

PO CH/GH/0179.

PART. A

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PART. A

SPEECH BY THE CHANCELLOR
AT THE DEVELOPMENT
COMMITTEE.

1981

15-5-81

DD's 25/2 NARS
8-5-97.

THIS FOLDER HAS BEEN
REGISTERED ON THE
REGISTRY SYSTEM

SUMMARY OF UK PRESS

IMF/IBRD

Stories about chairmanship and meetings in general already recorded in manuscript. Main feature in The Times "Crisis of Identity at the IMF" focusses on the changes in the international monetary system brought about by floating rates and high interest rates, leaving a smaller role for Governments in maintaining the international monetary system.

UK Economy

PSBR and cyclical indicators reasonably well received save in The Times, which reports "Industry still in the grip of deep recession". Radio comment is now focussing the increase in the TPI to 15.5 per cent. There are some suggestions that the undershoot on the 1980/81 PSBR (underlying £12.5 billion) suggests less need for public expenditure cuts. Also suggested that defence cuts will come out some £2 billion lower than the aim (i.e. £6 billion rather than £8 billion). Peter Riddell has a Lombard column about the increase in long gilt rates since the Government came to power (by $2\frac{1}{2}$ per cent to $14\frac{1}{4}$ per cent) and asks how the Government will get inflation down to West German levels. The Daily Mirror expects the Bank to call special deposits or raise the Reserve Asset Requirement to mop up excess liquidity. The Financial Times reports that at Question Time the Prime Minister refused to confirm - or deny - Mr. Prior's evidence to the Commons Expenditure Committee that unemployment might reach 3 million and that the Treasury estimate of an average 2.5 million might be on the low side.

Civil Service Pay

Most papers report the CSSU reject overtures and that action may intensify. Times leader "Heading for a Showdown".

TCSSC

Financial Times letter from Dr. Bray on the role of the Committee, saying that it should discuss the Government's theories and philosophy as well as ^{factual} evidence if it is to consider pay

moderation as suggested in the Chancellor's Mais Lecture. Thinks that Whitehall is still sore about their report on monetary policy (looks more as if it is Dr. Bray who is sore).

Business Start-Up Scheme

Further criticism in the Daily Mail focussing on the document sent in by the accountancy bodies.

Resignations

Malcolm Rutherford suggests that recent resignations suggest Junior Ministers and PPSs are too remote from the centre of policy. The Prime Minister should build contacts with them.

Oil Prices

The Times, Guardian and Financial Times report that at the OPEC next week the Saudis will try to freeze the oil price "to give the industrialised world a breather".

Shell Profits Slump

Reported by all newspapers. Guardian article recording that Shell blames the "Government's over-zealous tax policy". Profits fell from \$718 million in 1980Q1 to \$332 million in 1981Q1, or \$468 million to \$171 million after currency and stock adjustments.

European Community

The Times reports that the Community is about to adopt a 1982 Budget which will leave less than a mere \$300 million under the revenue ceiling for emergencies.

Trade Policy

The Financial Times says that the White Paper on trade policy shows the Government will not adjust interest rate or exchange rate policy to help exporters.

Anglo/USSR trade talks to resume.

France

Monsieur Mauray to be Prime Minister. Package to support the

the franc includes strengthening exchange controls. Interest rates are expected to rise immediately.

Ireland

Mr. Haughey calls elections on 11 June.

Distribution

Chancellor ✓
Sir K. Couzens
Sir P. Preston
Mr. Anson
Mr. Loehnis
Mr. Gilchrist
Mrs. Hedley-Miller
Mr. Price
Mr. Smith
Mr. Wiggins

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interesting to the Committee; further briefing would be sought on the merits of an ENIC increase compared with an income tax increase.

Budget

6. It was agreed that by Christmas ministers needed to be in a position to tell whether proposals on FASE and Aunt Agatha would be available for the budget. The Chancellor believed it was important to have as positive a set of options as possible; and to have formed a view on demergers. The Minister of State (L), said proposals on CTT settled property would be ready for inclusion in the Budget; he had ruled that codification of the CGT treatment of retirement relief would not command priority for inclusion in the 1981 Spring Budget.

Lord President's exercise

7. There was a discussion of the difficulty of achieving the manpower targets the Lord President wanted to set. Some major change of approach would be the only way. The Chancellor asked the Minister of State (L), for a reappraisal of the problem.

£1 Coin

8. The question was raised whether the introduction of a £1 coin required legislation. Advice would be sought on this.

GEORGE CARDONA
25 November 1980

- Distribution:
- Chancellor
 - Chief Secretary
 - Financial Secretary
 - Minister of State (C)
 - Minister of State (L)
 - Sir D Wass
 - Sir K Couzens
 - Sir A Rawlinson
 - Mr Ryrie
 - Mr Burns
 - Sir L Airey
 - Sir D Lovelock
 - Mr Ridley
 - Mr Cropper

Hail and Farewell

I should like first to welcome Mr. Ibarra as our new Chairman.

This will be the last opportunity that many of us will have of meeting Mr. McNamara in his present capacity at a major international gathering. I should like to repeat my own thanks and wish him well for the future. We also look forward to welcoming Mr. Clausen when he takes over in July. He will find that a more than man-size job still awaits him.

∟ Thanks to President and Government of Gabon

UK Aid to Africa

I need not remind the Development Committee of the close ties that have existed for many years between the UK and many parts of this Continent. These ties make it all the more appropriate that within the British aid programme we should give a high proportion of our funds to Africa. The proportion of our bilateral programme directed to Africa has risen from 30 per cent in 1976 to 40 per cent in 1980. African countries also benefit from our contributions to multilateral organisations, which now account for 30 per cent of our total aid. Of the 5th Replenishment of the European Development Fund our 18 per cent share will involve estimated expenditure of \$460m, and countries in Africa are the main recipients of EDF aid. Recently we reaffirmed that, subject to Parliamentary approval, the UK will be joining the African Development Bank as one of the non-regional members - of course we already contribute to

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the African Development Fund. The extent to which we provide aid to African countries through manpower is particularly notable. Last year we had over 5,000 British experts working in Africa (two-thirds of our total manpower programme) and we provided training support for about 8,000 African students in Britain (50 per cent of the total assisted). About 1,400 Africans attended courses in third countries under British auspices.

One event of Africa last year which gave us all particular pleasure was Zimbabwe's achievement of her independence. We in the UK are doing all we can to help Zimbabwe with her urgent tasks of reconstruction and development. We were greatly encouraged by the many pledges of assistance given at the recent donors' conference. For our part we have pledged a total of £111million to Zimbabwe since independence.

UK Aid Programme as a whole

More generally, though we have been passing through a severe recession which in the case of the UK has actually reduced our national income and so given rise to very great budgetary pressures, even so we continue to maintain a very substantial aid programme. In 1981-82 it will amount to over £1 billion and, for the latest year for which we have figures (1979) it was the 5th biggest in the world. Furthermore, over 60 per cent of our bilateral aid programme goes to the poorest countries whose access to commercial funds is most difficult and who therefore have greatest need of concessional assistance. We continue to be strong supporters of the World Bank and of the International Development Association from whose concessional lending so many of the poorest countries benefit. We were

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glad to learn that the new US Administration has reaffirmed its commitment to IDA 6 and hope that the necessary Congressional approvals can be obtained quickly. For our part we have told the World Bank management that to help IDA through its present difficulties, the British Government will deposit the second 50 per cent of our first tranche of IDA 6 provided that most other major donors do the same.

I would not dare to speak for another parliamentary democracy but I suspect this particular story does underline and reinforce the extent to which it is essential - in the interests of the developing countries - for the international financial institutions to retain the confidence of the many sources of finance: the confidence of public opinion as well as that of governments.

OPEC and Aid

The world has however undergone a revolution in the 1970s. As McNamara spells out so very clearly in paragraph 8 of his memorandum of 18 December 1980, the expanded lending programme that is manifestly no longer the case. If the world ever was divided into a rich north and a poor south, there is certainly no such simple division now. For the second time in a decade there has been a massive transfer of resources from oil users to oil producers and most industrial countries have been projected into a depression, higher inflation and balance of payments deficit, in varying combinations. This inhibits growth in the developed countries and inevitably reduced their ability to increase their aid and to provide expanding markets for developing country producers. In these circumstances we greatly welcome

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increases in the aid efforts of OPEC countries, who have built up huge surpluses; and welcome also the very large programme of lending which Saudi Arabia and other countries have agreed with the IMF.

Importance of Non-Concessional Flows

But, though aid is important, especially for the poorest countries, we should never forget that what is more important in the development process is the total flow of funds. Within this total, the larger contribution comes from non-concessional flows of which private flows provide an increasing part. We have been very glad to note in this connection the constructive work of the Task Force on Non-Concessional Flows.

Developing Countries

Both developed and developing countries have their part to play in providing the right climate and the legislative and regulatory framework to encourage private investment.

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I would especially draw attention to the value of investment promotion and protection agreements which may help to give both recipient and investor the mutual confidence which is essential for the success of investment of this kind. The UK has signed 14 such agreements and are keen to conclude agreements with other countries. It is a particular pleasure that negotiations with our hosts, Gabon, are well advanced.

The UK shares the concern of developing countries in maintaining an open world trading system. Controls on the free movement of capital can be as inhibiting as any other form of

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protection. That is why I was glad that my Government was able within six months of our election to abolish after 40 years existence exchange control. There are now in the UK no exchange controls on the investment of funds abroad. We were very glad to see the recent return of the IBRD to the London market after an interval of some years. We will continue to resist protectionism, not without cost it should be said to our own industry. For our attitude is based on the conviction that it is in the long term interests of all countries, developed and developing, that world trade should be as free as possible from unnecessary restrictions.

IBRD Lending Programme

We are asked to look at the World Bank lending programme for the next five years. However much our sympathies may be engaged, we cannot ignore the economic constraints to which I have already referred. Many developed countries are committed to a fight against inflation. In the long run this can only be for the good of the world as a whole, both developed and developing countries. But it does mean that for some while to come, concessional funds are likely to be an increasingly scarce resource. This is why we must ensure that they are used to the best advantage in those countries which have most need of them. It explains why we must also seek ways of associating official flows with private finance and I therefore particularly welcome imaginative suggestions for increasing co-financing and involving more private sector funds in one way or another. I welcome them not only because I believe the element of market involvement is helpful, but because in the circumstances in which we now are, this may well be amongst the most promising ways of increasing the flow of funds through

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the World Bank and other multilateral development institutions.

It is very much in this spirit that we shall approach the proposals which come forward for expanding lending in the field of energy. In particular we shall look to see how far it can mobilise additional funds without displacing private flows. In this, as in every other, field, what matters most to the ldc's - indeed to all of us - is the extent to which any initiative is likely to promote additionality. And additionality, as I understand it, is not about additions to bureaucracies and architectural superstructures but it is about additions to the development of wealth creating foundations, especially in the developing world.

For it is not by proliferating institutions but through mobilisation of the natural dynamic of markets in the context of success in the fight against inflation, that we can most usefully carry forward the work of this Committee.

CC SIR W. COVENS
MRS HELEY-MILLER
MR BOMILL

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For it is not by proliferating institutions but through mobilisation of the natural dynamic of markets in the context of success in the fight against inflation, that we can most usefully carry forward the work of this Committee.

GENERAL OBSERVATIONS

- Re-echo Community statements.
- Fight against inflation of first importance (for all).
 - In high inflation, high interest rates inevitable.
All the more reason to avoid over-shoot.
 - Underlines importance of matching fiscal discipline.
I cast no stones - but do feel entitled to draw attention to own last Budget.
 - If industrial countries can (and must) contribute by maintenance of balanced policies - fiscal as well as monetary - then others can (and must) help by doing everything possible to avoid any further abrupt surges in oil prices. Crucial if current account imbalances ever to firm to more manageable levels.
 - For it cannot be emphasised too strongly and too often that the burden of adjustments imposed on all of us by oil prices bears particularly heavily on non-oil ldc's. It raises the interest burden on their debt. It restricts the availability of aid. It provokes protectionism. And, as they grapple with problems of internal adjustment, with trying to remove excessive price distortions - problems already hard enough - The extra cost of oil to the oil-importing ldc's a particularly harsh effect. Even though fortunately their non-oil trade is moving back into surplus it accounts for all the increase - \$55 billion - in their current account deficits since 1979.

ROLE OF FUND

Clearly important

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Two aspects:

(i) Access to adequate resources: Market borrowing and quotas. [✓] Echo Community statement precisely ✓ Glad that able to look forward to growing role then of oil-producing countries.

Most important.

Congratulate [Thank Saudi Arabia] on progress already made.

(ii) Countries in difficulty should be ready and willing to make use of IMF resources.

- Conditionality inescapable and right.
- Eased by early access.

Finally, Mr. Chairman, on the question whether there should be a further allocation of SDRs during the coming period, the United Kingdom on the side of those who in the present state of world liquidity question the wisdom of SDR allocation; and that something which would - in however small a degree - be inflationary would give a wrong signal to the world at large, bearing in mind the great efforts which are being made - and still need to be made - at the national level to quell inflation.

SDR

Our IMF Articles envisage that the SDR should become the central reserve asset of the system. I believe we need to rethink our policies towards the SDR if that is ever to come about or if it is to play more than a limited role. It has to develop not in the fixed rate system which was still there when it was first devised, but in a multi reserve currency system of floating exchange rates.

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I believe the decisions to simplify the SDR basket and to improve the return on it were steps in the right direction. In the London market there has been increased interest in SDR denomination. The future of the SDR depends not on successive allocations increasing world liquidity, but on whether the SDR is an attractive asset, and one which retains its value in terms of the major currencies. It has to perform better than the average of currencies if monetary authorities and the private sector are to become interested in holding it.

The reserve currency countries, great and less great, have a responsibility to maintain the value of their currencies in the interests of the stability of the system. That responsibility expresses itself also through their presence in the SDR basket. The currencies in the SDR basket have to maintain their value if the SDR is to be strong. The countries concerned therefore have an obligation to keep up the fight against inflation both in their own interests and in the interests of the stability of the international monetary system.

- Then back to theme with which I started.

I hope we can all, by our own determined efforts in our own countries, do our utmost to maintain this confidence. We know we face a difficult situation. We should not let it slide into a worse one by overstating the problems. Above all, we cannot afford to allow inflationary expectations to continue by showing any signs of being deflected from our primary aim which is to bring inflation down.

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MR. NENANABA

stressed

~~referred to~~

the critical need to

secure approval of IDA VI. My country hopes

this will happen as soon as possible & that the U.S.

Congress will speedily endorse the proposal of the

Administration. But what has happened does

demonstrate and reinforce the point that it is

essential in the interests of developing countries ^{is} for the

international institutions to retain the confidence of the main

source of finance, ~~whether those or governments~~

That applies equally to the governments &

public opinions of member countries which are major

contributors, and to the financial markets in which ~~they~~

the World Bank in particular has to borrow.

What is also

- NOTE - FORMS

- MORE REFILE

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TRIP/D

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1. TR. ANGLUM,
NATVMS

SPEECH BY THE CHANCELLOR AT THE DEVELOPMENT
COMMITTEE

- OPEC / SAUDI
COM

Introduction

- EVEN SOVIETS

I am glad to have this opportunity of
addressing the Development Committee.

I should like first to welcome Mr Ibarra
as our new Chairman. I had the opportunity of
meeting him recently in London and talking to
him about some of the items on our agenda today.

I believe this will be the last opportunity
that many of us will have of meeting Mr McNamara
in his present capacity at a major international
gathering. At the Bank/Fund Annual Meeting in
Washington last September every delegation, as I
recall, paid warm tribute to his efforts at the
World Bank over the last few years. I should like
to repeat my own thanks and wish him well for the
future. We also look forward to welcoming Mr
Clausen who will find many difficult problems
confronting him when he takes over in July.

