

Prem 49/2972/3

OUTREACH – LUNCH AND AFTERNOON SESSION

G8 (less Schroeder), plus

Hu Jintao (China)

Vincente Fox (Mexico)

King Mohammed (Morocco)

Mahathir (Malaysia)

Luiz Ignacio Lula da Silva (Brazil)

Crown Prince Abdullah (Saudi)

Atal Behari Vajpayee (India)

Pascal Couchepin (Switzerland)

NEPAD Steering Committee:

International organisations:

Mbeki, Obasanjo, Mubarak, Wade, Bouteflika.

Annan, Kohler, Wolfensohn, Supachai

The Summit starts off with this major gathering of international leaders. Chirac will use the occasion to grandstand as host. The theme will be restoring growth to the world economy, and international cooperation – the discussion will therefore be unbounded. Chirac will probably propose that each head limit himself to ten minutes speaking in total, but he is keen to achieve a dialogue rather than a series of prepared speeches.

Generally, we welcome this outreach initiative. It helps to legitimise the G8 and to ensure that the Group is seen to be listening, but if doing it ourselves we might not have chosen this list of participants. Bush does not like this concept (we have already heard he does not plan to repeat it next year), and Schroeder will miss it due to his Party Congress. However, as Bush is leaving before the end of the Summit and missing the “sustainable development” session, this could be your main opportunity for discussions on these issues (including climate change).

IFF

A key opportunity to build political momentum behind the International Finance Facility. This could double ODA for the next 15 years and will be the way to meet the MDGs. Negotiations at official level require this political impetus to move forward.

You should get good support from Chirac who is very attracted by the concept. We have forewarned potential supporters that you will be raising it. Mbeki, Fox, Annan, Kohler and Wolfensohn are enthusiastic, and we expect Lula and Hu Jintao to be positive. We want to make substantive progress at Evian, but you will have to measure how far to push this depending on others' reactions.

DOHA

There is no doubt that many of the invitees will want to focus on the stalled state of the Doha negotiations and the need for the G8 to make a major effort for Cancun to succeed. This pressure will be helpful to force Bush (on TRIPS) and Chirac (on agriculture) to accept the need to deliver on our commitments to developing countries. All will concur that a failure of Cancun along the lines of Seattle would be extremely damaging not only for the WTO, but for the multilateral system more generally.

Individuals are likely to raise the following:

Lula:

- An international (G8) Famine Fund: to tackle poverty and exclusion (we are sceptical: you should argue that additional funding in these areas should be targeted at the underlying causes of famine. And we should use existing resources better – another argument for untying food aid.
Bush is likely to support, linked to his own proposals for a \$200m Famine Fund, and global commitment of \$1.2bn in 2004 to alleviate world hunger)
- An international (G8) Infrastructure Investment Fund
(The UK has a fund for PPPs into which you put \$100m with Chirac at WSSD – we do not see the need for a new fund)

Fox

- Engagement with the emerging powers – including Mexican membership of G8, and permanent seats for Brazil & Mexico in the Security Council.
(we support Security Council reform and the principle of enhanced engagement with these countries. Our favoured model in the UN would have one Latin American seat – probably Brazil. Koizumi and Schroeder are likely to enthusiastically support Fox, for their own aspirations)
- Abolition of all agricultural subsidies

King Mohammed (G77)

- Monterrey and Africa Action Plan / NEPAD follow up
- Trade – access to medicines, and access to agricultural markets
- His initiative for an African Fund for Water Management (he has not given any details)

**INTERNATIONAL FINANCE
FACILITY**

TRADE

- Trade has been a consistent engine of world growth. It is vital to ensure that the Doha Development Round succeeds in delivering the benefits of increased trade opportunities to all countries, particularly developing ones. Global income could rise by over \$800 billion from free trade in all goods, of which two-thirds would flow to developing countries.
- Developing countries stand to benefit greatly from increased market access and reductions in distortionary subsidies by industrialised countries.
- But developing countries will also benefit substantially from regional cooperation and greater trading opportunities with each other – South-South trade. Tariff rates on South-to-South trade are nearly four times higher than on South-to-North trade.

AGRICULTURE

- We have all made clear our willingness to move forward on opening markets in the context of Cancun. The proposal put forward by President Chirac for Africa is a good signal of our intent and it recognises the damaging impact of export subsidies on external markets.
- We know the root of the problem is high levels of trade-distorting support in developed countries. EU is committed to addressing this

through reform of the CAP. But export subsidies are destabilising and create unfair competition for developing country exports.

- I am absolutely clear that we can come to an agreement today on a moratorium on export subsidies, without prejudice to our respective negotiating positions for the Doha Round. This would send an important signal of our intent, before Cancun.

TRADE – TRIPS

- Risk that our increases in funding for AIDS and development will be overshadowed by our failure to agree on TRIPS. If we fail, our public, and developing countries will doubt our commitment to deal with health crises and high mortality.
- We are all concerned to protect the ability of our pharmaceutical companies to **invest, innovate and be rewarded through a robust intellectual property regime**. But I am satisfied that from 2005 there will be increased protection. All developing countries, including India and Brazil, will have to grant patents on pharmaceutical products.
- (For Bush) Aware of your concern that the **issue of compulsory licences might be abused**. At the moment and under your own proposal the big manufacturing countries can and will continue to be able to issue compulsory licences to manufacture for their large domestic markets for any drug for any disease. I believe that allowing poor countries without manufacturing capacity to compulsory licence is not a significant threat. Firstly because people do not like using compulsory licences - if you look at countries like South Africa who already have the power to issue compulsory licences you find they do not. And secondly because we are only talking about countries without manufacturing capacity - generally the very poorest. Your suggestion of a list would just allow a two tier system - India would be allowed to compulsory licence any drugs for its own people, but the poorest people of eg Uganda would not be able to import them. Our suggestion provides the same rules for all.

- And there are many safeguards built into our proposed solution. Its reporting requirements will help tracking of consignments, and importing countries (indeed all WTO members) must commit to measures to prevent illegal re-exportation. The requirements for prior negotiations with patent holders, and payment of fair compensation if compulsory licensing is used, are not compromised.

G8 OUTREACH – EMERGING MARKET ECONOMIES

Brazil

- Welcome the policy measures taken by the government in its first few months. Clear that these measures have already had a positive impact on market sentiment.
- However, important to remain aware of vulnerabilities arising from the composition of Brazil's debt stock, and the size of its financing needs. These vulnerabilities highlight the need to for continued progress on reform.
- Brazil clearly faces huge social challenges. We welcome strongly the government's commitment to tackling these problems, and firmly believe that these are best tackled from a platform of macroeconomic stability.

Mexico

- Welcome the role that sound frameworks for fiscal and monetary policy have played in insulating Mexico from recent regional turbulence. Clear that investors have continued to discriminate on such a basis. Also welcome the recent inclusion of Collective Action Clauses in Mexican bond issuance.

South Africa

- Impressive record of macroeconomic management and stability. But the challenge of high unemployment remains with associated problems of inequality, social deprivation and crime

Nigeria

- Welcome Nigeria's efforts to develop a homegrown economic programme and an interim poverty reduction strategy. These should be developed further, in conjunction with the IMF, into a coherent programme for sustainable, broad-based growth that will benefit all Nigerians. This will enable Nigeria to fulfil its economic potential, settle the debt issue, and act as a catalyst for the region.
- Important that there is a single unified team to work on the reform programme. Look forward to working with you to help secure the support of the international community. Would be glad to host a meeting at the earliest opportunity

India

- The Indian economy has performed relatively well, considering the recent drought and global slowdown
- However growth remains below the target set out under the tenth five year plan, emphasizing that further reform is vital in particular fiscal reform, privatization and reform of the utilities sector (electricity and telecom).

China

- Welcome the stimulus provided by China to both regional and global growth
- Encourage continued efforts to press ahead with restructuring, particularly in the financial sector

Saudi Arabia

- Welcome the measures already implemented for fiscal consolidation and introducing structural reforms.
- Convinced that progress with each of these is key to the long run success of the Saudi Arabian economy.

ECONOMIC MATTERS

Priorities

1. Growth
2. Trade
3. HIPC (Heavily Indebted Poor Countries)
4. EITI (Extractive Industries Transparency Initiative)

Over recent weeks Chirac has been building up the economic importance of the Evian Summit. None are likely to challenge his claim that the G8 must give the right confidence building messages to spur world economic growth.

Chirac has asked Chretien to lead off this discussion. There should be little disagreement on what needs to be done. Finance Ministers issued a strong statement explicitly outlining what each economic area had to do. Sustained progress on wide-ranging economic reforms in Europe, decisive action by the Japanese government to speed up the pace of disposal of non-performing loans and to promote corporate restructuring, and measures to ensure a sound medium term fiscal position in the US. (See separate note on points to make on UK economy).

The recent outlook has been dominated by **geopolitical uncertainties** over the war in Iraq, significant volatility in financial markets, and oil prices peaking at over \$30 per barrel in early March. But the major downside risks surrounding events in Iraq have clearly receded, and this has been reflected in an **improvement in confidence indicators**, significantly lower oil prices, and rising stocks markets.

However, it is still difficult to assess the underlying strength of the global economy. While we remain confident in the potential for stronger growth and expect activity to gather pace, led by an improvement in the US, **significant risks remain** – particularly from imbalances of growth, further oil price rises, and SARS, as well as the medium term challenge of ageing populations.

But most important in giving a confidence building message will be the right statement on G8 determination to achieve success in **the Doha WTO round** (see separate note).

CRISIS PREVENTION AND RESOLUTION

There should be no disagreement over endorsing Finance Ministers' work on these issues to strengthen the international financial system and underpin growth. We should support the early launch of a process, involving all stakeholders, to develop a code of good conduct for crisis resolution.

In the context of this discussion, you will want to welcome the agreement reached by Finance Ministers on a new tailored Paris Club approach to debt restructuring for non-HIPC countries (the "Evian approach"). This evolved out of Chirac's proposals for debt relief for middle income countries (which received no G7 support).

HIPC

You will want to emphasise that the G8 must deliver on the public commitment made at Kananaskis to provide up to \$1 billion. The UK has led in ensuring continued G8 commitment to this initiative, and has proposed the statement to be inserted into Chirac's summary.

We are proposing a **rule change on "topping up"**. Some countries approaching Completion Point may have suffered an exceptional shock that can worsen their debt/exports ratio and threaten their debt sustainability. We want to ensure that when the calculations are made, the G7's "beyond HIPC" 100% debt relief is excluded. This technical change in the rules would mean that the full benefit would be felt by the HIPC country, and does not subsidise other creditors. There is an additional cost to the G8 – but most, if not all, would be covered by the \$1bn already pledged at Kananaskis. If agreed, this change of rules would allow us to announce a further \$1 billion in debt relief for HIPCs.

We have met resistance from other G8 on this. Bush and Koizumi are likely to oppose because they would have to pay (some) more, and Schroeder's Sherpa has consistently suggested use of the "topping up" facility to reward particularly good governance. We believe that the current HIPC procedures already measure governance standards.

RESPONSIBLE MARKET ECONOMY

A cornerstone of Chirac's approach to Evian – he is likely to speak at some length on the need to rebuild confidence after the scandals of Enron, WorldCom etc. The agreed text is much less ambitious than he would want, due to US-led resistance to any additional burdens on companies, or harmonisation of corporate reporting requirements. We support the current Declaration sends a good message on the need for corporate governance to foster sustainable growth.

We agree with Chirac (and differ from Bush) that Corporate Social Responsibility (CSR) should be a key component of the Declaration. This is in line with the commitments we, and others, made at WSSD.

CORRUPTION AND TRANSPARENCY

Our primary objective while negotiating the Declaration on a Responsible Market Economy has been to ensure that it endorses an action plan on Corruption and Transparency into which we have put the **Extractive Industries Transparency Initiative** (which you launched at Johannesburg).

You should urge G8 members to take this seriously – it is a very important step towards greater transparency in the flows of resources in countries dependent on extractive industries (esp in Africa) – an essential precondition to growth in these countries and their regions. You will want to make a plug for the **DFID-hosted conference on 17 June** at which you will be speaking, and to which we want senior level G8 participation. You might want to suggest that one of the early pilot countries could be Iraq.

The **US continues to have a different approach** to us. They would like to use the plan to ensure wholesale transparency of government budgets, with little or no obligations on companies. We see the EITI as an important confidence building measure to encourage governments to participate. Bush is likely to use the promise of reward through the Millennium Challenge Account as a carrot – he personally ensured that a track record of transparency was one of the preconditions before receipt of funds.

WORLD ECONOMY

WORLD ECONOMY

- Heightened geopolitical uncertainties have dominated the outlook for the world economy. In the run up to war we observed a weakening in confidence across the world's major economies, significant volatility in financial markets, and oil prices peaking at over \$30 per barrel in early March.
- Although major downside risks related to Iraq have receded, it is still difficult to assess the underlying strength of the global economy and significant risks remain.
- We must also focus attention on medium-term prospects and imbalances in growth among the World's major economies continue to present a challenge to policy makers. The global recovery continues to remain over reliant on the US.
- **In Europe** further sustained progress on wide-ranging economic reforms is necessary to enhance the long-run growth potential and increase resilience to shocks. In particular, in order to deliver high and stable levels of growth and employment demands even greater flexibility in EU labour, product and capital markets. This includes better investment in skills and training; restructuring tax and benefit systems to make work pay; a more proactive EU competition regime, and progress towards more integrated financial services and capital markets.

- In **Japan** the government must take decisive action to speed up the pace of disposal of non-performing loans and to promote corporate restructuring. It is clear that the banking sector is capital constrained and holding up the pace of reform; we therefore support further injections of public capital into the major banks. This will also improve the monetary transmission mechanism. However to end deflation and improve economic prospects, monetary policy and for the short term fiscal policy will have to continue to support the economy. In particular the BoJ may have to consider alternative policy instruments and broaden the range of assets at its disposal.
- **In the US**, measures must be taken to ensure a sound medium term fiscal position. We have seen a sharp deterioration in the public finances over the past two years and while it is desirable for fiscal policy to support monetary policy over the short-term, it is also vital that it remains well anchored over the longer term. In addition, steps to improve corporate governance in the US will be important to supporting investor confidence and prompting renewed business investment growth, the key for a more sustained and broad based recovery.
- Trade liberalisation is to the benefit of all. Opening market access is not a concession to developing countries but a critical win for our economies.
- After a difficult year in 2002, it is reassuring that emerging markets have been holding up fairly well. Financial conditions in Brazil

improved sharply in recent weeks and we have seen continued strength in many parts of Asia.

- SARS presents a downside risk to growth in Asia. Growth forecasts have already been revised down, particularly in Hong Kong and Singapore, but the Asian region remains fundamentally robust.
- Oil Prices have now fallen back. However, given the current tightness in the market we can't rule out further price rises. We need to be alive to the risks.

