include IMF ROSCs. Edson favoured the CAC market-based approach, but would also analyse a more top-down SDRM approach.
13. You and Laverdure argued that this should be dealt with by Finance Sous-Sherpas and they should report back after the Spring Meetings. Leaders would want reassurance before or at the latest by Evian that there has been concrete progress on SDRM/CACs. You were concerned that the private sector was dragging its heels on CACs.

Argentina

14. On Argentina Edson said that the only solution was to support a pro-growth strategy; although the risk of contagion was limited, the G7 needed to address the problem. The US were in favour of a transitional programme pending elections. This would keep the lid on the problem until a new government was in place; but even such a transitional programme needed some minimum level of policy implementation (eg on budget priorities). It was important to signal to the IMF that the G7 did still care about Argentina.
15. Illarionov argued in favour of avoiding moral hazard; the IFIs had to avoid loosening subject discipline. The IIF (Institute of International Finance) should be consulted. You said you were happy to look at a "transitional programme" but it must not undermine the credibility of the IMF. Fujisaki agreed on this last point. Tacke said that member states were being too polite: they needed to send a clear signal to Argentina to take certain actions. Edson suggested that FSS/G7Ds coordinate more closely on exactly what these actions should be.
16. Laverdure concluded that he would communicate to FSS the need for a deliverable at (or preferably before) Evian on SDRM/CACs, and an early FSS discussion on Argentina.

Corporate Governance

17. Tacke suggested a further push on the Anglo/German initiative dating from the pre-Spring Meetings G7 Deputies. Edson said he was suspicious about any new codes of



conduct (there were too many already); instead he favoured more concerted action on corruption more generally.

Debt Relief

(i) HIPC

18. You said you wanted to address three issues: extra debt relief at Completion Point (i.e. topping up should not take into account the G7's extra 'beyond HIPC' contributions – you circulated a note (Ref A)); Russia's treatment of HIPC (you passed a note to Illarionov in the margins (Ref B)); and the need for all G8 countries to provide 100% debt relief for non-aid debt to HIPCs. Gordault-Montagne agreed on the need to finish the job and suggested that FSS look again at these technical issues; there had to be real debt sustainability at Completion Point. Castellaneta and Edson agreed with you that all countries should give 100% debt relief post cut-off date. Laverdure concurred with the need for fair burden sharing within the G7 and G8.
19. Tacke argued in favour of retaining "for now" the existing methodology for calculation of topping up requirements at Completion Point, but said he was willing to discuss the scope for a package to reach agreement on this. Edson was concerned that if the extra G7 debt relief was not counted, the others would not pay and the G7 would end up paying more anyway.
20. Tacke said that the G7 must not continue to pour money into a black hole. He repeated his call for more emphasis on good governance; and suggested that topping up should be linked to governance performance. Recalling the Kananaskis pledge to fund up to \$1bn, Edson said that the size of the \$650m shortfall was a fact, but the cost of topping up was unknown. He was worried about rushing countries through the process, and giving more money up front.
21. You pointed out that leaders had agreed at Kananaskis to make available another \$1bn. The UK's proposals to ignore the G7's extra contributions in calculating the extra debt relief required for topping-up was fully financeable within that agreed envelope. The effect of the current rules was simply to let the non-G7 off the hook. A \$200m extra contribution from the HIPC trust fund could lever in total additional debt relief of \$1.5bn.

(ii) Lower to Middle Income Country Debt

22. Gordault-Montagne said there was a debt problem with LDCs that were not HIPCs, such as Haiti, Lesotho, and Cambodia. Tacke argued against giving a signal that countries could renege on deals and treaties and get help from the G8. He described Nigeria's huge oil resources and their non-payment of debt. Laverdure and Edson were equally troubled by the idea. The price tag would be enormous, and there was a danger of creating a sense that borrowing was an opportunity and not an obligation. Gordault-Montagne said there were a number of ideas including debt swaps for non-HIPC African countries, and developing tools to address the problems of LMIC/MICs within the framework of the



Paris Club. He hoped for some rationalisation of the recent initiatives taken to help developing countries. The focus would be on countries that could play the role of regional motor. He circulated a revised draft of the paper we have previously seen (Ref C).

23. Edson refused to give FSS a mandate to develop a new initiative for Evian – instead they should simply consider it and report back before the next Sherpa meeting. You said that much more detail was needed: was it LDCs, LMICs, regional motors or MICs? What was Chirac's political objective? Agreement in this area would need to be reached within the framework of the Paris Club. And for the UK the priority for extra resources was HIPC. Laverdure agreed. Tacke and Edson wanted to exclude MICs immediately. Gordault-Montagne said he was not advocating debt forgiveness in return for nothing; he would prepare a paper in mid-January on the potential objectives, and would ask FSS to examine the scope – it could be very limited. You were happy for FSS to look at debt swaps, and to try to develop a clearer and more coherent Paris Club treatment of non-HIPCs based on the concept of debt sustainability, but reiterated that HIPC should remain the first priority.

Education

24. Castellaneta thought the process was working well, and reiterated the traditional Italian mantra on the importance of the DOT-force and e-capacity. Edson countered that the US thought the programme was going "off the rails"; the process was still far too heavily focused on filling financing gaps, whereas there were also important gaps in policy, data and capacity. The World Bank was being heavy-handed, and he argued against any further Task Force reports for Evian.
25. You suggested that FASS keep a close eye on the process and send a clear message to the FTI Secretariat that they risked losing G8 support – and much more attention should be given to the high population countries. Gordault-Montagne agreed, although he noted that France had committed \$65m at the recent donor meeting. Fujisaki suggested that the FTI philosophy was too focused on the best performers.

WSSD

26. You introduced the proposal for more work on oceans/fisheries and circulated the Defra non-paper (Ref D) – in following up on WSSD. There was a need to be operational and specific rather than rhetorical. Sannino agreed that the focus should be on deliverables; the EC would pursue more partnerships with business. Fujisaki said that Japan was hoping the outcomes from the Kyoto Water Summit would be a Ministerial declaration (likely to be bland and general), and a blueprint for action detailing what each country was willing to do in the field. Next year was also TICAD 3 and Japan would have some related ideas with make the link with Kyoto.



Transparency of Payments in the Extractives Industry

27. You opened the discussion by taking colleagues through your latest letter. Illarionov said that Russia was interested in the UK proposal but they needed more detail; would it go wider than extractives, did it apply to domestic SOEs or just multilaterals? The key issue was the transparency of budgets, not just corporations. Castellaneta and Sannino fully supported. The latter thought it fitted well with the themes of CSR, and agreed the need to start with a specific focus. The EC would be happy to organize a high level roundtable meeting on CSR to put this in a wider context.
28. Edson appreciated the focus on increasing the transparency of government accounts – it was important to focus this initiative against corruption. He suggested publication of MDB and IMF analyses of countries, raising the IMF standards for budgets and expenditure tracking, bringing forward WTO proposals on transparency of government procurement, and using FTAs to seek greater transparency of procurement. Also denying safe haven to corrupt kleptocrats, better recovery of stolen assets and acceleration of the OECD Bribery Convention country reviews. On extractives, he suggested negotiating compacts with countries to reward transparency.
29. Gordault-Montagne generally supported the UK proposal, but noted that it was highly sensitive and political for both corporations and countries. The approach needed to be balanced, and not too moralistic. He agreed on the need for further work and discussion at the next Sherpa meeting. Tacke warned against creating a bureaucratic monster, although as Germany did not have an extractives industry he was relaxed. Fujisaki thought the real dilemma would be whether to go for a voluntary or mandatory approach. But any solution had to apply to developed as well as developing countries and not just to the extractive industries.
30. You thought that we might end up with aggregation of company payments compiled by trusted third parties working on a consensual basis with involved countries, including for example Angola and Nigeria, who would want to participate to achieve an improved investment climate. You concluded that US and UK officials should try to create a joint paper to be put to FSS and FASS for discussion ahead of the next Sherpa meeting at the end of January.

Differential Pricing of Medicines

31. Sannino described the recent EC draft regulations on tiered pricing. You outlined the recent UK agreement. Gordault-Montagne supported this agenda as a strong deliverable for Evian. Laverdure said that the Canadian Health Ministry had thought that the UK report was superb. In contrast, Illarionov thought that the UK initiative could be very dangerous; two tiered pricing undermined the whole basis of market economics, and he was very sceptical about the ability to restrict re-exports. Edson was also dubious – he thought that TRIPS would deal with the problem, and it was addressing the wrong problem anyway – the real issue was lack of money. You explained UK understanding



that industry wanted a clear framework. Edson said that he had agreed to send over US experts to meet their UK counterparts.

Global Fund for Health, TB and Malaria

32. Tacke was outraged that no money had yet been spent on programmes. The Global Fund should not consider spending more until they were using what they had. Staffing costs were spinning out of control; admin expenditure was predicted to be \$40m next year. He suggested sending in the auditors. Illarionov agreed. Edson was more positive: the CEO had not been hired until July, and spending was about to begin. In fact, the Fund had got up and running quickly and the staff of 53 was fairly lean. The first round of projects had been in line with US expectations.

33. However, Edson said that the Fund was likely to run out of money in Autumn 2003. Funding should be additional and complementary to national programmes. Gordault-Montagne said that France was considering organising a donor conference in July, with the aim of getting more from the private sector. They were also considering a seminar on mechanisms for longer term funding. Castellaneta and agreed with Edson, but was worried by the private sector's poor contribution. Fujisaki thought that admin costs could be cut. There needed to be a better balance between HIV AIDS and the other communicable diseases. It also had to avoid becoming too Africa-focused, and to strike the right balance between prevention and treatment, and between government and the private sector. You suggested postponing the donor conference until it was possible to see initial evaluation results – perhaps next autumn; and recommended that FASS keep a closer eye on the Fund's overall performance against the Okinawa objectives. There should be no rush to a third round of projects – sensible spending should be tailored to the money available. However your overall impression was that Feachem businesslike and sensible.

34. Edson said that the way in which the Fund was hitched to the WHO was a problem. They had paid \$1.2m to the WHO to conform to regulations but this hampered its ability to be entrepreneurial. The solution could be found by changing the status of the Fund under Swiss law into a quasi-governmental entity which would free it from WHO bureaucracy and allow it to make its own decisions. The Board could decide to do this in January. He claimed that the UK was blocking this sensible decision. Sherpas agreed that FASS should report back on what the Global Fund's money was being spent on, and why they were giving \$1.2m to the WHO and \$5.4m to the World Bank.

35. You called for action to meet the financing gap on polio and circulated a table of donor pledges to the PEI. Laverdure strongly agreed.

Africa

36. Laverdure said that Chretien remained committed. You were concerned to ensure that APRs kept in close touch with Sherpas to ensure a smooth path towards the Summit.



Fowler's recent letter had worried – APRs should not be tasking FSSs and PDs without taking into account work on the wider Summit agenda. Edson and Gordault-Montagne agreed; he had asked Camdessus to report back to each Sherpa meeting. There was consensus that the APR mandate ended at Evian. Laverdure undertook to write to Fowler to task an ad-hoc working group to develop the joint plan for African peace support operations, but with a clear mandate to complete its work in June 2003. You argued, however, that we might need to keep the ad hoc group in being beyond June 2003

Famine

37. Edson circulated a paper on African famine, and three charts of donor pledges (Ref E). He called for action to match non traditional donors with non traditional surplus producers, more flexible national strategies, better early warning systems with more analysis and early action, and work to address the biotech issue. Sherpas agreed that FASS should consider these proposals.

38. Sherpas agreed to ask PDs to look at the options on Zimbabwe.

Transport Security

39. Laverdure circulated a collation of FASS replies on G8 implementation of the Kananaskis plan (Ref F). You said that the UK was very concerned about ICAO standards and the implementation of tighter security regimes in non-G8 countries. FASS should assess what more should be done on the maritime and aviation areas. Edson agreed, and added that they should consider what further resources were required and also focus on biometrics. Gordault-Montagne noted the importance of the existing bodies (WCO, IMO, ICAO) in the implementation.

40. Castellaneta asked for G8 support for the Italian candidate to head ICAO.

Roma/Lyon Group

41. Gordault-Montagne wanted to expand the remit of the Roma/Lyon Group to include terrorist financing, non-proliferation, cyber terrorism and propaganda. Castellaneta suggested they also look at Hawala banking. You and Edson were sceptical of the value of their involvement in terrorist financing and non-proliferation, given other work going on. Hawala banking might be a suitable subject for CT practitioners. Fujisaki called for much more coordination to avoid duplication. Tacke suggested closing the groups down and remitting the terrorism/security work to FASS. Sherpas concluded that FASS should report back on the future of the Roma/Lyon group later in the year.

42. You said that the G8 needed to focus on bringing coordination and prioritisation to all areas of terrorism-related technical assistance, building on the work of the CTC, FATF and avoiding unnecessary further analysis. Edson strongly agreed, and Sherpas concluded that FASS meet with senior experts and report back on this issue before the next Sherpa meeting.



Afghanistan

43. On drugs, Castellaneta circulated the UNDCCP report on Afghanistan and a sheet highlighting actions that the international community needed to take (Ref G). It was a major problem – particularly in 4-5 regions. Tacke thought that the G8 had failed. Fujisaki said the problem was now much worse than under the Taleban – people needed to have alternatives to opium. Sannino said that opium was 30 times more valuable than any other crop so it was extremely difficult to persuade farmers not to plant. It would be impossible to solve the drugs issue in Afghanistan without sorting out the other problems. Gordault-Montagne circulated a paper detailing the Conference on Drug Routes that the French plan to host in May (Ref H). They were extremely worried about the overall situation; reporting indicated that Karzai was barely even President of Kabul, and the rest of the country was run by warlords. Unless the political situation improved there was no chance of success. Illarionov said Russia was also extremely concerned. There was lots of drugs trafficking through FSU countries – the sums involved were immense; up to \$1bn per year. He thought some sort of Marshall Plan might be necessary.
44. You outlined the UK strategy on drugs but argued that it was difficult to make progress in this area while the rest of the country remained in such a parlous state. There is a need for much more urgency; there was a general problem of losing focus in Afghanistan – you urged on others the need to clear its arrears to the IFIs and subsequently issued a letter (Ref J). You suggested using the conference to force the G8 to be better coordinated. Edson agreed, and strongly supported the UK's ongoing work on drugs in Afghanistan. The focus needed to move from humanitarian to reconstruction, and the international community needed to meet the budgetary gap of \$390m.