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I am glad that the Development Committee is meeting in Libreville, the first occasion, I believe, in an African capital. We have an item later on the agenda drawing attention to the needs of Africa which contains some of the poorest countries in the World.

/UK aid to Africa

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UK aid to Africa

I need not remind the Development Committee of the close ties that have existed for many years between the UK and many parts of this Continent. These ties make it all the more appropriate that within the British aid programme we should give a high proportion of our funds to Africa. The proportion of our bilateral programme directed to Africa has risen from 30 per cent in 1976 to 40 per cent in 1980. African countries also benefit from our contributions to multilateral organisations. In 1980 our total multilateral aid was £260m, 30 per cent of our programme and a 40 per cent increase since 1978. Our disbursements of multilateral aid, especially through IDA, the World Bank, and through the European institutions will continue to increase in the coming years. Our share of the 5th Replenishment of the European Development Fund (18 per cent) will involve estimated expenditure of £460m, a 30 per cent increase over our contribution to EDF 47. Recently we reaffirmed that, subject to Parliamentary approval, the UK will be ready to join the African /Development

4.

Development Bank as one of the non-regional members - we already contribute to the African Development Fund. The extent to which we provide aid to African countries through manpower is particularly notable. Last year we had over 5,000 British experts working in Africa (two-thirds of our total manpower programme) and we provided training support for about 8,000 African students in Britain (50 per cent of the total assisted). About 1,400 Africans attended courses in third countries under British auspices.

And while I am speaking of Africa, one event last year which gave us all particular pleasure was Zimbabwe's achievement of her independence. We in the UK have been doing all we can to help Zimbabwe with her urgent tasks of reconstruction and development. [We gave no aid to the illegal regime except to provide assistance for the education of Rhodesian Africans in the UK and elsewhere.] Many countries are of course playing their part in helping Zimbabwe, but it is right

/that I

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that I should mention that total British aid pledged since independence is now £111m.

/ UK aid programme as a whole

6.

UK aid programme as a whole

More generally, though we have been passing through a severe recession which in the case of the UK has actually reduced our national income, we continue to maintain a very substantial aid programme. In 1981-2 it will amount to over £1b and, for the latest year for which we have figures [1979] it was the 5th biggest in the world. Furthermore, over 60 per cent of our bilateral aid programme goes to the poorest countries whose access to commercial funds is most difficult and who therefore have greatest need of concessional assistance. We remain moreover strong supporters of the World Bank and of the International Development Association from whose concessional lending so many of the poorest countries benefit. We were glad to see that the new US Administration has agreed to fulfill its IDA 6 commitment in full and hope that the necessary Congressional approvals can be obtained quickly. For our part we have told the World Bank management that to help IDA through its

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7.

present difficulties, the British government will deposit the second 50 per cent of our first tranche of IDA 6 provided that other major donors do the same.

/Importance of non-
concessional flows

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7A

OPEC and Aid

The world has however undergone a revolution in the 1970's. If the world ever was divided into a rich north and a poor south, there is certainly no such simple division now. For the second time in a decade there has been a massive transfer of resources from oil users to oil producers and most industrial countries have been /plunged/ into depression, higher inflation and balance of payments deficit, in varying combinations. There is a huge OPEC surplus. This has profound implications for the aid programmes of the industrial countries, which cannot grow at the rates of earlier periods. It also means that we greatly welcome any increase in the aid efforts of OPEC countries; and welcome also the very large programme of lending at market rates which Saudi Arabia and other countries have agreed with the IMF.

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8.

Importance of non-concessional flows

But, important though aid is, especially for the poorest countries, the Development Committee does not need to be reminded that what is more important in the development process is the total flow of investment funds. Within this total, the larger contribution comes from non-concessional flows of which private flows provide an increasing part. I have been very glad to note in this connection the constructive work of the Task Force on Non-Concessional Flows, whose report I believe relevant to the first item on the agenda.

Both developed and developing countries have their part to play in providing the right climate and the legislative and regulatory frame-work for investment flows. [And here I would especially draw attention to the value of investment promotion and protection agreements which help to give both recipient and investor the mutual confidence which is essential for the success of investment of this kind. The UK has signed 14 such agreements [latest on Thursday,

/21 May

9.

21 May with Malaysia.] and are keen to conclude agreements with other countries. It is a particular pleasure that negotiations with our hosts, Gabon, are well advanced.]

[The UK has no exchange controls on the investment of funds abroad and shares the concern of developing countries in maintaining an open world trading system. We will continue to resist protectionism, not without cost it should be said to our own industry, but our attitude is based on the conviction that it is in the long term interests of all countries, developed and developing, that world trade should be as free as possible from unnecessary restrictions.]

/IBRD lending programme

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We are asked under this agenda item to look at the World Bank lending programme for the next five years. However much our sympathies may be engaged, we cannot ignore the economic constraints to which I have already referred. Many developed countries are committed to a fight against inflation. In the long run this can only be for the good of the world as a whole, both developed and developing countries. But it does mean that for some while to come, concessional funds are likely to be an increasingly scarce resource and we should ensure that they are used to the best advantage in those countries which have most need of them. This is why I particularly welcome imaginative suggestions for increasing co-financing and involving more private sector funds in one way or another. I welcome them not only because I believe the element of market involvement is helpful, but because in the circumstances in which we now are, it is only realistic to believe that the most promising (some would say the only) way

/of increasing

11.
of increasing the flow of funds through the World
Bank in the short term is by greater involvement
of the private sector.

THE WORLD HAS HOWEVER UNDERGONE A
REVOLUTION IN THE 1970'S. IF THE WORLD EVER WAS
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IS CERTAINLY NO SUCH SIMPLE DIVISION NOW. FOR THE
SECOND TIME IN A DECADE THERE HAS BEEN A MASSIVE
TRANSFER OF RESOURCES FROM OIL USERS TO OIL
PRODUCERS AND ^{MOST} ~~MANY~~ INDUSTRIAL COUNTRIES HAVE BEEN
HIGHER INFLATION AND
[PLUNGED] INTO DEPRESSION, ~~A~~ ~~AND~~ BALANCE OF PAYMENTS DEFICIT,
IN VARIOUS COMBINATIONS.
~~OR BOTH~~. THERE IS A HUGE OPEC SURPLUS. THIS HAS
PROFOUND IMPLICATIONS FOR THE AID PROGRAMMES OF THE
INDUSTRIAL COUNTRIES, WHICH CANNOT GROW AT THE
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1. MR BARRATT
2. CHANCELLOR

cc Sir Kenneth Couzens
Mr Hancock
Mrs Hedley-Miller
Mr Mountfield
Mr Bonney
Mr Gilchrist (B/E)(with
copies for:
Sir Peter Preston,
Mr Anson and Mr Smith)
Mr Pearson (ODA)
Mr Bayne (FCO)

DEVELOPMENT COMMITTEE - BRIEFING

This note provides briefing for the meeting of the Development Committee in Libreville on 22 May. You may not wish to attend the whole meeting. If so Sir Peter Preston will represent the UK. There will probably be a lunch given by the Chairman at which the communique will be discussed.

2. Mr Barratt has already submitted, with his minute of 14 May, a draft speech which we suggest that you may wish to make under Item 1. It may be necessary for you to speak also on:

- (a) the energy affiliate;
- (b) the proposed Task Force on Concessional Flows.

If so we have provided appropriate forms of words in the briefs for Item 1(c) and Item 4.

3. On Item 6 (action programme for sub-Saharan Africa) it may not be necessary to speak, but we want to secure an important change in the draft communiqué.

4. The US Treasury Secretary, Mr Regan, is visiting Saudi Arabia, Kuwait, and the UAE on his way to Libreville. The American position on some items may be modified as a result, in particular on the energy affiliate and the Task Force on Concessional Flows.

5. A brief on the PLO issue is being provided with the Interim Committee papers.

The language proposed for you to use on
Items 1(c) and 4 must be regarded as provisional
at this stage. What, if anything, you say or do
must not defend partly on the U.S. position. 28 15/5.

W L ST CLAIR
15 May 1981

IMF/IBRD DEVELOPMENT COMMITTEE: 22 MAY 1981

ITEM 1: INCREASE IN THE FIVE-YEAR LENDING PROGRAMME OF THE WORLD BANK (IBRD/IDA) (DC/81-2)

Summary

This is an umbrella item which takes its cue from the IBRD/IDA Executive Board discussions in January 1981: three of its major components are covered separately in sub-items 1(a), 1(b) and 1(c). It endorses the need for continued discussion in the Executive Board.

Points to Make

2. None. Everything covered by the general statement.

Draft Communique

3. Acceptable.

Background

4. Earlier this year the World Bank Executive Board had an inconclusive discussion of Mr McNamara's ambitious plans for expanding the IBRD/IDA lending programme to a total of \$124b over the 5 years from July 1981. This represents a 45% increase over current plans and was justified in terms of the need (a) to restore the 5% real growth target assumed (but not endorsed) in the GCI negotiations and (b) to provide additional funds for structural adjustment, energy and lending to China.

5. The Bank's discussion paper recognised that it would be futile to approach Governments for massive additional resources to fund the desired expansion in the lending programme (although it assumed full subscription to the GCI and IDA 6 and a \$20b IDA 7). Instead, it canvassed various ideas for supplementing normal fixed rate borrowing (at, say, \$6-7b a year) including:-

- (i) lines of credit from Governments or central banks to substitute for some of the Bank's liquidity;
- (ii) new borrowing instruments involving variable interest rates or some measure of capital protection; and
- (iii) (in the longer term) a change in the capital/lending ("gearing") ratio.

But the main proposal was for speedy consideration of the Energy Affiliate idea as a means of mobilising extra resources without resorting to (iii).

6. As stated above, discussion in the Executive Board came to no very firm conclusion except to ask for a formal proposal on the Energy Affiliate. Given the continuing uncertainties about the American position, it was clearly premature to reach any decisions on the lending programme even for fiscal year 82. We recognise that some (but not all) of the factors listed by the Bank (eg higher inflation, energy, China) make some increase in its lending programme desirable but the scope for expansion will depend on the availability of funds (both borrowings and capital subscriptions). But we do not accept the claim that Structural Adjustment Lending (SAL) should also be additional: SAL has in effect replaced programme lending in the Bank/IDA portfolio, and its level can appropriately remain within the range of 5 to 10% of total lending previously set as the guide-line for programme lending; in addition, excessive lending of the SAL type, because it is quick-disbursing, could in the case of the IDA lead to accelerated calls on members' contributions and therefore to budgetary difficulties.

7. Given the uncertainties (eg about the timing of GCI subscriptions and IDA 6), the Board can only take decisions for one year at a time.

IMF/IBRD DEVELOPMENT COMMITTEE: 22 MAY 1981
ITEM 1(a): SIXTH IDA REPLENISHMENT (IDA 6)

Summary

IDA 6 is now stalled pending the outcome of US Congressional action on the bill to authorise US participation, which will not be completed before the end of June at the earliest. The Development Committee can do no more than re-emphasise the importance of the Congress honouring the obligations accepted by the Reagan Administration, and endorse the steps taken by the IDA to minimise the effects of the delay.

Points to Make

2. None. Covered in opening statement.
3. (Draft Ministerial conclusions: acceptable).

Essential Background

4. IDA 6 should have become effective on 1 July 1980, but cannot do so until US participation has been authorised by the Congress. The Reagan Administration has tabled legislation covering the full amount of the US contribution (\$3.24b) but with sharply reduced instalments in the first and second of the three years. The bridging arrangements, whereby most of the major non-US donors have advanced all or part of their first annual instalments, have provided some \$1.9b of funds, which were fully committed by April 1981: this represents approximately half of intended commitments under IDA 6 in the year to 30 June 1981.
5. The UK has advanced 50% of its first annual instalment as part of the bridging arrangement and we have offered to advance the remainder of the first tranche if other members agree to participate in the bridging. This offer is intended to catch the three main OPEC

contributions from Saudi Arabia, Kuwait and UAE who have not so far paid anything. Embassies in the relevant capitals have been instructed to relay the terms of our offer to the authorities there. The exact terms are as follows:

"The UK is prepared to advance the remaining 50% of its first annual instalment of its IDA 6 contribution provided that at least four other countries, whose IDA 6 contributions total at least \$1b, and which had not advanced more than approximately 50% of their first annual instalment at the date of the IDA Deputies' meeting (30/31 March), have also confirmed that they will advance the whole of their first annual instalment."

6. The future of IDA 6 now depends on the US. If the Congress acts at an early date to authorise the US contribution and make the proposed appropriation, (the Senate has already given approval) a basis will exist for the other donors to consider a further phased release of their own contributions so as to enable IDA operations to proceed with minimum dislocation. Meanwhile, the IDA will continue to process lending proposals subject to funding if and when resources become available.

IMF/IBRD DEVELOPMENT COMMITTEE: 22 MAY 1981

ITEM 1(b): EXPANDED IBRD LENDING IN FY 82

Summary

This item invites Ministerial endorsement of the argument that planned Bank lending in FY 82 (July 1981 to June 1982) should be further increased to meet newly-emerging needs - the energy programme and lending to China - despite uncertainty about the Bank's capital base. It is likely to be supported by LDCs and accepted, with caveats, by developed countries. But decisions are for the Bank's Executive Board, not the Development Committee.

Points to Make

2. None. Covered in opening statement.
3. (Draft Ministerial conclusions - acceptable. The revised text reflects amendments proposed by the UK.)

Essential Background

4. IBRD lending in FY 82 is currently planned to be \$9.6 billion. This compares with \$8.6 billion planned for the current year and \$7.6 billion achieved in FY 80. The plans are intended to allow for a 5% real annual increase in lending but this is unlikely to be achieved because of higher than expected levels of inflation.
5. The Bank wishes to expand the programme in FY 82 to take account of new demands not foreseen when the plans were drawn up. Two factors specifically mentioned are the expanded energy programme and lending to China. On energy, there is general agreement that it would be desirable to expand IBRD lending but it would clearly be premature to

advance some projects into FY 82 (as was earlier suggested) on the strength of the prospects for the early establishment of an Energy Affiliate (see brief on item 1(c)). As far as China is concerned, now that the People's Republic has taken over the China seat in the IBRD, it is difficult to avoid the conclusion that projects for China should be given equal consideration to those from other countries. It is too early to say what this will mean in terms of figures but early indications suggest that lending to China in FY 82 is likely to be at a comparatively modest level.

6. However desirable a further expansion of IBRD lending might be, caution needs to be exercised because of the implications relating to the Bank's capital base. Total lending volume is restricted by the one-to-one capital/lending ratio in the Bank's constitution, and the present annual lending level cannot be sustained indefinitely without the additional capitalisation authorised by the General Capital Increase (GCI), which was approved in January 1980 for subscription during the period 1981-1986. A further reason for caution is that continued expansion of the presently-planned lending programme will advance the date at which a further expansion of the Bank's capital will be required, possibly entailing paid-in contributions which will add to the budgetary difficulties facing the UK and other Western governments. Against this background, the appropriate level of Bank lending in FY 82 is a matter for decision by the Executive Board of the Bank, not by the Development Committee.

GCI

7. The Dutch (supported by the Nordics) attempted to add a separate item to the agenda on the GCI. This would have urged Governments to subscribe to at least some of their GCI shares as soon as the lists open in September 1981 and to seek an early solution to the question of the valuation of the Bank's capital (now denominated in obsolete 1944 gold dollars) and the related maintenance of value (MOV) provisions. In the event this item was not included but it seems inevitable that the question of early subscriptions will be raised either in the meeting itself or in the corridors.