UK ECONOMY

UK ECONOMY

Strong macroeconomic policy framework has meant that the UK weathered the recent global economic slowdown well:

- UK has continued to **grow for 43 consecutive quarters**, and is well placed to respond positively when the world economic recovery shifts up a gear;
- **Unemployment rates at lowest levels since the 1970s** (employment up by over 1.5m since 1997), inflation is low and stable, and interest rates are at levels not seen since the early 1960s.
- UK government is **comfortably on track to meet firm fiscal rules over the next five years**. At the same time can deliver substantial investment in the reform and modernisation of the public services. Public sector net debt is set to stabilise at just under 34 per cent of GDP.
- **Growth for 2002 at 1.8** is forecast to pick up to **2-2.5 percent in 2003**.
- Equity price falls have been partially offset by housing wealth gains, with household's total net wealth last year up over 40 per cent since 1997.
- House price indices have been somewhat mixed but have offered some signs that house price inflation has finally started to moderate.
- Strong growth in government investment will continue to support whole economy investment, with public sector net investment expected to rise to 2 ¼ per cent of GDP in 2007-08.
- UK exports picked up in early 2002, growing markedly in the first half of the year. However, in Q3 goods export volumes declined by 3.0 per cent, and again by 5.5 per cent on the previous quarter in Q4, as world trade growth stalled.
- Clearly the biggest threat to this relatively benign prospect comes from the international outlook, and especially from the economic performance of our neighbouring countries in Europe.

- It is against this background that we will be announcing our decision on the Euro in the next ten days.
- Clearly there are considerable uncertainties at present. But what has come out very clearly from our assessment is that provided we can get the timing and transition right and address the structural convergence issues that remain, EMU could bring major long term benefits to the UK economy.

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CO-OPERATIVE G8 ACTION ON TRADE

1. We stress our faith in and commitment to the multilateral trading system, which has contributed so much to international growth, stability and sustainable development for over fifty years. We believe that continued trade opening, combined with stronger international trade rules and disciplines, represents the optimum path to global growth, both in the G8 countries and elsewhere, and particularly in developing countries. The multilateral system embodied in the World Trade Organisation (WTO), and the current Doha Development Agenda, is thus central to the G8's approach to energising the global economy, increasing employment, spurring sustainable development, improving international governance, and eradicating poverty.

2. We will promote the multilateral system by providing leadership in the ongoing negotiations so that improved access to markets for all WTO members is realised, particularly for the poorest, to ensure their integration into the multilateral system, and their development more broadly. We are therefore committed to delivering on schedule, by the end of 2004, the goals set out in the Doha Development Agenda, and to ensuring that the Cancun Ministerial Conference in September takes all decisions necessary to help reach that goal.

3. To these ends, we direct our ministers and officials to pursue urgently with WTO partners the actions outlined below:

3.1 Work towards an agreed framework for finalising the negotiations to achieve further substantial opening of trade in all areas, including in agricultural and non-agricultural goods, and in services, in order to benefit economic growth, trade and employment. In so doing, we will pay particular attention to those areas of interest to developing countries;

3.2 Work towards strengthening the existing WTO rules and disciplines, as well as developing further multilateral rules, so as to provide fairer, less distorted, more transparent and more predictable conditions for world trade, and as a contribution to improved international governance;

3.3 Establish a multilateral solution in the WTO to address the problems faced by developing countries with insufficient or no manufacturing capacities in the pharmaceutical sector, before the Cancun Ministerial, rebuilding the confidence of all parties involved in this issue. Pending a WTO solution, to address the practical problems faced by such countries, we note that many of us have instituted moratoria on challenging any Member of the WTO that, according to the scope and modalities defined in their respective moratoria, would want to export to a country in need medicines produced under compulsory license for addressing public health crises, including those relating to HIV/AIDS, tuberculosis and malaria and other epidemics.

3.4 In accordance with the Doha mandate, seek agreement on the negotiating modalities for each of the four Singapore issues of investment, competition, transparency in government procurement and trade facilitation;

3.5 Deliver capacity building technical assistance to developing countries in need to help them participate fully in WTO negotiations, implement trade agreements, and respond to the trade

opportunities created, in co-operation with other bilateral and multilateral donors; US\$ 1.7 billion has been provided in 2002, representing a 16% increase over 2001.

- 3.6 Better integrate trade, finance and development policies, and by using relevant institutions, make trade an engine for economic growth and help developing countries make the transition to full participants in the global economy;
- 3.7 In recognition of the fact that preference programmes for poor countries have an important transitional role in bringing them into the global trading system, improve our preferential trade agreements and/or programmes with developing countries, in terms of increased market opportunities, stimulating regional integration and trade between developing country partners, and ensuring that the rules and procedures underpinning programmes and/or trade agreements do not constitute barriers to the enjoyment of the preferential benefits nor impede multilateral trade liberalisation envisioned as part of the Doha agenda. We will each work to ensure that the rules (particularly rules of origin provisions and documentation requirements) do not inadvertently preclude eligible developing countries from taking advantage of preference programmes./.

DEBT: HIPC

HIPC

- The HIPC initiative is a high priority for the G8 – we must be clearly seen to be delivering on the commitments made at Cologne and Kananaskis.
- To date, of the 37 eligible countries, 26 have reached Decision Point, of which eight [Benin, Bolivia, Burkina Faso, Mali, Mauritania, Mozambique, Tanzania, Uganda] have completed the process. In total, 62 billion dollars of debt relief has been committed.
- This is allowing these countries to increase substantially their productive social expenditure. They used to spend more on debt service than on health and education but now education spending is double debt service and health spending a third more.

TOPPING-UP

- However, we believe that the way the initiative is being applied at present for countries reaching Completion Point is not delivering an exit from unsustainable debt in all cases. The full benefit of our commitment to 100% debt relief must reach the HIPC country, whereas at the moment, in some cases, it is instead subsidising other creditors.
- We have put forward proposals to address this which would provide around one billion dollars in additional debt relief from other creditors and multilaterals.
- To the extent that some multilateral creditors are not able to shoulder their share of the burden there would be a cost of perhaps 200 million dollars to the HIPC Trust Fund and hence to donors. But we believe the cost of this can be covered by the additional financing of up to one billion dollars we agreed at Kananaskis.

- So we need to send a clear message to our Finance Ministers to look at this and sort it out quickly.

GOVERNANCE (*if raised by Schroeder*)

- Do not think the 'topping-up' provided to promote debt sustainability should be conditional on additional Governance criteria.
- Instead, current mechanisms can be used to deliver improved governance without introducing new conditionality. For example, the IMF Poverty Reduction and Growth Facility (PRGF) programme contains governance requirements. Our Action Plan to tackle corruption and promote transparency is a comprehensive contribution to this important aspect of development, highlighting initiatives such as that to promote Public Financial Management and Accountability (PFMA).

CREDITOR LITIGATION

- We believe that HIPC's should be provided with technical assistance to assist them in dealing with creditor litigation.
- We do not dispute the ultimate legal validity of commercial claims in HIPC's, but equally we should seek to deter punitive and exploitative claims.
- One option would be a donor-finance facility hosted by World Bank – carefully structured in such a way as to protect the Bank's neutrality.

COMPLETION POINT TARGETS (*if proposed by others*)

- It would be wrong to rush countries to reach Completion Point. HIPC's continue to receive debt relief between Decision Point and Completion Point. There should be a strong link between the provision of debt relief and a strong policy performance.

**INTERNATIONAL FINANCE
FACILITY**

INTERNATIONAL FINANCE FACILITY

- We signed up to an historic compact at Monterrey last year. Developed and developing countries agreed on the actions they each needed to take to meet the Millennium Development Goals.
- Developing countries undertook to pursue policies for stability and growth, and take action to fight corruption. In this context, we welcome progress being made by NEPAD.
- Developed countries also committed to play their part, including through providing increased resources. Together, we pledged in Monterrey to increase our aid, by a total of at least 12 billion dollars extra by 2006.
- But it is estimated that we must lift this figure to at least an extra 50 billion dollars to meet the MDGs by 2015.
- Given fiscal constraints in many countries, we must find new ways to raise the extra finance that is needed – and needed now. That is why the UK has proposed an International Finance Facility (IFF).
- On the basis of long-term binding commitments by donor countries, the IFF would raise additional finance by borrowing from the international capital markets. In this way we could frontload aid flows to when they are needed - in the years up to 2015.
- There is a strong economic case for borrowing to invest in the future prosperity and stability of developing countries. But there is an even stronger moral case, otherwise another whole generation will be condemned to poverty, ill-health and lack of education and clean water.
- The IFF would also make aid more effective by making aid flows more predictable and stable, and by improving donor coordination.

- We have no intention of setting up a new bureaucracy so we envisage the IFF delivering aid through existing, effective mechanisms chosen by - and reflecting the country and sector priorities of - each donor.
- It is essential that we make progress in living up to the commitments we have made to work with developing countries to tackle AIDS, poverty and hunger. And we need to be seen to be taking action now.
- That is why I propose we today [signal our support for the concept and development of the IFF,]endorse the work our Finance Ministers have underway and encourage them to complete this with the utmost urgency [and that we ask Francis Mer and Gordon Brown to report back to us].

**CORRUPTION &
TRANSPARENCY**



CORRUPTION

- Corruption and the misuse of aid and domestic revenues are two of the most important barriers to private-sector led development. So there is an urgent need to establish high standards in public financial management and accountability in order to achieve the Millennium Development Goals, and ensure that public and donor resources are used effectively and efficiently.
- So the anti-corruption action plan our Sherpas have worked up is a vital pro-development initiative. Pleased that, as part of this, the G8 has endorsed action on reporting revenues and payments in the extractive industries in line with the Extractive Industry Transparency Initiative (EITI), which I launched last year. The dangers of non-transparent and unaccountable management of oil revenues are well-known.
- Urge you all to work with us in taking forward this initiative. Hope some countries dependent on the extractive industries will start to report as envisaged under the EITI. A good signal would be to take this forward in Iraq as an early participant. UK holding a conference on EITI on 17 June.
- This applies to Governments and companies. Obligations on both. Must do this through partnership and encourage, rather than force, their participation.

- Interesting that our multinational companies are actually pushing us to progress on this. They see real benefits from being seen to be transparent. They have no desire to be involved in corruption. Want to see their tax payments being used for appropriate purposes.

Anti-corruption text / paragraph 3

We will each seek, in accordance with national laws, to deny safe haven to public officials guilty of corruption, by denying them entry, when appropriate, and using extradition and mutual legal assistance laws and mechanisms more effectively

May 13th, 13:00

FOSTERING GROWTH AND PROMOTING A RESPONSIBLE MARKET ECONOMY

Efficient capital markets are critical to achieving and maintaining economic growth. To support growth, economies need sound legal systems, effective regulation and transparent corporate governance practices. These factors underpin effective disclosure that is fundamental to well-functioning markets. Sound social frameworks and attention to the long-term impacts, including on the environment, of investment decisions and business processes are also important for sustainable growth. Timely and accurate information assists shareholders in exercising control and investors in allocating funds to their most productive uses. In support, governmental authorities should ensure that corporate reporting assists them in monitoring markets and in identifying vulnerabilities.

Trust and confidence are key ingredients of a well-functioning market economy. Restoring investor confidence through sound corporate governance, as well as corporate structures and market intermediaries that are more accountable, is essential to promoting growth in our economies. We encourage the many initiatives underway, in national capitals, international financial institutions and by international standard-setting bodies, to strengthen governance standards and disclosure regimes.

Corporate integrity, strengthened market discipline, increased transparency through improved disclosure, effective regulation and corporate social responsibility are common principles that are the foundations for sound macro-economic growth.

Common values and principles

1 Corporate governance

1.1. Market integrity

We commit to pursue with strong resolve our fight to further improve the integrity of the international economy, (including efforts against money laundering, financial crime and terrorist financing), which is essential for its efficiency, fairness and transparency. We will continue to work towards investor protection, enhanced regulatory compliance and vigorous law enforcement, including through comprehensive cross-border assistance.

1.2. Strengthened market discipline and effective regulation

We re-affirm our support of sound regulatory regimes that encourage and promote market dynamism and foster fair and effective competition among market participants. In order to support the beneficial process of globalisation, we aim in particular to enhance international cooperation and to foster a sound level playing field. We strongly support the work undertaken by the Financial Stability Forum (FSF).

1.3. Accountability and enhanced corporate governance

We reaffirm that companies must be accountable to their shareholders. As underscored in the OECD Principles of Corporate Governance, other stakeholders also have strong interests in these issues. To this end, we call for continued efforts globally to enhance corporate governance.

We also strongly support the on-going review of the OECD Principles and the implementation of the International Organization of Securities Commission (IOSCO) principles relating to corporate governance.

1.4. Increased transparency and quality of financial information

Integrity, quality and accessibility are the cornerstones of reliable financial information. We call on all information providers -- first and foremost companies and their auditors, as well as financial analysts, investment banks and rating agencies -- to abide by these principles.

Recognizing the need for financial stability, we commit to promoting high quality, internationally recognized accounting standards that are capable of consistent application, interpretation and enforcement, especially for listed companies.

2 Corporate social responsibility

Consistent with the outcomes of the World Summit on Sustainable Development, we support voluntary efforts to enhance corporate social and environmental responsibility.

We will work with all interested countries on initiatives that support sustainable economic growth, including the creation of an environment in which business can act responsibly. We also welcome voluntary initiatives by companies that promote corporate social and environmental responsibility, such as the OECD Guidelines for Multinational Enterprises and the UN Global Compact principles consistent with their economic interest. We encourage companies to work with other parties to complement and foster the implementation of existing instruments, such as the OECD guidelines and the ILO 1998 Declarations on Fundamental Principles and Rights at work.

3 Corruption and transparency

We emphasise our determination to fight corruption, one of the key obstacles to economic and social development, and mismanagement of public revenue and expenditure.

Significant and lasting progress in these areas can only be achieved through the concerted efforts of all governments, international institutions, the private sector and civil society. To this end we set out the attached G8 action plan.

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We will jointly ask UN bodies, the IFIs, FSF, standard-setting bodies and other relevant international organizations to work with us on these issues and to further integrate them in their programs and actions.

(parts 3 and 6 to be finalised)

FIGHTING CORRUPTION AND IMPROVING TRANSPARENCY

We emphasise our determination to fight corruption and mismanagement of public resources in both revenue raising and expenditures. Transparency inhibits corruption and promotes good governance. Increased transparency of government revenue and expenditure flows, as well as strengthened enforcement efforts against bribery and corruption, will contribute to achieving these goals and to increasing integrity in government decision-making – thereby ensuring that resources, including development assistance, achieve their intended purposes.