Nuclear Safety

45. Gordault-Montagne recalled the benchmarks agreed upon during 2002 for Russian participation in a G8 group. Although he supported the Canadian proposal for a G8 workshop to discuss the establishment of a G8 Nuclear Safety and Security Group, the principles had to be respected. He envisaged launching a G8 NSSG by Evian. You agreed on the need to measure progress against the benchmarks; for example the Kursk 5 seminar must be held before Evian. The proposed workshop should discuss this.
46. Illarionov strongly objected to the idea that Russia had not satisfied the G7 on the benchmarks, and noted that no complaints had been raised. This launched a debate about why the report from the last G7 NSWG (Ref K) had not been shared with Russia. Laverdure said he would reconsider.
47. Sherpas also discussed the reporting structure for the next NSWG meeting and, after opposition from Illarionov to any joint reporting to both Sherpas and Senior Officials, agreed that it should report only to Sherpas.



48. You raised Ukraine, and wondered how this was going to be handled after the creation of a new G8 NSSG. Fujisaki supported - it should not be discussed at G8. Tacke was concerned about huge cost overruns on the Chernobyl Shelter Fund, he suggested that Chretien send a letter to Kuchma immediately and commission an assessment from the NSWG. This was agreed.

Global Partnership

49. By Evian Edson hoped to have achieved funding commitments totalling \$20bn, concrete action to solve implementation problems, the launch of significant new projects, and engagement of non G8 donors (Norway, South Korea, Switzerland, Australia) and recipients (Ukraine, Kazakhstan, Uzbekistan). Tacke said that Germany was optimistic. They were starting a new project on chemical weapons in early 2003, and were near agreement on dismantling 100 nuclear submarines, and the protection of fissile material (totalling €1.5bn). He suggested others send a senior official to Moscow to work up specific projects.
50. Castellaneta had a different perspective. Italy had given Russia a draft agreement and were awaiting a response. They remained committed to spend €1bn and were focusing on chemical weapons and nuclear submarines; they hoped to be able to show progress by Evian. You detailed our ongoing difficulty over the taxation and liability issues in MNEPR, and said that until Russia was able to satisfy our concerns we could not spend money in this area. Edson agreed with these concerns. Fujisaki said that Japan still had great difficulty over liability and conditions. Gordault-Montagne expected a French contribution of €750m, but said that they had not yet had proper discussions with the Russians. Laverdure said that Jim Wright had made good progress on his recent trip to Moscow but they had not yet got to the point of agreeing specific projects.
51. Illarionov responded that the Russians had suggested that MNEPR would meet the UK and Italian concerns. He genuinely believed that this could provide a solution, but said he was happy to go down the bilateral route if this proved quicker. (In a subsequent bilateral Illarionov agreed to your proposal to include the MNEPR language in a bilateral Supplementary Agreement – you will write to him to clarify exactly what we require).

Non-Proliferation

52. Edson had four ideas for operationalising the NPEG principles: bolstering IAEA efforts to improve security of fissile material used in medicine and research (e.g. export controls and registers); joint G8 demarches to major transshipment states such as UAE, Jordan, Singapore; a G8 Foreign Minister's statement on North Korea; and action through export controls and UNSCRs against the spread of MANPADS (shoulder-mounted surface to air missiles). Sherpas agreed to reflect on whether to merge the NPEG and the Senior Officials Group.



Evian Summit - French Priorities and Themes

53. Gordault-Montage introduced his ideas for the Evian Summit:

- **Implementing the Africa Action Plan** and maintaining the momentum of NEPAD remained a key priority for Chirac. There was a rising skepticism about NEPAD even in Africa (French Embassies were reporting this). But France saw 2003 as the year for Africa with the EU/Africa Summit in Lisbon in April, TICAD in the autumn, and the Evian Summit. France would be increasing its own ODA from 0.39% in 2003 to 0.5% in 2007;
- **Water** would be a key theme building on the Kyoto Forum and the ambitious water and sanitation targets. The substance of this would be decided after Kyoto. In this context France saw an opportunity to develop more widely the Anglo/French PPP proposal from WSSD. France would circulate a paper on this before the next Sherpa meeting;
- **Follow up** from previous Summits including Health (esp HIV/AIDS), Terrorism, Financial Stability and Middle Income Country Debt relief;
- **Corporate governance** French non-paper entitled Global Corporate Responsibility circulated (Ref L). He envisaged a CSR charter to restore confidence. It would reaffirm strong support for current standards (OECD, ILO etc), welcome strong involvement of private sector (not being defensive or apologetic), identify tools to promote CSR, and develop further information on extractives and public and private sectors. FSS and not FASS should lead in this area.
- **Research for sustainability:** French non-paper circulated (Ref M). This proposes new patterns of consumption and helping developing countries to take up the challenge. Research and Development Ministry experts should meet to consider this and report to FASS in February.

Reactions

54. Edson thought that terrorism was seriously underplayed. Castellaneta agreed, but also called for some free discussion at Heads level. Fujisaki agreed with the sustainability proposal and circulated a similar paper (Ref N). He proposed ideas around recycling, biotechnology and alternative energy sources. You gave general support to this and the French paper, and suggested a specific case study on climate change. You circulated the ICCEPT report. Tacke said there was an urgent need to establish a realistic framework to encourage investment in Africa (poor governance, corruption, legal problems, and Zimbabwe were hugely damaging). Edson agreed, and said the agenda had to include trade, corruption/transparency, and reconstruction of Afghanistan (but thought that the agenda was already overcrowded). You envisaged five main blocks of discussion for

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Heads: world economy and trade; climate for business and enterprise (corruption /transparency / PPPs); sustainability and water (including oceans); the Africa Action plan (focussed on health, conflict and education); and regional issues.

55. Fujisaki and Edson wanted action on illegal logging and promised to circulate proposals

A separate note will issue on the logistics of the Evian Summit, the St Petersburg event on 31 May and the proposed G25 Summit.

I am copying this letter to Michael Arthur and Peter Ricketts (FCO) Stephen Pickford (HMT), Richard Manning (DFID), Anna Wechsberg and Liz Lloyd (No 10), Ian Downing (DTI), Niki Tompkinson (DfT), Shaun Gallagher (DoH), John Ballard (Defra), Peter Storr, (Home Office), Richard Crabtree (Cabinet Office) and PS/Baroness Amos. I will follow up directly with them and others on the various pieces of work that flow from this.

Richard Lindsay
Economic Policy Department

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HIPC

How debt relief works:

- Paris Club already cancels 2/3 of debt (under so-called 'traditional mechanisms'). Other countries and commercial creditors are expected to follow suit.
- Under enhanced HIPC if debt-to-exports ratio greater than 150% i.e. unsustainable then eligible for HIPC relief.
- At Decision Point all creditors then agree to cancel sufficient remaining debt to reach 150% e.g. a 70% reduction across the board from all creditors.
- But some creditors, inc. all the G7, always provide 100 per cent debt relief, and the additional debt relief this provides is a 'bonus'.
- At Completion Point the debt ratio is recalculated and if the country's debt ratio has deteriorated e.g. 160% debt/exports, further debt relief ('topping up') can be provided to bring the ratio back down to 150%.
- However, this topping-up calculation includes the 'bonus' and the net effect is that the provision of 100 per cent debt relief by the G7, benefits other creditors not the HIPC.
- If the bonus was excluded from the topping-up calculation then all creditors would have to provide further debt relief on an equal basis to reach 150% at Completion Point.
- The net effect of our proposal would be that the HIPC would receive more debt relief than under current rules. This would require further contributions by those creditors who do not currently provide 100% relief.

Detail

Under the enhanced HIPC initiative, bilateral creditors first provide traditional debt relief that typically provides for cancellation of 2/3 of the stock of debt. If a HIPC is still judged to have an unsustainable burden of debt then both bilateral and multilateral creditors provide further debt relief, on an equal basis, to lower the debt to exports ratio to 150 per cent at Decision Point.

For example, after a HIPC has received traditional debt relief amounting to 2/3 of its debt stock, it might be necessary to reduce the remaining 1/3 of the original stock by 70% in order to achieve a debt to export ratio of 150%. Therefore members of the Paris club would each provide 90% debt relief ($2/3 + 70\%$ of $1/3 = 90\%$). However, G7 and some other countries always provide 100 percent debt relief, whatever the figure provided by other members. This additional bilateral voluntary

RUSSIA'S PARTICIPATION IN THE ENHANCED HIPC DEBT INITIATIVE

Russia currently participates, as a member of the Paris Club, in the HIPC initiative. Latest figures from the World Bank show that, for the 26 countries that have already reached Decision Point under the enhanced initiative, Russia has committed to provide estimated debt relief totalling \$910 million in 2001 NPV terms under the terms of the HIPC initiative.

However, even after this debt relief, Russia will still have substantial amounts of debt outstanding by HIPCs. Although we do not have comprehensive figures for the outstanding stock of HIPC debt owing to Russia, bilateral creditors must typically provide 90 per cent debt relief in total. Naples terms provided by the Paris Club typically reduces debt by around two-thirds; and common reduction factors for the remaining debt have averaged around 70%, giving a total reduction of up to around 90 percent of all debt outstanding.

By contrast, all G7 (and most members of the Paris Club) have committed to write off 100 percent of all aid debts, and 100 percent of pre cut-off non-aid debt.

In addition all G7 countries have made significant pledges to the HIPC Trust Fund, which provides support to multilateral creditors that are unable to finance their share of debt relief. Excluding the latest round of pledges made at the HIPC meeting in November, G7 pledges ranged from \$158 million by Canada to \$750 million by the US. The UK had pledged \$426 million at that point, and promised up to an additional \$120 million at the November meeting.

TABLE: PLEDGES TO HIPC TRUST FUND (\$ MILLION)

Canada	158
Italy	213
France	249
Japan	256
Germany	324
UK	426
US	750

Source: HIPC status of implementation report, August 2002; includes further pledges made subsequently in October 2002.

Russia made a commitment at the September meeting of G7 Finance Ministers and central bank Governors to make future contributions to the Trust Fund, though no payments have been made to date.

New initiative on debt for Middle Income Countries

1. Debt alleviation, when properly implemented, is economically and socially responsible. Thanks to the G8, the Highly Indebted Poor Countries initiative is on track and successful. It requires from beneficiaries reform strategies that help restore macroeconomic balances and at the same time, stimulate investments in crucial areas of human development.

2. Yet, many developing countries (non IDA-only Low-income countries, Middle Income Countries (MIC) suffer from a low growth rate and from endemic macroeconomic problems. Some of them are overburdened by their social difficulties. This has a negative impact on the global economy. First, these countries' economic weakness hampers the realisation of their often high potential. Second, because their political instability negatively affects world-wide economic prospects. Last but not least, there is in the medium-to-long term, a political risk of leaving these huge populations in miserable conditions. From a human as well as from an economic and political point of view, it is in our interest to consider an initiative that would provide relief to these countries.

3. This is why President Chirac announced in Johannesburg that he would make proposals during the French G8 Presidency « **to reduce the debt of poor countries that are not eligible for the debt forgiveness mechanism currently in operation and that of heavily-indebted middle-income countries applying sound policies. This debt reduction will be aimed at helping to finance investment in critical areas for sustainable development, such as education, health, water and energy.** »

4. Such an initiative would have to benefit only to countries which demonstrate financial and political commitment to good governance. We would thus implement the Kananaskis commitment, contained in the G8 Plan of Action for Africa that "no country genuinely committed to poverty reduction, good governance and economic reform will be denied the chance to achieve the Millennium Goals through lack of finance."

5. Obviously, the objective is not to provide the same kind of massive debt cancellation with MICs as with HIPC countries; their situation does not justify such privileged treatment. One should identify commonly agreed objective criteria and examine how to accompany debt alleviation with investment in key sustainable development areas.

Aside from such an initiative, consideration could be given, under a different framework, to a modernization exercise of Paris Club's terms for middle-income countries facing a financial crisis, in order to develop an approach compatible with debt sustainability and the SDRM.

6. Many questions would need to be jointly addressed:
- What would be the criteria for determining eligible countries for this initiative?
 - What would be the geographical target (NEPAD? World-wide?)
 - What would be the amounts involved ?
 - What role for debt conversion?

7. Process
- Finance Sous-sherpas should be mandated to prepare an initiative for the debt of middle-income countries for the Summit.

UK PAPER FOR G8 ON OCEANS: MARINE PROTECTED AREAS AND FISHERIES

Summary

1. WSSD agreed a number of important measures on oceans, including-
 - (i) building sustainable fisheries, by restoring stocks, including depleted ones by 2015 (where possible), by tackling illegal, unreported and unregulated fishing, by ratifying and implementing key fisheries instruments, and by action on subsidies
 - (ii) establishing representative networks of marine protected areas by 2012, and the maintenance of the biodiversity of important and vulnerable areas.
2. There is a compelling case for G8 to take the lead in following these up by adopting the package of measures set out at paragraph 7 below, so providing key momentum to implementing the oceans outcome.