8. The prospects for the effectiveness of the GCI depend crucially on the attitude of the Americans. The Reagan Administration have accepted US participation as an existing commitment and are seeking Congressional authorisation of full subscription to their GCI shares in six equal tranches starting in 1982. Some other major shareholders (notably Germany and Japan) have argued that they cannot legislate to take up their allocations until the question of valuation has been settled (there is a long standing and highly technical dispute between the Americans and others about whether the Bank should adopt the SDR, the current US dollar or some other combination).

If obliged to say something on the GCI

9. We fully support any moves aimed at finding an early solution to the question of valuation. The UK can go along with a number of the solutions that have been put forward. As far as the timing of the British subscription is concerned, no decision has yet been taken.

IMF/IBRD DEVELOPMENT COMMITTEE: 22 MAY 1981
ITEM 1(c): EXPANDED WORLD BANK LENDING FOR ENERGY

Summary

The Bank has been giving shape in recent months to its proposals for launching an energy affiliate to take over most of its rapidly expanding programme of activity in this sector. The subject is to be discussed by the Bank's Executive Directors on 28 May, as a possible prelude to detailed negotiations culminating in a report to the Governors.

2. We have reservations about this: new development institutions should not be established unless it is evident that existing ones - suitably strengthened - cannot fulfil the need, and we are not convinced on this score; we are also anxious to minimise any new calls for contributions of paid-in capital, such as a new institution would necessarily entail. But we might not wish to stand aside if the idea of an energy affiliate is widely supported, and we need to oppose the French idea of divorcing such an affiliate from the Bank. The Americans have said that they cannot support the proposal "at this time".

Points to Make

3. We accept the case for a continued expansion of World Bank lending for energy, although there is no point in the Bank or the Energy Affiliate simply displacing private flows. Also there is no point in a new institution unless it can mobilise substantial extra funds which would not otherwise be available. We are not yet convinced that an energy affiliate represents the best or only solution to the problem. If a new affiliate were to be established it should be closely integrated with the World Bank, to enable the most effective use to be made of the Bank's existing resources and expertise, and to ensure the necessary co-ordination.

4. (Draft Ministerial conclusions - acceptable: the phrase "both through existing mechanisms and through a possible new affiliate or facility" reflects our approach to the question).

Essential Background

5. The Venice Summit Meeting in 1980 invited the Bank to consider ways in which the resources for an expanded programme of energy investment could be mobilised, including the possible establishment

of a separate energy affiliate or facility.

As context to this, the Bank had elaborated a programme of approximately \$30bn desirable lending in the energy sector over the period mid 1981 to mid 1986.

6. In recent months the Bank has produced outline proposals for a new institution, and two meetings of a limited group of "interested countries" have taken place: UK officials took part in the second of these. The management have tabled a discussion paper for consideration by the Executive Board on 28 May proposing that detailed negotiations should now begin with a view to submitting a report to the Governors. Much will depend on the American attitude, but the UK could probably support continued discussions provided that other solutions in addition to the energy affiliate are on the agenda.

7. The expansion of Bank lending for energy resources - particularly oil, gas and coal - is desirable both on developmental grounds and as a potential means of harnessing OPEC surpluses. However, there is a risk that the Bank would simply be displacing private investments. We do not think that the case for a separate energy affiliate should be accepted until all alternative possibilities for expanding the Bank's own resources have been explored: the setting-up of a new agency inevitably makes extra demand on scarce resources and is always time-consuming; it would also require paid-in capital from its members.

8. There is considerable support among the Bank's members for the proposed affiliate. The initial reaction of the US, however, has been unpromising and the French would like to see the affiliate located away from Washington (presumably in Paris?) and constitutionally separate from the Bank. We should oppose the French idea, but the US attitude could constitute a major obstacle if it stays unchanged, since non-membership by the US would restrict the affiliate's capacity to borrow in, at least, the US markets.

9. If the proposed affiliate eventually materialised, it might be difficult for the UK to stay out; we would need to influence the negotiations to ensure that its characteristics were acceptable to us.

IMF/IBRD DEVELOPMENT COMMITTEE

Agenda Item 2: Lending Operations of the Regional Development BanksSummary

This appears primarily as a take note item in the form of a status report on current replenishment negotiations in the regional development banks.

Points to Make

2. None.
3. (Draft communique acceptable.)

Background

4. In 1980 the three regional development banks lent some \$4.3b as compared with \$12b by the IBRD/IDA. Negotiations are under way for a possible replenishment of the African Development Fund, an increase in the capital of the Asian Development Bank, and a possible replenishment of the ordinary and concessional resources of the Inter-American Development Bank. Much depends upon the attitudes of the Americans who have agreed to accept existing commitments but are reviewing their whole policy for the future.
5. Our general policy towards the RDBs is to support them, but to ensure that we do not contribute more than our relative economic size would suggest.
6. More detailed briefing on this complex item is available with the delegation if required.

IMF/IBRD DEVELOPMENT COMMITTEE: 22 MAY 1981
ITEM 3: TASK FORCE ON NON-CONCESSIONAL FLOWS

Summary

The Task Force has produced a useful report concentrating on two main issues:

- (a) Possible measures to increase co-operation and co-financing between the development banks and private sector financial institutions.
- (b) External indebtedness of LDCs.

Points to Make

- 2. On the main topic, co-financing, no need to speak. Our points are included in the draft speech for Item 1.
- 3. If asked to expand on these general remarks, we should urge that consultation should take place between the development banks and financial institutions with the aim of promoting more co-financing. Not only is it desirable in itself to involve the market sector, but it is probably the most feasible way of trying to engage extra funds in the short term since other possibilities under discussion nearly all require a lengthy legislative process.
- 4. On the indebtedness topic, no need to speak. Our main interest will be to resist suggestions for:
 - (a) A greater role of UNCTAD in debt questions.
 - (b) Changes in the present Paris Club arrangements for rescheduling official debt.
 - (c) Proposals for a new "multilateral framework" for rescheduling of private debt.

5. On the future of the Task Force, we could support continuation beyond September to follow up existing work and look at new ideas.
6. Draft wording for the communiqué. Acceptable.

Background

7. On increasing private flows, the Task Force report makes four main recommendations:

- (a) Improvement of co-financing arrangements between multilateral banks and commercial lenders.
- (b) Sales of portfolio and loan participation by development banks.
- (c) Use of guarantees by development banks.
- (d) Issue and placement of pass through loan certificates by development banks.

8. We have argued in favour of these as providing positive results from the Task Force's work. Some of these ideas give promise of some additionality, though of course they do not guarantee it. We believe that Mr Clausen is likely to be in favour of more co-financing.

9. The detailed discussion in the Task Force revealed a division between those like ourselves who believe that more should be offered to the commercial banks and other potential co-lenders in the hopes of securing some additional flow of funds, and others mainly LDC (but probably including Mr McNamara and the World Bank staff) who do not want to give further concessions. These concessions include a greater negotiating role for the co-lenders, more commercial terms and conditions for their loans, and a strengthening of the present cross default clauses.

10. The other ideas, though less likely to achieve additionality of flows, are still worth pursuing. They were not so controversial in the Task Force. They represent forms of "ex-post" co-financing.

11. The agenda says that the Task Force will be discussing several other proposals, eg a change in the World Bank gearing ratio and the energy affiliate idea, at its final meeting in July. If so, then the most useful contribution we might expect from the Task Force is an exploration of how financial markets might be expected to see such changes.

12. Most of the above considerations apply to the regional development banks as well as the World Bank. Some of them, notably the Asian Development Bank, pursue unnecessarily conservative financial policies which could lead to early calls upon members for fresh capital injection. We believe that there is some scope for relaxation without the need for a change in their Articles.

13. On indebtedness, the present language of the agenda is acceptable. In the Task Force there were efforts to promote the role of UNCTAD and to change the arrangements in the Paris Club. There were also attempts to suggest a new "multilateral framework" for private debt rescheduling which smacked of direction to banks not only on the terms of rescheduling but also on their subsequent lending to the borrower.

14. On the future of the Task Force, we have no particular points to press, but it could be a useful forum-for discussion of issues. The Task Force was established in 1979 as a technical advisory body of officials. It includes representatives from 15 countries (both developed and LDC) with the UK represented by Mr Kent of the Bank of England. It expects to be wound up after making a final report in September. Thus far the Task Force has stuck commendably to its brief of assessing the practicability of various proposals particularly on co-financing.

IMF/IBRD DEVELOPMENT COMMITTEE MEETING, 22 MAY 1981

Agenda Item 4: Task Force on Concessional Flows

Summary

The question is whether the UK should be prepared to join the proposed Task Force on Concessional Flows, and if so on what terms.

2. It may well be that an American view may have emerged by the time of the meeting.

Points to Make

3. We agree that the Development Committee must keep under review questions about concessional flows. That is after all part of our terms of reference. However we should be quite clear, ^{before taking action,} that it is worth going to all the trouble and expense of setting up a new international Task Force given the comprehensive work on this subject which is already done by the World Bank, the Development Assistance Committee, and others.

4. As far as the UK is concerned, we have of course no objection to the setting up of a Task Force if others think that it would serve a useful purpose. But the value of such a study depends greatly upon its being representative and comprehensive. We in the UK, as one of the major donors, would be willing to play our part if a comprehensive study were decided upon.

5. We think, if there were to be a Task Force, it should be essentially an analytical body. There are questions about, for example, the effectiveness of aid which it might usefully address. There is no point in a Task Force if it becomes another vehicle for criticism of individual OECD countries on the level of concessional funds they make available.

Draft Conclusions

6. We could accept the text as it stands but should prefer to insert "especially by the poorest developing countries" after "concessional assistance" in the second line, and "and effectiveness" after "quality" in the fourth line.

Background

7. In the communique from the last meeting of the Committee, a continuing study of concessional flows was requested. The suggestion of a Task Force was put forward by the Canadians, Dutch, and Nordics. The idea was endorsed by Mr McNamara and M. de Larosiere. Soundings have been taken by the Executive Secretary and by Mr Ibarra when he met the Chancellor in London.

8. Our line has been so far that we would have no objection to setting up a Task Force, but we have not undertaken to participate ourselves. The Americans are believed to be very sceptical and may not agree to participate. If so then the idea may not make progress. However there are clear advantages, if a Task Force were to be set up, in trying to influence the outcome from the inside rather than waiting to be criticized later.

9. We certainly do not want a mini Brandt report. There is no need to be rushed and we should consider carefully, if the idea makes progress, suggestions for the Chairman and terms of reference. We want to avoid the Task Force being used to promote political criticisms of the level of aid in the UK and elsewhere. But it seems inescapable that such a Task Force would have to look at such questions as:

(a) The Brandt Report idea that increasing aid could somehow serve as an engine to soften the effects of the recession in the OECD area.

(b) Questions about the distribution of aid. (We would want to see this.)

(c) Questions about the use which recipient countries make of aid and possible measures to increase its efficiency (again we would want to see this).

HM Treasury

13 May 1981

IMF/IBRD DEVELOPMENT COMMITTEE: 22 MAY 1981

AGENDA ITEM 5: ROLE OF DEVELOPMENT COMMITTEE IN THE GLOBAL NEGOTIATIONS

Summary

There is no prospect of an early launch to the Global Negotiations. The Committee can therefore only re-affirm their concern to make a contribution in due course.

Points to Make

2. No need to speak.

3. (If asked for a contribution). We believe that the Committee will have a role to play during Global Negotiations, on matters falling within its competence. The nature and extent of the Committee's role will only become clear when preparations for Global Negotiations are further advanced.

Essential Background

4. At its meeting in Washington last September, the Committee took note of effort to launch the Global Negotiations and 'expressed its desire to play a very active role'. HMG is determined that the central body of the Global Negotiations should not undermine the integrity of Specialised Bodies such as the IMF and the IBRD by encroaching on their decision-making autonomy. This means that any substantive discussion of matters falling within the competence of the Specialised Bodies should only take place within those bodies.

CONFIDENTIAL

5. The Americans have made it clear to Baron von Wechmar, the President of the General Assembly, that they are not prepared to contribute to further discussion of the Global Negotiations until after the Mexico Summit (22/23 October). A Meeting of the Whole on 5/6 May proved inconclusive. Wechmar will not decide finally until June but further preparations without the Americans seem increasingly unlikely. The G77 have said in the past that they are not prepared to proceed without the US and the feeling of Community Member States is against continuing without US participation. If the Global Negotiations take place at all (which is uncertain) substantive discussions could only get underway in the course of 1982.

6. The balance of representation in the Development Committee is relatively favourable to us. It is a deliberative body which is not constituted to take operational decisions. In considering matters arising in the course of Global Negotiations, we would not be prepared to see the Committee move beyond its proper area of concern (basically, issues related to transfer of resources, concessional and non-concessional flows). It must not trespass upon the competence of the Governors and Executive Committee of the IMF, and should not consider issues bearing on the international monetary system.

7 May 1981

RESTRICTED

IMF/IBRD DEVELOPMENT COMMITTEE: 22 MAY 1981

ITEM 6: PROGRAMME OF ACTION FOR SUB-SAHARAN AFRICA

Summary

Following pressure from some African countries, the World Bank staff are near to completing a study of the problems affecting development in sub-Saharan Africa. This is likely to include proposals for programmes of action, and African representatives at the Development Committee will be keen to gain some kind of endorsement in advance.

Points to Make

2. This is the only item where the wording of the draft communiqué is not acceptable. Depending on how the meeting goes, it may be necessary to try to secure a change in the communiqué at the lunch before Item 6 is reached.

3. Given our objectives on the communiqué, some intervention on this item may be inescapable. The line should be: We fully appreciate that the poorer African countries have major problems and some of them will need a substantial volume of aid for the foreseeable future. This has been recognized both by bilateral and by multilateral donors in the volume of aid which they provide, and (as remarked in the opening speech) the UK has played a major role. Nevertheless we cannot accept a proposal to endorse in principle in advance the case for new initiatives or for special measures or special programmes for Africa. There already are a number of such endeavours. [Details in the Background Note.] The main task now should be to ensure proper co-ordination of all these efforts. Impediments to development in Africa often arise from local problems and local administrative and institutional weaknesses. Given the poor prospects for the supply of concessional funds (as remarked in the opening speech) any additional special action for Africa from the UK could only be at the expense of other poor countries, notably in South Asia. We should not rob Peter to pay Paul. In any case it would be premature for the Development Committee to take a decision in

principle before we had the chance to consider the forthcoming study by the World Bank.

Draft Communique

4. We cannot accept "the principle of an exceptional programme of action".
5. The text should simply indicate the intention of the Committee to study the Bank report when it becomes available with a view to discussing it at the September meeting.

Background

6. (i) Both the World Bank's World Development Report 1980, and the 1980 Review by the Chairman of the OECD Development Assistance Committee (DAC), pointed to the special development problems of sub-Saharan Africa. The World Bank was subsequently asked by the African States, who had drawn up their own Lagos Plan of Action, to conduct a special study of these problems, and the OECD have, for the time being at least, left the running to the Bank. The IBRD Africa Study will present an analysis of internal and external factors inhibiting more rapid growth in sub-Saharan Africa and suggest programmes of action to accelerate growth. The Study will be issued in the next few months.
- (ii) There are several, largely unrelated, initiatives for African development which should also be drawn into the picture. The first is Concerted Action for Development in Africa, or CADA (formerly the Giscard Fund), which is a loose grouping of Belgium, Canada, France,

Germany, the UK and the US established at the end of 1979 as a focus for donor co-operation on new, regional development projects. Second, there is the Southern African Development Co-ordination ("Maputo") conference, designed to find ways of increasing regional co-operation and of reducing their economic dependence on the Republic of South Africa. There is an African Transport and Communications Decade sponsored by the UN Economic Commission for Africa, and along with most other major donors we are about to join the African Development Bank, so increasing its lending capacity. There is also the Club du Sahel, a consultative group consisting of the Sahelian governments, donor countries and aid organisations to assist the region in attaining food self-sufficiency and in raising the resources necessary for longer term development.