We recall the significant decisions we took last year at the Monterrey Conference on Financing for Development to increase international development assistance. We reaffirm that the decisions we take over how this money is spent will be informed by judgements we have made regarding countries' commitment to transparency, good governance and related performance.

*

- 1. Urgent progress must be made in improving public financial management and accountability (PFMA) to ensure that public and donor resources are used efficiently and effectively. This requires action by recipient countries, donors and the IFIs, including greater transparency by all and more coherent and sustained efforts to build capacity in developing countries. We will:**
 - 1.1. focus bilateral assistance on countries demonstrating commitment to improve performance on transparency, good governance and rule of law;
 - 1.2. require fiduciary assessments before countries can access budgetary support (as already done with the World Bank Poverty Reduction Support Credit program); work to ensure that all fiduciary and governance diagnostics are made public; and improve coordination and harmonisation of our administrative procedures;
 - 1.3. encourage all developing countries to create, as part of their poverty reduction strategies, plans for concrete action on PFMA setting measurable and timebound targets, and call on the IMF and World Bank to strongly support these efforts in the context of their own assistance;
 - 1.4. develop with donors and governments a PFMA performance assessment based on the HIPC Tracking exercise;
 - 1.5. work with others to: achieve full disclosure of multilateral development bank (MDB) performance allocation systems; require publication of all MDB Country Assistance Strategies; urge presumptive publication of Article IV staff reports; and require publication of staff reports for all exceptional access cases, including a report for each that lays out clearly the related justification;

- 1.6. encourage participation in and publication of fiscal policy transparency ROSCs by all IMF members, including making this standard practice for exceptional access cases;
- 1.7. call on developing countries to implement their commitments in regional and international conventions on corruption through anti-corruption action plans, underpinning Poverty Reductions Strategy Papers (PRSPs). These action plans should be supported by the IMF, World Bank and other donors; we call upon them to join us in further increasing support and assistance in this regard.

2. We will strengthen the enforcement of our Anti-Bribery Laws and will encourage the private sector to develop related compliance programs. We will:

- 2.1. accelerate peer reviews of each country's implementation of the OECD Convention on Combating Bribery of Foreign Public Officials, accompanied by the public release of these results, so as to complete a first cycle of reviews by 2007. We will work together with our OECD Convention partners to ensure stable, long-term financing for these reviews;
- 2.2. encourage the private sector to develop, implement and enforce corporate compliance programs relating to our domestic laws criminalizing foreign bribery.

3. We are committed to actively contributing to the completion of a UN Convention against Corruption. This should include effective preventive measures, effective mechanisms for international cooperation in criminal matters and asset recovery and it should provide an effective follow-up mechanism for monitoring implementation of the Convention. We encourage technical assistance for this purpose.

[In accordance with our national laws], we will each seek to deny safe haven to public officials guilty of corruption, by denying them entry, when appropriate, and using existing extradition and mutual legal assistance laws and mechanisms more effectively] (previous version)

or

[We will each seek to deny safe haven to public officials guilty of corruption, by denying them entry, when appropriate] (US)

or

[We will each seek to establish the authority to deny safe haven to public officials guilty of corruption, and to use this authority to deny them entry in appropriate cases] (US)

4. We reaffirm our commitment to fight financial abuses and to:

- 4.1. encourage wider accession to and ratification of the U.N. Convention on Transnational Organised Crime so that money laundering, corruption and other relevant crimes are universally criminalized and that all countries have the power to identify, trace, freeze or seize and ultimately confiscate and dispose of assets from the proceeds of these crimes.
- 4.2. require that our own financial institutions establish procedures and controls to conduct enhanced due diligence on accounts of "politically exposed persons", and thereby to detect and report transactions that may involve proceeds of foreign official corruption.

4.3. support issuance in June by the Financial Action Task Force (FATF) of a revised 40 Recommendations that includes strong customer due diligence provisions, enhanced scrutiny for politically exposed persons and a requirement to make corruption and bribery a predicate offence for money laundering.

4.4. encourage all countries to work to come into compliance with the revised FATF Recommendations, and to apply the Basel Committee's guidance on customer due diligence for their banking sectors;

5. We recognise the importance of promoting Transparency in Government Procurement and the Awarding of Concessions. To this end, we will:

5.1. work towards including in our regional and bilateral trade agreements provisions requiring transparency in government procurement and the awarding of concessions, as well as provisions on trade facilitation;

5.2. at the Ministerial meeting in Cancun, in accordance with the Doha Development Agenda, commence negotiations aimed at achieving an inclusive multilateral agreement on transparency in government procurement. An agreement on Transparency in Government Procurement should include, among others, rules on publication of laws, procurement opportunities, qualification requirements, technical specifications and evaluation criteria.

5.3. ensure that transparency also constitutes a core element of a trade facilitation agreement.

6. Consistent with these principles and recognizing the importance of revenues from the extractive industries (oil, gas and mining), we have agreed to pilot [on a voluntary basis] an intensified approach to transparency ~~[based on the concept of a voluntary compact for each country]~~ (US). To this end, we will:

6.1. encourage governments and companies, both private and state-owned, to disclose to the IMF or another agreed independent third party such as the World Bank or Multilateral Development Banks, in a consistent fashion and common format, revenue flows and payments from the extractive sectors. This information should be published at an aggregated level, in accessible and understandable ways, while protecting proprietary information and maintaining contract sanctity.

6.2. work with participating governments to develop and implement agreed action plans for establishing high standards of transparency with respect to all budget flows (revenues and expenditures) and with respect to the awarding of government contracts and concessions

6.3. assist those governments that wish to implement this initiative with capacity building assistance;

6.4. encourage the IMF and the World Bank to give technical support to governments participating in the initiative and to develop linkages with other elements of this Action Plan.

**SCIENCE & TECHNOLOGY
FOR SUSTAINABLE
DEVELOPMENT**

SUSTAINABLE DEVELOPMENT

This session has seen the most substantive preparatory work. Our priorities have been to take forward your climate change initiative, the access to medicines agenda and to promote the International Finance Facility. Bush will want to focus on famine, and Chirac, with Koizumi and Bush will be interested in water.

CLIMATE CHANGE

You should highlight the need to stimulate research into technologies which will enable us to reduce greenhouse gas emissions without adversely affecting economic productivity. That is what the operative parts of the agreed paper are about. It should be an area to build consensus - whatever they feel about Kyoto and binding emissions reduction targets. The text gives a strong message that fuel cell and hydrogen technologies are the future, together with renewables.

The outstanding issue is to ensure that there is adequate follow up. None of us wants to create new mechanisms, but the G8 is a perfect forum through which to ensure sufficiently high political impetus. You will want to persuade Bush to commit to review progress during his Presidency in 2004 - and we could follow up in ours.

FAMINE

Bush will try to draw attention to the amount of money the US is putting into famine relief (\$1.2bn in 2004 and a \$200m global fund). Last week he accused Europe of "starving Africans" by its position on GMOs. He has been supported by comments from Bob Geldof during his trip to Ethiopia, and the profile of this topic remains high. The UK is second only to the US in its contributions to famine relief: over £125m in sub-Saharan Africa and £48m to the Horn. But the immediate problem is probably easing - the major crisis in Southern Africa is now largely limited to Zimbabwe.

We see food aid as a temporary solution, rather than a long-term cure. There are strong arguments that continual shipments of food aid damage local agricultural production and distort local markets, making it yet harder to secure the sustainable changes needed to reduce vulnerability to food shortages. Zimbabwe and North Korea are graphic examples where sound policies and good governance could have avoided famine.

We also continue to push for food aid to be untied so that countries cannot dispose of their grain surplus by offloading onto poor countries. Bush will continue to resist, and instead will promote "twinning" (one donor providing food and another paying transport costs). We would not want to see any focus on food aid above other kinds of assistance.

HEALTH

The negotiated text is a good step forward. This may not be groundbreaking material, but it will demonstrate continued G8 commitment to the issues of HIV/AIDS, Polio and increasing access to medicines for the poorest. It will be given more topical resonance, particularly for Chretien and Koizumi, by the inclusion of a reference to cooperation on SARS.

Bush will make a big play of his \$15bn AIDS plan. He has made some of his support (of \$200m p.a.) for the Global Fund conditional upon the US not paying more than one third of the total. It is likely that Chirac (and perhaps Berlusconi) will also announce further contributions to the Fund. We have indicated that we can roll over current funding levels – an additional \$80m over 2006-2008.

A further contribution of \$210m would achieve global eradication of Polio. The UK has been amongst the most generous to date, and we should encourage Chirac, Schroeder and Berlusconi to pledge more (we believe they might). There is short-term critical funding gap for 2003 (\$33m required by September). In Kananaskis the G8 made a strong commitment to eradicate polio by 2005 – they must deliver.

It is essential that we improve access to medicines for the poorest in the developing world. This requires an integrated partnership approach to address all the key barriers to access. This is a high priority for the G8 and for the UK. We have achieved valuable G8 support (Chretien and Prodi should be particularly supportive), and we plan to take forward through pilots in Ghana and Tanzania.

Connected to this is the need to find a lasting solution to the stalled negotiations on TRIPS in the WTO. The US are the only ones holding out. This is damaging our pharmaceutical companies reputations and failure to agree will overshadow any beneficial outcome from Evian on the Global Fund or other health-related issues, and could endanger the outlook for Cancun in September.

WATER

The agreed paper is not particularly groundbreaking. It builds on agreements at Kyoto and Johannesburg. There is a clear need for additional financing to meet the water and sanitation targets. A further opportunity for a plug for the International Finance Facility.

Prodi is likely to raise his proposed €1bn EU Water Fund using unspent EDF funds. You should applaud this move to raise the profile of this sector, but caution that funds must not be diverted from specific country needs by the creation of another sector-specific pot.

CLIMATE CHANGE

- Whatever our differences over Kyoto, climate change remains a huge challenge to us all. Unless we can reduce greenhouse gases significantly there will be a devastating impact on generation ahead.
- The Action Plan agreed by our Sherpas describes how we can use new technologies to tackle climate change beyond the Kyoto timeframe - energy efficiency, renewables, fuel cell and hydrogen technologies.
- In the UK we are planning to use the new technologies to reduce our greenhouse gas emissions by 60% by 2050.
- But countries cannot do this alone. We need to cooperate and collaborate on the necessary R & D and put in place the right frameworks for our private sectors to invest in the new technologies of the future.
- Hope that US will be able to review progress during their Presidency of the G8 next year. It is vital to ensure momentum is not lost.
- (Russian ratification of Kyoto Protocol) Welcome Russia hosting the World Conference on Climate Change this autumn. Russian ratification of Kyoto would be an opportunity to demonstrate world leadership. And there are economic benefits to Russia.

SCIENCE AND TECHNOLOGY FOR SUSTAINABLE DEVELOPMENT
A G8 ACTION PLAN

We recognise the need, as acknowledged in the World Summit on Sustainable Development (WSSD) Plan of Implementation, to support the development of cleaner, sustainable and more efficient technologies. Co-operative scientific research on transformational technologies offers potential to improve public health by cutting pollution and reduce greenhouse emissions to address the challenge of global climate change. Our countries must optimise the use of natural resources including through recycling.

We will focus our efforts on three areas that present great opportunities for progress: co-ordination of global observation strategies; cleaner, sustainable and more efficient energy use; agricultural sustainability, productivity and biodiversity conservation.

In undertaking these activities, we are committed to working co-operatively with other developed countries. We are conscious that, to meet the objectives of the WSSD, developing countries and countries with economies in transition need to build and strengthen their capacity to assimilate and generate knowledge for sustainable development. We reaffirm our commitment made at the WSSD to assist them through international co-operation in enhancing their research capacities.

1. Strengthen international co-operation on global observation

We will:

- 1.1 Develop close co-ordination of our respective global observation strategies for the next ten years; identify new observations to minimise data gaps;
- 1.2 Build on existing work to produce reliable data products on atmosphere, land, fresh water, oceans and ecosystems;
- 1.3 Improve the world-wide reporting and archiving of these data and fill observational gaps of coverage in existing systems;
- 1.4 Favour interoperability with reciprocal data-sharing;
- 1.5 Develop an implementation plan to achieve these objectives by next spring's Tokyo ministerial conference.

2. Accelerate the research, development and diffusion of energy technologies

We will:

- 2.1 Promote energy efficiency of all sources and encourage the diffusion and uptake of advanced energy efficient technologies, taking pollution reduction into account. Possible measures include standards, public procurement, economic incentives and instruments, information and labelling;
- 2.2 Promote rapid innovation and market introduction of clean technologies, in both developed and developing countries, including at the Milan Conference of the Parties of the United Nations Framework Convention on Climate Change and beyond, at the International Energy Agency (IEA) and other international fora such as the UN Economic Commission for Europe, the Expert Group on Technology Transfer, etc, finding appropriate methodologies to involve the private sector;

- 2.3 Support efforts aimed at substantially increasing the share of renewable energy sources in global energy use:
- stimulate fundamental research in renewable energies, such as solar photovoltaics, off-shore wind energy, next generation wind turbines, wave/tidal and geothermal, biomass;
 - collaborate on sharing research results, development and deployment of emerging technologies in this area;
 - work towards making renewable energy technologies more price competitive;
 - participate in the International Conference on Renewable Energies, spring 2004 in Bonn;
- 2.4 Accelerate the development of fuel cell and hydrogen technologies (power generation, transportation, hydrogen production, storage, distribution, end-use and safety):
- increase international co-operation and exchange of information in pre-competitive research based on the principle of full reciprocity through the IEA and other existing organisations;
 - work with industry to remove obstacles to making fuel cell vehicles price competitive, striving to achieve this goal within two decades;
 - accelerate developing internationally agreed codes and standards in appropriate existing organisations;
 - work together to facilitate the use of hydrogen technologies in our and other markets, including through development of infrastructures;
- 2.5 Expand significantly the availability of and access to cleaner, more efficient fossil fuel technologies and carbon sequestration systems;
- 2.6 Pursue joint research and development and expanded international co-operation, including demonstration projects;
- 2.7 Encourage the Global Environment Fund to include energy efficiency, renewables, cleaner fossil fuel technologies, and sustainable use of energy when setting up its programme;
- 2.8 Develop codes and standards for next generation vehicles, cleaner diesel and biodiesel, recognising that social needs for fuel quality are diverse among G8 countries;
- 2.9 In accordance with our national procedures, promote clean and efficient motor vehicles including next generation vehicles;
- 2.10 Work in consultation with industry to raise energy efficiency of electrical and electronic equipment;
- 2.11 We take note of the efforts of those G8 members who will continue to use nuclear energy, to develop more advanced technologies that would be safer, more reliable, and more resistant to diversion and proliferation.