Problem

3. There is growing human pressure on the marine environment: 70% of cities with populations over 8 million are now located on the coast; 90% of sewage is simply dumped into the sea in developing countries; half the world's coastal wetlands have disappeared; 75% of global fisheries are fully utilised or over-fished; and 60% of coral reefs are threatened, along with their benefits to livelihoods, biodiversity, coastal protection and medical advances. The fisheries sector alone is the main source of protein for 1 billion people as well as a major provider of livelihoods: it provides some 5-10% of the world's food supply.
4. The depletion of fish-stocks in developed country waters - now an emerging issue for developing countries as well - has led to growing concern about the consequences of fleet over-capacity, and the role of misapplied subsidies in the

fishing sector. In particular, there is the problem of 'exporting excess fishing capacity' into developing country waters, notably Africa, and the effects on local livelihoods and unsustainability of fish stock. Action is needed to realise the considerable potential for fisheries to generate employment and foreign exchange, not just in Africa but elsewhere such as Bangladesh, including through fisheries agreements with developed countries.

5. Marine protected areas vary from regeneration based approaches to stronger forms of protection. They offer a demonstrable way, a focus for countries and donors, to marry the long-term conservation of marine resources, with the pressing requirements of economic development and food security. But there are relatively few such areas, much less than on the land. Global sustainable development and poverty reduction over the next decade and beyond will require more access to sustainable livelihoods and wealth derived from healthier oceans and stable coastal communities. Building MPA networks allied to work on sustainable fisheries will promote a coherent approach to providing this access, and contribute to the MDGs and other WSSD outcomes.

6. The European Community has a competency on international fisheries issues on behalf of its Member States. This recommendation for action by the G8 does not alter that balance of jurisdiction. It works within the parameters established for these issues both in Council Conclusions prior to WSSD, and at Johannesburg itself.

What should the G8 do?

7. The G8 should adopt the following package of measures to take forward within international fora, in the development of our national and regional policies and in our WSSD partnership work:-

- an over-arching commitment to develop ecosystem based approaches to the management of oceans and seas and their resources

- establish networks of marine protected areas by 2012 in our own waters and regions, and work with others to achieve the same in theirs, using frameworks such as the Biodiversity Convention and regional seas programmes
- work together to protect vulnerable biodiversity, including on the high seas
- build sustainable fisheries through prior impact assessments in fisheries agreements; through ratification and full implementation of the UN Fish Stocks Agreement, *inter alia* strengthening regional fisheries organisations; and through establishing model approaches in our regions to eliminate IUU fishing, focusing on implementing national and regional action plans by 2004
- reaffirm the commitments made at Doha, to improve disciplines on fisheries subsidies, and at Johannesburg to reform subsidies that damage the environment and are otherwise incompatible with sustainable development.

UK: December 2002

Ending Famine: A G-8 Approach NON-PAPER

Background: Meeting the international Millennium Goal of halving hunger by 2015 will require, among other actions, more effective famine prevention mechanisms. Famine is a process, not an event, and is completely preventable with the right policy tools. Current emergency food aid needs (2.8 million metric tons in 2002) far exceed the level of available donor resources (which covered 59% of 2002 needs). Emergency food needs are expected to rise significantly in 2003 (World Food Program estimates 2003 emergency food needs at 4.2 million MT, not yet including Ethiopia's expected needs) .In Africa alone, 30 million people are at risk of starvation unless more than two million tons of food aid are provided in a timely manner.

Thus, the G-8 should launch an initiative to significantly improve the capacity of the international community to anticipate and prevent famine. The initiative would have two basic elements:

More flexible counter-famine tools:

- **Cash-for-Work:** G-8 countries should increase the availability and use of cash-for-work resources as an instrument to prevent and mitigate famine. Cash-for-work programs allow governments to use assistance monies to pay people to work (such as in agricultural development activities like planting, irrigation or road construction) and can be a particularly appropriate tool in cases where food is available, but the population does not have sufficient resources to purchase.
- **Market Distribution:** G-8 countries should increase the use of "market distribution" of food aid in famine prevention initiatives. Market distribution activities are defined as the controlled sale of food commodities into markets that have lost, or will lose, the capacity to provide affordable commodities to the local population.

A new multilateral approach to famine focusing on preparedness, mitigation and prevention:

Preparedness:

- **International Early Warning and Analysis System:** The *G-8* should launch an effort to improve early warning systems and ensure they are used for concerted, timely, and coordinated policy response to prevent famine.
- **Overcome Current Obstacles:** *G-8* countries need to address the biotech food aid issue.
- **"Contact Group on Famine":** To address these preparedness issues and stimulate new approaches, the *G-8* should form a Contact Group on Famine. The us proposes to host a first meeting of FASS and relevant experts in January.

Mitigation:

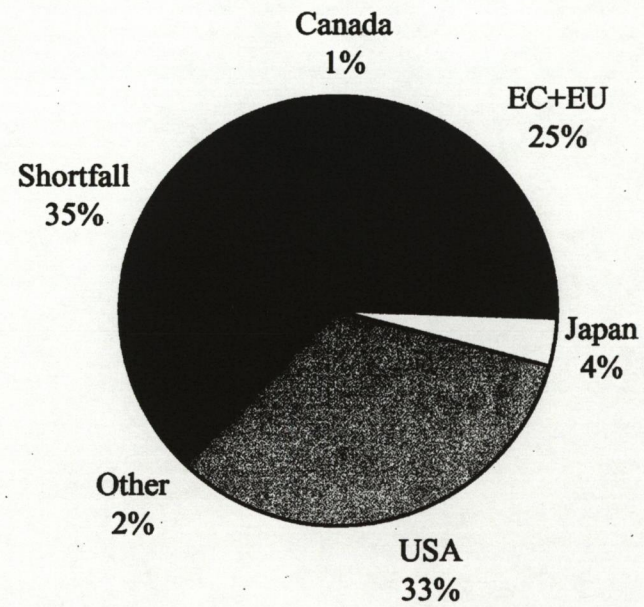
Emergency needs outstrip pledged resources from traditional donors. An estimated 1,000,000 MT of food is currently available for donation from non-traditional donors (for example, India, Argentina, Kazakhstan and Kenya) who lack resources to deliver and distribute this potential aid. Other countries (for example, Singapore, South Korea and Middle East countries) have resources but do not currently participate significantly in emergency food aid assistance efforts.

- **Twinning:** The *GB* should support establishment of a twinning mechanism at the World Food Program board meeting in February to match up non-traditional donors of commodities with non-traditional donors of cash for the provision of emergency food aid. This initiative will increase and regularize food aid availability to meet new and on-going emergency needs; stimulate contributions from non-traditional donors; enhance the ability of the humanitarian community to rapidly respond to needs; and potentially reduce the resource burden on traditional donors.

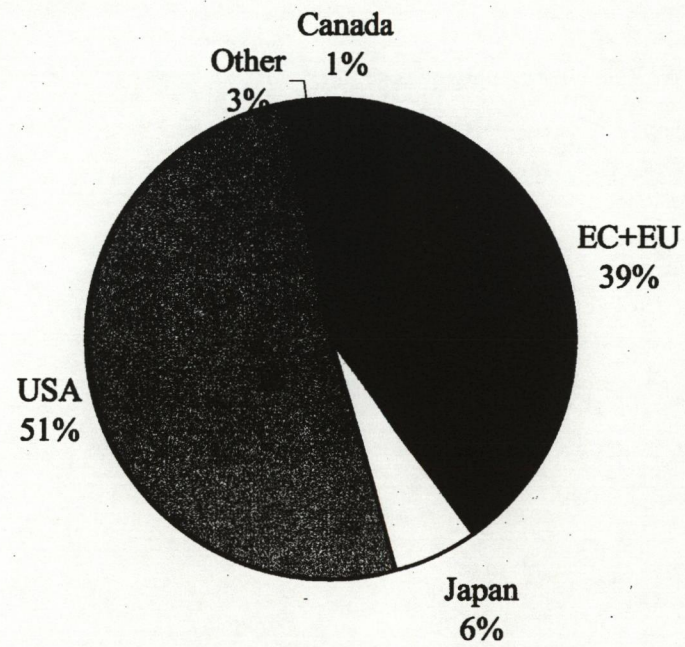
Prevention:

- **Agricultural Productivity / Technology:** *GB* countries have agreed to promote agricultural productivity in developing countries, especially the least developed, through improved policy frameworks, increased agricultural science and technology (including biotechnology) assistance, increased domestic market and international trade opportunities, secure property rights, access to finance, and enhanced human capital. Now is the time for the *GB* to implement pledges made at the World Food Summit -Five Years Later and at the *GB* Kananaskis Summit.

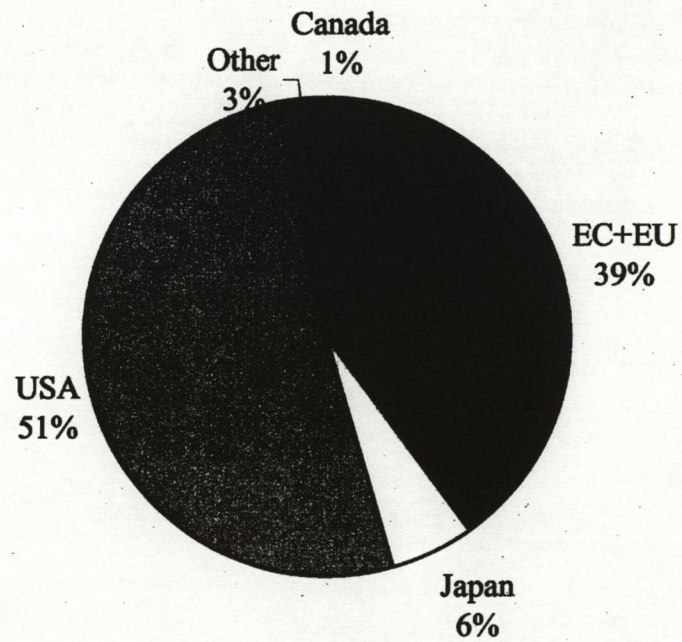
**Confirmed Emergency Contributions to Southern Africa Region
through the World Food Program
as percent of total need
(Metric Tons)**



**Confirmed Emergency Contributions to Southern Africa Region
through the World Food Program
(Metric Tons)**



**Confirmed Emergency Contributions to Southern Africa Region
through the World Food Program
(Metric Tons)**





December 06, 2002

Mr. Claude Lavardure
Personal Representative of the
Prime Minister for the G8 Summit

Dear Mr. Lavardure:

I am writing to update you on progress on our plan for *Cooperative G8 Action on Transport Security* announced at Kananaskis. I have canvassed my G8 Foreign Affairs Sous-Sherpa (FASS) colleagues, and have received extensive input from all of them.

I note the following key points, which I draw from the detailed Status Report Table attached to this letter:

- *People:* G8 partners are working bilaterally, multilaterally and within international fora developing and implementing common global standards for collecting and transmitting advanced passenger information (API), and are actively pursuing the application of biometrics in airport passes, procedures, and travel documents. The G8 Migration Experts Group under the G8 Lyon/Roma Groups should be commended for making excellent progress in advancing these initiatives.
- *Container Security:* since Kananaskis, G8 countries have been working on the implementation of a WCO resolution establishing a global integrated container security regime, ensuring the security and facilitation of the international supply chain, developing common standards, and encouraging adoption of standards by non-G8 countries, without causing competitive trade distortions or disadvantaging lesser developed countries.
- *Aviation Security:* all G8 countries expect to meet the established deadlines for reinforced aircraft cockpit doors and all fully support the ICAO mandatory aviation security check regime. G8 countries are also committed to assisting developing nations in aviation security capacity building and many have pledged funds in projects to do so.

- *Maritime Security:* there is support, recognizing the Russian reservation, for the amendment of the SOLAS convention to: 1) accelerate the installation of the Automatic Identification System (AIS) on ships by December 2004; 2) require mandatory ship security plans and officers by July 2004; and 3) require mandatory port security plans and port facility security assessments for those serving international traffic. We may need to review the progress made in this initiative after the 76th session of the IMO Maritime Safety Committee and the Diplomatic Conference on Maritime Security of the IMO (Dec 2-13, 2002 in London UK) to ensure that it is still on track to meet the established deadlines.
- *Land Transportation:* G8 countries are actively working domestically and within relevant international organizations on land transportation issues especially those involving the transportation of hazardous materials.

Finally, for your information, I suggested to my G8 FASS colleagues that they examine the initiatives endorsed at the recent APEC Economic Leaders' Meeting in Los Cabos, Mexico last November. Their statement, directed at fighting terrorism, goes further than the G8 commitment on transport security, including measures in areas such as baggage handling at airports, air cargo, and working with the private sector on supply chain security. We might consider whether these additional areas could be integrated into our G8 Cooperation.

My G8 FASS colleagues and I would be pleased to continue monitoring this progress, and to provide you and your G8 Sherpa colleagues with an update that you may wish to discuss at your last Sherpa meeting before the next Summit at Evian-les-Bains.

Yours sincerely,



D.G. Waddell
Assistant Deputy Minister
Trade, Economic and Environmental
Policy

**Cooperative G8 Action on Transport Security
Status Report Table
December 2002**

Kananaskis Action Points	G8 Partners' Responses	International Responses
<p>People: Implement as expeditiously as possible a common global standard based on UN EDIFACT for the collection and transmission of advanced passenger information (API).</p>	<ul style="list-style-type: none"> • On October 7, 2002, Canada implemented the Advanced Passenger Information System (API) at three major Canadian Airports for immigration purposes and at eight airports for customs purposes. • Canada is working with WCO Permanent Technical Committee related to the utilization of UN EDIFACT by member countries. • The European Commission services are seeking a methodology for transmitting passenger info that is compatible with EU legislation on data protection. • France is working with WCO Permanent Technical Committee related to the utilization of UN EDIFACT by member countries • Germany is working with WCO Permanent Technical Committee related to the utilization of UN EDIFACT by member countries. • Italy is working internally towards the fast adoption of the API system in all of its airports. • Japan is considering introducing the API system in FY 2004, and is working with WCO Permanent Technical Committee (PTC) Working party related to the utilization of UN EDIFACT by member countries. 	<ul style="list-style-type: none"> • The WCO Task Force created to implement WCO Resolution on Security and Facilitation of International Trade Supply Chain is responsible for the Members' review of the WCO/IATA Guidelines on Advance Passenger Information (API), encouraging the use of the UN/EDIFACT Passenger List Message. In addition, the Working Party of the WCO Permanent Technical Committee (PTC) is responsible for development of API guidelines (Due date June 2003). • IATA and WCO have made substantial progress on developing a maximum standard set of data elements and transmission format. G8 Migration Experts are confident work in these fora will meet expected timelines. • G8 Migration Experts agreed at last meeting in Montreal (October, 2002) to promote UN EDIFACT standard through other international organizations and fora. • Also agreed that if G8 members introduce API domestically, it would be in a manner consistent with the standard. • Where appropriate, G8 members would assist other governments implementing API systems to do so in line with standard

**Cooperative G8 Action on Transport Security
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Kananaskis Action Points	G8 Partners' Responses	International Responses
	<ul style="list-style-type: none">• Russia is participating in the G8 discussion of this issue within the G8 Migration Experts sub-group. At the last meeting of the group in Montréal (October 2002) Russia proposed to use border services of G8 countries for exchanging API. Russia will discuss this matter further at the AVSECP (ICAO AVSEC experts') meeting. • The US has adopted the UN EDIFACT Standard for air and ship crew and passenger data transmissions.	