(iii) There is therefore no shortage of special emphasis on Africa, and overall we believe there is a danger of over-concentration on that continent. In developmental terms South Asia is needier by virtue of its large population and the fact that it receives proportionally less aid than Africa. In 1979, sub-Saharan Africa received about \$18 per head in net aid, whereas the five countries of South Asia, with a combined population $2\frac{1}{2}$ times greater than that of Africa as a whole, received only \$4 per head: India received only \$2 per head. China is likely to emerge as a potential recipient in the future and this is likely to reduce total flows to South Asia even further.

DEVELOPMENT COMMITTEE: 22 MAY 1981

Item 7 Future Work Programme

Summary

The suggestions for future work are unexceptionable. They include reviewing work in progress in the Bank, the Fund and the Task Forces and in particular the recommendations of the G24 Action Programme and the Brandt Commission.

Points to Make

Agree with the future work programme suggested.

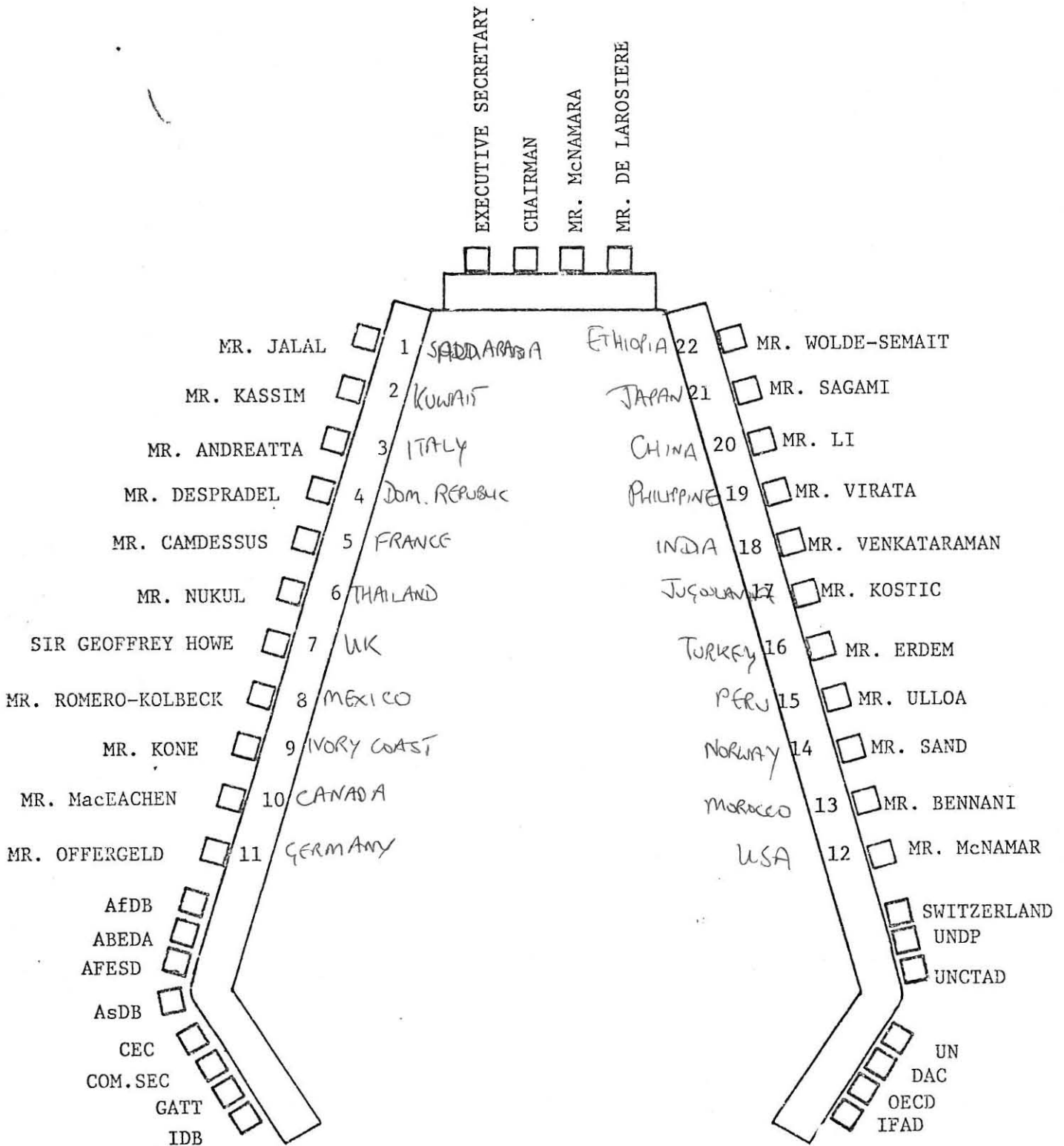
(There is no reference to future work in the draft conclusions.)

Background

It is traditional for the Chairman of the Development Committee to propose some items for future consideration. Work in progress in the Bank, the Fund and the Task Forces is clearly within the Committee's terms of reference.

The Committee is also due to review progress on the G24 action programme and the Brandt report. The G24 "Programme for Immediate Action" was submitted to the Development Committee in September 1979 and has been "kept under review" ever since. The programme covers such subjects as lending by the International Financial Institutions, concessional aid, debt, trade and various IMF facilities. There is nothing very new in the specific proposals: they merely repeat the standard demands of the LDCs first formulated as the New International Economic Order (NIEO) in 1974. The Brandt Commission report covers much the same ground with many specific recommendations aimed at the IMF and IBRD. The individual proposals are being considered by the IMF and IBRD Executive Boards and it will be for the Boards to report back to the Development Committee in due course (probably in time for this year's Annual Meetings in the autumn).

55



ENTRANCE

NOTE: Associates and Executive Directors should take seats bearing the same number as that shown on the microphone of the Member for their constituency.

*2a. Skimmed
Place with books
no copy no Libville.*

cc (whole paper)
PS/Chief Secretary
PS/Financial Secretary
PS/MST(C)
PS/MST(L)
Sir Douglas Wass
Mrs Hedley Miller
Mr Kemp

Mr Anson - Washington

(Annex only)

Mr Barratt
Mr Hancock
Mr Mountfield
Mr Bottrill
Mr St Clair
Mr Atkinson

PRINCIPAL PRIVATE SECRETARY

THE UK'S POSITION IN THE IMF AND THE WORLD BANK

Sir Kenneth Couzens thought that the Chancellor might be interested to see the attached submission by IG3 and AEF1 Divisions on the UK's position in the IMF and World Bank, which may be useful as background to next week's meetings in Libreville.

2. This revised version reflects comments made by Sir Kenneth on an earlier draft. He has not however seen this version.

JKR

Jill Rutter
14 May 1981

6
SIR KENNETH COUZENScc Mr Barratt
Mr Hancock
Mr Mountfield
Mr Bottrill
Mr Atkinson
~~Miss Sinclair~~
Mr St. Clair
Mr Anson - UK STD.

THE UK'S POSITION IN THE IMF AND WORLD BANK

Decisions lie ahead on the size of the UK's quota in the IMF, as part of the Eighth Quota Review; and on the take/^{up} of the UK's share in the forthcoming increase in the capital of the World Bank.

2. These decisions are not imminent. This is not a full brief about them. Our purpose is to suggest that the
... Chancellor ought to see now the attached "scene setting" paper, (by IG3 and AEF Divisions) because the issues are in the air and may be mentioned, in one way or another, at Libreville or perhaps in the margins of ECO/FIN or G5 meetings.

3. On the IMF quota, the expectation must be that, at the end of the day, we shall come down from second place to fourth or fifth in the Fund. But it would be best not to indicate that we have made up our mind to this too early, because a great deal of bargaining is involved, and we would want to make the very best use of any willingness to move. (One would not relish going below fifth : this could well push the UK out of important international groupings.)

4. The process, as explained in the paper attached, is a very long one. It could take as much as two to three years to settle, and then another two to ratify. The first stage is one of complex calculations of a ranking order, on certain criteria. The next step is the process of bargaining from these "calculated" to "actual" quotas. At present the LDCs and OPEC have 33% of actual quotas, which is a much bigger share than their calculated quotas would justify. This has happened because the LDCs have

always argued that in no circumstances may any of their actual quotas ever be reduced. OPEC itself however is under-represented. The UK's current actual quota compares with a fifth place on present calculated quotas. When the figuring was last done in 1978, the UK's actual quota was 50% higher than justified by reference to calculated quotas: our actual quota is the second largest against the fifth largest indicated by calculated quotas. But there were 75 LDC's whose actual quota exceeded their calculated quota by an even wider margin, up to 500%.

5. So there is a lot of inwardness, and scope for battle, - among the industrialised countries as well as between the industrialised countries and the others. And it all impinges on the general question of the G77/G24 demands for 45% of actual quotas next time.

6. Accordingly at the present stage of the process we are deliberately aiming for the biggest calculated quotas for ourselves and our friends that we can legitimately achieve. We shall then be in a position to argue - if we want to - that the UK is not going to be discriminated against; or is not going to give up part of its quota share unless slow-growing LDC's do so too; or will only give up quota share to quota-hungry OECD partners like Germany and Japan.

7. On the World Bank capital there is something of a problem, because of the traditional connection between Fund quotas - which on the whole bestow rights - and World Bank capital shares - which "cost" to the extent of the called-up portion. There could be some political points to consider if the UK were to seek to save money by going for a much lower shareholding. These would be mitigated if it was evident that we were going to go down two or three places in the IMF. Unfortunately we shall probably have to make up our minds on the Bank before we get to the crunch in the Fund.

8. So our advice to the Chancellor, in any informal contacts in the period ahead, is to lie rather low; but in the knowledge

that we are very likely to come down in rank in the Fund and will want to go as far as we decently can in dropping our shareholding in the Bank. Other Ministers would be concerned when it came to decisions on both.

Mr. Allison

for Mr. Hadley Miller.

8 May 1981

7

UK Stake in the International Financial Institutions : Eighth Quota Review and General Capital Increase

Although no decisions on the IMF Eighth Quota Review and the IBRD General Capital Increase (GCI) are required at the forthcoming round of international meetings (G10, Interim and Development Committees), the issues may be raised in the margins of the meetings. There is likely in particular to be some discussion of the GCI in the Development Committee. You may therefore like to be aware of the current position and of UK interests, particularly against the background of the Ministerial decision to move the balance of the aid programme from multilateral to bilateral expenditure.

Background and timing

The IMF

2. Quotas within the Fund are reviewed every five years. The Eighth Quota Review has just started and is not due to be implemented before January 1986. The Review comprises a computation of each member's "calculated quota" based on a fairly objective input of data on national income and importance in world trade and then the determination of actual quotas by a process of bargaining and negotiation. Although matters are complicated by the Fund's decision in the Eighth Review to have a fundamental study of the economic variables and their weighting within the quota formulae, it is likely that the calculated quotas will be settled in early 1983 and the actual quotas determined by the end of 1983. On past precedent there would then be two years for ratification by national governments before the new quotas come into effect in January 1986.

The World Bank

3. The subscribed capital of the World Bank governs the amount which the Bank can borrow in world markets for on lending to developing countries and effectively guarantees those borrowings. Only part of the capital is paid in. The rest is, however,

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callable in certain circumstances and represents a contingent liability. With the exception of some payments to maintain the value of our subscription, the UK has not had to provide any funds to the World Bank since the paid in portion of our original shareholding. The present GCI, approved with British support in January 1980, provides for a \$40 billion increase in capital subscriptions with 7½% paid in. The UK's allocated share of this, based on our existing shareholding is about 8%, the paid in element of which would cost approximately £100 million. The subscriptions to the GCI are due to begin in October 1981 and may be spread over 5 years. Member countries are, however, expected to begin subscribing no later than the Bank's fiscal year July 1982-June 1983 and there will be pressure for early subscriptions to prevent a slow down in the Bank's lending programme.

Parallelism

4. Fund membership (meant to signify a promise of good economic behaviour) is a prerequisite of Bank membership. When the two institutions were set up, it was intended that the initial subscriptions of the original members of the Bank would equal their Fund quotas. Divergences have occurred since 1944 because some countries have failed to subscribe to their authorised Bank shares while taking up authorised IMF quotas or vice versa. But in most cases the discrepancy is not great and parallelism with IMF quotas remains a principal criterion for increases in shareholding in the Bank.

UK Interest : the Fund

5. When Fund quotas were last reviewed in 1978 (the Seventh Review) the UK was assessed on uniform criteria to warrant the fifth highest "calculated" quota. But because the Seventh Quota Review became a generally equiproportional quota increase, the ranking of the major countries was not altered and we retained the second highest actual quota.

6. The Eighth Quota Review is meant to be more fundamental and to change ranking where appropriate. The computations are at a very early stage, but it looks as if once again we would warrant the fifth highest "calculated" quota. The ranking of actual quotas will be expected to move closer into line with the rankings suggested by calculated quotas, though not necessarily into identical alignment.

7. On this basis we would expect our actual quota to slip below second place, certainly behind the US, Germany and Japan, to a ranking close to France. As far as we can judge however it would need a deliberate decision on our own part to downgrade our position to take us out of the top five and go lower than Saudi Arabia, who are now sixth. Canada and Italy are seventh and eighth. But the Saudi economy and exports are growing rapidly, and the gap between the top five and Saudi Arabia may be narrowed in later quinquennial reviews.

8. Once out of the top five we would find the UK's general status, and possibly our continued attendance at some important international Ministerial gatherings, at risk.

9. Against this background, what should be the UK aim? So far as the Fund is concerned there is nothing against retaining as high a quota as we legitimately can. Quotas determine voting power and borrowing rights. The countries with the five largest quotas are entitled to nominate their own Director. The quota does not cost anything. The subscription is a transfer of reserve assets within the Exchange Equalisation Account; it is not voted money and there is no public expenditure implication. And we might sometime find a need to use the borrowing rights.

UK Interest - the Bank

10. The balance of argument relating to the World Bank is rather different. In the Bank we also currently hold second position with about 7.5% of the votes. Considerations relating to voting power and general influence are much the same as in the Fund. But the

paid-in element of our share in the GCI scores as public expenditure on the aid programme. It would be about £100 million over 5 years, if we decided to maintain our present position. Although a reduction in the GCI subscription would not involve annual amounts large enough to have a major effect on the balance between bilateral and multi-lateral expenditure in the aid programme, a willingness to accept a lower position in the Bank might make it easier to achieve a more substantial cut in our contributions to the International Development Association, the soft loan affiliate, where the expenditure at stake is much more significant.

11. Even if a lower UK ranking in the IMF had been established, a decision not to take up all the GCI shares allocated to the UK would need careful handling. The relevant Resolution means that there would have to be a long delay before any gap left by the UK could be filled up by others. So there would be risk to the Bank's standing in the markets. The need to deflect the likely international criticism of the UK would be the more difficult if the IMF change only emerged much later on.

Summary

12. Overall the UK's interest may best be served by :-

- a) Accepting that as a result of the Eighth Quota Review we will slip below second place in the Fund.
- b) Remaining nevertheless within the top five.
- c) Emerging with a subscription to the World Bank in line with our new position in the Fund.

Tactics

13. The tactics are complicated by the different timetables for decision, those in the Bank coming before those in the Fund. Given the ambition of others to increase their Fund quotas, the

UK's willingness to give up quota share provides some bargaining leverage which we would not want to use up too soon; probably not until the haggling begins in earnest in 1983. We would certainly not wish to be singled out at this stage for a discriminatory treatment. And it would be a pity if the outcome in the Bank undermined our negotiating position in the Fund. But these timing issues are awkward, and will need careful assessment as the discussions develop.