3. Agriculture and biodiversity

We will:

- 3.1 Promote the conservation and sustainable use of genetic resources for food and agriculture:
- support the International Treaty of Plant Genetic Resources for Food and Agriculture by concluding negotiations over a standard material transfer agreement that facilitates access to plant genetic resources for agricultural research and development and equitable sharing of benefits arising from their use;
 - support efforts to ensure funding for genetic resources conservation in the framework of the priorities set up by the Food and Agriculture Organisation Commission on Genetic Resources;

3.2 Help developing countries improve their agricultural productivity in a sustainable manner:

support the Consultative Group for International Agricultural Research's vital role in disseminating agricultural research, as well as the Global Forum for Agricultural Research and other regional and national agronomic research organisations and North-South and South-South research partnerships;

- support actions to provide technology suited to local economic social and environmental conditions to the rural poor in developing countries particularly in Africa, including public-private partnerships;

3.3 Promote sustainable agricultural technologies and practices, including the safe use of biotechnologies among interested countries, that contribute to preventing famine, enhancing nutrition, improving productivity, conserving water and other natural resources, reducing the application of chemicals, improving human health and preserving biodiversity;

- participate in the 22-25 June 2003 Agricultural Science and Technology ministerial conference in Sacramento, to implement the commitment from the Rome World Food Summit;

3.4 Use modern technologies such as satellite imaging technologies to help us:

- combat illegal logging;
- promote sustainable forest management;
- promote agricultural biodiversity and conservation.



We will enhance our understanding of resource material flows and continue work on resources productivity indices, notably in the Organisation for Economic Co-operation and Development.

We will discuss various aspects of the global climate change problem at the World Conference on Climate Change (Moscow, September 2003).

We will work in partnership with developing countries and relevant multilateral organisations to facilitate utilisation in developing countries of the results of relevant research and development in these technologies, and so contribute to sustainable development. Trade liberalisation of environmentally friendly products will contribute to this as well.

We will convene senior G8 policy and research officials and their research institutions to compare and to link programmes and priorities, to involve and assist in more effective planning and potential linkage of future programmes addressing research on global observation, cleaner energy, agriculture and biodiversity. This group should also consider ways to assist developing countries that have their own research programmes in these three areas, *inter alia* by examining the possibility of opening our research programmes to third countries./.

HEALTH

HEALTH

- Today in Africa 30 million people have the AIDS virus – including 3 million boys and girls. Over four million require drug treatments but only 50,000 are receiving them. Addressing this, and malaria and TB is the major development challenge of this century.

HIV / AIDS

- The G8 has rightly given health issues a priority at this Summit. We have a collective and individual responsibility to address the health crises faced by our partners in the developing world – especially in Africa where the HIV / AIDS crisis in particular is so acute.
- The UK is deeply committed to this fight. Have just announced a further \$80m contribution to the Global Health Fund (total now \$280m – second largest donor)
- Suggest that some of the unused EDF funds could be used to make a one-off contribution to the Global Fund. Perhaps Romano could look into this?
- Very concerned about the way in which the Global Fund is working. Disbursement is slow (only \$20m to date), and its operations need to be better integrated into national programmes. We want to see a series of performance benchmarks.
- But Global Fund is only one among a range of instruments in this field. UK will spend over \$410m on AIDS this year, and has spent \$1.5bn in health systems work since 1997.
- We must also work to ensure that the necessary medicines are available to those that need them at affordable prices. TRIPS is one element of this – but so is working with industry and others to overcome the barriers.

Polio

- Polio eradication by 2005 is achievable. Only 7 endemic countries remain. We will all benefit from a world free of polio. Extraordinary that we are so close to eradication but that the Polio Eradication Initiative is short of funds. Failure to achieve this tangible target could jeopardize future international health campaigns, and reflect very poorly on G8.
- The resource gap for the period up to 2005 has gone down to US\$210 million. (despite a budget increase of US\$250 million). Time to act is now. Urgent need for funding to combat the current short-term critical funding gap for 2003 (\$33m required by September) as well as the longer-term needs. This year has already seen scaling back in critical areas, due to inadequate funding.
- The UK has been instrumental in this drive. Has contributed over \$355m since 1988 (anticipated total \$411m) We pledged an additional \$25m at Kananskis last year. Others must play their part - particularly France (nothing to date), Italy (\$3m) and Germany (\$65m).

Access to Medicines

- Essential that we improve access to medicines for the poorest in the developing world. This requires us to take an integrated approach, working in partnership with others to address all the key barriers to access.
- UK taking this forward through pilot projects in Africa (Ghana and possibly Tanzania). Will work in partnership with governments, industry and other stakeholders (NGOs). Hope colleagues will join us.
- Lack of solution to TRIPS is a barrier to progress on the broader access to medicines agenda. Must solve this before Cancun (see trade note).

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HEALTH
A G8 ACTION PLAN

INTRODUCTION

Global health crises call for close international co-operation on policies and methods. We reaffirm our commitment to achieving the development goals set out in the Millennium Summit and at the World Summit on Sustainable Development. We will work in partnership with developing countries, the private sector, multilateral organisations and non-governmental organisations (NGOs) to help achieve these health goals. Multilateral and bilateral Official Development Aid as well as private efforts from companies and NGOs should match and complement existing efforts to improve health outcomes.

1. Fighting HIV/AIDS, Tuberculosis And Malaria

- 1.1 We express our continued concern at the increase in the global **HIV/AIDS** pandemic. We welcome the increased bilateral commitments for HIV/AIDS, whilst recognising that significant additional funds are required. We commit, with recipient countries, to fulfil our shared obligations as contained in the Declaration of Commitment on HIV/AIDS for the 2001 United Nations General Assembly Special Session.
- 1.2 We reiterate our commitment to fight against AIDS as well as Tuberculosis and Malaria as agreed in Okinawa, through further actions in such areas as institutional building, public-private partnerships, human resource development, research activities and promotion of public health at the community level. We will strengthen our efforts in this fight, both bilaterally and multilaterally.
- 1.3 We reaffirm our support for the Global Fund to fight AIDS, Tuberculosis, and Malaria.
- 1.4 We welcome and support the proposal to host, in collaboration with the Global Fund, an international donors' and supporters' conference bringing together governments, international organisations, NGOs and members of the private sector active in this field in Paris this July. The purpose will be to develop strategies for mobilising resources in order to secure sustainable long term financing for the Fund and other complementary efforts, and to achieve cost effective results-targeted management of the Global Fund.
- 1.5 We call upon those that have not yet done so to consider increasing their support to the Global Fund as well as to other multilateral and bilateral efforts to combat these infectious diseases.

2. Strengthening health systems

- 2.1 We emphasise the importance of strengthening health systems as a framework for increasing access of the neediest populations of developing countries to health care, drugs and treatments. We call upon these countries to develop and prioritise their own health strategies and policies. Multilateral and bilateral development assistance, as well as private sector efforts from companies and NGOs, are essential to improving these health systems. Adequate support and financing of health care are needed to increase the number and retention of health care personnel, advance the rational use of medicine, and strengthen drug distribution systems. These efforts are essential to improving access and quality of health care in poor countries.

- 2.2 We will encourage and support where appropriate the use of information and communication technologies for medical treatment.

3. Access to medicines

- 3.1 Building on strengthened health systems, in partnership with others, including public-private partnerships, we will work to develop an integrated approach that will facilitate the availability and take-up of discounted medicines for the poorest in a manner that is fair, efficient and sustainable. We recognise the complexity of increasing access to medicines in developing countries which, among other factors, depends on affordable prices. We welcome pharmaceutical companies' voluntary long-term commitments to providing essential medicines at substantially discounted prices to developing countries and strongly encourage further efforts, including through supply competition. We will also work with developing countries to encourage greater uptake of such offers of free and discounted drugs, as are now being made. We support and encourage developing countries to contribute to the goal of affordable medicines by reducing their tariffs and fees on discounted and donated products.
- 3.2 We will take the steps necessary to prevent the diversion of those medicines away from the countries or regions for which they were intended. We call on recipient governments to do the same and we undertake to provide technical support to assist them to do so. We will not use the preferential prices offered to the developing world as benchmarks for pharmaceutical products on our own markets.
- 3.3 To address the practical problems faced by developing countries with no or insufficient manufacturing capacities, we note that, pending a WTO solution, many of us have instituted moratoria on challenging any Member of the WTO that, according to the scope and modalities defined in their respective moratoria, would want to export to a country in need medicines produced under compulsory license for addressing public health crises, including those relating to HIV/AIDS, tuberculosis and malaria and other epidemics. We direct our ministers and officials, working urgently with WTO partners, to establish a multilateral solution in the WTO to address the problems faced by these countries, rebuilding the confidence of all parties, before the Cancun Ministerial.

4. Fighting Diseases Mostly Affecting Developing Countries

We will encourage research into diseases affecting mostly developing countries.

- 4.1 In order to expand the development of effective, safe and affordable drugs for diseases affecting mostly developing countries ("neglected diseases"), we are committed to seeking ways to support world-wide the development of research on health technologies for prevention (including vaccines), control, treatment and cure for these diseases. In particular we will:
- work with developing countries to increase their own ability to contribute to research and development on these diseases, including to create incentives and the necessary regulatory systems to support ethical and safe clinical trials;
 - encourage research into these diseases, in our countries too, including by providing appropriate incentives;
 - continue to support work already underway in the non-governmental sector.
- 4.2 We will encourage relevant international organisations to keep the situation under active review.

5. Eradicating polio

We will work to fully eradicate this disease.

- 5.1 Efforts to eradicate polio have made good progress. But a limited number of countries still register cases.
- 5.2 In keeping with our pledge at Kananaskis to provide, on a fair and equitable basis, sufficient resources to eradicate polio by 2005, we have pledged an additional US\$ 521 million and remain committed to playing our full part to ensure that the remaining funding gap is closed.

6. Confronting the threat of SARS

We will work together and with others to contain this disease.

- 6.1 The spread of SARS demonstrates the importance of global collaboration, including global disease surveillance, laboratory, diagnostic and research efforts, and prevention, care, and treatment.
- 6.2 Strengthening international co-operation is key to containing, treating and eventually eradicating this disease. The measures that we take at national levels to effectively handle SARS will benefit from us working together.
- 6.3 We will continue to work closely with the WTO, to undertake research and investigation at a high level and to develop appropriate means of international co-operation./.

FAMINE

FAMINE

- Famine is a human tragedy. We must respond – but not just through humanitarian assistance – we should address the underlying causes of famine.
- But even so, others should do more to alleviate immediate crises. UK has already contributed £150m to sub-Saharan Africa this year, and £48m into the Horn of Africa.
- In Ethiopia, 12.5 million people need food. Enough food has been pledged to cover needs until September - but we need to speed up delivery. An additional 230,000 tons of food are needed for the rest of the year – the EC should cover this gap.
- There are high levels of malnutrition, particularly in the South. We need to target our food aid better and provide for the urgent non-food needs – clean water, sanitation and agricultural inputs. Urgent action is necessary to provide training so that medical and nutritional services are delivered to the most vulnerable.

For Bush

- Food aid must be untied to be most cost effective. EU food aid is cheaper per tonne than US.
- Believe strongly in the right of recipients to choose whether to accept GM food aid. Disappointed by Zambian decision last year not to receive GM food aid, but believe that developing countries should make their own informed decisions.

G8 ACTION AGAINST FAMINE, ESPECIALLY IN AFRICA

We recognise that food security is a global concern. Millions of people world-wide are at risk of starvation, of which over 40 million are in Africa. This situation derives not only from climatic conditions and natural disasters but from more structural causes, such as chronic poverty, lack of appropriate support and enabling environment for agriculture, HIV/AIDS prevalence, increasing number of conflicts, poor governance and economic management and trade related issues. These factors are likely to cause recurrent food crises and increase long-term food insecurity, notably in Africa. While taking immediate action to avert the present peril of humanitarian crises, we recognise the strong need for longer term solutions to food insecurity, and are committed to working in partnership with developing countries to address these problems. To address these issues, we are working with the Secretary-General of the United Nations and relevant international bodies to prevent and mitigate famine. G8 action to address famine in Africa will take place within the framework of the G8 Africa Action Plan, in support of the New Partnership for Africa's Development .

Famine is a preventable tragedy that requires the right policy tools to respond to short-term emergency food aid needs flexibly and quickly, mitigate the effects of foreseen crises, and prevent famine in the long-term by vulnerable countries adopting economic and governance policies and institutional reforms that help to prevent the conditions that lead to famine including a special focus on investment in agriculture. We are committed to contribute actively to solutions in each of these areas.

In order to improve significantly the capacity of the countries affected and the international community to anticipate and prevent famine, we will:

1. Meet emergency food assistance needs

1.1 We are determined to tackle urgent food shortages, through immediate measures. Remaining shortfalls in Africa are currently estimated by the World Food Programme in the range of 1.2 million metric tonnes. We will improve the efficiency, timeliness and responsiveness of our own contributions of food aid, cash and items other than food, and encourage and facilitate contributions by other traditional and non-traditional donors to meet emergency needs. We will work with governments, UN agencies, non-governmental organisations, civil society and other parts of the international community to provide the specific mix of assistance and types of programs best suited to actual needs.

1.2 Since Kananaskis, we have committed the following amounts of emergency assistance to address these humanitarian needs: US\$ 3.3 billion of aid delivered globally and US\$ 1.6 billion for Sub-Saharan Africa.

We will address new needs when they are confirmed with appropriate aid commitments.

2. Improve assessment capacities, warning systems and prevention mechanisms

2.1 We will support the strengthening of national, regional and international capacity for accurate needs assessments and understanding of vulnerability analysis and its links to

food insecurity, including appropriate use of common benchmarks and pre-famine indicators that combine production with food access and utilisation/nutrition indicators.

- 2.2 We will support the review and improvement of early warning and crop forecast systems as well as contingency planning at the national and regional level, in order to increase emergency preparedness and response. National decision makers will need to act on information provided in a timely manner and commit sufficient resources to fund and staff such systems.

3. Increase aid effectiveness

- 3.1 We commit ourselves to more flexible and efficient approaches to the use of aid in specific food crisis situations. Aid must be more responsive to the needs of recipients, avoid distortions to local production and not undermine local markets. We will provide our assistance accordingly. We will utilise both food assistance and cash to avoid or mitigate the impact of famine, taking into account the availability of food locally, ability of vulnerable populations to pay for food, and other relevant local market conditions.
- 3.2 Contributions should include as necessary non-food items (such as seeds, tools, vaccines, medicines, school supplies, tents) and help ensure that emergency non-food needs (such as water and sanitation) are adequately addressed.
- 3.3 Alternative tools may be used when food is available, such as cash assistance to specially vulnerable populations and "cash for work" programmes.
- 3.4 We will actively participate in discussions in relevant fora and institutions that address food aid modalities, and promote flexible, sustainable, efficient and responsive aid approaches while avoiding distortions to local markets. This includes working to bring new donors and new approaches to bear on addressing famine.