**Cooperative G8 Action on Transport Security
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Kananaskis Action Points	G8 Partners' Responses	International Responses
<p>People:</p> <ul style="list-style-type: none"> • Work towards granting reciprocal bi-lateral access, on a voluntary basis, to departure and transit lounges, including • Timely implementation of a Pilot Project. 	<ul style="list-style-type: none"> • Canada has responded to the first draft of the U.S. paper, and is awaiting the revised draft. Germany to further communicate comments soon. • France is participating in the work of the Lyon and Roma groups on this subject. • Germany has also responded to the first draft of the U.S. paper, and is awaiting the revised draft. Germany to further communicate comments soon. • Italy is working internally on this project for all of its airports. • Japan has also responded to the first draft of the US paper, and is awaiting the revised draft. • Russia will consider the issue after an analysis of the experiences of other G8 countries. • The United States is working toward establishing reciprocal agreements to permit immigration officers of each country to provide on-site support and guidance to airlines and government officials. US Customs and INS are working with Canada on a pilot program to share passenger screening information. 	<ul style="list-style-type: none"> • The US received input from other G8 member countries to their paper on the topic. Deadline for further input was extended until November 15, 2002. US will circulate a revised paper in January 2003 and further discussion to occur at first meeting of FASS under French Presidency. At that time consideration will be given to a potential pilot project. • Agreement to recognize and endorse related work being done in IATA/CAWG fora, and agreed that widespread cooperation within and beyond the G8 would be beneficial.

**Cooperative G8 Action on Transport Security
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Kananaskis Action Points	G8 Partners' Responses	International Responses
<p>People: Work towards developing recommendations on minimum standards for the application of Biometrics in procedures and documents by the Spring of 2003, with a view to forwarding them to standards organizations.</p>	<ul style="list-style-type: none"> • Canada is moving ahead with domestic plans on Biometrics for Spring 2003. • The EC funds several projects that seek to develop Biometrics for transport applications. Biometrics is also used for its Eurodac (asylum applications) system. Discussions on the use of Biometrics in EC visas are ongoing. • France in 2003, will start preparing for Biometric information to be recorded when issuing airport passes for access to airport restricted areas as required pursuant to Article R.213-4 of the French Civil Aviation Code. With a view to controlling access to airport areas, a number of Biometric identification techniques are currently being tested to check the match between airport passes and their holders. • Germany is doing the same as Canada, i.e. moving ahead with domestic plans for Spring 2003, however present developments are not yet adequate for mass applications. • Italy is working towards the application of Biometrics in procedures and documents by Spring 2003. • Japan is working actively as one of the thirteen member states of ICAO TAG/MRTD on recommendations on minimum standards for the application of Biometrics. 	<ul style="list-style-type: none"> • ICAO developing minimum standards. • G8 Migration Experts agreed to a Statement of Principles regarding Biometrics highlighting the importance of three general concepts: universality; urgency; and technical reliability. Statement is to be used by G8 in outreach efforts to ensure that it is shared as broadly as possible. • US will write a paper on guidelines for minimum common standards for Biometrics in documents and procedures. First draft due early December and will be shared at the same time with the ICAO/NTWG. Full discussion expected at first meeting under French Presidency with a view to finalizing recommendations on minimum standards for presentation at ICAO's Technical Advisory group (TAG) meeting in Spring 2003. • G8 Migration Experts will promote fast development and wide acceptance of standards.

**Cooperative G8 Action on Transport Security
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Kananaskis Action Points	G8 Partners' Responses	International Responses
	<ul style="list-style-type: none"> • Russia participated in the discussion of this issue at the G8 Migration Experts' meeting in Montréal (October 2002). Russia is gathering information and studying the experiences of G8 partners in this area to develop concrete proposals to be submitted to the G8 Migration Experts' sub-group. • The UK government is working with the Industry with a view to agreeing to applications for Biometrics (e.g. preventing the transfer of an airline pass from the correct staff to someone else), common baseline standards, and trials of various techniques at UK airports. UK welcomes G8 ICAO, Canadian and other initiatives and anticipates useful sharing of data and experiences. • The US is actively promoting the development of Biometrics data standards through the ICAO New technologies Working Group and has undertaken to write the G-8 paper on guidelines for minimum common standards for Biometrics in documents and procedures. The US will work with the G8 to find an appropriate architecture for internationally interoperable machine-readable travel documents, recognizing that the personal privacy of legitimate travelers must be maintained. 	

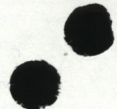
**Cooperative G8 Action on Transport Security
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Kananaskis Action Points	G8 Partners' Responses	International Responses
<p>People:</p> <ul style="list-style-type: none"> • Improve procedures and practices for sharing data on loss or stolen passports and denied entries, with a Practical Exercise by September 2002. 	<ul style="list-style-type: none"> • All G8 States participated in the U.K. led G8 exercise in September and are interested in similar exercises in the future. The EC did not participate, but support similar operations in the future. • Italy has work in progress on this issue. • The UK led Nigerian passport intercept project successfully highlighted ways in which States can share intelligence and information on fraudulent travel documents and abusers of such documents. A total of 4,496 passports were examined with 35 fraud cases were detected. The US has instituted a pilot program with Canada to share stolen passport and entry denial information, and is working with other countries to develop similar programs. 	<ul style="list-style-type: none"> • U.K. presented a comprehensive report on the G8-wide exercise. Member States found the exercise valuable as it produced specific and strategic outcomes and benefits, and they agreed that future exercises of this nature be conducted and the results shared. • U.K offered to conduct an analysis of year-end data on document abuse to determine common interests if any. Member States were asked to provide this information by early February so the results can be discussed at the next meeting of the G8 Migration Experts Group.

**Cooperative G8 Action on Transport Security
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Kananaskis Action Points	G8 Partners' Responses	International Responses
<p>Container Security:</p> <ul style="list-style-type: none"> • Recognizing the urgency of securing global trade, work expeditiously, with relevant international organizations, to develop and implement an improved global security regime to identify and examine high-risk containers, and ensure their in-transit integrity. 	<ul style="list-style-type: none"> • Canada/U.S. In-Transit Container Targeting Program in Operation. • The EC has ongoing negotiations with US Customs with an aim to create an effective framework for controlling seagoing containers on export and a possible legal basis on which such a common EU/US approach can be taken forward in all EU-ports. The aim is to finalize a text for a political declaration on co-operation before mid-December. • The EC considers unilateral measures, such as the US implementation of the so-called "24 hour rule" would be best replaced by, as agreed in Kananaskis, co-operation on a reciprocal basis and with a greater degree of prior consultation. • France: With regard to improved container security, France strongly supports any move that promotes an international approach, which has a greater capacity to prevent the emergence of competitive distortions between Ports. • Germany/US In-Transit Container Targeting program also in Operation. • Italy recently signed a declaration of Intent with the US government on this specific issue, in order to face, on a bilateral level, the urgent problem of assuring an exhaustive and detailed control on container traffic with the US. At the same time, Italy is working towards an agreement to be found within the EU that can assure that international competition is not altered and least developed countries are not left behind. 	<ul style="list-style-type: none"> • June 2002 WCO adopted resolution on security and facilitation of int'l trade supply chain. Lays out 12-mth-action plan. IFI's and Development agencies called upon to provide support. • Task Force established to implement Resolution by June 2003 • WCO Task Force on Supply Chain Security continued to make progress at it's meeting in Brussels last week (Nov 7-8, 2002) but no substantive results to report at this time.

**Cooperative G8 Action on Transport Security
Status Report Table
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Kananaskis Action Points	G8 Partners' Responses	International Responses
	<ul style="list-style-type: none"> • Japan is preparing the implementation of the pilot project of the Container Security Initiative (CSI) with the U.S. based on the declaration of principles in September 2002. Japan is also participating in the WCO Task force on Supply Chain. • Russia is working on this issue within relevant IMO bodies. • The US supports changes to supply chain shipping practices to ensure better cargo security and to allow shippers to know what is being loaded on their ships prior to leaving Port. As part of this process, the US Customs Service will require ships to submit cargo declarations 24 hours before the cargo is loaded; the rule became effective December 02, 2002, but enforcement will be delayed 60 days to facilitate compliance. Ships carrying bulk cargoes (oil, minerals and grain) are exempt, and applications for exemptions for break bulk (non-containerized cargo) ships will be considered on a case-by-case basis. To protect confidentiality, freight data will not be released until a ship files its complete cargo manifest upon arrival at a US Port. 	

**Cooperative G8 Action on Transport Security
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Kananaskis Action Points	G8 Partners' Responses	International Responses
<p>Container Security:</p> <ul style="list-style-type: none"> • Develop, in collaboration with interested non-G8 countries, pilot projects that model an integrated container security regime. 	<ul style="list-style-type: none"> • Canada and Germany are preparing plans to individually conduct projects with U.S. to test ITS technologies (to monitor movement of US destined containers and use of electronic seals to maintain integrity of the containers). • The EC is launching two new projects concerning the Security and Safety of Intermodal Loading Units (including containers). These are: 1) <i>Safe and Secure Intermodal Transport Across the Globe</i> (SIMTAG), a 24mth research project due to start late 2002; and 2) <i>Safe Intermodal Transport Thematic Network</i> (SIT-IN) a project of 36mths, due to start in late 2002. • Italy has work in progress in order to launch projects with other WCO members. • Japan is preparing the implementation of the pilot project of the Container Security Initiative (CSI) with the U.S. based on the Declaration of Principles in September 2002. Japan is participating in the WCO Task Force on Supply Chain. • Russia will consider participation in such projects after adoption of relevant standards and regulations by IMO, WCO, and the UN. 	<ul style="list-style-type: none"> • WCO Task Force activities encourage implementation of projects between or among WCO members aimed at enhancing security/facilitation of international trade (Ongoing Activity).

**Cooperative G8 Action on Transport Security
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Kananaskis Action Points	G8 Partners' Responses	International Responses
	<ul style="list-style-type: none">• The US favours rapid development of pilot projects for integrated container security, and is working to develop these with Belgium, Canada, China, France, Germany, Italy, Hong Kong, Japan, the Netherlands, Singapore, Spain, the UK, and other countries. Currently the following Ports in G8 member States are CSI participants: Halifax, Montréal, and Vancouver (Canada); LeHavre (France); Bremerhaven and Hamburg (Germany); Yokohama, Tokyo, Kobe and Nagoya (Japan); and Genoa and la Spezia (Italy). A US Customs team has been operating in the Port of Rotterdam since September.	

**Cooperative G8 Action on Transport Security
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Kananaskis Action Points	G8 Partners' Responses	International Responses
<p>Container Security:</p> <ul style="list-style-type: none"> • Implement expeditiously, by 2005, wherever possible, common standards for electronic customs reporting, and • Work in the WCO to encourage the implementation of the same common standards by non G-8 countries. 	<ul style="list-style-type: none"> • Primary focus of Canada, France and Germany's activities directed to implementation of WCO resolution. • Canadian implementation of the WCO/G7 Import and Export datasets currently scheduled for Spring 2003, which involves a joint pilot with the United Kingdom. • Italy fully endorses the draft WCO Resolution that should be adopted during the forthcoming IMO Diplomatic Conference in London. Work is focussed on closer co-operation between WCO and IMO on container security in order for the adoption of common standards recognized also by non-G8 countries. • Primary focus of Japan's activities is directed to implementation of WCO resolution. Japanese implementation of the WCOG7 import and Export datasets is currently scheduled for 2005. • Russia is participating in the WCO discussion of the issue. 	<ul style="list-style-type: none"> • WCO Task Force activities encompass the re-examination of the WCO Customs Data Model as well as the development of common standards and guidelines for customs reporting (Due Date: June 2003). Interim report due at WCO Policy Commission meeting December 2002. • Continued participation in the WCO Information Management Subcommittee (IMSC) and Data Model Working Group to promote the adoption of the G7 Data Sets to the WCO membership.

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Kananaskis Action Points	G8 Partners' Responses	International Responses
<p>Container Security:</p> <ul style="list-style-type: none">• Begin work expeditiously within the G8 and the WCO to require advance electronic information pertaining to containers, including their location and transit, as early as possible in the trade chain.	<ul style="list-style-type: none">• Primary Focus of Canada France, German, Italy and Japan's activities directed to implementation of WCO Resolution.• Russia is participating in the WCO discussion of this issue.	<ul style="list-style-type: none">• WCO Task Force activities encompass the re-examination of the WCO Customs Data Model as well as the development of common standards and guidelines for customs reporting (Due Date: June 2003).