IG3 and AEF Divisions

1 May 1981

1.

INTERIM COMMITTEE, LIBREVILLE : 21 MAY 1981

SPEAKING NOTE FOR THE CHANCELLOR

The World Economic Outlook

1. Last September we identified two key problems: inflation and the external imbalance of the non-oil ldc's. These remain the fundamental problems.

/(If raised) Monetary policy has so far carried much of the burden. Appreciate concern about interest rate consequences but unrealistic to talk of engineering a general reduction while inflation remains high and varied. Important that we all continue to seek correct balance between fiscal and monetary policies. These must be consistent.

~~Note that 1981 will probably see a widespread and quite pronounced shift towards fiscal restraint.~~/

Recent Developments

2. Since the last meeting:

(i) noted that experience in reducing inflation and bringing about a recovery in output has been patchy. Output in the US has

/recovered more than

recovered more than some might have expected last year. ~~Despite a slowdown in economic activity in Japan,~~ considerable growth is likely to be achieved this year. But most European economies are rather depressed.

Achievement on the inflation front has also varied widely between countries.

(ii) UK has done well. Annual rate of consumer price increase ^{cut from 22 to 16%} now somewhere near 12 per cent. ^{same period} MLR has fallen ^{5%} 4 per cent to around 12 per cent. We believe that the decline in output is now beginning to bottom out.

(iii) ~~But~~ it would be wrong to paint a wholly gloomy picture:

(a) Output in the OECD area as a whole rose by about 1 per cent last year, compared with a 1 per cent fall in GDP in 1975, at a similar stage after the big oil price increase.

/ (b) The effect

- (b) The effect of high prices on wage inflation has been better contained this time.
- (c) We have made strides in saving oil. In 1980 oil imports by the OECD and non-oil developing countries fell by almost 15 per cent in volume.
~~/There has been some easing in world oil market conditions./~~
- (d) Countries have been more successful this time in maintaining firm, non accommodating policies in the face of the oil price rise. ~~The IMF staff estimate that the annual rate of M2 growth in the major seven economies fell from an average of 12½ per cent in the period 1974-78 to 10 per cent in 1978-80. The slow-down in M1 was even more marked - from 10 per cent to 6½ per cent.~~
- /(iv) Developing

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4.

(iv) Developing countries have been contending with tremendous difficulties. But official and private international financing has again performed the essential job of lubricating the process of adjustment. The Fund has been increasingly used, and I will repeat what I have said on earlier occasions. I encourage countries to come forward to the Fund in good time.

/Future Prospects

Future Prospects

3. But there are no quick or easy solutions.

(i) Anti-inflationary policies have to be persevered with in spite of the fact that they seem so painful in the short-run. The overall inflation performance has been better this time, but inflation is very stubborn and it is not going to be at all easy to get it down significantly further, despite rather slack conditions in many industrialised economies.

(ii) ~~But~~ [!] if we want sustainable growth again, we have to persevere. And we have to accept that the struggle will take time, because inflationary expectations have become so entrenched. The period of painful adjustment will be shortened, and growth will be resumed sooner, where governments and economic agents accept that they must adjust to realities. Sound adjustment does not sacrifice ^{LOW G. 7.62M} growth but makes it possible.

/(iii) I have

It is common A/C practice, 7.
Out of balance, 7.0
Necessary to finance deficits
During periods of adjustment,
by

Recycling

4. (i) ~~While~~ it would be a recipe for ruin to attempt to rely on indefinite flow of funds to finance deficits, ~~the problem of adjusting current account performance can be eased by financing.~~ One reason why we are all here is because of the role of the IMF in helping with the transition. Some very low income countries will need to rely primarily on aid flows. But I continue to be impressed by the extraordinary resilience of the international financial structures. In spite of our forebodings they performed well again in 1980. ~~I have the impression that bankers are rather more confident now of the robustness of the banking system than they were in 1973-74.~~ There is a good prospect of continuing smooth recycling.

Don't know
What is
the answer

/(ii) I hope we

Role of the Fund

5. Much has been achieved over the period since we met in Washington last autumn. ~~Congratulate~~ the Managing Director. Congratulate ourselves, perhaps, that we have managed to make the right kind of decisions, over the last year or so.7

6. Lending: notable increase in new Fund lending and commitments since the arrangements were agreed on what we are now calling Enlarged Access to Fund resources.

7. Total Fund lending and commitments rose from SDR 3 billion in each of the years 1978 and 1979 to SDR 9½ billion in 1980. In the first quarter of this year alone it reached SDR 5 billion.

8. I have been glad to see that larger numbers of ldc's, many of them Commonwealth countries, have turned to the Fund. I am quite sure that it is best to come sooner rather than later, before wrenching turns of policy, most damaging socially
/and politically,

and politically, become inevitable. I am also quite sure that we have to have conditionality. This has, for some, a harsh sound: but what it really means is the effort to find a set of policies which will make the economy sound and sustainable; and which, by giving a promise of improvement, will pave the way for ~~further borrowing and/or debt rescheduling.~~

from the fund + elsewhere.

The Fund's Own Liquidity

ADJUST
COMMUNITY
TEXT

9. (i) Welcome the conclusion of borrowing agreement with SAMA and progress made with OECD Central Banks; hope progress will soon be made with SAMA/type arrangements with other oil-exporting countries. Market borrowing should not be ruled out. The Board should go on with its work to ensure that any obstacle to market borrowing could be cleared away: then if the appropriate moment comes no time need be lost.

(ii) Believe nonetheless that quotas should be the primary source of funds. Welcome implementation of increases under 7th Quota. [Am inclined to think that the result of the 8th Quota Review should lead to a very much bigger Fund. But this will need to be carefully considered by our Executive Board in the first instance.] The 8th Quota Review will clearly be complex because of its fundamental nature, but every effort should be made to keep to the timetable.

/(iii) Have

(iii) Have spoken about need for conditionality:
only an illusion to think that it can be evaded for long. Quota increases will create liquidity in support of adjustment.

[I find myself very doubtful indeed about further SDR allocations, when the world as a whole has so much liquidity and even a relatively small allocation would appear to run counter to national efforts to fight inflation. Even though some individual countries would indeed be happier with bigger reserves, I am inclined to think that, so long as the Fund can go on helping them with quota-related facilities, the case for an allocation is not strong. ~~[Fund facilities are now cheaper than using SDR allocations.]~~]

26th AS
SPD 100
20
G.10

Cereals Facility

13. (i) Welcome the agreement to create this facility within the framework of the Compensatory Financing Facility ~~and commend MD's efforts in achieving this.~~

(ii) But support given by the Fund should be consistent with the IMF's underlying purposes and we think that this new Facility should run initially on an experimental basis. [It may also be appropriate to draw on the following. We are obviously pleased that a form of facility has been found which will not unduly pre-empt scarce Fund resources. We should not encourage the expectation that it will automatically be extended beyond its initial four years.] The Cereals Facility should be seen as a safety net. It should not distract]

By which time the quota review can be well under way

/members from

members from taking appropriate structural measures (e.g. adequate producer prices) to promote an appropriate level and security of domestic cereals supply.⁷

/(If necessary) Interest Subsidies

(If necessary) Interest Subsidies

14. Note the decision to establish the Interest Subsidy Account to reduce the cost of drawings by some developing countries under the Supplementary Financing Facility. Regret that UK unable to contribute within the constraint of our aid budget. Even without subsidy, however, drawings under Fund policies remain noticeably cheaper than commercial loans.

BACKGROUND BRIEFING FOR LIBREVILLE

YUGOSLAVIA

At the end of January the Executive Board of the IMF approved a three-year Standby of SDR 1,662 million for Yugoslavia on the basis of a programme essentially the same as that agreed only six months earlier and in much more adverse economic circumstances for a Standby less than one quarter the size (SDR 339,325 million). The paper prepared by the Fund Staff was disturbing in a number of respects, mainly in so far as the Staff appeared to have accepted, virtually without question, several somewhat optimistic assumptions and forecasts made by the Yugoslavs, with the result that very substantial Fund resources were committed over a long period before full details of the Government's medium-term economic strategy were even available, let alone analysed.

2. The main criteria of the Yugoslav authorities were stated to be to improve the balance of payments and to lay the foundation for sustained growth in output. Reports so far this year from Belgrade have only served to reinforce our opinion that the Federal Government of Yugoslavia is very far from able to implement adequate measures to control the economy. Against a target of 32 per cent for the year as a whole, retail prices rose by 16 per cent in the first quarter alone, representing a year-on-year increase of almost 50 per cent. At the same time industrial production decline, and while imports from the West fell by 7 per cent, exports to that area, far from growing by the 8 per cent envisaged by the Yugoslavs, fell by 21 per cent. It is now clear that apparent improvements at the end of last year were due only to administrative controls and were not sustainable in the longer run.

3. There are therefore very serious implications for financing the current account. The forecast \$1.8 billion deficit represents scant improvement on 1980, when the Yugoslavs experienced great difficulty in finding the necessary credit. The Fund's three year SBA may serve to buttress Yugoslav creditworthiness for a while, but as the poor performance becomes more widely known there

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is likely to be renewed concern which, combined with the backlash from Poland, could lead to further problems this year with the international capital markets.

4. Yet Yugoslavia faces a major problem in servicing existing indebtedness which, at end-December, 1980 amounted to approximately \$18 billion. The IMF judgement that the Yugoslavs should have no difficulty in financing their projected \$6 billion cumulative current account deficit over the next three years seems excessively optimistic.

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Folder 1

G. 10 pps

Interim c'tee paper & brief

Dev't c'tee pps & briefs

W Potts
- 700 many
MAY 70
CROSS
CL. ST. ST. ST.
FORDS
WMS

Folder 2

Int. c'tee speaking notes

Dev't c'tee speaking notes

Dev't c'tee draft communique & comments on it.

Folder 3

Admin arrangements

Other misc pps.

11/26 mention over 26 months

- 81/2: APPX:
- 11/26 POLICY: 7 EXT
 - U.S. GROWTH FORECAST
 - U.K. GROWTH FORECAST
 - REMOVAL OF FISCAL STIMULUS

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SIR K COUZENS

cc Principal Private Secretary ✓
Mr Hancock
Mr Bottrill
Mr Atkinson
Mrs Gilmore
Mr Gilchrist (Bank of
England)

MEETING OF G10, LIBREVILLE
20 May 1981

I attach a brief, based on the G10 Deputies Meeting
on 14 May.

2. I am afraid that it goes over again what is becoming
very familiar ground.

3. I shall be asking Mr Gilchrist if he will kindly
take copies of the brief - as endorsed - to Libreville
on Tuesday, for Mr Anson, who will be holding the fort
until we arrive.

MRS M E HEDLEY-MILLER

15 May 1981

BRIEF FOR MEETING OF G10 MINISTERS AND GOVERNORS,
LIBREVILLE, GABON, 20 MAY 1980

Mr McEachan (Canada) will be in the Chair. This is not by election; the Chairmanship rotates, by name of country in alphabetical order in French, at the time of the Annual Meetings. There will have been no luncheon for Finance Ministers to discuss Mr McEachan's wide-ranging ideas about the world and the system; this proved too difficult to arrange.

2. The Finance Ministers of France, Germany and Holland will not be present.

3. Mr Anson will represent the UK until the Chancellor and Governor arrive.

4. The meeting is in preparation for the Interim Committee meeting on the following day. On past form it seems unlikely that Ministers and Governors will want to be very vocal, though Mr McEachan may have ambitions to keep a discussion going, perhaps seeking to influence it in the Canadian (softish) direction. And Secretary Regan may wish to take the opportunity to outline the new US Administration's approach to international monetary affairs. This would be a useful antidote. As the Chancellor knows, his general line is rather

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hard for the tastes of some, but chimes very well with the Treasury's view that the Fund has rightly made immense efforts recently to help to finance balance of payment deficits, but is in danger of going a bit overboard, and not paying enough attention to conditionality and the necessary adjustment of policies.

5. One reason why Ministers and Govenors may not feel that they have much to say is that the ground has been prepared by a meeting in Paris (on Thursday 13 May) of the G10 Deputies. Herr Lahnstein, now of the Federal Chancellor's Office in Bonn took the Chair for the last time. He will not be in Gabon. S.Dini, of the Banca d'Italia, until recently Italian Executive Director in the Fund, has taken his place, and will make the report in Libreville. This report may well be available in writing beforehand. (S. Dini's english is excellent).

World Economic Outlook

6. On the world economic outlook the report is likely to say that there is broad acceptance of the picture painted in the IMF document SM/81/1 (not to all). The outlook is disturbing, with the prospect of stagflation, of continued current account imbalances and of problems in the financial markets arising from the complex of interest rate and exchange rate relationships. Some LDC's will be very hard hit - though it is always a mistake to aggregate them. The position varies among individual countries and groups of countries.

7. But the G10 Deputies were unanimous in making a point the Chancellor has had much in mind and which we had already tried to reflect in the first draft of his Libreville speech. They wish to recommend to Ministers and Govenors that - without being complacent or misrepresenting facts - it would be a great mistake for the impression to be left after the Interim Committee meetings that all is gloom. This is not merely in order to fend off LDC demands, and to prevent undesirable signals from being given for summits and other international gatherings later in the year. It is bad psychology generally. It could help to make a bad situation worse.

8. The good, or at least promising, points identified by the G10 Deputies were:

- a) Recycling has gone smoothly.
- b) Adjustment has been better managed this time.
- c) Investment is holding up rather better, partly because wages have reacted more moderately.
- d) There has been real achievement in reducing oil use - not merely a reduction reflecting the recession. The OECD Secretariat calculate that oil use per unit of GNP has come down by 18% over the last three years.
- e) [There will be good effects, perhaps later on this year, as the depreciation of the European currencies against the dollar begins to show the benefits on the up-side of the J curve.]

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9. They may be some reference to the importance to the rest of us of US policies, but avoiding anything too detailed either on the techniques of the monetary control, or on appropriate policy mixes.

10. There will be a strong reference to the importance of maintaining the general anti-inflationary stance to the industrialised countries. There should be no let-up, in spite of short-term costs to production and employment etc.

11. There will be a reference to the danger of increased protectionism, and a reference to the need to help the LDCs- but with emphasis also on the ineluctable necessity of their adjusting their policies; perpetual financing is no remedy for a healthy economy.

Comment by the UK

12. For the UK there would be no need to do more than offer support for this broad appraisal. If it were desired to elaborate, the material for the Chancellor's intervention at the Interim Committee could be drawn upon.

Other Interim Committee Topics

13. On enlarged access to the IMF and borrowing to make this possible, the points made in the G10 Deputies' meeting were:-

- i) That there had been considerable achievements since the last Interim Committee.

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- ii) That market borrowing, though not to be ruled out was not attractive (changing the character of the Fund etc), but most recognised the strength of the argument that it would be as well to be ready to borrow so as to ensure that the Fund did not become too dependent on the Arabs.
- iii) That the Managing Director might be over-estimating his need for funds. If, as seemed possible, the Fund was over-liquid, there was a danger that it might go touting for business. There should be less emphasis on the so called "needs" of the developing countries, and more on the problem of achieving more sustainable balance of payment positions, calling on financing only to lubricate the process of adjustment. The Fund must be careful not to tarnish its image.

14. The UK could broadly accept this, and could endorse in particular the concern that the IMF must maintain adequate conditionality in order to promote the adjustment which, however painful, it is in the best interest of countries to pursue.

15. The 8th Quota Review is not on the Interim Committee Agenda, but is likely to be mentioned in the report to Ministers and Governors. Some among the G10 countries want to ~~ex~~celerate the review process. It would however not be productive for Ministers and Governors to debate the matter impromptu; there are no Executive Board documents ready. But the report may mention the necessity of "respecting" the present timetable.