4. Longer term initiatives to address food insecurity

- 4.1 We will support integrated approaches and programmes to identify the root causes of hunger and malnutrition and tackle them in order to prevent famine.
- 4.2 Food security, rural and agricultural development must be adequately addressed in the context of national development and poverty planning as well as in multilateral and bilateral donor response strategies. To this end, we deem it necessary to increase productive investment in rural and agricultural development to achieve lasting food security. We undertake to work towards reversing the decline of official development assistance to agriculture and increasing trade opportunities for developing countries.
- 4.3 We are ready to support efforts by developing country governments to pursue these aims, including through support of sound agricultural policies at the national and regional levels, of development of farmers' organisations, of productive investment in agricultural infrastructure and inputs, promotion of food crops and of competitiveness of export crops, and to encourage improved scientific resources and adaptation of new and improved agricultural technologies including tried and tested biotechnology for use in developing countries.

- 4.4 On long term agriculture and food security assistance, we committed US\$ 3.5 billion and US\$ 1.6 for Sub-Saharan Africa since Kananaskis.
- 4.5 We are particularly determined to intensify the fight against HIV/AIDS, given the immense impact of this disease particularly in African countries, especially on food production and other aspects of food security. Food and related emergency aid distribution should also prioritise the nutritional needs of those infected and the needs of vulnerable groups most affected by the pandemic. Preserving familial and social structures, or compensating for their disruption, is key to ensuring food security.
- 4.6 Good governance is vital for lasting progress on poverty reduction and food security as well as economic growth. We will support efforts by developing countries to establish sound political and economic governance frameworks.

Building on the work of the G8 Contact Group on famine, we will work actively to take this Action Plan forward in all relevant international fora. /.

WATER

WATER

- Real need to strengthen governance and institutional capacity in the water and sanitation sector.
- Need more effective ways of to mobilise financing at a global level that are linked to the development of effective water sector strategies and policies. New financing facilities should address the market and government failures that deter private financing in water infrastructure. Welcome IFI study into these ideas.

Proposed EU Water Fund (if raised by Prodi)

- Any decision on an EU fund for water should not pre-empt the planned review of the EDF performance in 2004. Do not favour establishment of a new EU Agency to manage such a Fund.
- Is €1bn the right figure anyway? If these are unused EDF funds why don't we give half to HIV/AIDS – an equally urgent need.

WATER
A G8 ACTION PLAN

Water is essential to life. Lack of water can undermine human security. The international community should now redouble its efforts in this sector. Good governance needs to be promoted and capacity must be built for recipient countries to pursue an appropriate water policy, and financial resources should be properly directed to the water sector in a more efficient and effective way, in order to achieve the goals of the Millennium Declaration and the Plan of Implementation of the World Summit on Sustainable Development (WSSD) in the water and sanitation sector, and to reverse the current trend of environmental degradation through the protection and balanced management of natural resources.

We are committed to playing a more active role in the international efforts towards achieving these goals, on the basis of the Monterrey consensus and building upon the outcomes of the Third World Water Forum and the Ministerial Conference held in Japan in March 2003. With this solid foundation and in response to the needs and priorities of partner countries we will take the following measures individually and/or collectively, particularly taking into account the importance of proper water management in Africa, in support of the New Partnership for Africa's Development, as stated in the G8 Africa Action Plan.

1 Promoting good governance

- 1.1 We are committed to assisting, as a priority, countries that make a political commitment to prioritise safe drinking water and basic sanitation as part of their strategy to promote sustainable development, including poverty eradication, to:
- develop comprehensive plans for the integrated management and efficient use of water resources;
 - develop an institutional framework that is stable, transparent and based on the rule of law, respecting fundamental human needs and ecosystems conservation, and promoting local empowerment and appropriate cost recovery approaches;
 - establish clear objectives and, where appropriate, develop and evaluate performance indicators.
- 1.2 We will support these countries' capacity building efforts to develop the skills necessary to provide efficient public services, seeking to help partner countries to:
- develop appropriate legal, regulatory, institutional and technical frameworks;
 - strengthen basic and further professional training institutions in water management, or create them, where necessary.
- 1.3 In view of the importance of river basin management, we will reinforce our efforts to:
- provide assistance for the development of integrated water resources management and water efficiency plans;
 - support better management and development of shared river basins;
 - promote river basin co-operation throughout the world, with a particular attention to African river basins.
- 1.4 We offer to share best practice in the delivery of water and sanitation services including the role of stakeholders and the establishment and operation of partnerships, whether public-public or public-private, where appropriate.

2 Utilising all financial resources

In line with the Monterrey Consensus and the WSSD Plan of Implementation, bearing in mind the different needs of rural and urban populations, we are committed to:

- 2.1 Give high priority in Official Development Aid allocation to sound water and sanitation proposals of developing country partners. This can be a catalyst to mobilise other financial flows;
- 2.2 Help mobilise domestic resources for water infrastructure financing through the development and strengthening of local capital markets and financial institutions, particularly by:
 - establishing, where appropriate, at the national and local levels, revolving funds that offer local currency;
 - appropriate risk mitigation mechanisms;
 - providing technical assistance for the development of efficient local financial markets and building municipal government capacity to design and implement financially viable projects;
 - providing, as appropriate, targeted subsidies for the poorest communities that cannot fully service market rate debt;
- 2.3 Encourage international financial institutions (IFIs) to give the necessary priority to water;
- 2.4 Promote cost recovery with "output based aid" approaches to ensure access to services for those least able to afford them;
- 2.5 Promote public-private partnerships (PPPs), where appropriate and suitable, particularly by:
 - inducing private-sector investments and encouraging use of local currency;
 - facilitating international commercial investment and lending through use of risk guarantee schemes;
 - encouraging the harmonisation of operational procedures;
 - facilitating the issue of national and international tenders;
- 2.6 Apply, on a voluntary basis, tools for development assistance for water and sanitation projects that may include such financing mechanisms as: concessional financing consistent with international rules on financial aid, project financing, micro and meso-financing and debt for investment swaps;
- 2.7 Encourage financing of sound irrigation practices;
- 2.8 Improve co-operation and co-ordination between donors, seeking better synergy among our various initiatives.

3 Building infrastructure by empowering local authorities and communities

We will do our utmost to support partner countries to develop and improve water and sanitation related infrastructure, tailored to different needs, by such means as:

- 3.1 Helping build, among others, local water management systems in rural areas, and water and sewage facilities in urban areas, through efficient use of public resources and promotion of PPPs, where appropriate;

- 3.2 Promoting community-based approaches, including the involvement of civil society in provision of water supply, sanitation and hygiene;
- 3.3 Encouraging the use of adapted technologies at the household level on a self sustaining basis for the provision of basic sanitation and safe drinking water, including point of use water treatment which has been found to be cost effective in meeting the needs of the poor;
- 3.4 Reinforcing the skills and knowledge of different actors in the water sector, particularly local governments and relevant actors of civil society, acknowledging the vital role women play in local communities;
- 3.5 Promoting the incorporation of capacity building elements for each co-operation project, specifically in the form of "learning by doing";
- 3.6 Strengthening South-South co-operation.

4 Strengthening monitoring, assessment and research

- 4.1 In collaboration with all stakeholders, we will promote co-ordination of mechanisms for information sharing and monitoring by utilising existing UN and other systems and the network of websites established at the Third World Water Forum Ministerial Conference, and will encourage relevant international organisations to operate them.
- 4.2 We will support strengthening water monitoring capacity in partner countries to complement existing monitoring efforts.
- 4.3 We will support the development of mechanisms for collaboration in water-cycle related research, and enhance research efforts in this area.

5 Reinforcing engagement of international organisations

- 5.1 We underline the need for the United Nations to take a key role in the water sector. We stress the importance of reinforcing co-ordination within the UN system, and between the UN system and the Bretton Woods institutions, the regional development banks and various stakeholders.
- 5.2 We request the World Bank, in consultation with other IFIs, to study and recommend necessary measures to implement the following proposals: made by the World Panel on Financing Water Infrastructure:
 - using their financing instruments in a more flexible manner to allow loans directly to sub-sovereign bodies, where appropriate;
 - developing guarantee and insurance schemes for risk mitigation;
 - addressing the issue of sovereign and foreign exchange risk coverage./.

**MARINE ENVIRONMENT &
TANKER SAFETY**

MARINE ENVIRONMENT AND TANKER SAFETY
A G8 ACTION PLAN

Global sustainable development and poverty reduction requires healthier and more sustainably managed oceans and seas. The fisheries sector alone is the main source of protein for one billion people as well as a major provider of livelihoods: it provides some 5-10% of the world's food supply. There is growing pressure on the marine environment. The decline in marine biodiversity and the depletion of fish stocks are of increasing concern, as is the use of Flags of Convenience, especially for fishing vessels, as a means to avoid management conservation measures. The recent sinking of the "Prestige" has again demonstrated that tanker safety and pollution prevention have to be further improved.

1. By acting in accordance with the relevant United Nations Conventions, we will work towards sustainable fisheries and marine conservation.

Specifically, we commit to:

- 1.1 The ratification or acceding to and implementation of the United Nations Convention on the Law of the Sea, which provides the overall legal framework for oceans;
- 1.2 Develop and facilitate the use of diverse approaches and tools, including the ecosystem approach, for the management of human activities in order to protect oceans and seas and their resources, drawing on the work underway in the UN Convention on Biological Diversity and the Food and Agriculture Organisation (FAO);
- 1.3 Maintain the productivity and biodiversity of important and vulnerable marine and coastal areas, including on the high seas;
- 1.4 The urgent restoration and maintenance of fish stocks;
- 1.5 The ratification and effective implementation of the relevant UN and, where appropriate, associated regional fisheries agreements or arrangements, noting in particular the UN Fish Stocks Agreement;
- 1.6 The urgent development and implementation of international plans of action under the FAO, *inter alia* to eliminate illegal, unreported and unregulated (IUU) fishing;
- 1.7 Strengthening regional fisheries organisations, including through improved data collection and compliance with their measures by their member states;
- 1.8 Reaffirmation of the commitments made at Doha, to clarify and improve disciplines in the context of negotiations under the Agreement on Subsidies and Countervailing Measures that covers fisheries subsidies, and at Johannesburg to reform subsidies that damage the environment and are otherwise incompatible with sustainable development;
- 1.9 Address the lack of effective flag State control of fishing vessels, in particular those flying Flags of Convenience;
- 1.10 Build capacity in marine science, information and management, through, *inter alia*, promoting the use of environmental impact assessments and environmental evaluation and

reporting techniques, for projects or activities that are potentially harmful to the coastal and marine environments and their living and non-living resources;

1.11 Improved co-ordination and co-operation among national agencies and international organisations, notably the International Maritime Organisation (IMO), the FAO, the Intergovernmental Oceanographic Commission and the UN Environment Programme, including through capacity building to improve global assessment and reporting and strengthen science-based decision making;

1.12 The incorporation of priorities from the 1995 Global Programme of Action for the Protection of the Marine Environment into national, regional and international policies and initiatives;

1.13 Establish ecosystem networks of marine protected areas, consistent with international law and based on scientific information by 2012 in our own waters and regions, and work with others to achieve the same in theirs;

1.14 For those of us who participate in the 1995 Code of Conduct for Responsible Fisheries of the FAO, promote responsible fisheries as embodied in this code.

2. We have agreed to take all necessary and appropriate steps to strengthen international maritime safety.

We will support IMO efforts, and will take the lead within the IMO in order to:

2.1 Work towards further accelerating the phasing out of single hulled tankers;

2.2 Address through appropriate measures the special risks posed by the carriage of the heaviest grades of oil in single hulled tankers;

2.3 Accelerate the introduction of a code in particular for flag States. As a first step, introduce a voluntary model audit scheme with the aim of enhancing the responsibilities of flag States for the effective implementation and control of IMO instruments and to enhance supervision over recognised organisations authorised by flag States;

2.4 Establish mandatory pilotage in narrow, restricted and congested waters in conformity with IMO rules and procedures. Relevant coastal States should also give consideration to the introduction, in such waters, of pilots' immediate reporting to the relevant authority of evident defects or deficiencies, and to other measures;

2.5 Accelerate the adoption of guidelines on places of refuge for vessels in distress;

2.6 Enhance compensation funds to the benefit of the victims of oil pollution and review the international compensation regime;

2.7 Support efforts to improve the training of seafarers, including mandatory minimum qualifications.

We have also agreed to intensive port State control inspections and to carry them out effectively, and to make publicly available details of any ships detained; to these ends, as appropriate, to request the relevant regional bodies, such as the Paris Memorandum and the Tokyo Memorandum, to update as soon as possible existing procedures and guidelines in this sphere.

We shall consider expanding existing potential for technical cooperation programmes, within the framework of the IMO Technical Co-operation Committee and Subcommittee on Flag State Implementation, for assisting countries in their efforts to increase maritime safety and pollution prevention, including the effective discharge of flag State obligations and adequate application of port State control procedures.

We are, in addition to efforts to improve the safety regimes for tankers, committed to act on the significant environmental threat posed by large cargo vessels and their bunkers and therefore encourage the adoption of liability provisions including, where appropriate, through the ratification of relevant international liability conventions, in particular the 2001 International Convention on Civil Liability for Bunker Oil Pollution Damage (Bunker Convention) and the 1996 International Convention on Liability and Compensation for Damage in Connection with the Carriage of Hazardous and Noxious Substances by Sea.

We will also support efforts within the International Labour Organisation to finalise a new consolidated convention on maritime labour standards and will seriously consider the ratification of this convention when adopted./.

TERRORISM, SECURITY AND POLITICAL ISSUES

NON-PROLIFERATION

This will be the session most eagerly watched by the media. Our primary objective should be to ensure that we get a statement from Evian which shows that the G8 has collectively put non-proliferation at the top of our security agenda.

It is important that anything we say is tough, substantive, and operational - not just a recitation of platitudes. The draft text will be finally negotiated in Evian. Putin has accepted the need to name the proliferators but will want the weakest possible formulation. You should argue strongly that our counter-proliferation policies must not just be theory: we must be prepared to put them into practice in the real world. Evian needs to get a clear message to North Koreans that their actions are wholly unacceptable, and to bring home to Iranians that they have a severe confidence-deficit to address about their nuclear ambitions. They must be more transparent and co-operate fully with IAEA.

Chirac is likely to lead Schroeder and Putin in arguing to weaken the part of statement explicitly saying that, if all else fails, there must be a place for direct action against those who threaten us with WMD. But to say anything less would deny ourselves an important tool and give great encouragement to proliferators. Of course, such action must be in accordance with international law.