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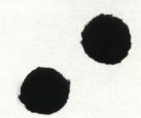


Kananaskis Action Points	G8 Partners' Responses	International Responses
<p>Aviation Security:</p> <ul style="list-style-type: none"> • Accelerate implementation of standards for reinforced flight deck doors for all G8 passenger aircraft by April 2003 wherever possible. 	<ul style="list-style-type: none"> • Canada: In December 2001 Federal Budget, the Government of Canada announced that it would provide up to \$35 million over two years to help cover the cost of security modifications to the passenger aircraft fleet resulting from new standards and regulations. • Canada: New regulations for cockpit doors were published on April 10, 2002 mandating the installation of internal locking devices to flight deck compartment doors by May 01, 2002, and establishing new intrusion and penetration resistance requirements by April 9, 2003. • Canada: The Director General of Civil Aviation advised Canadian operators that the April 2003 deadline is to be honoured and alternatives to compliance would not be considered. • Canada: Regulations requiring foreign operators to have flight deck doors locked (which will be similar to the U.S. foreign operator requirements) are currently being drafted with an expected implementation date of April 2003. • EC: JAA adopted new regulations in October 2002, enabling European airworthiness approval for retrofitted cockpit doors. 	<ul style="list-style-type: none"> • Amendment 27 to ICAO Annex 6 Part I applicable November 01, 2003 states that all passenger carrying aeroplanes of a maximum certificated take-off mass in excess of 45,500 kg, or with a passenger seating capacity greater than 60 shall be equipped with an approved flight crew compartment door that is designed to resist penetration by small arms fire and grenade shrapnel, and to resist forcible intrusions by unauthorized persons.

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Kananaskis Action Points	G8 Partners' Responses	International Responses
	<ul style="list-style-type: none">• France is preparing to apply the new certification regulation being drafted by JAA and to be published in December 2002, with immediate effect without the need for incorporation into national law. All aircraft landing or flying in US or Israeli airspace should be equipped by April 2003 at the latest. This should be further extended to all international flights by November 1st 2003. France is currently providing the necessary accompanying training programmes (Crew Resource Management –CRM) to over 10,000 flight personnel. It is scheduled for implementation for all aircraft as of April 2003 in keeping with the priority on flights classified as sensitive.• Germany: All German Aircraft on transatlantic flights will be equipped with the new flight deck system, by end of March 2003, and all remaining aircraft by end October 2003.• Italy: Work in progress in order to respect the April 2003 deadline for full compliance to this commitment.	

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Kananaskis Action Points	G8 Partners' Responses	International Responses
	<ul style="list-style-type: none"> • Japan : On June 27, 2002, the Director General of Civil Aviation Bureau, Ministry of Land, Infrastructure and Transport sent a letter to Japanese operators, urging them to make all possible efforts to reinforce flight deck doors as expeditiously as possible, by April 2003, wherever possible. • Japanese operators are making efforts for expeditious implementation by coordinating with aircraft manufacturers for the early delivery of door modification kits. A regulation is currently being drafted to require Japanese and foreign operators to reinforce flight decks by November 1, 2003 in accordance with the amendment 27 to IACO Annex 6 Part 1. • Russia intends to complete installation of bulletproof partitions and cockpit doors, reinforcement of internal locking devices to flight deck compartment doors on all foreign-made planes of the Russian passenger aircraft fleet before April 2, 2003. • The UK has committed to early implementation by April 30, 2003 of ICAO requirement. The UK will shortly issue a legal requirement to UK airlines to bring this into effect. • The US is on track to implement standards for reinforced flight deck doors by April 2003. The FAA has issued 11 door design approvals, and has asked operators to provide weekly updates on manufacturing and installation progress. The FAA met recently with the EU Joint Aviation Authorities (JAA) and European operators to discuss this issue and to seek collaborative solutions to help carriers meet the G8 and US deadlines. 	

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Kananaskis Action Points	G8 Partners' Responses	International Responses
<p>Aviation Security:</p> <ul style="list-style-type: none"> • Support in ICAO the rapid of mandatory aviation security audits of all ICAO contracting states. 	<ul style="list-style-type: none"> • In February 2002, the Government of Canada, via the Minister of Transport, paid \$350,000 CDN to ICAO to help fund the development of the Security Audit Program. • Canada strongly supports this initiative, and the program is going ahead although concrete timelines have not been established. • So far U.S. has contributed \$1 million USD to this initiative. • EC: With the adoption in December 2002 of the EC Framework Regulation on aviation security, the EC is mandated to develop a mandatory aviation security audit regime within the EU. This will be done in 2003, in parallel with the work in ICAO. • France is fully in favour of the launch of the ICAO's security audit programme. France looks forward to seeing details on the auditor's qualifications/certification criteria, in so far as they have not been presented to the States (these criteria are essential to guarantee the quality and neutrality of the audit programme) • GERMANY: German Government (Ministry of Transport) has pledged an unspecified six-digit US dollar amount to ICAO to help fund the development of the Security Audit program. • Italy, in February 2002, endorsed the decision made at the High level Conference in Montréal to launch the AVSEC Mechanism for air transportation security. Italy's quota for the finance of AVSEC was established at \$570,000 USD for the period 2002-2004. The Government of Italy paid the first tranche of \$190,000 USD in July 2002. 	

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Kananaskis Action Points	G8 Partners' Responses	International Responses
	<ul style="list-style-type: none"> • Japan: At the high level Ministerial Conference on Aviation Security held in February 2002, Japan expressed its support for aviation security audits by ICAO. Japan had reiterated its support since then. • Russia supported this initiative at the 106th session of the ICAO Council. Russia has organized special meetings of national airports' commissions on aviation safety, organized 64 security exercises in 5 major airports, conducted security audits in 2 major airports, aviation security experts certified 11 airports and 4 cargo terminals. Russia's largest Domodedovo airport (Moscow) introduced 100% security check of all luggage. • The UK supports ICAO airport security audits and is already active in the European audit process. UK AVSEC personnel are amongst those trained to carry out audits. The UK also has inspectors trained as auditors. In addition, the UK currently makes an annual contribution of \$100,000 to the AVSEC fund. • The US is working with ICAO to develop and implement the new ICAO Security audit program. Security audits have begun with Uganda, and should extend to each of ICAO's regions next year. 	<ul style="list-style-type: none"> •

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Kananaskis Action Points	G8 Partners' Responses	International Responses
<p>Aviation Security:</p> <ul style="list-style-type: none"> • Enhance cooperation, in a spirit of capacity-building assistance, on aviation security with other countries. The G8 will also share their information and assessments about security vulnerabilities 	<ul style="list-style-type: none"> • Canada is working only with the U.S. at this time to harmonize regulations to ensure there are no gaps in Aviation Security. • EC: EU-US Transport Security Co-operation Group was created in May 2002. • Discussions over creating similar EU-Russia and EU-Japan Transport Security Co-operation Groups. • France paid a contribution of 100,000 euros in May 2002 to the ICAO for its security-training programme. A second payment of 500,000 euros plus 100,000 euros is scheduled to be made in 2003. A protocol is currently being drafted. France also has a 900,000 euros project underway to improve the search and rescue system for all the African States, and an aviation security project (\$3 million euros) being prepared for West and Central Africa, also financed by the EU and the World Bank. • Italy is concentrating at this time on work to guarantee aviation safety within its borders. Italy is also actively participating in order to guarantee the implementation of a shared information system amongst G8 members. • Japan: At the High Level Ministerial Conference on Aviation Security held in February 2002, Japan announced that it would reinforce its assistance to developing countries in the area of aviation security. To assist capacity building of developing countries for combating terrorism, Japan doubled the number of participants of "Seminar on aviation security" implemented by JICA (Japan International Cooperation Agency) in FY 2002. 	<ul style="list-style-type: none"> • ICAO Initiative. • At the G8 Lyon and Roma Groups, G8 Members noted significant progress in the area of Capacity Building. A dialogue will be initiated by the Canadian Presidency's "Point of Contact" to those of other G8 members. Discussions will include: info exchange; priorities; and options for joint initiatives.

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Kananaskis Action Points	G8 Partners' Responses	International Responses
	<ul style="list-style-type: none"> <li data-bbox="920 323 1450 469">• Russia has established within its Ministry of the Interior, the National Point of Contact for information exchange in the G8. Russia is considering the advisability of establishing a G8 Working Group on this issue. <li data-bbox="920 505 1450 928">• US funding in 2002 for the ICAO AVSEC mechanism totals \$2 million in cash and in kind, including \$1million pledged at the High level Ministerial Conference in February. \$600,000 from the State Department and the secondment of two FAA professionals. The Trade and Development Agency is actively engaged in a number of aviation and Port security infrastructure and training studies and financing in the APEC region and elsewhere. The US favours increased Multilateral Development Bank funding to improve human and physical security capacity in developing countries. <li data-bbox="920 964 1450 1357">• The US circulated an informational paper at APEC's last meeting at Los Cabos, describing existing US programs for capacity building for Secure Trade in the APEC (STAR) initiative, which comprises security measures in trade/transportation, finance, and cyber security. We also made a substantial commitment on training programs for port administrators, law enforcement officials, carriers, shippers and manufacturers. A seminar to launch implementation of the STAR initiative is scheduled for February 2003 in Bangkok. 	

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Kananaskis Action Points	G8 Partners' Responses	International Responses
<p>Maritime Security:</p> <ul style="list-style-type: none"> Support in the IMO, amendment of the International Convention for the Safety of Life at Sea (SOLAS) to accelerate the date of the installation of automatic identification systems (AIS) on certain ships to December 2004. 	<ul style="list-style-type: none"> Canada: All maritime initiatives outlined are progressing well and Canada should meet the targeted deadlines. EC: The EC will meet the deadlines for the AIS installation on board vessels in accordance with respective decisions to be taken within the IMO Diplomatic Conference for Maritime Security (London, December, 2002). According to the UK the EU has since advised that it expects to propose an EU Regulation to give effect to the mandatory IMO texts, to ensure consistent application across the EU and thereby avoid trade distortion. France: Regarding maritime security, and still with a view to promoting a multilateral approach, France is in favour of the accelerated installation of Automatic Identification Systems (AIS) on certain ships by December 2004, in keeping with the SOLAS Convention. France is also taking necessary steps to ensure that land based infrastructure necessary to fully exploit the AIS be in place by then. Italy is working hard inside IMO and the EU in order to adopt all necessary amendments of the SOLAS Convention during the Diplomatic Conference to be held in London in December. Italy hopes to meet the targeted deadlines for the implementation of such amendments, although concerns still exist regarding costs and feasibility issues Japan: All maritime initiatives outlined are progressing well and Japan should meet the targeted deadlines. 	<ul style="list-style-type: none"> Work is ongoing and progressing well. Reticence by some States to expand the role of IMO and concern on early implementation dates is due to costs and feasibility issues.

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Kananaskis Action Points	G8 Partners' Responses	International Responses
	<ul style="list-style-type: none"><li data-bbox="920 323 1450 436">• Russia is working on this within relevant IMO bodies. Russia intends to develop the program of installing automatic identification systems (AIS) by 2006.<li data-bbox="920 475 1450 713">• The UK Prime Minister endorsed the IMO initiative at Kananaskis, and agreed that the security measures would be implemented in the UK by July 2004. Further, the UK supports the introduction of threat-based procedures as opposed to an inflexible security regime, and has been operating on a system of threat assessment for a decade.<li data-bbox="920 779 1450 984">• The US supports amending SOLAS to accelerate the installation of AIS on certain ships by December 2004. The US Congress is considering legislation that would require AIS on ships entering the United States by December 31, 2004, and mandatory ship and Port security plans by July 2004.	

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Kananaskis Action Points	G8 Partners' Responses	International Responses
<p>Maritime Security:</p> <ul style="list-style-type: none"> Support in the IMO, amendment of the International Convention for the Safety of Life at Sea (SOLAS) to require mandatory ship security plans and ship security officers on board ships by July 2004. 	<ul style="list-style-type: none"> Canada: All maritime initiatives outlined are progressing well and Canada should meet the targeted deadlines. EC: Respective decisions are expected to be taken by the forthcoming IMO Diplomatic Conference, early December 2002. EC strongly supports the adoption of the new instruments in accordance with the concrete timetables. France: Regarding Maritime Security and within the framework of SOLAS, France is in favour of ship security plans and ship security officers being made mandatory on board ships by July 2004, provided that France already has ship equipment security plans and Port facility security plans for relevant ports serving ships engaged in international voyages. Italy is working hard inside IMO and the EU in order to adopt all necessary amendments of the SOLAS Convention during the Diplomatic Conference to be held in London in December. Italy hopes to meet the targeted deadlines for the implementation of such amendments, although concerns still exist regarding costs and feasibility issues. Japan: All maritime initiatives outlined are progressing well and Japan should meet the targeted deadlines. Russia is working on this within relevant IMO bodies. Russia intends to develop in the first half of 2003, a program for introducing mandatory Port security plans and Port facility security assessments for relevant Ports ships engaged on international voyages by 2006. 	

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Kananaskis Action Points	G8 Partners' Responses	International Responses
	<ul style="list-style-type: none"><li data-bbox="924 290 1445 530">• The UK Prime Minister endorsed the IMO initiative at Kananaskis, and agreed that the security measures would be implemented in the UK by July 2004. Further, the UK supports the introduction of threat-based procedures as opposed to an inflexible security regime, and has been operating on a system of threat assessment for a decade.	

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Kananaskis Action Points	G8 Partners' Responses	International Responses
<p>Maritime Security:</p> <ul style="list-style-type: none"> Support in the IMO, amendment of the International Convention for the Safety of Life at Sea (SOLAS) to require mandatory port security plans and port facility security assessments for relevant ports serving ships engaged on international voyages by July 2004. 	<ul style="list-style-type: none"> Canada: All maritime initiatives outlined are progressing well and Canada should meet the targeted deadlines. EC: Respective decisions are expected to be taken by the forthcoming IMO Diplomatic Conference, early December 2002. EC strongly supports the adoption of the new instruments in accordance with the concrete timetables. France: Moreover, a task force is currently inspecting arrangements in the French Ports. It is scheduled to submit its report by the end of this year. Italy is working hard inside IMO and the EU in order to adopt all necessary amendments of the SOLAS Convention during the Diplomatic Conference to be held in London in December. Italy hopes to meet the targeted deadlines for the implementation of such amendments, although concerns still exist regarding costs and feasibility issues. Japan: All maritime initiatives outlined are progressing well and Japan should meet the targeted deadlines. 	