It may incidentally not be true that a procedure to bring about an equi-proportional increase would take noticeably less time than the procedure to bring about selective increases, which most IMF Members favour. Member countries would have to get legislative authority for any increase, and it is this which takes a lot of time.

16. The UK could endorse the proposition of moving with all reasonable speed so as to stick to the present timetable.

17. On SDR allocations only Canada, Belgium and France show any disposition to say that there should be an allocation in the fourth basic period. Other G10 countries are hostile or very hostile. (It is not know yet how the report will convey this message).

18. The UK line could be "to share the doubts of those who believe that the state of world liquidity does not justify an SDR allocation, and that something which would - in however small a degree - be inflationary would give a wrong signal, given the great efforts which are still being made nationally to quell inflation".

19. The report will note the position reached on the Subsidy Account for the Supplementary Financing Facility (the UK is not contributing); and on the Cereals Facility.

MEH-M

18 May 1981

PRINCIPAL PRIVATE SECRETARY

cc Financial Secretary
 Sir K Couzens
 Mr Barratt
 Mr Hancock
 Mrs Hedley-Miller o.r
 Mr Mountfield
 Mr Wiggins (own copy)
 Mr Bottrill
 Mr Anson (via Mr Gilchrist)
 Mr Price (UKTSD)
 PS/Governor B/E
 Mr Loehnis "
 Mr Gilchrist "
 (2 copies)

IMF : SPEAKING NOTE AND BRIEFING FOR INTERIM COMMITTEE

I attach a draft speaking note for next Thursday's Interim Committee meeting together with the agenda, briefing on the agenda items, and background notes on two problem countries (Poland and Turkey). We will be submitting early next week a note on the PLO and also the Fund Reports set out in the Agenda as and when they arrive.

2. The draft speaking note has been prepared along lines suggested by Sir Kenneth Couzens and Mrs Hedley-Miller, although they have not yet seen it. In particular it may need some shift of emphasis depending on the thrust of discussion in the G10 and G5 Deputies yesterday. The Interim Committee may take the two items on the agenda (World Economic Outlook and Fund Policies) together or at separate sessions: in the latter case the speaking note can be split fairly readily into two.

3. On both items the ground has been fairly well trodden before; the priority of fighting inflation, the imperative of adjusting to higher oil prices, and the need for Fund liquidity to be firmly linked to adjustment and not allocated on an unconditional basis. We have injected some hopeful noises on the world economic outlook to counter what seems to us an over-gloomy outlook on the Fund's part.

M H Atkinson
 M H. ATKINSON
 15 May 1981

ICMS/Doc/81/

April , 1981

INTERNATIONAL MONETARY FUND

INTERIM COMMITTEE OF THE BOARD OF GOVERNORS
ON THE INTERNATIONAL MONETARY SYSTEM

There follows the provisional agenda for the Sixteenth Meeting of the Interim Committee, which is to be convened at 9:30 a.m., on Thursday, May 21, 1981 in the Palais des Conférences, Libreville, Gabon.

PROVISIONAL AGENDA

1. Adoption of Agenda
2. Approval of Minutes of Fifteenth Meeting
(September 28, 1980)
3. World Economic Outlook
4. Fund Policies
 - (a) Report of the Managing Director on developments concerning enlarged access to the Fund's resources and the financing of the institution
 - (b) Report of the Executive Board on SDR Matters
 - (c) Report of the Executive Board on Fund assistance in connection with fluctuations in food import costs
 - (d) Report of the Managing Director on the Subsidy Account for the Supplementary Financing Facility
5. Other Business
6. Press Communiqué

ANSON, JOHN
ROOM 11-120

01

EBD/81/90
Supplement 2

April 23, 1981

To: Members of the Executive Board
From: The Secretary
Subject: Proposed Agenda for the Sixteenth Meeting of the
Interim Committee

The Chairman of the Interim Committee, The Honorable René Monory, has approved the attached provisional agenda for the sixteenth meeting of the Committee, which is being dispatched to the members.

Attention is drawn to a change in wording in Item 4(a) of the agenda in which "...borrowing by the Fund" is changed to read "...the financing of the institution" to reflect, as noted in the Board discussion on April 15, the fact that under this subitem other aspects than borrowing, notably the Eighth Quota Review, would be covered in the report of the Managing Director.

Att: (1)

Other Distribution;
Department Heads

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IMF INTERIM COMMITTEE 21 MAY 1981

Item 3 World Economic Outlook

Line to Take

1. See speaking note.

2. (If raised) Monetary policy has so far carried much of the burden. Appreciate concern about interest rate consequences but unrealistic to talk of Engineering a general reduction while inflation remains high and varied. Important that we all continue to seek correct balance between fiscal and monetary policies. These must be consistent. Note that, 1981 will probably see a widespread and quite pronounced shift towards fiscal restraint.

Background

The Outlook

3. Fund forecasts for 1981 and 1982 are based on unchanged real oil prices from their 1981 Q1 level; and average exchange rates as at January 1981.

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4. The GNP forecasts confirm generally accepted picture of deeper than expected recession and only modest recovery in 1982. Output in the major 7 is forecast to rise by 0.9 per cent this year (1.6 per cent at an annual rate in the second half) and by 2½ per cent in 1982.

5. Aggregate picture conceals quite large differences between countries. Europe lags behind Japan and the US. In the US there is fairly general agreement that recent strong GNP growth (6.5 per cent annual rate in Q1) will taper off. But for both 1981 and 1982 staff forecasts imply much more weakness than envisaged either by US Administration or most private projections. The Staff expects growth of 1 per cent in 1981 and 1½ per cent in 1982. We understand that the staff has been heavily influenced by the Fed's internal forecasts.

6. In Japan, the staff expects 4 per cent GNP growth in 1981 and 5½ per cent in 1982. Japanese output has been substantially insulated by external demand which in 1980 accounted for three-quarters of overall GNP growth. In 1981 domestic demand should be much more important, with export growth rather less buoyant and a rise in real incomes. The Fund expects domestic demand to grow twice as fast in 1981 (3.2 per cent) as in 1980. This may be a bit optimistic. The 1981 Japanese budget includes the smallest increase in public spending and the largest increase in taxation for over two decades.

7. In the main European economies, the staff, like the Commission, expects GNP to fall by 0.5 per cent in 1981, with declines of 2.8 per cent in the UK, 1 per cent in Germany and Italy and a rise of 0.8 per cent in France. The UK figure is higher than the 1.9 per cent in the FSBR but there seems no great need to draw attention to this.

8. Consumer Price inflation in the industrial countries is expected to come down from 12 per cent in 1980 to 9½ per cent this year and under 8 per cent in 1981. The Fund is a bit less optimistic though about domestically generated inflation. It forecasts (probably realistically) that the average GNP deflator will be around 8½ per cent in 1981 the same as last year and considerably above the average of 7½ per cent in 1976-'79.

9. The Staff expects the OPEC current account surplus (excluding official transfers) to fall from \$112 billion in 1980 to around \$100 billion in 1981. This is much in line with our own view. We agree too that the counterpart of this reduction is likely to benefit the major 7 exclusively. Their combined deficit of \$19 billion in 1980 is expected to swing to a surplus of \$6 billion this year. This implies (a) no change in the deficit of the smaller OECD countries, many of whom already face external constraints; and (b) an increase in the combined LDC deficit (from \$80 billion in 1980 to perhaps \$97 billion in 1981). The Staff's forecasts suggest that, contrary to the experience of 1975-76, ldc's will be able to maintain import volume growth; at some 5 per cent in 1981. Much will depend on the sustainability of financial flows. It may be that the ldc's will be under rather more potential pressure to adjust than the Staff believes. It is noteworthy here that the Staff believe that 40 non-oil ldc's are pursuing economic policies which are more expansionary than the Staff regard as appropriate or desirable, in half the cases substantially so. The significance of oil imports is also noteworthy. The increase in the oil bill of oil-importing ldc's from 1978 to 1981 was nearly \$55 billion, equivalent to the whole of the increase in their current account deficit.

Policies

10. The Fund paper on the situation of the industrialised countries notes that between 1978 and 1980 the average rate of monetary expansion (M2) in the main economies fell by 2.3 percentage points in relation to the growth of nominal GNP. It expects a further tightening this year on the basis of published monetary targets.

11. Fiscal policy has developed rather differently in the US than elsewhere. The US Federal deficit increased in 1980 from 1½ per cent to GNP to 2½ per cent. This reversed a steady decline between 1975 and 1979 and was out of line with what happened in almost all the other major countries. For 1981, budget plans indicate a widespread and quite pronounced shift towards restraint; although discretionary fiscal contractions will be partly offset by the automatic stabiliser effects of recession, almost all the main countries are planning to reduce the expansionary impact of government fiscal balances. The Fund measures the fiscal impact of budget balances as the difference between the actual balance

and the cyclically adjusted balance (ie what it would be if government expenditure grew in proportion to potential output and tax revenue in proportion to actual GNP). Changes in the impact from year to year indicate the broad thrust of fiscal policy. The following table shows the changes in 1981 or the main countries (calculated on the basis of central government budget balances).

Change (from previous year) in the impact of the fiscal balance.

	<u>US</u>	<u>Canada</u>	<u>Japan</u>	<u>Germany</u>	<u>France</u>	<u>Italy</u>	<u>UK</u>
1981	-1.0	-1.1	-1.1	-0.4	-0.3	-0.8	-2.6

INTERIM COMMITTEE : 21 MAY 1981

Item 4(a) Report of the Managing Director on developments concerning enlarged access to the Fund's resources and the financing of the institution.

Line to Take

See speaking note.

Background

1. At its last meeting the Interim Committee endorsed the Board's guidelines on enlarged access to Fund resources (which allowed access of up to 200 per cent of quota per annum for three successive years); encouraged the speedy implementation of the Seventh Quota Review, to raise the Fund's ordinary (subscribed) resources from approximately SDR 40 billion to SDR 60 billion; agreed that the Fund would need to supplement its resources through further borrowing (which might include recourse to the private markets if this were indispensable), and endorsed the Board's intention to begin preparatory work on the Eight Review of Quotas.

2. In the last eight months the Fund has done much to put into practice the aims of the Committee. By the end of 1980 virtually all members had consented to the proposed increases in their quotas and had made the necessary subscription payments to the Fund. (In addition to this SDR 20 billion increase in quotas the special quota increase for Saudi Arabia which was approved in April this year will raise the Fund's ordinary resources by a further SDR 1 billion.)

3. The Fund has committed large sums under its enlarged access policy. Total Fund lending and commitments rose from SDR 3 billion in each of 1978 and 1979 to SDR 9.5 billion in 1980. In the first quarter of 1981 it reached 5 billion. Since the last Interim Committee major extended programmes have been agreed with Morocco, Bangladesh, Pakistan, Sierra Leone, Ivory Coast, Jamaica, Zambia.

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4. Following the 50 per cent increase in quotas the Fund has adjusted its annual access limits which now stand at 150 per cent of new quota for three successive years with a limit of 600 per cent of quota on overall access to Fund resources including outstanding borrowings. The new annual limits represent a further increase in access since for most members 150 per cent of new quota is equivalent to 225 per cent rather than 200 per cent of old quota. The Managing Director proposes a further review of these limits at the end of 1981. The large numbers of LDC's agreeing major programmes suggests that Fund Conditionality is less inhibiting than it was. Some developed countries - including the UK - are concerned, especially now that the amounts available are much larger, that the Fund Staff might not always be as rigorous as they should when they assist members to draw up adjustment policies in conjunction with the use of Fund resources. Through our interventions in the Executive Board and through informal discussion with the Staff we have been indicating our concern that Fund conditionality while applied sensitively, should not be relaxed. In recent months de Larosiere has shown a greater willingness to keep the reins short and we hope that he will continue to do so.

5. In order to carry out its enlarged access policy the Fund foresees a need to borrow 6-7 billion pa in 1981, 1982 and 1983. The Fund has already gone some way to covering its expected borrowing needs. Agreement has been reached with SAMA for loans worth SDR 8 billion which could be drawn down in the two years from May 1981. (the agreements were signed on 7 May). Loans from other OPEC members (SDR 1 billion pa from the UAE and perhaps SDR 2 billion pa from Kuwait) may be forthcoming, but these countries may try to link their lending to PLO attendance.

6. A number of OECD countries (but excluding the US who plead Congressional Difficulties) have been invited to lend to the Fund. The Fund has in mind short-term borrowing arrangements amounting to rather more than SDR 1 billion- these could be rolled over to meet the Fund's needs between now and the Eighth Quota Review (which we expect to be completed by end-1983 with implementation sometime in 1985.) Several of the participants will lend through the BIS because of political or presentational difficulties in lending direct. The Fund has concluded an outline

agreement with the BIS. Of the rest, the UK has agreed in principle to lend SDR 150 million in a bilateral agreement on terms expected to be comparable to those agreed for the BIS facility. Technical provisions remain to be negotiated.

7. In addition the Fund is continuing to look into the practicalities of possible market borrowing, and the UK has indicated in the Executive Board that it would be content to see the Fund approach the market for a early pilot borrowing of, say, SDR 500 million to test the water with a view to borrowing larger amounts later should the need arise. De Larosiere appears to be thinking that much larger amounts could be raised in this way but a number of Fund members are opposed in principle to market borrowing.

8. Preliminary work has already begun on the Eighth Quota Review. At its last meeting the Interim Committee stressed its view that the Fund should continue to place primary reliance on quota subscriptions as a source of financing the Fund's operations. We agree with this and take the line that borrowing should be of a temporary nature to finance enlarged access until the Eighth Quota Review is in its place.

9. It is not clear when this will be. Under the Fund's Articles the Board of Governors shall at intervals of five years conduct a general review of quotas. The deadline for formal agreement on the Eighth Review is therefore the end of 1983. There is however likely to be pressure for earlier agreement, especially as implementation of quota agreements can be slow (two years in the case of the Seventh Review). However, while the last Review, which was simply a 50 per cent pro rata increase, the Eighth Review will examine the underlying criteria and formulae in quota calculation. It cannot therefore be rushed. The Executive Board will consider the appropriate size of overall increase in the summer. We are likely to support what we would consider to be a substantial increase, raising total quotas from SDR 60 billion to, say, SDR 100 billion/120 billion. The increase will need to be large enough to replace current and prospective borrowing plus something to reflect continuing oil imbalances and need firm adjustment finance. (Limited calculations by the Fund Staff suggest that if the relationship between quotas and world trade which ruled in the late 1960s is to be restored a threefold increase in quotas would

be needed). In private we would hope that the prospect of a substantial quota increase would reduce ldc pressure for further allocations of SDR (see 4b below) since we would far prefer the Fund to increase its conditional than its unconditional sources of finance.

May 1981

IMF INTERIM COMMITTEE : 21 MAY 1981

Item 4(b) Report of the Executive Board on SDR Matters

Line to Take

See speaking note

Background

1. In September the Interim Committee welcomed the Fund's decisions to simplify the SDR; asked the Board to give early consideration to the question of adjusting the SDR interest rate; noted that the Board had begun to examine the G24 proposals including those relating to the SDR; asked the Board to give active consideration, in the months before the Gabon meeting, to the appropriate level of SDR allocations; and agreed that the Board should carry out a more comprehensive study of a possible link between SDR allocations and development finance. The Executive Board's report concentrates on the changes that have taken place in the SDR basket (WEF 1. 1.81) and in the SDR interest rate and the rate of remuneration (wef 1. 5.81). Ldc directors will, however, wish to focus attention on the questions of further SDR allocations (on which no consensus has emerged) and on the "SDR Aid Link" on which even less progress has been made since September.