Heads will endorse a paper on the security of radioactive sources. This is an important (US-led) initiative in countering the threat of these materials falling into the wrong hands and being used to make dirty bombs.

GLOBAL PARTNERSHIP

There has been good progress. This is a prime example of how countries can work together to tackle the threat posed by the proliferation of weapons of mass destruction. But the Russian approach, seen at Kananaskis, of pitting itself against the G7 remains. Putin is likely to demand that others increase the number of projects and focus on his priorities of chemical weapons and nuclear submarines. We are involved in both, and have just told the Russians that we are increasing our contribution to the former to \$100m. But you should remind Putin that this is a Partnership - each party's priorities are important.

UK has a broad portfolio of projects including making safe spent nuclear fuel, improving nuclear safety, helping former weapons scientists find sustainable employment, and helping to build a chemical weapons destruction facility.

COUNTER TERRORISM

Discussion is likely to focus on recent atrocities in Riyadh and Casablanca. Others are likely to look to Bush and you to lead this debate. We see this as an opportunity to put real pressure on Saudi to tackle extremists and better regulate against financing of terrorism.

You will be asked to endorse the formation of the Counter Terrorism Action Group. Involving G8 and other donors, as well as the IFIs and the CTC, we see this as a good opportunity to enhance cooperation and ensuring essential needs are met.

POLITICAL ISSUES

The French have put Iraq, Iran, North Korea, Near East (MEPP) and Afghanistan on the agenda. Separate briefing is provided.

NON-PROLIFERATION

NON-PROLIFERATION

- The proliferation of WMD poses a growing threat to us all. Together with the spread of extreme international terrorism it is the pre-eminent risk to international security of the 21st century.
- WMD technologies are increasingly available. New suppliers and potential suppliers are entering the market. The emergence of one new nuclear power in a region of tension could trigger a cascade. The multilateral regimes which have served us well over the past 30 years could unravel quite quickly if they are not reinforced now - and other action taken.
- This is a global challenge which requires a collective response. The G8 is not an implementing organisation. But we can together set a lead in raising international awareness of the threat, in presenting ideas and initiatives for counter-action; and in supporting sensible initiatives in other fora such as the IAEA. The set of Principles agreed last year at Kananaskis, though framed in a counter-terrorist context, remain a sound basis for action.
- We have a range of tools available to counter WMD proliferation. International treaties, inspection regimes such as those of the IAEA and OPCW, national and internationally-coordinated export controls, diplomatic and economic pressure, interception of illegal shipments and, in the last resort, direct action – which must include the possibility of military action if necessary and legally justified. Effective defences – including civil defence and crisis management – also have a part to play. So does co-operation to reduce the risks posed by the post-Cold War inheritance of sensitive materials and technologies – being addressed by our Global Partnership initiative.

- All these instruments are necessary; none is sufficient in itself. We would be foolish to discard any one. On the contrary, we should be working to strengthen them all. That is why we should be supporting proposals to increase the IAEA safeguards budget and promote more effective, targeted, security of dangerous radioactive sources worldwide.
- All proliferators pose a challenge to the international community, but our response must be tailored to each case. North Korea is not Iraq. Nor is Iran. We need to deploy the tools which are most effective in each case. We are trying to affect the proliferators' cost/benefit calculation – by raising the political and economic costs and reducing the perceived benefits of seeking WMD.
- (Only if appropriate after bilateral discussion with the US) We need to find new ways to keep this issue on the international agenda, deter proliferators and promote adherence to the Kananaskis Principles. New machinery under UN Security Council auspices, on the model of the Counter-Terrorist Committee we established after 9/11, could be a valuable tool. UK will share some concrete ideas with partners after the Summit.
- WMD proliferation does not take place in a vacuum. Most proliferators – in Korea, the Middle East, South Asia, are driven by genuine, if misguided, security concerns. If we are to be really effective in our counter-proliferation policies, we need to address the causes as well as the symptoms of the disease.

DRAFT 04 clean

G8 Evian Summit

Draft Statement on Non Proliferation of WMD

1. We recognise that the proliferation of weapons of mass destruction (WMD) and their means of delivery poses a growing danger to us all. Together with the spread of extreme international terrorism, it is the pre-eminent threat to international security.
2. This global challenge requires a multifaceted solution. We need to tackle it individually and collectively – working together and with other partners, including through relevant international institutions, in particular the United Nations Security Council.
3. We have a range of tools available to tackle this threat : international treaty regimes ; inspection mechanisms such as those of the International Atomic Energy Agency and Organization for the Prohibition of Chemical Weapons ; initiatives to eliminate WMD stocks such as the G8 Global Partnership ; national and internationally-co-ordinated export controls ; international co-operation and diplomatic efforts; and if necessary measures in accordance with Chapter VII of the United Nations' Charter.
4. While all of these instruments are necessary, none is sufficient by itself. Not all proliferation challenges require the same remedies . We need to deploy the tools which are most effective in each case. We remain committed to work with and strengthen them all and, where appropriate, to pursue their universalisation.
5. Last year, at Kananaskis, we endorsed a set of Principles to prevent the spread of WMD and materials of mass destruction to terrorists and those that harbor them. Since then, events in the world have underscored the relevance of those Principles and the urgency of implementing them.
6. We reaffirm our commitment to the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) and we urge all states which have not yet joined the Treaty to do so. We consider the NPT to be an essential instrument to maintain international peace and security and a cornerstone of nuclear non-proliferation.
7. North Korea's nuclear uranium enrichment and plutonium production programs represent a grave challenge to the non-proliferation regime and are a breach of North Korea's international obligations. We strongly urge North Korea to visibly, verifiably and irreversibly dismantle its nuclear weapons program in the framework of a comprehensive and peaceful solution. We welcome the multilateral negotiating process initiated in Beijing and encourage its resumption.
8. We express our concern about the advanced state of Iran's nuclear program. We stress the importance of Iran's full compliance with its obligation under the Nuclear Non-Proliferation Treaty. We urge Iran to help restore confidence by signing and implementing an IAEA Additional Protocol without delay or conditions. We offer our strongest support to comprehensive IAEA examination of this country's nuclear program.
9. We call on all States to establish effective procedures and machinery to control the transfer of materials, technology and expertise which may contribute to the development, production or use of WMD. We agree, individually and collectively, to give support to this end where it is most needed.
10. We likewise call on all States to establish and implement effective national standards for secure storage and handling of materials with a view to effectively prevent proliferation and eliminate the risk that terrorists gain access to such materials. We will support work in the relevant specialist fora to this end.



**Statement by G8 Heads of State and Government at Evian
on Radioactive Sources Security**

At Kananaskis, we, the Heads of State and Government of the eight major industrialized democracies and the Representatives of the European Union, endorsed six principles and launched the Global Partnership to prevent terrorists or those that harbor them from gaining access to weapons and materials of mass destruction. Today, at Evian, in another concrete demonstration of our commitment to these principles, we have agreed to improve the security of radioactive materials. Radioactive sources are found in everyday life and have beneficial applications in medicine, agriculture, research, and industry. Certain poorly protected sources pose a real threat because they could be manipulated by terrorists to construct a radiological dispersion device or a « dirty bomb ». We commit ourselves to employing high standards that reduce the vulnerability of radioactive sources to acquisition by terrorists. We urge all countries to take measures to strengthen regulatory control of high-risk sources within their territories. In that context, we welcome the initiatives taken by G8 countries and the European Union aimed at developing an appropriate legal framework to this end.

We welcome the findings of the 2003 Conference on Security of Radioactive Sources. We also recognize the essential role of the International Atomic Energy Agency in combating radiological terrorism and endorse its efforts to establish international standards that ensure the long term security and control of high-risk radioactive sources. We have decided to undertake the following actions to reinforce and complement the IAEA's activities as well as to ensure the unavailability of radioactive sources to terrorists. The Group of Eight will :

- Identify elements of the IAEA's *Code of conduct on the Safety and Security of Radioactive Sources* that are of the greatest relevance to preventing terrorists or those that harbour them from gaining access to high-risk radioactive sources.
- Consider to develop recommendations on how those elements could be applied at the national level. Those elements may include, as necessary :
 - national registers for tracking sources ;
 - programs for recovering orphan sources ;
 - national Regulations limiting export of high-risk sources to States that have effective controls ;
 - notification requirements to recipient States of exports ;
 - national measures to penalise theft or misuse of radioactive sources ;
 - national physical protection measures and access controls ; and
 - national laws to ensure the safe and secure disposal of high-risk spent sealed sources.
- Work towards agreement on these recommendations by the time of our next meeting in 2004, and their further implementation.
- Encourage all countries to strengthen controls on radioactive sources and observe the *Code of conduct* when the revisions to it have been completed and approved.
- Enhance international cooperation on locating, recovering, and securing high-risk radioactive sources.
- Support and advance the IAEA's programs to improve the security of radioactive sources, including considering the provision of additional resources as necessary to the Nuclear Security Fund in order to promote the implementation of the Code and the recommendations for its application.
- In conjunction with the IAEA, convene an international conference in 2005, in France, to further discuss and raise awareness of the radioactive source problem, and to assess progress in implementing the findings of the 2003 International Conference on Security of Radioactive Sources.

We will continue to work on the issue and will review the implementation of the plan of action, as set out in the technical annex to this Statement, at the 2004 G8 Summit./.

COUNTER TERRORISM

21 May 2003

BUILDING INTERNATIONAL POLITICAL WILL AND CAPACITY
TO COMBAT TERRORISM:
A G8 ACTION PLAN

Overview: Critical Need for Capacity Building

The international community has been united in fighting against international terrorism since the terrorist attacks in the United States on September 11, 2001. The threat of terrorism still, however, remains serious as has been seen in a series of terrorist incidents including in Indonesia, Kenya, Morocco, Pakistan, the Philippines, Russia, Saudi Arabia, Tunisia and Yemen over the past year.

For the prevention and eradication of terrorism, since 9/11 the G8 and other countries have successfully strengthened their own counter-terrorism measures. The Coalition operation in Afghanistan has also accomplished certain results by arresting those related to Al Qaeda and destroying most of its training camps. However, the remnants of Al Qaeda are scattered all over the world and still maintain a global network. In order to disrupt the network and secure safety in the international community, it is important to categorically deny terrorists a safe haven anywhere. For this purpose it is essential for the G8 to build stronger international will and to engage in outreach activities towards other countries in the area of counter-terrorism co-operation, and at the same time to provide capacity building assistance to those countries with insufficient capacity to fight terrorism.

Each G8 member has so far encouraged, based on its own priorities, countries to enhance counter-terrorism measures and has conducted capacity building assistance. Now it is necessary for the G8 to have a common plan for counter-terrorism outreach activities and capacity building assistance with a view to ensuring that assistance by the G8 be selectively and effectively provided to those areas in which countries need assistance most and in order to avoid duplication of assistance by the G8 as much as possible.

G8 Strategy for Capacity Building

Developing a successful capacity to tackle terrorism requires a focus on three main areas of counter-terrorism activity: first, to deny terrorists the means to commit terrorist acts (for example, to prevent the financing of terrorism, and denial of false documents and weapons); second, to deny terrorists a safe haven and ensure that terrorists are prosecuted and/or extradited (for example to accelerate the conclusion of counter-terrorism conventions and protocols, to deny terrorists entry into a country and to reinforce law-enforcement agencies); and third, to overcome vulnerability to terrorism (for example to enhance domestic security measures and capability for crisis management and consequence management). For the peace and security of the world, it is essential for all countries, including developing countries, to enhance such capability. Such activity should be seen as complementary to initiatives to strengthen good governance, the rule of law, human rights and judicial reform, and to the analysis of factors which contribute to the emergence of terrorism.

As a means for delivering capacity building assistance, we may receive trainees, dispatch specialists, or provide equipment as requested by recipient countries. From this viewpoint, the following are broad areas for potential capacity building assistance, and it is important for each G8 member to make a contribution according to its own ability by making the most of its own know-how. In each area, efforts to ensure training and assistance to implement laws, procedures and regulations will be pursued. The areas for capacity building assistance as outlined by the United Nations Security Council's Counter-Terrorism Committee (CTC) include:

- Counter-Terrorism Legislation – assistance in developing legislation for domestic implementation of conventions, protocols and resolutions in relation to terrorist activity;
- Financial Law and Practice – assistance in drafting and enforcing legislation, regulations and codes of practice criminalising the financing of terrorism and the seizure and freezing of assets
- Customs Law and Practice – assistance in drafting and enforcing legislation on the establishment of border controls;
- Immigration Law and Practice – assistance in drafting and enforcing legislation on immigration controls including standards for travel documentation and the granting of asylum/refugee status;
- Extradition Law and Practice – assistance in drafting of legislation implementing bilateral and multilateral co-operation on extradition;
- Police and Law Enforcement – development of procedures for counter-terrorism law enforcement and the provision of assistance to national police forces to counter terrorism as well as illicit drug trafficking and organised crime as they relate to counter-terrorism;
- Export Control and Illegal Arms Trafficking – assistance in the drafting of legislation and development of procedures preventing the access by terrorists to weapons;
- Domestic Security Measures – assistance in the development and implementation of adequate crisis and consequence management techniques, aviation and transportation security measures and protection of critical infrastructure.

G8 Action Plan: Building International Political Will and Capacity to Combat Terrorism

1. The G8 will support the UN Security Council's Counter-Terrorism Committee (CTC) by:
 - Ensuring that the CTC is sufficiently staffed;
 - Prioritising countries, regions and fields in order to co-ordinate the assistance necessary to fulfil obligations under UNSCR 1373;
 - Outlining specific ways G8 members can support and encourage countries to fulfil their UNSCR 1373 obligations;
 - Working with the CTC in identifying relevant international best practices, codes and standards;
 - Supporting steps by our Finance Ministers to co-ordinate counter-terrorism financing measures and to work with the Financial Action Task Force and the international financial institutions (IFIs) to address terrorist financing, capacity building and other counter-terrorism objectives in their assessment and assistance initiatives.

2. To this end, the G8 will create a Counter-Terrorism Action Group (CTAG):
 - The G8 will create a Counter-Terrorism Action Group, to focus on building political will, co-ordinating capacity building assistance where necessary. Other states, mainly donors, will be invited to join the group. A representative of the CTC will be invited to CTAG meetings. Representatives from relevant UN bodies, IFIs and other regional and functional organisations will be invited to relevant meetings (first meeting to be held by July 15);
 - CTAG members will provide funding, expertise or training facilities. They will focus their activities on areas and countries where they have expertise.