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Kananaskis Action Points	G8 Partners' Responses	International Responses
	<ul style="list-style-type: none">• Russia is working on this within relevant IMO bodies. Russia intends to develop in the first half of 2003, a program for introducing mandatory Port security plans and Port facility security assessments for relevant Ports ships engaged on international voyages by 2006. • The UK Prime Minister endorsed the IMO initiative at Kananaskis, and agreed that the security measures would be implemented in the UK by July 2004. Further, the UK supports the introduction of threat-based procedures as opposed to an inflexible security regime, and has been operating on a system of threat assessment for a decade.	

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Kananaskis Action Points	G8 Partners' Responses	International Responses
<p>Land Transportation:</p> <ul style="list-style-type: none"> • Develop in the UN and other relevant international organizations, an effective and proportionate security regime for the overland transportation and distribution of hazardous cargoes, which present potentially significant security risks, with initial consultations this year. 	<ul style="list-style-type: none"> • GERMANY: Germany has made numerous contributions in this respect for many years in the framework of the Inland Transport Committee of the Economic Commission for Europe (ECE) of the UN. • Japan intends to contribute to work within the framework of the UN and other relevant international organizations on this issue. • Russia intends to analyze the issue with the aim to identify eventual supplementary measures on increasing security of land transportation. G8 Summit decisions on land transportation security were discussed at the interagency conference in November 2002; relevant agencies are integrating Kananaskis recommendations into action plans. Russia continues to be interested in G8 consultations on security aspects of land transportation. • The US in their efforts to develop an effective and proportional security regime for the overland transport and distribution of hazardous cargo, the US Transportation Security Administration is working with other US agencies, industry and other interested parties (e.g. scientific organizations) to develop standards for transporting hazardous materials. This includes defining and identifying hazardous materials and developing test-bed methodologies with certain chemicals to develop model standards. 	<ul style="list-style-type: none"> • There will be an international sub-committee experts' meeting in December 2002, during which, a study will be approved for the last bi-annum. Following this event, in January 2003, a work plan for the next bi-annum will be approved in which the development of a security regime for the overland transportation and distribution of hazardous cargoes will be included.

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ODC has conducted surveys in Afghanistan since 1994 as part of its mandate to monitor global illicit drug trends and develop efficient responses. This year's opium production in Afghanistan is estimated at 3,400 tons, with an estimated value of around US\$ 1.2 billion.

Most of the opium was cultivated in just five (of a total of 32) provinces. Illicit drug crops are therefore not a country-wide problem. The governors of these provinces need to be alerted to the severity of the problem.

The results of the survey do not represent failure on the part of the Afghan authorities nor international drug control efforts. Planting took place following the collapse of law and order in the fall of 2001, before the new administration was in place.

There is a need for increased international support for the Transitional Authority's drug control efforts. President Karzai's government has banned cultivation, processing, trafficking and abuse of opiates in the country.

The international community should support Afghanistan's efforts in two major ways:

- 1) strengthening drug control and law enforcement agencies; helping create a judicial framework; enhancing regional cooperation in the interdiction of illicit drugs (ODC is engaged in all these areas);
- 2) offering farmers alternatives to drug cultivation by helping develop licit means of livelihood. Multilateral development banks, especially the World Bank and the Asian Development Bank, need to do more to support activities and efforts aimed at achieving that goal.

It is incumbent in particular upon the European countries, which are the major destination of heroin originating from Afghanistan, to redouble their efforts to assist the Afghan government.

But Afghanistan is a global challenge. Efforts to rebuild the country can only succeed if the global community – from the US and Canada to Europe and Japan, from Russia to neighbouring Iran and Pakistan – continues to provide support.

Presentation of the Conference on "Drug Routes"

France is organising, in Paris, under its Presidency of the G8, a ministerial conference on "Drug Routes" whose focus will be on opium and heroin originating from Afghanistan. Some fifty countries will be invited at ministerial level, from Central and South Asia, the Caucasus, the Balkans, European Union Member States, candidate countries and of course G8 partner countries. This conference will be held in May, on the eve of the G8 meeting of foreign ministers.

The full impact of efforts by the Afghan Government and the international community to reconstruct Afghanistan can only be felt over time, as shown by the resumption of large-scale poppy cultivation. Trafficking in opium and heroin is a threat to the security of the countries situated on drug trafficking routes linking Central Asia to Europe. The sheer scale of the phenomenon calls for a concerted international response.

All the countries affected by drug trafficking are faced with the same scourge and the same challenge in terms of crime and public health. It is necessary to mobilize within a national framework. But this is not enough and mobilization on the part of the international community will also be required to strengthen and develop cooperation. Improved aid and cooperation arrangements must be sought and public commitments to combat this scourge must be renewed.

The French conference on the theme of "Drug Routes" is to focus on routes for the trafficking of opium and heroin from Afghanistan, deliberately leaving aside the issue of production. We also hope to encourage a debate on improving knowledge of routes complementary to drug routes or on specific trafficking routes such as chemical precursor trafficking routes, or on networks for the sale of drugs on the Internet. The issue of the laundering and recycling of proceeds from traffickings will also need to be discussed.

Our aim is for the Presidency to draw up a statement comprising several series of recommendations. These will make it possible to cover the following aspects: improved knowledge and control of drug routes, their impact on the countries they cross and ways of combating trafficking more effectively by strengthening and better coordinating existing cooperative efforts in this field.

We aim -without denouncing any of them in particular -to make all the countries who will attend the Conference aware of the fact that they all have responsibilities to shoulder and that they must mobilize together in fighting this scourge.



10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

9 December 2002

Dear Claude,

AFGHANISTAN: IFI DEBT ARREARS

Alfred asked me to circulate further details about Afghanistan's arrears of debt, owed to the World Bank and IMF. Debt arrears clearance is a high priority given that significant funds from international financial institutions need to be released now to enable visible reconstruction projects to take place. The Afghanistan Transitional Administration hopes to clear its arrears of debt before the end of this year.

The UK has already contributed US\$17m to pay off Afghanistan's remaining arrears owed to the Asian Development Bank. This has allowed Afghanistan immediate access to a concessional loan of US\$150m.

Norway and the UK have also contributed US\$10m and US\$3m respectively towards clearing Afghanistan's US\$27m arrears at the World Bank. Italy and Sweden have provisionally indicated their willingness to contribute a further US\$3m and US\$5m respectively. I hope these contributions can be delivered soon. This would leave some US\$6m to be funded. Clearance of World Bank arrears would immediately release a further \$100m in concessional lending from the Bank, with more to follow.

Whilst not such a high priority, Afghanistan also owes a further US\$8m to the IMF. We believe the Afghanistan Transitional Administration has US\$5m in an existing IMF account that could be used to clear part of this amount, leaving only US\$3m to be cleared which would then free up financing from the IMF's Post Conflict Emergency Facility.

Given the relatively small amounts involved I would be grateful if your governments could consider a contribution towards clearing Afghanistan's remaining arrears of debt. A joint effort by donors would further underline the international community's support for the reconstruction process in Afghanistan as well as enabling visible reconstruction projects to take place without delay, raising the profile of the Transitional Administration, particularly in the regions.

*Yours,
Jm*

JEREMY HEYWOOD

Mr Claude Laverdure

Draft Terms of Reference for G8 Cooperation on Nuclear Safety and Security

Annex I

A G8 group cooperating on nuclear safety and security would be responsible to Leaders, through Sherpas, for providing technically informed, strategic policy advice and oversight of the implementation of G8 projects on issues that could impact safety and security in the peaceful use of nuclear energy worldwide, in close cooperation with multilateral organizations and avoiding duplication of tasks or responsibilities that are being addressed adequately by existing organizations or entities.

The G8 group would:

a) be guided by the "Core Principles for G8 Cooperation on Nuclear Safety and Security" in all of its deliberations, recommendations and actions.

b) assist in developing and promoting the application of these Core Principles among the G8 and worldwide;

c) identify any international issue that may impact on the safe and secure use of civil nuclear power and provide assessments and recommendations on any action that the G8 may take to address the issue.

d) engage with established multilateral organizations, as required, to be informed and aware of the general and specific aspects of the safe and secure use of nuclear power.

e) address all aspects of the nuclear fuel cycle that may impact the safety, health or security of citizens worldwide.

f) provide input to counter-terrorism policy in the field of nuclear safety and radiation protection and support activities to ensure that orphan radiation sources are adequately controlled.

g) undertake the implementation and/or coordination of any measures or actions agreed by Leaders to be necessary to address and resolve any major issue impacting nuclear safety and security, including the monitoring of progress and direction of projects and tasks until completion.

As agreed by G8 representatives at the Ottawa Scoping Workshop - May 22, 2002

Annex II

Review of Benchmarks

i) Review meeting of the Convention on Nuclear Safety (CNS), IAEA, April 2002:

The NSWG agreed that Russia's presentation at the second review meeting of the CNS constituted an improvement over the First Review Meeting of the CNS. All key areas plus selected issues arising from the first review meeting were addressed. It was felt that, despite shortcomings in the area of transparency, there was evidence of efforts to demonstrate commitment to safety, to forge ahead with recommended improvements, and to be open and comprehensive in addressing all issues. Since the presentation does not allow any conclusions on actual steps taken on the ground, it was therefore recommended that the G7 continue to monitor Russia's progress, and that Russia be encouraged to maintain this positive momentum.

ii) The demonstrated effective independence, credibility, competence and authority of Gosatomnadzor (GAN):

The NSWG perceives signs of improvement over the prevailing situation a few years ago, some of which is attributed to international pressure. Russia argues that GAN's authority, and regulatory independence are guaranteed by federal laws; that GAN, effectively carries out inspections, assesses safety analyses, monitors plant performance, conducts investigations as required and produces regulatory standards; that GAN considers its staff competent and adequately trained; and that GAN considers its level of funding to be sufficient to carry out its duties. It does, however, acknowledge that it has a problem with the level of its staff remuneration.

There are still concerns on the credibility and the effective authority of GAN, given, two draft laws presented over the past two years, and in particular, the late "Federal Law of Technical Regulation" that would seriously jeopardise GAN's authority and would be inconsistent with the provisions of the Convention on Nuclear Safety. Sustained strong support from other agencies, and from the Russian government as a whole, is required in the future to further improve the strength of the nuclear regulatory regime in Russia. The NSWG recommended that a close watch be maintained over the areas of licensing, financing and regulatory independence.

iii) International review of the Kurak 1 safety report under the auspices of the EBRD:

Russia agreed in 2001 to fulfil one of its obligations under the NSA agreement, namely, that an independent international review of the Kurak 1 nuclear power plant in-depth safety analysis be performed. Russia also stated its commitments to implement improvements. Russia eventually cooperated with the international experts currently reviewing that unit's in-depth safety analysis. The Phase I interim report identified several shortcomings and recommendations were made for further studies. Final conclusions concerning the quality of the safety report and potentially overall

plant safety can only be made at the end of Phase II expected in fall 2003 and despite previous commitments, the Kursk 1 NPP has been restarted.

iv) Comprehensive plans for decommissioning first generation reactors:

Russia reported at the second review meeting of the CNS, that decommissioning plans have been prepared for 9 units that will reach the end of their design life over the next 5 years. Federal laws require that decommissioning funds be provided. It was nevertheless felt that the issue of decommissioning plans for first generation reactors was insufficiently addressed in the 2001 Russian report to the CNS. Overall, the NSWG sees no evidence that decommissioning plans for first generation reactors in Russia are being produced in a timely fashion.

v) Completion of Kursk 5 construction:

At the second review meeting of the CNS, Russia provided a written statement asserting that safety improvements incorporated in that unit included the construction of a confinement system, the use of advanced electronic hardware, and changing the uranium-graphite ratio (which should improve the reactor core's neutronic behaviour). Contradictory data on the completion state of the plant, though, were given. It seems that the unit is 60% - 80% built and that completion may take two to three years. More information is necessary to make any realistic evaluation of this benchmark - such as specific license conditions/restrictions imposed by GAN, design modifications and safety upgrades, which make it different from other RBMKs.

The Russian delegation to the May 22 Scoping Workshop offered to have the RBMK designer NIKIET provide all relevant information on Kursk 5 at a technical seminar in Moscow. After several months, the NSWG was informed that the seminar could not be scheduled until at least the middle of 2003. It is expected that these issues can be clarified during future communications with Russia.

Global corporate responsibility

The primary G8 responsibility is to ensure sound economic growth. And yet, we face a confidence crisis in the current functioning of our financial capitalist system (stock exchange crash; future of pensions). Shareholders expect better accountability and transparency. The need for sustainability is recognised by companies themselves, as demonstrated in Johannesburg, and by the public opinion, as shown by the growing request for ethical funds.

We are all involved in national efforts to improve our national situation, but we need now to provide a global response that would receive the broadest possible support.

The proposal is to develop a holistic framework for our market-based economy, combining transparency, competition and efficiency in the one hand, with ethical, social and environmental requirements on the other hand. The objective would be to help restore confidence by demonstrating our commitment and the commitment of our private sector to the principles of responsible market economy. It is not a new form of regulation but a common response for the long term. We would thus reconcile the need for progress and risk-taking inherent in entrepreneurship with the need for responsibility required in complex societies.

These principles would related to issues such as:

a) Transparency and economic efficiency

- corporate governance, accounting standards
- strengthening auditing and accountability procedures
- better information of shareholders
- better functioning of markets, in particular for reducing volatility.
- better monitoring of financial professions.

b) Ethical, social and environmental responsibility:

- respect for fundamental rights (e.g. child labour, bonded labour, human trafficking)
- fight against corruption.
- respect for environment standards, better use of natural resources.