2. The UK has supported the various decisions on the SDR which have been taken in recent months: the simplification of the SDR from a 16- to a 5-currency basket, the raising of the rate of interest on the SDR from 80 per cent to 100 per cent of the Fund's calculated combined market rate which will make the SDR a more attractive reserve asset to hold; and the elimination of the 15 per cent reconstitution requirement which will allow members more freedom to use the SDRs allocated to them.

3. These steps have already caused a surge of private interest in the SDR as a unit of denomination. This interest has been further quickened by Fund borrowing denominated in SDRs. Larosiere has argued that the SDR denomination can serve as a 'stabiliser' of the multiple reserve system which is now developing. We agree that it could have a useful if limited role here, and that

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members should encourage the development of SDR denomination. Under the Articles members have an obligation to promote the SDR as "the principal reserve asset in the international system." It would be useful to have this obligation construed as embracing SDR donominated assets generally and not simply SDR's issued by the Fund.

4. The question of further SDR allocations beyond 1981 is likely to be one of the key issues in discussion. Allocations are normally agreed for "basic periods" of 5 years (although the Fund can agree a shorter period). Total allocations so far amount to SDR 21 billion as follows:-

- First basic period (1970-72) : SDR 3 billion pa.
- Second basic period (1974-78) : nil
- Third basic period (1979-81) : SDR 4 billion pa.

The managing director would normally be expected to make a proposal for allocations in the next basic period by the end of June. He is pushing hard for agreement (which requires 85 per cent majority) and may choose to express his own views as well as those of the Executive Board at the Gabon meeting. In summing up a Board discussion in April he expressed his hope that the Fund will have "a positive session in Gabon that will give us the necessary guidance to achieve - perhaps a little later but in any case before the Annual Meetings - a general consensus". Despite ldc talk of annual allocations of SDR 10-12 billion or more de Larosiere has acknowledged a need for caution and appears to have in mind agreement on annual allocations of some lower figure during a three rather than a five-year period. He was however loath to accept the possibility of a nil allocation: the vague wording of the present report was introduced at the insistence of the UK and others.

5. Hitherto the fairly widespread scepticism towards fresh allocations expressed in G5 and elsewhere has not come through very clearly in the Executive Board. In particular the US has not given the sort of positive lead that we might have expected. It is possible that Larosiere and some of the minor industrial countries may have formed the view that the principal aim of the major countries was merely to delay any decision until after Gabon.

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IMF INTERIM COMMITTEE : 21 MAY 1981

Item 4(c): Fund Assistance in Connection with Fluctuations in Food Import Costs - the Proposed Cereals Facility.

Line to Take

See speaking note.

X It may also be appropriate to draw on the following. We are obviously pleased that a form of facility has been found which will not unduly pre-empt scarce Fund resources. We should not encourage the expectation that it will automatically be extended beyond its initial four years. The Cereals Facility should be seen as a safety net. It should not distract members from taking appropriate structural measures (eg. adequate producer prices) to promote an appropriate level and security of domestic cereals supply.

Background

1. The proposed Cereals Facility is intended to provide balance of payments support for meeting exceptional and unavoidable increases in the cereals import bills of low-income countries, particularly following crop failures or surges in world cereal prices. Included as a suggestion in the Brandt Commission report, it has received strong support from the Managing Director. At the Interim Committee last September the MD spoke out strongly in favour of the idea, advising the Committee that assistance would be temporary and reversible, consistent with the Fund's authority and objectives, and would have a limited impact on its liquidity. The Interim Committee, noting the views of the MD, urged the Executive Board to give prompt consideration to the matter.

2. Developed countries, except France, have tended to be lukewarm towards the idea of a Cereal Facility fearing that if Fund assistance with low conditionality is given for one kind of import, it might subsequently be extended to other items (eg. oil). This in turn could undermine the incentive for members to adopt traditional Fund programmes focussing on the overall balance of payments and incorporating appropriate elements of adjustment. It was felt that the financing of Cereals Imports

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was an area best left to the specialised international agencies. Despite their reservations, however, most developed countries have been willing to compromise in the face of the MD's commitment, the political problems of outright opposition on the issue and the Staff's estimates that the amount of additional finance at stake is quite small (SDR 180 million over 1981-5).

3. The proponents of a completely new, additional facility have in turn been prepared to compromise. The outcome is that the Cereals Facility is to be incorporated within the Fund's existing Compensatory Financing Facility, which compensates LDC's for short-term export shortfalls beyond their control (ie. cereals imports will be treated as 'negative exports'). The amount that can be drawn under the CFF is at present 100 per cent of quota. This is to be increase to 125 per cent of quota for the two facilities combined, with the proviso that not more than 100 per cent of quota can be drawn on account of export shortfalls alone or on account of extra food imports alone. Individual members may opt to continue to have their eligibility for the CFF calculated on the existing basis(ie excluding cereals imports); but if they decide to include cereasl imports, they are bound to that decision for three years or the initial life of the Facility whichever is the shorter. The Cereals Facility has an initial life of four years with a review after two years. We should not encourage the expectation that it will automatically be extended thereafter, though this is of course a strong possibility if a more appropriate way of financing food import surges has not been found by then.

Item 4 (d): Subsidy Account for the Supplementary Financing Facility

Line to Take

Maintain a low profile in the Committee. We cannot contribute either in the form of donation or loan. As we have pointed out to the MD this is because of prior aid commitments within an aid programme subject to constraints. SFF resources are used in conjunction with quota-based resources: taken together the package offered by the Fund is still concessionary without any interest subsidy.

(Privately to MD) Wrong to hold out hopes that the UK might be able to contribute beyond 1982.

Background

The SFF Subsidy Account, which was established in December 1980 will reduce the interest cost of SFF-financed drawings to low-income members of the Fund. The full rate of subsidy under the Subsidy Account will be a maximum of 3 per cent but will not reduce the cost of SFF-financed drawings (a floating rate which for the first half of 1980 was 11.575 per cent) below the rate of interest paid on accompanying ordinary resources (6.25 per cent). Some 69 members of the Fund will be eligible for the subsidy, fourteen others for the subsidy at half the full rate. Even without the subsidy, however, drawings under the package of SFF and Ordinary resources remain noticeably cheaper than commercial loans.

2. The Account will be mainly financed with some SDR 750 million of Trust Fund loan repayments. As the funds arising from Trust Fund loan repayments are not expected to be available in sufficient amounts until 1983-84, the Managing Director has, in addition, sought to raise bridging finance of some SDR 250 million through voluntary donations, half from OPEC and half from OECD countries - following approximately the pattern of contributions to the Oil Facility Subsidy Account. Of the 26 members approached by the MD, 14 have given favourable replies but most are conditional upon adequate participation by other members or groups of members.

Only the offers from Belgium, Gabon, the Netherlands and Saudi Arabia were unconditional (although the latter is apparently subject to review.)

3. The UK (notionally earmarked for SDR 14.4 million) and the US, have said from the outset that they are unable to contribute. Others, eg. Germany and Japan, are also not contributing, at least initially. The initial unfavourable response of members has prompted the MD to suggest the possibility of a loan on which a modest 0.5 - 3.0 per cent per annum would be paid. The UK has already indicated that neither grants or loans could be accommodated, either this year or in 1982 and 1983, within an aid programme which is already more heavily committed to multilateral expenditure than Ministers would wish.

3. The MD has subsequently (April 20th) written to the Chancellor (and possibly others) expressing the hope that we might after all contribute beyond 1982 and he may raise this directly with the Chancellor at Libreville.

POLAND

Poland's 15 major creditor governments have agreed (subject to bilateral negotiations) to reschedule 90% of official granted or guaranteed debt falling due between 1 May and end-1981, with a grace period of four years and repayment over the next four. Barring repression (and assuming that the Poles meet their economic targets) the exercise is expected to be repeated in subsequent years. It is not however expected that so high a proportion would be rescheduled in future years, particularly if Poland achieves her objective of joining the IMF and becomes eligible for assistance from that quarter. The Poles are now, as required under the rescheduling agreement, seeking comparable relief from other creditors. Commercial banks have agreed to tolerate payments' delays until 30 June, by which time it is hoped to have an agreed rescheduling in place: it will obviously be a difficult task to reach agreement with the 460 creditor banks. These reschedulings give Poland a breathing space, but there is little sign that they are making the best use of it. Production (particularly of coal) has declined at a time when wages have risen by 18½%, and it has proved politically impossible to bring supply and demand into line through the price mechanism. It has now been agreed to ration several products - though there is no guarantee that rationing quotas can be filled.

Polish projections assume that the trade account will move into surplus in 1982 and the current account in 1986; in the meantime they expect to be supported by further inflows of capital leading to debt peaking at some \$35 billion by 1985. Clearly there is a limit to how much new money governments and banks will be willing to provide without evidence of economic improvement, and if Poland is to have a chance of financing an economic recovery the authorities must design, and implement, a realistic medium-term policy in the very near future.

Although Polish accession to the IMF would in many ways be welcome to Poland's creditors the Fund Staff would need to find their way

rough the Polish economy with some caution; the IMF's relations with other centrally planned economies have not been too successful, with far too little critical analysis of the programmes devised to support drawings in the higher credit tranches.

TURKEY

As a result of a strict IMF programme and the improved determination of the country's leaders to adhere to it, the economic situation in Turkey has shown a striking improvement. Inflation over the three months December to February fell to an annualised rate of around 50% compared with over 100% a year ago, exports are 80% up on the same period and remittances are up 100%. This indicates that the Fund restrictions on the rate of monetary growth and credit expansion are taking effect, though it is disappointing that no further fall in inflation is predicted for the rest of the year, in view of the weakness of domestic demand and the improved supply of goods.

However, it is far too early for any relaxation in restrictive policies and the increase in public sector credit limits is somewhat worrisome. The size of the prospective financing gap (\$2 billion according to the latest Fund paper) necessitates continued tight control of imports by the public sector. Furthermore not enough has yet been done to reduce the very high operating losses of the State Economic Enterprises. Overmanning, underpricing and inefficient bureaucratic administration have allowed the high losses to continue and the accumulated payments arrears (admitted by the Turks but not quantified) mean that the actual trading position remains worse than that suggested by the published accounts.

The time has now come for the Fund Staff to produce a detailed breakdown of Turkey's external debt position including maturities. The figures given by the Turkish News Agency (Anka) of total debt of \$17.8 billion at end-1980 (\$2.35 billion increase on the previous year) indicate that rescheduling and aid have caused a significant increase and if creditors are to be able realistically to assess the prospects of Turkey's full rehabilitation a maturity breakdown is urgently required.

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PRESS COMMUNIQUE OF THE MINISTERIAL MEETING OF THE
GROUP OF TEN ON MAY 20, 1981 IN LIBREVILLE

1. The Ministers and the Central Bank Governors of the ten countries participating in the General Arrangements to Borrow met in Libreville on May 20, 1981, under the chairmanship of Mr. Allan J. MacEachen, Deputy Prime Minister and Minister of Finance of Canada. The Managing Director of the International Monetary Fund, Mr. Jacques de Larosière, took part in the meeting, which was also attended by Mr. P. Languetin, Vice Chairman of the Governing Board of the Swiss National Bank, Mr. E. Van Lennep, the Secretary-General of the Organization for Economic Cooperation and Development, Dr. G. Schleiminger, the General Manager of the Bank for International Settlements and Mr. François-Xavier Ortoli, the Vice-President of the Commission of the European Communities.

2. The Ministers and Governors welcomed Dr. Lamberto Dini, Director General of the Bank of Italy, the new Chairman of the Deputies, and expressed their thanks to Mr. Manfred Lahnstein, the previous Chairman of the Deputies, for his contribution to their work during the past year.

3. Reviewing the world economic situation, the Ministers and Governors noted with concern that the outlook remained clouded by high rates of inflation, the slow growth of output, rising unemployment, and large payments imbalances. At the same time, however, progress had been made in a number of industrial countries in lessening their dependence on oil and in maintaining a satisfactory level of fixed investment as a result of wage moderation. Moreover, some further headway was recorded in the fight against inflation. These encouraging signs were regarded as an indication that the pursuit of anti-inflationary policies was beginning to bear fruit and that, these policies should be continued. The Ministers and Governors reemphasized the need to maintain an open trade and payments system and to resist mounting protectionist pressures.

4. The Ministers and Governors expressed particular concern about the deterioration in the current-account balance of a large number of developing countries. In this context, they welcomed the recent actions taken by the IMF to supplement its resources in line with its new policy of

enlarged access. They agreed that the Fund should rely primarily on resources contributed through quotas and noted that the Executive Board had begun the preparatory work for the 8th review of quotas. They stressed that increased Fund's assistance should not alter the monetary role of the Fund and the main characteristics of its lending policies, especially with respect to the promotion of adjustment on terms of appropriate conditionality. This also implies the necessity of maintaining the liquidity position of the Fund.

5. The Ministers and Governors welcomed the efficiency with which the international financial markets have contributed to the financing of payments deficits and expressed confidence that they will continue to play a major role in the future. They noted, however, the importance of ensuring that the growth of international bank lending should remain consistent with the maintenance of sound banking standards. In the context of discussing recent developments in the field of international liquidity the Ministers and Governors felt that the question of an SDR allocation in the fourth basic period needed to be examined further before a decision could be taken.

6. The Ministers and Governors congratulated the Managing Director of the Fund for his excellent work and the professionalism with which he arranged recent borrowing operations by the Fund.

7. The Ministers and Governors expressed their gratitude to the Gabonese authorities for their warm hospitality and for the excellent arrangements provided for the meeting.

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CHANCELLOR OF THE EXCHEQUER

cc Sir Kenneth Couzens
Mrs Hedley-Miller
Mr Mountfield
Mr Slater

DEVELOPMENT COMMITTEE

Mr St Clair has prepared draft passages on the first three of the points in your Private Secretary's minute of 15 May and had the whole speech retyped so that you can see where the new passages - they are shown in square brackets - fit (in paragraphs 5, 7, 10 and 11 of the draft). I think that they go into the speech quite nicely as Mr St Clair has placed them.

2. I would like to reinforce his warning however about commodity policy. You will remember that at the beginning of last year there was an inter-departmental review of UK commodity policy. This has since broadly formed the basis for the UK position on these matters. The report gave the green light to commodity agreements which involved modest measures like information sharing and some support for research and development designed to improve longer-term market prospects. But it was very much more cautious about the desirability of commodity agreements involving buffer stocks and/or export controls. The conclusion was that each case needed to be looked at very carefully to see where the advantage lay between the costs (which in the case of buffer stocks would involve a direct addition to public expenditure) and any resulting benefit.

3. We in the Treasury have been particularly conscious of the costs of commodity agreements. Some other Departments, such as the FCO, tend to think more of their benefits, which, as Mr St Clair says, they see as being mainly political. In general, in international discussions on these matters, we are often not too far from people like the Germans, who tend to take the line that interference with market operations in the commodity field is almost always a bad thing.

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F R BARRATT
18 May 1981

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1. MR BARRATT
2. PRINCIPAL PRIVATE SECRETARY

cc Sir Kenneth Couzens
Mrs Hedley-Miller
Mr Mountfield
Sir Peter Preston (ODA)
Mr Slater

DEVELOPMENT COMMITTEE - SPEECH

I have prepared a redraft of the speech to take account of the points in your minute of 15 May.

2. Most of them fit neatly into the existing text. However there is some difficulty with the suggestion about commodity agreements. These do not fit easily with the theme that trade and investment flows are best determined by the market, and the UK has largely gone along with commodity agreements for political reasons. If nevertheless you think a sentence should be inserted, the following could be included at the end of paragraph 11:

"The UK has also contributed to commodity price stabilisation, which is of benefit to developing country producers, through its participation in successive tin, cocoa, sugar, coffee, and other agreements"

3. The revised speech includes a number of small changes suggested by the ODA.
4. Also attached are some background notes on the new points.