3. The CTAG will analyse and prioritise needs, and expand counter-terrorism capacity building assistance by:
 - Reviewing requests, analysing the requirements and prioritising needs for capacity building assistance (by the second CTAG meeting to be held by October 15);
 - Exchanging information as far as possible on the needs assessments missions CTAG members have carried out;
 - Holding co-ordination meetings between CTAG members missions in priority recipient countries, involving host government and local officials responsible for capacity-building assistance;
 - Seeking to increase counter-terrorism capacity building assistance and co-ordination (by the 2004 Summit);
 - Providing reports bi-annually of current and planned capacity building assistance which will then be shared with the CTC;
 - Identifying cases of successful implementation of counter-terrorism capacity building efforts to share best practice and lessons learned (by the second CTAG meeting to be held by October 15);
 - Facilitating joint initiatives by members in some countries.

4. The CTAG will expand regional assistance by:
 - Encouraging regional assistance programmes including delivery through regional and donor sponsored training centres (by the 2004 Summit);
 - Sharing available information on counter-terrorism curricula and best training practices (by the first CTAG meeting no later than July 15) and developing key areas of focus that various regional training centres could address (by the second CTAG meeting to be held by October 15);
 - Seeking to address unmet regional assistance needs (by the 2004 Summit).
5. The G8 will increase outreach efforts to third countries and regional and functional organisations by:
 - Continuing to implement G8 demarches to countries that are not parties to all international counter-terrorism conventions and protocols to urge them to become parties and accelerate domestic implementation of required measures;
 - Conducting outreach bilaterally and jointly through experts meetings and seminars to share benefits of concluding conventions and impart technical knowledge for implementation (plan to be presented by CTAG first meeting);
 - Building upon the March 6, 2003 meeting between the CTC and regional organisations, identify specific roles and responsibilities for regional and functional organisations that emphasise their strengths while avoiding duplication of effort;
 - Requesting regional and functional organisations to become more active in encouraging UNSCR 1373 implementation by their members;
 - Encouraging regional and functional organisations to develop best practices, codes or standards towards implementing UNSCR 1373 requirements;
 - Implementing G8 outreach to the IFIs and functional organisations such as the World Customs Organisation, the International Civil Aviation Organisation and the International Maritime Organisation to discuss areas of mutual interest in the funding and provision of counter-terrorism capacity building assistance.

Follow-up

- The G8 Presidency will produce a report for the 2004 Summit./.

**TRANSPORT SECURITY /
MANPADS**

**G8 CO-OPERATIVE ACTION TO ENHANCE TRANSPORT SECURITY AND
CONTROL OF MAN-PORTABLE AIR DEFENCE SYSTEMS (MANPADS)**

We, the G8 leaders, are determined to strengthen our joint efforts to curb terrorist threats against mass transportation. We shall continue to implement the Action Plan we agreed at Kananaskis to ensure safe, secure, efficient and reliable transportation world-wide. We have made important progress in implementing the plan and also have taken a number of new measures.

The scope of our endeavours in this field covers five areas:

1. Manpads
2. Air transport
3. People
4. Containers
5. Sea transport

1. CONTROL OF MANPADS

- 1.1 At the Birmingham Summit in 1998, we recognised the threat posed to civil aviation by the criminal use of Man-Portable Air Defence Systems (Manpads) and called for further work to be done to address this problem. At Kananaskis, we agreed to promote transport security in the light of the terrorist attacks of 11 September 2001.
- 1.2 Today, at Evian, we reiterate our deep concern about the threat posed to civil aviation by Manpads, especially in the hands of terrorists or States that harbour them.
- 1.3 Manpads are surface-to-air missile systems specially designed to be carried and fired by a single individual. Manpads are portable and easily concealed, yet capable of potentially catastrophic destruction. We are therefore implementing national measures to combat such illegal use of Manpads, and will encourage other States to do so as well.
- 1.4 Given the increasing number of Manpads in world-wide circulation, we commit ourselves to reduce their proliferation and call upon all countries to strengthen control of their Manpads stockpiles.
- 1.5 In the framework of the Wassenaar Arrangement, "Elements for the Export Controls of Manpads" were agreed by all 33 participating States in 2000. This was a valuable step forward. We undertake to promote the application of the principles defined in these "Elements" by a larger number of States.
- 1.6 In addition, we agree to implement the following steps to prevent the acquisition of Manpads by terrorists:
 - Provision of assistance and technical expertise for the collection, secure stockpile management and destruction of Manpads surplus to national security requirements;
 - To adopt strict national export controls on Manpads and their essential components;
 - To ensure strong national regulation of production, transfer and brokering;

- To ban transfers of Manpads to non-state end-users; Manpads should only be exported to foreign governments or to agents authorised by a government;
 - To exchange information on uncooperative countries and entities;
 - To examine the feasibility of development for new Manpads of specific technical performance or launch control features that preclude their unauthorised use;
 - To encourage action in the International Civil Aviation Organisation (ICAO) Aviation Security (AVSEC) Working Group on Manpads.
- 1.7 We agree to exchange information on national measures related to the implementation of these steps by December 2003. We will review progress at our next meeting in 2004.

2. AIR TRANSPORT

2.1 Measures already being implemented:

- Agreement to implement by November 2003 the new international standards for the installation of flight deck doors, as adopted by ICAO;
- Continued support for the implementation of the ICAO Universal Security Audit Programme of all ICAO Member States. First audits have been conducted;
- Increased co-operation on aviation security between us, including implementation of this Action Plan, using ICAO and other relevant international organisations. This will strengthen overall standards across the G8.

2.2 Enhance the air security action plan and develop effective aviation security quality control systems world-wide:

- To review security procedures in place to ensure that staff do not pose a threat to aviation, including, in particular, by examining the feasibility and benefits of ensuring that all staff and items carried are screened when they enter critical parts of security-restricted areas of airports;
- To encourage further work within ICAO to review and adopt the measures related to an enhanced threat level for the standard security procedures;
- To encourage each of us to adopt and implement as soon as possible the harmonised and supplementary provisions on flight-deck door locking issued by the ICAO. Each of us intends to apply these requirements both to international and domestic flights;
- To explore experience gained, *inter alia*, from installation of on-board TV monitoring systems to control the security inside passenger aircraft;
- To co-ordinate aviation security capacity building efforts for non-G8 countries and to lead in donating funds and advisors to ICAO's aviation security audit programme (AVSEC).

3. PEOPLE

- 3.1 We have developed guidelines for the implementation of international standards governing the use of biometrics to verify the identity of travellers and have forwarded them to the ICAO. We endorse the "G8 Roma and Lyon Groups Statement on Biometric Applications for International Travel" and are resolved in our continued support for the ongoing work within ICAO.
- 3.2 We also agree to develop a secure, verifiable seafarer identity document at the International Labour Organisation (ILO) and are working together towards agreeing on seafarers and port workers security requirements compatible with trade facilitation at the International Maritime Organisation (IMO) and the ILO.
- 3.3 We are working together to accelerate the use of the joint World Customs Organisation (WCO) / ICAO / International Air Transport Association (IATA) guidelines as a global standard for advance passenger information, and will work to ensure that other necessary requirements for passenger information are developed to a global standard.

4. CONTAINER SECURITY

- 4.1 We are working together to reinforce container security arrangements generally and to develop specifically, within the WCO, joint standards and guidelines for electronic transmission of customs data for cargo and a standardised set of data elements to identify high-risk cargo. We are also working together at the same time to combine security needs with trade facilitation.
- 4.2 Our active support of pilot projects that model an integrated container security regime contributed to the rapid expansion of the Container Security Initiative (CSI), which is now operational in ten major international ports, seven of which are in G8 countries. Our continued support of CSI will encourage rapidly expanding participation by other ports, further enhancing global container security. As international security is only as effective as its weakest link, we support international co-operation in the WCO to ensure a more co-ordinated approach for all ports handling international cargo.

5. SEA TRANSPORT

- 5.1 At Kananaskis, we agreed to support in the IMO amendments to the International Convention for the Safety of Life at Sea that require mandatory ship security plans, on-board ship security officers, mandatory port facility security plans and port facility security assessments for relevant ports serving ships engaged on international voyages, to be included during the development of an International Ship and Port Facility Security Code by July 2004.
- 5.2 In December 2002, the IMO adopted these amendments which also provide for the fitting of Automatic Identification Systems on ships by 31 December 2004. We support the implementation of measures in this sphere as agreed at our 2002 Summit./.

GLOBAL PARTNERSHIP

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

The Global Partnership Against the Spread of Weapons and Materials of Mass Destruction, which we launched last year at the Kananaskis Summit, has made significant progress over the past year toward realising the objective of preventing terrorists, or those who harbour them, from acquiring or developing nuclear, chemical, radiological, and biological weapons; missiles; and related materials, equipment, and technology.

With our determined commitment, significant progress has been made:

- Substantial sums have already been pledged by Partners towards their Kananaskis commitment to raise up to \$20 billion over ten years;
- The Russian government has made welcomed decisions to ensure implementation of guidelines, in particular full exemption of assistance from taxation, duties and other charges. Other guidelines have also been intensively addressed;
- The recent conclusion of the Multilateral Nuclear Environment Programme for the Russian Federation has demonstrated substantial progress in translating the Global Partnership initiative into concrete actions;
- All Partners have actively engaged in determining co-operation projects to be undertaken, and some significant projects have already been launched or expanded, in accordance with our priorities identified in Kananaskis;
- Outreach activities have been undertaken to invite and facilitate non-G8 countries to participate and contribute, as a result of which [*add names of countries that have sent letters*] have indicated their interest in joining the Global Partnership as donors.

We commit ourselves to an active programme to continue the implementation of the initiative and to achieve substantial progress by the next Summit. Our goals are :

- To pursue the universal adoption of the non-proliferation principles;
- To reach our Kananaskis commitment of raising up to \$20 billion over ten years through contributions from new donors or additional pledges from Partners;
- To significantly expand project activities, building upon preparatory work to establish implementing frameworks and to develop plans for project activities, as well as to sustain steady progress in projects already underway. We will continue to review progress in initiation and implementation of projects over the coming year, and to oversee co-ordination of projects, in order to review priorities, avoid gaps and overlaps, and assess consistency of projects with international security objectives, in accordance with our priorities;
- To resolve all outstanding implementation challenges and to review the implementation of all guidelines in practice, keeping in mind the need for uniform treatment of Partners, reflecting our co-operative approach;
- To expand participation in the Global Partnership to interested non-G8 donor countries that are willing to adopt the Kananaskis documents. While still focusing on projects in Russia, we mandate the Chair to enter into preliminary discussions with new or current recipient countries including those of the former Soviet Union that are prepared to adopt the Kananaskis documents, as the Ukraine has already done;
- To inform other organisations, parliamentary representatives, and publics of the importance of the Global Partnership./.

IRAN

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IRAN

Background on Direction of UK Policy

1. Engagement with Iran has not yet delivered convincingly on our key concerns. Iran continues to develop WMD, to support (MEPP) terrorism, and not to cooperate with us fully against Al Qaeda. Our existing policy of (relatively gentle) engagement has so far failed to make enough progress in tackling these issues. At the same time, the US is growing increasingly impatient, and favours a more confrontational approach, preferably isolation. We do not think isolation will work. But if the US presses this hard, we risk an EU/US clash over Iran.
2. So we have a double reason for bringing EU and US policies closer together. This should enable us to exert more effective pressure on Iranian policies of concern, while maintaining broadly constructive Iranian policies on Iraq and Afghanistan, and keeping the US on board. This means persuading the US that there is a credible alternative to isolation.
3. We intend to ratchet up EU pressure on Iran. We are proposing that the EU warn the Iranians privately that we are rigorously reviewing our benchmarks, and set a clear, short deadline (eg two months) for action on key concerns, without which the EU would suspend the current Trade and Cooperation Agreement (TCA) negotiations and reconsider the benefits of political dialogue. A sharp shock now, reasonably early in the TCA process, might act as a salutary warning to the Iranians that, as we must listen to them, they must take our concerns seriously.
4. A policy of reinforced critical engagement, rather than isolation, is more likely to produce the results we want. At present there is a fundamental difference of analysis between the UK (and EU) and the US. We continue to see a genuine and deep divide between reformers and conservatives in Iran. We believe that engagement with reformers has done much to foster change, even if progress has been slow, and delivery only partial. We have seen (relatively) good behaviour on Afghanistan and Iraq; cooperation on drugs, and a country fundamentally more liberal than it was six years ago. We have deliberately avoided engagement with unelected conservatives like Rafsanjani. The problem is that reform has not gathered momentum as we hoped. On the contrary, it is blocked by hard-liners around Khamenei.
5. If the EU and the US attempt to pursue their policies separately, neither US isolation nor EU engagement will produce change in Iran. For the Iranians, the current EU dialogue remains an attractive way out of their dilemma, neutralising US pressure. It is easier for them to be seen making concessions to the EU in return for rewards (the TCA) than in the face of US threats. But EU engagement will not deliver results on issues of concern until Iran realises that we are serious about conditionality. And only when they cease to believe that an ineffectual EU will save them from the US, will US isolation and threats begin to produce results. This suggests the need for a coordinated good cop/bad cop approach.

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IRAQ

IRAQ – ECONOMIC AND FINANCING ISSUES

Objective

- Encourage positive G8 participation in Iraq's economic reconstruction.

References

(none)

Points to Make

- UNSCR called for IMF and World Bank to be involved in Iraqi reconstruction. The UK looks forward to their early and full participation.
- We need a fair and sustainable solution to Iraq's debt problems, reflecting the Iraqi people's substantial needs and limited resources. Most effective way to achieve this is through IMF and Paris Club.
- Welcome the UNSCR which establishes an interim framework for the management of Iraq's resources. Important that we get this structure right, meeting the UNSCR's commitment to transparency and in using Iraq's resources for the benefit of the Iraqi people.

Handling

IMF/World Bank

1. The lack of a UN resolution has hampered preparations in both institutions, to date. But even before the passage of UNSCR 1483, the IMF was looking willing to do some fact finding, and the G7 had given the World Bank a strong message that it should do the same. The passage of the UNSCR will help speed this up, although we understand some World Bank staff are still cautious and will need continual encouragement.

Debt

2. It is possible that the US will seek a more formal debt moratorium, as US Treasury Secretary Snow did in the discussion at Deauville, without securing a mention in the communique. This would not a problem for the UK, as it simply reflects the current reality. But nor is it necessary, and we think it will be hard for others to agree language, particularly Russia who are the largest creditor and remain nervous.