Method: First, G8 discussion (Finances and Foreign Affairs sous-sherpas). We could then consult with other stakeholders (private company representatives, ethics funds, trade unions, NGOs, etc.)

Outcome: No final option at this stage -could be the adoption of a set of guidelines able of receiving broad endorsement.

Science, growth and sustainable patterns of development

1. Sustainable development is one of the greatest challenges facing us today. **How can we maximise growth world-wide and minimise inputs and pollution?** Such goals call for massive investment and innovation. There can be no substantial poverty reduction or environmental protection without significantly stepping up scientific and technological research, further coordinating the definition of priorities and promptly using the resulting advances to improve industrial and economic processes. This also requires that local and social contexts are fully taken into account.

2. 08 countries are among those with the greatest capacity to take up this challenge. 08 Heads should therefore seek to mobilise private and public action to meet this goal. This is why **President Chirac suggested in Johannesburg that the Evian Summit discuss how to maximise the contribution of scientific research and technological innovation to sustainable development.**

3. The initiative could be twofold:

1/ How can new patterns of consumption and production be stimulated?

A new approach to competitiveness is emerging, based on the need to maximise production while minimising waste, pollution and the use of natural resources and contributing to social improvement. Action has to be taken to help companies increase their efficiency while reducing the impact of their activity on the environment. We could encourage co-operation between our public and private institutes working in this field and develop standards and labels as well as all sorts of economic incentives for industry, transport, housing, agriculture, etc.. We could also jointly decide to prioritise strategic objectives, such as action regarding climate change.

2/ How can developing countries be helped to take up this challenge? Meeting the Millennium/Johannesburg goals calls for sustained economic growth in the developing countries. Helping these countries to develop clean techniques and processes would be instrumental in preventing greater economic activity from further damaging the environment.

Firstly, we need innovation and techniques adapted to the developing countries' specific situations. Southern research should be reinforced and supplemented by northern research establishments and the private sector to undertake collaborative partnerships.

Secondly, we would need to improve existing mechanisms and consider new instruments to help effectively spread clean techniques and processes, taking into account existing instruments such as the OEF and the Clean Development Mechanism. Technical assistance, training of local scientists and technology transfers are among the tools to be further developed, along with efforts to stimulate clean investments by companies.

4. Procedure: We suggest that a meeting of G8 research experts be held in February to examine the possibilities for joint action. These experts would report to Foreign Affairs Sous- Sherpas. We welcome suggestions from all our partners.

G8 Initiative for Science and Technology for Sustainable Development

Science and technology plays a crucial role to achieve sustainable development in the 21st century. The international community has been engaged in various forms of co-operation to promote scientific and technological innovation in order to make compatible the two policy objectives of protecting the global environment and attaining sustainable economic growth.

It is both opportune and incumbent for the GB leaders at the Evian Summit to present their vision of the role of science and technology for realising sustainable development in this century, enunciate guiding principles for international co-operation toward that end, identify possible areas of innovation, and seek possible GB actions in the international co-operation. The outline of the initiative is as follows;

1. Basic Objective

Making compatible the two policy objectives of protecting the global environment and attaining sustainable economic growth through science and technology innovation

2. Principles

- 1) Recognition of the importance of science and technology
- 2) Leadership of the GB
- 3) Partnership among all actors
- 4) Ownership of developing countries

3. Areas of Innovation

(To compile each country's areas of interest)

4. GB Actions and International Cooceration

(To be discussed)

I hope our joint paper is
satisfactory with you

1. JK

2. JK

(F)

From: Jeremy Heywood
Date: 10 December 2002

PRIME MINISTER

cc: Jonathan Powell
David Manning
Stephen Wall
Alastair Campbell
Anna Wechsberg
Matthew Rycroft
Liz Lloyd
Joanna Key
Geoffrey Norris

G8

I attended the last Sherpa meeting of the Canadian Presidency in Ottawa last weekend. We took stock of progress since Kananaskis and heard from Maurice Gourdault Montagne about Chirac's priorities for next year's Summit at Evian. A few points may be worth highlighting:

- **Africa:** this remains a key priority for the French. Chirac intends to invite NEPAD leaders to Evian and hopes by then to have made solid progress in implementing the G8 Africa Action Plan. However we are going to have to work very hard with the French over the next few months to keep the AAP/NEPAD process on track. While the Canadians remain strongly committed, the rest of the G8 seem pretty disengaged to me. The Germans and the US in my group were particularly focused on Zimbabwe and famine in southern Africa (which the US said was getting worse). Liz can brief you in more detail about the progress Valerie has made on Angola, Sudan and DRC and African peace-keeping. Beyond this the French seem to be

focusing mainly on some grand new initiative on water! We should also continue to press on trade, access to medicines and education, while doing what we can to bolster the credibility of the NEPAD process itself.

We should table a paper for France pointing out the advantages of this

- **Climate Change**: I floated your idea of launching a new G8 initiative on the use of science and technology to address the problem of climate change. There was little immediate reaction. But in bilateral discussion I found a certain amount of interest from France, the US and Japan. At present the French seem more interested in the idea of a more grandiose and less focused initiative on the use of science to support sustainable development. But we've agreed to keep working on this with a view to announcing some initial conclusions at the Anglo-French Summit in February. Meanwhile it looks as though Canada will ratify Kyoto this week; and my Russian colleague assured me that they too were on track to ratify shortly.
- **Corruption and Transparency**: I got a lot of support for our idea of getting multinationals in the oil and minerals sector to publish details of the payments they make to developing country governments as a way of reducing the scope for theft and corruption. The US are keen to work with us to develop this into a major new initiative on financial transparency and corruption. The French are very interested too. We should push hard on this – it is obviously highly relevant to Africa.
- **Afghanistan**: all of my colleagues were very downbeat about recent developments in Afghanistan. Our attempts to address the opium

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- 3 -

problem are widely seen to have been a complete failure – though everyone recognises that this is just a symptom of the wider failure to get to grips with the security situation outside Kabul. Meanwhile progress has barely started on reconstruction. The sums of money pledged so far seem to me to be completely inadequate – though, again, there is not much point in spending vast sums in reconstruction if much of the country is run by warlords. It is difficult to avoid the conclusion that there has been a complete failure of will and process on Afghanistan since the fall of the Taleban. DM will have a better idea than me of what if anything can be done about this. My Sherpa colleagues were uniformly pessimistic.

- **Non-proliferation**: the US put forward some modest but useful ideas for reducing the proliferation threat; and I continued to press the Russians to reduce the bureaucratic obstacles that are still preventing us from making safe their discarded nuclear submarines. I have asked the FCO to consider whether there are any further ideas we should be pushing in the G8 on non-proliferation. DM may have ideas too. Work is also continuing on aviation and maritime security.

Finally, advance warning that the plans for next year's Summit events are already looking pretty horrendous:

- 2 days of "celebrations" at St Petersburg, organised round the EU/Russia Summit. Putin is inviting all G8, EU and CIS leaders, plus the leaders of China, India and Poland. It will be difficult to turn this down! Followed immediately by ..

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- 1½ days for the G8 at Evian followed by ..
- ½ day world leaders meeting G20(?) chaired by Chirac at Evian.

I have told the Russians and the French that you and other busy leaders will find it difficult to be away for 5 solid days of junketing. But I'm not sure I have succeeded in heading this off!

9.

JEREMY HEYWOOD

Joan MacNaughton
Director General, Energy



Michael Arthur
FCO
King Charles Street
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Trade and Industry

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Date 9 December 2002

(F) JSH
CC MH
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DM

G8 CLIMATE CHANGE TECHNOLOGY INITIATIVE: US STRATEGY

I very much agree with Tony Brenton's point on the need to play up the technology development aspects of this initiative if we are to sell it to the Americans.

I would also be very happy to take forward bilateral discussions at the next meeting of the US-UK Energy Dialogue Steering Group on the 18th December as he suggests. Lord Sainsbury is expecting to touch on this with John Marburger in the margins of the G8 Science Ministers Carnegie today or tomorrow (the 6th and 7th), following an approach from the US. I envisage that we would then explore the US position in more detail through the existing Technology Working Group. That Group has already identified a number of areas for technical co-operation which have much in common with those identified by the ICCEPT report in the context of the G8 initiative.

My only concern is that the current French approach to the G8 initiative might, through too great an emphasis on Kyoto, harm the US-UK Energy dialogue if we push too hard in that forum. In this context feedback from the Carnegie meeting and from the Sherpas' meeting next week would be valuable. I look forward to hearing from you. Will we be able to share the ICCEPT analysis with the US after the Sherpas' meeting?

I am copying this letter to recipients of Tony's and, of course, to him.

Joan MacNaughton
Director General, Energy

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From The Deputy Head of Mission
Tony Brenton CMG

(F) D.H. ✓
cc. Au
LL
m.d.
OK

4 December 2002

Michael Arthur
FCO

Dear Michael

G8 CLIMATE CHANGE TECHNOLOGY INITIATIVE: US STRATEGY

You asked for our advice on broaching the above proposal with the US.

You will appreciate that the political climate in the US following the mid-term elections could not be worse for an initiative overtly addressing climate change. While the formal administration position is that climate change is a reality (and to take modest, mostly voluntary, action to redress it) the reality remains one of deep scepticism about the science, unwillingness to take on real costs for unproven benefits, and very close links to the oil industry.

The Administration is, however, seriously interested in improving American energy security. Whilst many would see the solution as broadening the sources of fossil fuels and building new nuclear power stations, there is some acceptance in the Administration that renewables could play a valuable role in increasing US energy independence. An initiative which offers the prospect of making such technologies available sooner and cheaper might be attractive. This, I believe, is our best approach.

Any G8 initiative would need to be sold to the Americans bilaterally first. The Administration is likely to be extremely suspicious, given the experience of WSSD, that this is a European attempt to introduce Kyoto by the back door. We would need to take this suspicion head on, at a political, ideally Heywood/Edson, level. The fact remains that both we and they would like to see renewables available as part of the energy mix, albeit for different reasons. The challenge would be to find a way of presenting the initiative to recognise the low-carbon driver for Europe, and the energy security driver for the US, without provoking domestic problems for either. US industry will

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pounce ferociously upon any suggestion of a wobble in the Administration's sceptical stance on climate change.

Something that appears to be missing from the ICCEPT analysis is the resource required to make a difference to the development of renewable technology. Any discussion with the Americans about a G8 initiative will, if it gets past the political nervousness, be academic without some sense of scale. Are we talking about \$1 billion or \$10 billion? Will either be enough to make a difference? How do these compare to what is already being spent by the G8 and others? The more we can present the initiative in specific terms, the better chance we have to skirt the political issues.

The US/UK high-level energy dialogue provides an ideal vehicle for working up some specific proposals, if the political consent can be secured by sherpas and heads.

I hope this is of some help. Naturally, we stand ready to contribute in any way we can.

Yours ever
Tony

Tony Brenton

cc. Jeremy Heywood, No 10
Liz Lloyd, No 10
Valerie Caton, EPD, FCO
Christopher Segar, AMED, FCO
Dinah Nichols, DEFRA
Henry Derwent, DEFRA
Sarah Hendry, DEFRA
Joan MacNaughton, DTI
Neil Hirst, DTI
PS/Professor King, OST
PS/HMA
Peter Hayes

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10 DOWNING STREET
LONDON SW1A 2AA

Issued via
EcPol, FCO

3/12

From the Principal Private Secretary

3 December 2002

Dear Clive,

INITIATIVE ON TRANSPARENCY OF PAYMENTS OF EXTRACTIVE INDUSTRIES

Thank you for your letter of 26 November. You asked for some more detail about what we have in mind.

UK thinking is still at an early stage and we have deliberately not yet ruled any options in or out. We are using this period to build up a momentum behind the principles of the initiative among key stakeholders. We hosted a meeting on 26 November for the key UK players and on 11/12 February will be discussing with the key international players, leading to a major international conference in London in April 2003. The World Bank is currently conducting research, which we hope will be available by the time we meet in Ottawa.

As I explained in my letter of 9 October, the overall aim of the initiative is to increase the transparency of company tax and royalty payments to governments, and to promote and encourage more transparent government reporting of revenues received and of public expenditure allocated. The scope of the initiative would initially be limited to the oil, gas and mineral sectors. Although crucially important in many countries forestry poses problems which may need to be tackled in different ways.

Against this background, our current thinking is that the G8 should seek to agree a set of underlying principles around transparency in the extractive industries. These would include statements of support for ethical behaviour, good governance and financial transparency as necessary to allow accountability for the stewardship of revenue streams. I attach an initial draft of some overarching principles. The principles would be developed to commit stakeholders to seek a practical and comprehensive approach to disclosure and to define precisely which payments would be covered.

Our initial consultations with different stakeholders have thrown up a number of options, both voluntary and with a mandatory element, for taking forward this initiative. We do not yet have a firm UK position on these, and further analysis will

be required before we can reach a view, but I list them below as a non-exhaustive contribution to our debate in Ottawa next week:

- A voluntary code, agreed by companies and governments, building on best practice, for example, the provisions in the Global Reporting Initiative;
- Reporting to a trusted third party, which could make aggregated financial data available by country;
- Amendments to the OECD Guidelines on Multinational Enterprises or a new OECD Convention;
- New provisions for disclosure in the International Accounting Standards and FASB;
- Mandatory disclosure requirements through amendments to the Listing Rules in major Securities Markets;
- New disclosure requirements incorporated into national or other (e.g. EU) company law.

I am sure that in our discussions you and other G8 partners will want to suggest additional options. Support for the initiative amongst the G8 and more widely will be a key factor in determining its success. It is imperative that we find solutions that do not allow responsible companies to be undermined by less scrupulous players. It will also be important to ensure that any approach provides information that is useable at a country level. Here we see a potential role for the International Financial Institutions in assisting Governments with revenue reporting to provide comparable information.

We should use the next few months to work together towards a concrete deliverable for Heads at Evian.

I look forward to meeting you and discussing this on 8/9 December. I am copying this letter to our G8 colleagues.



JEREMY HEYWOOD

Mr Claude Laverdure

EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE – PRINCIPLES

- We recognise that revenues from natural resources should be an important engine for economic growth and social development, but, if not managed properly, resource windfalls or shortfalls can create negative economic and social impacts.
- We support the principle and practice of accountability for the stewardship of revenue streams – from their receipt to their eventual end use.
- We are committed to honest, legal and ethical behaviour.
- We support the principle and practise of financial transparency – as a necessary condition for good governance.
- We believe that revenues from resource extraction can provide the basis for sustainable economic growth and poverty eradication.
- We recognise that the benefits of resource extraction occur as revenue streams over many years and that, although highly price dependent, a public understanding of current and future revenue streams would help inform the choice of appropriate and realistic development options.
- We believe that a comprehensive, consistent and workable approach to the disclosure of payments and revenues is required.
- In seeking solutions, we believe that all stakeholders have important and relevant contributions to make – including host and home governments, multilateral organisations, regulatory agencies, financial and lending organisations, non-governmental organisations and industry.

We commit to develop effective mechanisms to achieve transparency of payments and revenues in the extractive industries. This will entail disclosure by oil, gas and mining companies of tax and non-tax payments to host country governments and government-linked entities, and greater transparency by governments over revenues from this sector. We encourage other Governments, national and multinational extractive companies and other interested parties to join us to develop effective and lasting solutions.

H M Treasury

Stephen Pickford
Director
International Finance



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29 November 2002

Mr J Heywood
10 Downing Street
LONDON
SW1A 2AA

(F)

Dear Jeremy,

At our 28th October meeting to discuss the overall G7 and G8 strategies for 2003, I undertook to send you more details on the costs to Russia of participating fully in the HIPC initiative. More details are provided in the attached paper.

As we discussed, before Russia takes up the G8 Presidency there are a number of conditions that might have to be met, and full participation in the HIPC initiative could be one of them. While Russia, as a member of the Paris Club, does currently participate in the HIPC initiative it is not as generous as the G7 who always provide 100 per cent debt relief.

In practice full participation would mean that Russia would have to provide, at a minimum, 100 per cent bilateral debt relief on all aid debts and 100 per cent debt relief on all non-aid debts incurred prior to the cut-off date agreed by the Paris Club for each country.

For the 26 countries that have already reached HIPC Decision Point, the estimated costs for Russia are US \$910 million in 2001 Net-Present-Value (NPV) terms. But that reflects the fact that Russia has written off less than half of their outstanding HIPC Debt (after taking account of traditional mechanisms). Rough estimates suggest that the additional cost to Russia of providing 100 per cent debt relief to these countries could be around \$700m in 2001 NPV terms.

Moreover, Russia has not provided any funds at all to the HIPC Trust Fund, though it recently pledged \$10-20m at the recent Annual Meetings. This pledge is very much below what might be expected. If Russia were to contribute the same proportion of GDP as the G7 average, their contribution should be \$30 million.

I hope this proves useful and I look forward to our meeting next week to discuss G8 Sherpa preparations. I am copying this letter to Richard Manning (DFID) and Michael Arthur (FCO).

Stephen Pickford



INVESTOR IN PEOPLE

The Costs to Russia of full HIPC Participation

While Russia participates in the HIPC initiative, it provides only the minimum of debt relief required. After the Paris Club has provided traditional debt relief, the minimum agreed level of relief is a reduction in the remaining stock of debt to achieve debt sustainability. All creditors - bilateral, multilateral and commercial - are supposed to participate. Cologne terms mean that members of the Paris Club should provide around 90 per cent debt relief in total, but the G7 (and some other Paris Club members) are committed to provide 100 per cent debt relief.

2. Paris Club debts are either Overseas Development Assistance (ODA) debt or non-ODA debt, and both types of debt are divided between those incurred before the cutoff date (COD) or post-COD. The COD is typically the first date on which a country sought debt relief from the Paris Club though the Paris Club is often flexible in defining this date.

3. The G7 have all committed to 100% relief of bilateral debts, though the definition varies slightly between countries. Canada, Italy, the UK and US provide 100% relief for all debt, whereas France, Germany and Japan exclude non-ODA post-COD debt from their 100% pledge. Russia, by contrast, treats all bilateral debt on a case-by-case basis.

4. Bank / Fund estimates for bilateral creditors of the costs of HIPC relief do not include 'traditional' debt relief i.e. Naples terms, which typically provide a 2/3 reduction in the stock of debt. Hence the costs are the additional costs of debt relief under the HIPC initiative.

5. For Russia these additional costs are estimated at \$910m in 2001 NPV terms. To estimate the further cost to Russia of providing 100 per cent debt relief it is necessary to examine the Decision Point treatment for each HIPC for which Russia is a creditor. For example, Russia's costs of HIPC relief for Ethiopia are estimated at \$273m, and at Decision Point the Paris Club agreed a Common Reduction Factor (CRF) for all debtors of 47%. These figures, taken together, imply that after traditional debt relief Ethiopia still owed Russia \$579m, of which \$273m has been committed as interim debt relief with a remainder of \$306m still outstanding.

6. **While we cannot be sure, rough estimates suggest that the additional cost to Russia of providing 100 per cent debt relief in the HIPC initiative is of the order of \$700m in 2001 NPV terms.**

7. This estimate is larger than might be expected a priori. This reflects the fact that for the HIPCs for which Russia is a creditor it has only had to cancel, in total, just over half of the debt remaining after the full use of traditional debt relief mechanisms – see table 1 in the Annex.

8. In addition, in terms of contributions to the HIPC Trust Fund it might be expected that Russia would make a contribution no less generous, in terms of national income, than any of the G7. On this basis one might expect a contribution of not less than \$14m, and perhaps as much as \$77m - see table 2 in the Annex. If Russia contributed the same proportion of GDP as the G7 average their share would be \$30 million.

ANNEX

TABLE 1: COSTS OF HIPC RELIEF FOR RUSSIA

	2001 NPV costs, US \$M ¹			HIPC CRF ²
	After Naples	HIPC	Additional	
Ethiopia	579	273	306	-47%
Nicaragua	365	264	101	-72%
Mozambique	244	172	72	-71%
Tanzania	97	52	45	-54%
Madagascar	126	50	76	-40%
Zambia	77	48	29	-63%
Mali	55	20	35	-37%
Guinea	60	19	41	-32%
Guinea-Bissau	9	8	1	-85%
Benin	6	2	4	-33%
Guyana	2	1	1	-55%
Sao Tome & Principe	1	1	0	-83%
Burkina Faso		1		
Total	1,621	910	711	-56%

1. Both HIPC costs and estimated additional costs (after HIPC) for 100 per cent debt relief are in 2001 NPV terms.
2. The estimated Common Reduction Factor (CRF) for all debts after the full use of traditional debt relief mechanisms by the Paris Club.

NOTE: Broad estimates subject to some uncertainty.

SOURCE: Country Decision Point documents.

TABLE 2: GDP IN 2000 IN US\$ & PLEDGES TO HIPC TRUST FUND

	GDP, \$BN	PLEDGES, \$M	PLEDGE/GDP
Canada	717	158	0.022%
France	1,310	249	0.019%
Germany	1,875	324	0.017%
Italy	1,076	213	0.020%
Japan	4,769	256	0.005%
UK	1,441	426	0.030%
US	9,825	750	0.008%
Russia (G7 minimum)	260	14	0.005%
Russia (G7 maximum)	260	77	0.030%

NOTE: Pledges include those made October 24 2002.

SOURCE: Table 8, HIPC status of implementation, August 2002
IMF World Economic Outlook

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From: Liz Lloyd
Date: 29 November 2002

PRIME MINISTER

cc: Jeremy Heywood Martin Hurst
Joanna Key Matthew Rycroft
David Manning Oliver Jones
Stephen Wall Geoffrey Norris
Andrew Adonis

G8 CLIMATE CHANGE - WORKING WITH THE FRENCH AND US

Last week I went to Paris with a DEFRA and FCO team to see if we could agree a way to take this forward with the French.

We agreed that the UK and France would co-operate on a joint paper on climate change technologies for the New Year within the G8, but a few differences emerged which you should be aware of. I think this basically stems from a desire on the French part to have a successful summit with good, but not too risky initiatives. Our proposal could really move the climate debate on, but there are risks it could fail and it will take careful handling with the US and non-G8 countries.

- a) Will our initiative be sidelined? Chirac has already said he wants to do something on "sustainable development technologies" and although we argued that climate change was one good and tangible example of this, they clearly want something more wide-ranging. In order to get French sign-up we agreed that climate change would be a "case study" under this heading. My fear is that it might end up in the same category as a Berlusconi IT initiative if it remains labelled a case-study.

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b) They see their political interests in keeping space between the pro-Kyoto countries (including them) and the US. They are worried that our ideas look too much like the "Bush Plan". The Elysee were particularly worried that the US were beginning to form "unholy" alliances with those parts of the G77 who do not want to see further action on climate change. They are concerned that we should not give any sign that we are seeking to draw up an alternative to Kyoto. This is a concern of ours too, especially since recently the US position appears to come close at times to actively undermining Kyoto (they had promised not to do this). If we are to get the French to work with us, you should speak to Chirac soon (before Christmas) about positioning and the scope for working both within the Kyoto framework and with the US. We think it is possible if it focuses on practical measures to stimulate technologies internationally over the longer-term.

Shoring up Kyoto. If Russia ratifies Kyoto will enter into force. DEFRA are particularly worried that the US are putting pressure on Russia not to ratify. It would be useful if you could raise ratification with Putin. Kasyanov told Chirac recently that they would ratify, but there is no timetable and a positive signal would help assuage French concerns. You might also like to discuss with Schroeder whether you should have a co-ordinated approach when you see him later this month.

Working with the US

At the recent annual Kyoto meeting the US were playing a tougher hand than they have before. The Congressional results have also led to some shake out of even moderate environmentalists in key jobs on the Energy and Environmental Committees. The Embassy thinks that engaging the US will be very uphill and

take your intervention with Bush. Jeremy will report back after his Sherpa meeting but if this is to get going you may need to raise with Bush at some point.

we really need to explain
 this as a pro-K. move.
 Perhaps I should write to
 Chirac, saying how I think this could
 develop as alongside Kyoto. Or we
 could start to engage the Germans.
 Perhaps Jack S. could talk to Joshua
 about it - he should be interested.
 Speak to me next week.

SUBJECT
MASTER
Filed:

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JJA

AW

KK

Ev. K.

unofficial translation

Dear Mr Prime Minister,

The next G8 Summit will be held in Évian, where I look forward to welcoming you on June 1st and 2nd of next year following the ceremonies to commemorate the tricentenary of Saint-Petersburg.

In the spirit successfully imparted by the Canadian Presidency to the work done at Kananaskis, I view this summit as an opportunity for relaxed and in-depth exchanges among ourselves in order to better take up the challenges of globalization together.

Harnessing this phenomenon first calls for the commitment of industrialized countries. It also presupposes, however, associating developing countries to a greater extent with the necessary collective decisions, whether financial, economic or commercial, aimed at protecting the environment or at combating terrorism.

This is why I wish to confirm here the project I mentioned in Kananaskis of holding a new type of meeting after our discussions, separately from the G8. As the host of the Summit, I intend to invite the Heads of State and Government of some fifteen emerging countries and poor countries representative of global diversity to join us on June 3rd.

On December 9th in Ottawa, my Personal Representative Mr Maurice Gourdault-Montagne will present to yours my approach to this informal dialogue and will, I hope, hear from him your views on this project in order to transmit them to me.

Accept, Mr Prime Minister, the assurance of my highest consideration.

Jacques Chirac

His Excellency Mr Tony BLAIR
Prime Minister of the United Kingdom of Great Britain and Northern Ireland

LE PRÉSIDENT DE LA RÉPUBLIQUE

Paris, le 29 novembre 2002

Monsieur le Premier Ministre,

Cher Tony,

Le prochain Sommet du G8 se tiendra à Evian où je me réjouis de vous accueillir les 1^{er} et 2 juin, au lendemain des cérémonies de célébration du tricentenaire de Saint-Petersbourg.

Dans l'esprit que la Présidence canadienne avait donné avec succès aux travaux de Kananaskis, j'envisage ce sommet comme l'occasion d'échanges détendus et approfondis entre nous afin de mieux répondre, ensemble, aux défis de la mondialisation.

La maîtrise de ce phénomène passe d'abord par l'engagement des pays industrialisés. Mais elle suppose aussi une plus grande association des pays en développement aux décisions collectives nécessaires, que ce soit en matière financière, économique ou commerciale, pour la protection de l'environnement ou pour la lutte contre le terrorisme.

C'est pourquoi je souhaite vous confirmer le projet que j'avais évoqué à Kananaskis de faire suivre nos discussions par une réunion d'un type nouveau, distincte du G8. En tant qu'hôte du sommet, je compte inviter à nous rejoindre, le 3 juin, les Chefs d'Etat et de Gouvernement d'une quinzaine de pays émergents et de pays pauvres, représentatifs de la diversité du monde.

Le 9 décembre à Ottawa, mon représentant personnel, M. Maurice GOURDAULT-MONTAGNE, présentera au vôtre la façon dont je conçois ce dialogue informel et pourra, je l'espère, recueillir vos vues par son intermédiaire afin de m'en faire part.

Je vous prie de croire, Monsieur le Premier Ministre, à l'assurance de ma très haute considération.

Bien amicalement,

Chirac
Jacques CHIRAC

Son Excellence Monsieur Tony BLAIR
Premier Ministre du Royaume-Uni de Grande Bretagne
et d'Irlande du Nord