Background

IFI involvement

3. The International Financial Institutions (IFIs) need to be strongly involved in Iraqi reconstruction. One role will be via their presence on the International Advisory and Monitoring Board (IAMB)
4. But there are other key roles to play. In particular, the IMF will need to:
 - gather facts and figures on Iraq's economy – there are few at present;
 - provide technical assistance to ORHA on managing the economy;
 - determine what Iraq owes to who, and how sustainable its debts are;
 - eventually, lend to Iraq to meet any balance of payments need, making possible a Paris Club debt deal.
5. And the World Bank will play an equally key role by:
 - undertaking an assessment of Iraq's reconstruction needs;
 - convening a donor conference to help meet these needs;
 - possibly running a trust fund to control these donations; and
 - potentially lending to reconstruction projects.
6. The lack of a UN resolution has hampered preparations in both institutions, to date. But even before the passage of UNSCR 1483, the IMF was looking willing to do some fact finding, and the G7 had given the World Bank a strong message that it should do the same. The passage of the UNSCR will help speed this up, although we understand some Bank staff are still cautious and will need continual encouragement.

Iraq's debts

7. Iraq is understood to owe around \$85bn in conventional debt, plus a disputed further \$30bn to the Gulf States. G7 finance ministers agreed at the IMF Spring Meetings in April that Iraq's debts should be dealt with through the conventional IMF and Paris Club route (Russia signed up through the IMFC statement). This was reinforced in the UN resolution which "welcomes the readiness of creditors, including those of the Paris Club, to seek a solution to Iraq's sovereign debt problems", protects oil revenues from seizure until Dec 2007, and provides a transparent route for settlement of UN compensation claims.
8. We expect the debt issue to be dealt with through an IMF assessment of needs and resources, leading in time to an IMF programme and full debt restructuring. But Iraq's capacity to pay in the short to medium-term is clearly very low, and their debt may well be unsustainable in the long run. It is possible that the US will seek a more formal debt moratorium, as US Treasury Secretary Snow did in the discussion at Deauville, without securing a mention in the communique. This would not be a problem for the UK, as it simply reflects the current reality. But nor

is it necessary, and we think it will be hard for others to agree language, particularly Russia who are the largest creditor and remain nervous.

Development Fund for Iraq

9. UNSCR 1483 noted the establishment of a 'Development Fund for Iraq' (DFI) to be held in the Iraqi Central Bank. Finance for the DFI will come from: Iraqi oil revenues currently held in UN escrow accounts, future oil export revenues and unfrozen financial assets. The US has already established an account in the name of the Iraqi Central Bank at the New York Federal Reserve (which it plans to transfer to the Iraqi Central Bank as soon as possible). The account has already received a \$1bn transfer from the Iraq escrow account at the UN and could receive as much as another \$1bn in unfrozen assets very shortly.
10. The UNSCR stipulates that funds in the DFI will be 'disbursed at the direction of the Authority, in consultation with the Iraqi interim administration'. This makes the US and UK jointly responsible for the management of the funds in the DFI – which is, in essence, the early stages of an Iraqi budget.
11. The resolution also states that funds from the DFI shall be used 'in a transparent manner to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, and for the costs of Iraqi civilian administration and for other purposes benefiting the people of Iraq'. And it notes the establishment of an International Advisory and Monitoring Board (IAMB) with representatives from the UN, World Bank, IMF and Arab Fund for Social and Economic Development.
12. We are engaging the US Administration to develop modalities for the management of the revenues in the DFI, including reporting lines within the Authority and terms of reference for the DFI and for the Advisory Board.

Pre-Donor Conference

13. The UN will this week announce a meeting on 'Iraq Reconstruction' to be held in New York and co-convened by the UN, the World Bank and the Coalition. The meeting will take place on 24th June, immediately following the UN's Flash Appeal update meeting.
14. The meeting is being held at the instigation of the US Administration and the aim is to build broad international support for, and participation in, the economic reconstruction of Iraq. In the absence of a comprehensive needs assessment for Iraq, this meeting will not announce specific bilateral donor pledges or commitments by the international financial institutions. Instead it is an exercise in building political support from a wide range of countries and will help lay the groundwork for a more formal donors conference, to be held later in the year (probably in September).

15. The precise arrangements for the meeting (participants, agenda etc) have yet to be confirmed and we are engaging with the US Administration and other coalition partners on these issues.

Frozen assets

16. UNSCR 1483 requires that the funds, financial assets or economic resources of: (1) the former Government of Iraq; and (2) Saddam Hussein, other senior officials of the former Iraqi regime and their immediate family members; are frozen and, unless they are the subject of a prior claim, are transferred to the Iraqi Development Fund. Work is currently underway to implement the provisions of the UNSCR into domestic law. The UK has maintained a freeze on all Iraqi funds in the UK to ensure that funds that may be the subject of the new sanctions regime are not removed before the new resolution can be enacted.
17. There are currently some \$650m of Iraqi funds held in the UK and, of that total, around \$455m belongs to the Government of Iraq, although there is an expectation that much of this total will be the subject of prior claims. It is not clear at the moment how much will remain – and thus be transferred to the DFI - once the claims are settled.

AFGHANISTAN

AFGHANISTAN**Objective**

- Reaffirm UK's commitment to Afghanistan, highlighting deployment of UK PRT to Mazar-e-Sharif in June and encourage lead SSR nation participation;
- Underline importance of reform of Afghanistan's security institutions so DDR can get under way;
- Welcome NATO proposals for increased assistance to ISAF;

Handling

1. The murder of an ICRC employee on 27 March in the Kandahar, attacks on ISAF and increased military activity in the south has shown how fragile the security situation is. But none present are likely to call for ISAF expansion.
2. The UK will lead a PRT in Mazar-e-Sharif from the end of June. Other countries have been slow to respond to the US request to contribute to PRTs. But Fischer has approved German plans to offer a police component to the UK PRT. Germany is also interested in the idea of jointly leading one of the other PRTs. Welcoming the proposed attachment of German police to the UK PRT and encouraging the Germans to deploy their own PRT could help galvanise German planning. We would also like Italian participation (lead on the judicial sector).
3. Japan has stressed the need for neutral verification of the disarmament process. The US does not want to use either newly trained Afghan National Army units or PRTs for this. We have some sympathy.

BackgroundSecurity

4. The security situation in Afghanistan remains fragile. There is evidence of former Taliban and other extremist elements regrouping and crossing into Afghanistan from Pakistan. Karzai raised concerns over Pakistani interference with Musharraf when he visited Islamabad recently, and appears to have been satisfied with the assurances he received that any such interference would be dealt with. A trilateral intelligence commission (Afghan NDS/ISI/CIA) has been established to discuss border security issues. Rival warlords continue to engage in low-level skirmishing in parts of the country, and Afghan police forces are ill-equipped to counter the criminal threat.

Provincial Reconstruction Teams

5. The deployment of Provincial Reconstruction Teams (PRTs) in eight regional locations should help to improve the security environment. The UK will lead the Mazar-e-Sharif PRT from July. We have invited SSR lead nations to contribute. We would particularly welcome the involvement of Germany as lead nation for police reform. We understand that the Germans are also considering leading a PRT, possibly in Herat.

NATO/ISAF

6. ISAF will be brought under what amounts to NATO command and control (although without a NATO flag) from August. Following comments by COMISAF and Kofi Annan, we are considering the scope for making better use of ISAF's (and NATO's) resources in improving security beyond Kabul. This is being driven by the urgent need to make faster progress on (and restore momentum to) the Bonn Process so as to ensure the achievements of the past 18 months are not undone. But thinking on this is at an early stage and the priority remains completing decision-making on the form of ISAF under enhanced NATO support. Any ISAF activity beyond Kabul and the surrounding area would of course require changes to the current UN mandate under which ISAF operates.

Demobilisation, Disarmament and Reintegration

7. Progress on security sector reform, and particularly Demobilisation, Disarmament and Reintegration (DDR) has been slow, with regional leaders reluctant to surrender their arms and militia. Panjshiri obstructionism over reform of the Ministry of Defence, and their effective monopoly over Afghanistan's security apparatus, have further hindered the DDR process. The central security institutions that will control DDR are dominated by the Panjshiris, and are not seen as neutral.
8. Japan, which leads jointly with the UN on DDR, plans to start implementing DDR in June in 6 pilot locations. But for this to work, the mobile disarmament units must be seen as neutral, and there needs to be international verification (ideally UNMOs or other international observers). There also needs to be a deterrent presence: either the PRTs, an expanded ISAF or the ANA. US-led efforts to train up a new, multi-ethnic army are progressing but the US is not keen to involve the newly trained units in DDR activities.

Political Process

9. On the political track, most of the Bonn targets have so far been met, although difficult challenges lie ahead in agreeing a constitution (a Constitutional Loya Jirga (CLJ) is planned for October 2003) and preparing for elections (due by June 2004). Continued international engagement will be vital in the months ahead.

Reconstruction

10. The UK has been consistent in its long-term commitment to Afghanistan. At Tokyo in January 2002, the UK committed £200 million over five years. We have already spent £170m on reconstruction and humanitarian aid since September 2001. The reconstruction dividend has been slow to make its presence felt in the regions, but major infrastructure projects are now getting under way. We have committed to provide an additional £10 million to the Afghan Reconstruction Trust Fund for the 2003-04 budget, conditional on progress on civil service reform. DfID are providing assistance for public administration reform to ensure these benchmarks can be achieved. We are urging other donors to adopt this constructive approach.

AFGHANISTAN - DRUGS

Objective

- To ensure that tackling drugs in Afghanistan remains a G8 priority and to encourage G8 partners to step up assistance in implementing the Afghan National Drugs Strategy.

Handling

1. The G8 endorsed the UK's strategy for eliminating drugs in Afghanistan at the Kananaskis summit in 2002 but the extent of our partners' commitment to our approach differs. The US continues to be a keen supporter of both the UK's lead role and the need for the G8 to pioneer security sector reform in Afghanistan.. We are also working closely with **Germany** (leading on police reform) although their over-protectiveness of their relationship with the Afghan Interior Ministry has at times hindered our efforts to build up Afghan drug law enforcement. **France** superficially stepped up their engagement by hosting a G8 Afghanistan drugs trafficking conference in May but their practical engagement on the ground is minimal despite indications they would take on some activities, eg building up Afghan forensic laboratories. **Russia** has been the most vociferous advocate of action to tackle drugs in Afghanistan. But their interventions are driven by a domestic agenda (drug addiction in Russia is spiralling) and rarely rise above aimless protestations that the international community should do more. Their main objective is to get donors to spend more on reinforcing drug control agencies in Central Asia to protect Russia's vulnerable underbelly from the traffickers.

Background

2. Since April 2002, the UK has co-ordinated international efforts to help Afghanistan rid itself of drugs. In consultation with other donors, key international agencies and the Afghan authorities, the UK has drawn up a comprehensive long-term strategy and action plan. Our overall objective is to contribute to the elimination of opium poppy cultivation by 2013. Key elements from the UK strategy have subsequently been incorporated into the Afghan Transitional Administration's (ATA) own National Drugs Strategy adopted in May 2003. The UK approach recognises that law enforcement, alternative livelihoods, institution building and demand reduction are inter-related. We have developed a co-ordinated programme of activity in these key areas which we intend to implement in co-operation with the ATA and other key partners. An enhanced UK drugs team will be in Kabul by the end of 2003 to advise those Afghan institutions responsible for implementation of the strategy and to co-ordinate international counter-narcotics interventions. They will be backed by significant financial resources. The UK is planning to commit £155m over ten years, 50% of the estimated resource requirement.

3. Some G8 partners are already assisting with implementation. The US is donating 60 million dollars to support drug control measures. We intend to step up our operational co-operation with the Americans by attaching HMCE officers to the US-led PRT in Kandahar where they will help set up a regional Drug Control Unit. We will continue to work closely with Germany to build up Afghan drug law enforcement capacity. But others could provide more concrete assistance. The UK will host a working meeting in July 2003, probably in Kabul, to prioritise counter-narcotics activities and determine how they should be delivered. We hope this event will encourage partners to take on responsibility for delivering particular areas of the implementation plan.

MEPP

MEPP**Objective**

- To emphasise the need to keep pressure on both parties to rigorously implement phase I of the roadmap

Key Messages:

- Welcome Israel's acceptance of the roadmap. Need continued US and international pressure to keep momentum going, restrict Israeli unpicking and to ensure the parties implement it. Monitoring will play an important role and we are willing to commit resources to it.
- Welcome second meeting between Sharon and Abbas and Bush's personal engagement next week at the Summit in Aqaba.
- Should not allow Israel to veto contact with Arafat, neither should this become a big deal.

Background

1. The G8 should limit itself to supporting other international efforts. At this stage it has no direct role in the MEPP. **G8 members** support the Roadmap as the way forward on the MEPP and believe there is now a narrow window of opportunity for the international community to resolve the problem.
- **Bush** will meet Sharon and Abbas on 4 June in Aqaba, provided that the parties continue to honour their commitments. The US will continue to act as the engine for the Quartet keeping partners briefed on developments and Powell is likely to suggest a Quartet Ministerial towards the end of June. US plans for a Special Envoy and monitoring fall short of what is likely to be required.
 - **Japanese** Foreign Minister, Kawaguchi, visited the region 27- 30 April. She met Abu Mazen and Shalom. Sharon refused to meet her as she met Arafat. Japan continues to seek a political role to match its substantial contribution of aid.
 - **Villepin** visit to the region from 25-26 May had good atmospherics but was short on MEPP substance. He met Shalom, Arafat and Abbas.
 - **Germany** wants the EU to step up its relations with Israel lest Israel turn exclusively to the US for support.
 - **Russia** has not been active on the MEPP recently. Special Envoy, Vdovin, makes frequent visits to the region but Russia's real influence is limited, despite membership of the Quartet.
 - **Canadian** Foreign Minister, Graham, wants to visit the region soon, but is hesitating due to the problems over seeing Arafat. Canada has a strong interest in

the MEPP through the G8, donor contributions and work on long term post peace issues such as refugees. They are interested in getting involved alongside us in any monitoring presence in the OTs.

- **Italy** is still wedded to its Marshall Plan for the Middle East. It is important that any initiative should be placed squarely within the framework of the roadmap. Berlusconi is leading a one-man campaign for eventual Israeli membership of the EU and we are concerned this risks undermining Italy's ability as Presidency to influence Arab governments.
2. Implementation of the **Roadmap** will require sustained high level US pressure on Israel. President Bush continues to indicate his personal commitment and determination to help resolve the MEPP crisis, although there are concerns that he has little understanding of the scale of the task in front of him. Following a meeting in Sharm el-Sheikh on 3 June to meet Arab leaders, he will travel on to Aqaba in Jordan on 4 June, where he will meet Prime Ministers Sharon and Mahmoud Abbas.
 3. Sharon and Abbas met for a second round of talks on 29 May and both described them as 'very positive'. Sharon said that he would order the IDF to pull out of the center of West Bank cities and scale down its presence in the territories. Abbas agreed the PA would take security control of Gaza first rather than the West Bank due to the weakened state of their security forces there.