W.L. St. Clair

W L ST CLAIR
18 May 1981

SPEECH BY THE CHANCELLOR AT THE DEVELOPMENT COMMITTEE

Introduction

I am glad to have this opportunity of addressing the Development Committee.

2. I should like first to welcome Mr Ibarra as our new Chairman. I had the opportunity of meeting him recently in London and talking to him about some of the items on our agenda today.

3. I believe this will be the last opportunity that many of us will have of meeting Mr McNamara in his present capacity at a major international gathering. At the Bank/Fund Annual Meeting in Washington last September every delegation, as I recall, paid warm tribute to his efforts at the World Bank over the last few years. I should like to repeat my own thanks and wish him well for the future. We also look forward to welcoming Mr Clausen who will find many difficult problems confronting him when he takes over in July.

4. I am glad that the Development Committee is meeting in Libreville, the first occasion, I believe, in an African capital. We have an item later on the agenda drawing attention to the needs of Africa which contains some of the poorest countries in the World.

UK aid to Africa

5. I need not remind the Development Committee of the close ties that have existed for many years between the UK and many parts of this Continent. These ties make it all the more appropriate that within the British aid programme we should give a high proportion of our funds to Africa. The proportion of our bilateral programme directed to Africa has risen from 30% in 1976 to 40% in 1980. African countries also benefit from our contributions to multilateral organisations. [In 1980 our total multilateral aid was £260m, 30% of our programme and a 40% increase since 1978. Our disbursements of multilateral aid, especially through IDA, the World Bank, and through the European institutions will continue to increase in the coming years. Our share of the 5th Replenishment of the European Development Fund (18%) will involve estimated expenditure of £460m, a 30% increase over our contribution to EDF 4] Recently we reaffirmed that, subject to Parliamentary approval, the UK will be joining the African Development Bank as one of the non-regional members - we already contribute to the African Development Fund.

6. The extent to which we provide aid to African countries through manpower is particularly notable. Last year we had over 5,000 British experts working in Africa (two-thirds of our total manpower programme) and we provided training support for about 8,000 African students in Britain (50% of the total assisted). About 1,400 Africans attended courses in third countries under British auspices.

7. And while I am speaking of Africa, one event last year which gave us all particular pleasure was Zimbabwe's achievement of her independence. We in the UK have been doing all we can to help Zimbabwe with her urgent tasks of reconstruction and development. [We gave no aid to the illegal regime except to provide assistance for the education of Rhodesian Africans in the UK and elsewhere.] Many countries are of course playing their part in helping Zimbabwe, but it is right that I should mention that total British aid pledged since independence is now £111m.

UK aid programme as a whole

8. More generally, though we have been passing through a severe recession which in the case of the UK has actually reduced our national income, we continue to maintain a very substantial aid programme. In 1981-2 it will amount to over £1b and, for the latest year for which we have figures [1979] it was the 5th biggest in the world. Furthermore, over 60% of our bilateral aid programme goes to the poorest countries whose access to commercial funds is most difficult and who therefore have greatest need of concessional assistance. We remain moreover strong supporters of the World Bank and of the International Development Association from whose concessional lending so many of the poorest countries benefit. We were glad to see that the new US Administration has agreed to fulfil its IDA 6 commitment in full and hope that the necessary Congressional approvals can be obtained quickly. For our part we have told the World Bank management that to help IDA through its present difficulties, the British government will deposit the second 50% of our first tranche of IDA 6 provided that other major donors do the same.

importance of non-concessional flows

9. But, important though aid is, especially for the poorest countries, the Development Committee does not need to be reminded that what is more important in the development process is the total flow of investment funds. Within this total, the larger contribution comes from non-

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concessional flows of which private flows provide an increasing part. I have been very glad to note in this connection the constructive work of the Task Force on Non-Concessional Flows, whose report is I believe relevant to the first item on the agenda.

10. Both developed and developing countries have their part to play in providing the right climate and the legislative and regulatory framework for investment flows. [And here I would especially draw attention to the value of investment promotion and protection agreements which help to give both recipient and investor the mutual confidence which is essential for the success of investment of this kind. The UK has signed 14 such agreements [latest on Thursday, 21 May with Malaysia] and are keen to conclude agreements with other countries. It is a particular pleasure that negotiations with our hosts, Gabon, are well advanced.]

[11. The UK has no exchange controls on the investment of funds abroad and shares the concern of developing countries in maintaining an open world trading system. We will continue to resist protectionism, not without cost it should be said to our own industry, but our attitude is based on the conviction that it is in the long term interests of all countries, developed and developing, that world trade should be as free as possible from unnecessary restrictions.]

IBRD lending programme

12. We are asked under this agenda item to look at the World Bank lending programme for the next five years. However much our sympathies may be engaged, we cannot ignore the economic constraints to which I have already referred. Many developed countries are committed to a fight against inflation. In the long run this can only be for the good of the world as a whole, both developed and developing countries. But it does mean that for some while to come, concessional funds are likely to be an increasingly scarce resource and we should ensure that they are used to the best advantage in those countries which have most need of them. This is why I particularly welcome imaginative suggestions for increasing co-financing and involving more private sector funds in one way or another. I welcome them not only because I believe the element of market involvement is helpful, but because in the circumstances in which we now are, it is only realistic to believe that the most promising (some would say the only) way of increasing the flow of funds through the World Bank in the short term is by greater involvement of the private sector.

ADDITIONAL BACKGROUND NOTES

Multilateral Aid

Multilateral aid is taking a rising share of the UK aid programme, as a result of commitments entered into by the last government. By the mid-1980's, the figure will rise to close to 50% to total UK expenditure on development aid. The main components in the increase are EDF, IDA, and the UK share of aid provided from the EC budget as the following figures show:

	£m (cash)		
	<u>1978</u>	<u>1979</u>	<u>1980</u>
EDF	16	73	62
Other EC Aid	29	45	60
IDA/World Bank	64	44	73
UN system	50	64	39
Regional Development Banks	13	14	15
Other multilateral	<u>12</u>	<u>12</u>	<u>11</u>
Total multilateral	<u>184</u>	<u>252</u>	<u>260</u>
Multilateral as % aid programme	25%	28%	30%

European Development Fund

Since joining the EC, the UK has signed the first and second Lome Conventions. Under the first Lome Convention, the total size of EDF IV was about £1,888m, of which the UK share was £353m (18.7%).

Under the second convention, EDF V will be about £2,550m, of which the UK will contribute £460m (18%), an increase of 30% compared with our contribution to EDV IV. Each EDF agreement runs for five years.

Investment Promotion and Protection Agreements

IPPAs are intended to stimulate the flow of new investment between the two signatory states; to protect investment, under the laws of the host country; to ensure adequate provision for the transfer of profits and the exchange of currency; and, in the event of expropriation, to provide for prompt, adequate and effective compensation. They also make provisions for the settlement of investment disputes.

We are behind other developed countries in the number of IPPAs concluded - the Germans have over 40, the Swiss over 30 - since these agreements were given low priority by the previous government. In addition to the 14 agreements already signed, a further half-dozen are under substantive negotiation. At present our main effort is in Africa, and the negotiations with Gabon are well advanced. President Bongo spoke enthusiastically about encouraging UK investment in Gabon when he visited the Prime Minister last May.



cc Sir K Couzens
Mrs Hedley Miller
Mr Mountfield
Mr St Clair
Mr Bonney

Sir Peter Preston - ODA
Mr Anson - Washington

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1/18/51
MR BARRATT

DEVELOPMENT COMMITTEE

The Chancellor was grateful for your minute of 14 May, to which was attached a draft of some remarks for him to make to the Development Committee at Libreville next week.

2. He is content with your suggested remarks, though he would like some additional material which he could hold in reserve. He would like:-

- i. figures giving the absolute size and rate of growth of our contributions to the European Development Fund and other multilateral organisations;
- ii. a defensive remark to the effect that whilst the total British aid pledged to Zimbabwe since independence - £111 million - is a great deal more than has been pledged to for example Ghana, Zimbabwe received no assistance during the 15 years of UDI;
- iii. some remarks to the effect that investment protection codes, which should help to increase further the, vital, flows of non-concessional investment funds, are increasing (?), and this is very welcome; and
- iv. some remarks about Commodity Price Agreements, including something on the UK's record and continued willingness to make further progress,

/together with



together with some remarks about the continuing open access of developing countries to UK markets, together with some examples.

3. I should be grateful if you would submit some draft sentences reflecting these points which might be inserted into the main text.

R.I.T.

R.I. TOLKIEN

15 May 1981

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CHANCELLOR OF THE EXCHEQUER

cc Sir Kenneth Couzens
Mrs Hedley-Miller
Mr Mountfield
Mr St Clair
Mr Bonney
Sir Peter Preston - ODA
Mr Anson - Washington

Final 1.11
by Mr [unclear]
by Mr [unclear]
address to have
in [unclear]

DEVELOPMENT COMMITTEE

We shall of course be providing you with briefs for next week's meeting of the Development Committee at Libreville. This note is about what you might say to the Committee.

2. I attach a copy of the Annotated Agenda for the Libreville meeting. It includes some underlined passages which are no doubt intended to form the basis of the Development Committee's communique. Not all of these passages are acceptable as they stand, but they will no doubt form the basis for the usual negotiation about the communique over the lunch table.

3. As you will see, the agenda is very much bits and pieces, and there is no obvious catch-all item under which members of the Development Committee can make some general intervention. Nevertheless we have assumed that most of the Ministers present will want to make some general statement and that you will prefer yourself not to intervene on every item of the agenda. We have therefore prepared the attached draft remarks by you (largely the work of Mr St Clair) on the basis that you will take the opportunity of the discussion under item 1 of the agenda (related to World Bank lending) to make some ^{general} observations. As you will see, the attached draft includes some comments not only on item 1 but also on some other items, especially item 3 (Report of the Task Force on Non-Concessional Flows).

4. The draft remarks have been deliberately couched in a conciliatory tone, and include several paragraphs about Africa, since this seems tactful. We have also included a reminder about the very considerable

amount of aid which, notwithstanding our economic constraints, the UK still gives. But the concluding paragraphs of the draft remarks touch on one of the principal themes of your own recent paper about development - namely the great importance of private flows in the development process. There is a good peg for this in the Report of the Task Force on Non-Concessional Flows (item 3 of the agenda).

5. Apart from the draft remarks attached, it may also be necessary or desirable for you to say something specific at the meeting about the Energy Affiliate, the Task Force on Non-Concessional Flows, and the programme of action for Africa (Items 1(c), 4 and 6 of the agenda). We shall let you have separately forms of words to be used if necessary on each of these matters, but whether you use them or not will be very much a matter for judgment at the time.

6. In the meantime, we shall be grateful to know whether you think that the attached draft remarks are on the right lines, and whether you would like them expanded or contracted in any respect.

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F R BARRATT
14 May 1981

DRAFT REMARKS BY THE CHANCELLOR AT THE DEVELOPMENT COMMITTEE

I am glad to have this opportunity of addressing the Development Committee.

2. I should like first to welcome Mr Ibarra as our new Chairman. I had the opportunity of meeting him recently in London and talking to him about some of the items on our agenda today.

3. I believe this will be the last opportunity that many of us will have of meeting Mr McNamara in his present capacity at a major international gathering. At the Bank/Fund annual meeting in Washington last September every delegation, as I recall, paid warm tribute to his efforts at the World Bank over the last few years. I should like to repeat my own thanks and wish him well for the future. We also look forward to welcoming Mr Clausen who will find many difficult problems confronting him when he takes over in July.

4. I am glad that the Development Committee is meeting in Libreville, the first occasion, I believe, in an African capital. We have an item later on the agenda drawing attention to the special needs of Africa which contains some of the poorest countries in the world.

5. I need not remind the Development Committee of the close ties that have existed for many years between the UK and many parts of this continent. These ties make it all the more appropriate that within the British aid programme we should give high priority to Africa. The proportion of our bilateral programme directed to Africa has risen from 30% in 1976 to 40% in 1980. African countries also benefit from our substantial contributions to the European Development Fund and other multilateral organisations. Recently we reaffirmed that, subject to Parliamentary approval, the UK will be joining the African Development Bank as one of the non-regional members - we already contribute to the

Use figures available + (for EDF anyway?) growth

African Development Fund.

6. The extent to which we provide aid to African countries through manpower is particularly notable. Last year we had over 5,000 British experts working in Africa (two-thirds of our total manpower programme) and we provided training support for 8,000 African students in Britain (50% of the total assisted). A further 1,400 Africans attended courses in third countries under British auspices.

7. And while I am speaking of Africa, one event last year which gave us all particular pleasure was Zimbabwe's achievement of her independence. We in the UK have been doing all we can to help Zimbabwe with her urgent tasks of reconstruction and development. Many countries are of course playing their part, but it is right that I should mention that total British aid pledged to Zimbabwe since independence is now £111 million.

[A helluva lot compared e.g. with Ghana] ¹⁵
But, alas, none for 2 yrs or 151

8. More generally, though we have been passing through a severe recession which in the case of the UK has actually reduced our national income, we continue to maintain a very substantial aid programme. In 1981 it will amount to over £1 billion and is the fifth biggest in the world. Furthermore, about two-thirds of our aid programme goes to the poorest countries whose access to commercial funds is most difficult and who therefore have greatest need of concessional assistance.

9. We remain moreover strong supporters of the World Bank and of the International Development Agency from whose concessional borrowing so many of the poorest countries benefit. We were glad to see that the new US Administration has agreed to fulfil its IDA 6 commitment in full and hope that the necessary Congressional approvals can be obtained quickly, For our part we have told the World Bank management that to help IDA through its present difficulties, the British Government will deposit the second 50% of our first tranche of IDA 6 provided that other major donors do the same

10. But, important though aid is, especially for the poorest countries, the Development Committee does not need to be reminded that what is important to the development process is the total flow of investment funds. Within this total, the larger contribution comes from non-concessional flows, of which private flows provide an increasing part. Both developed and developing countries have their part to play in providing the right climate and the legislative and regulatory framework for investment flows. I have been very glad to note in this connection the constructive work of the Task Force on Non-Concessional Flows, whose report is I believe relevant to the first item on the agenda.

Value of investment protection costs. growing? hinder?

And of commodity price agreements??

Our need of willingness here?

And of continued open access to our markets?
E.C.

11. We are asked, under this agenda item, to look at the World Bank lending programme for the next five years. However our sympathies may be engaged, we cannot ignore the economic constraints to which I have already referred. Many developed countries are committed to a fight against inflation. In the long run this can only be for the good of the world as a whole, both developed and developing countries. But it does mean that for some while to come concessional funds are likely to be an increasingly valuable resource and we should ensure that they are used to the best advantage in those countries which have most need of them.

12. This is why I welcome imaginative suggestions for increasing co-financing and involving more private sector funds in one way or another. I welcome them not only because I believe the element of market involvement is helpful, but because in the circumstances in which we now are, it is only realistic to believe that the most promising, indeed some would say the only, way of increasing the flow of funds through the World Bank in the short term is by greater involvement of the private sector.

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CHANCELLOR OF THE EXCHEQUER

cc Sir Kenneth Couzens
Mrs Hedley-Miller
Mr Mountfield
Mr Slater

DEVELOPMENT COMMITTEE

Mr St Clair has prepared draft passages on the first three of the points in your Private Secretary's minute of 15 May and had the whole speech retyped so that you can see where the new passages - they are shown in square brackets - fit (in paragraphs 5, 7, 10 and 11 of the draft). I think that they go into the speech quite nicely as Mr St Clair has placed them.

2. I would like to reinforce his warning however about commodity policy. You will remember that at the beginning of last year there was an inter-departmental review of UK commodity policy. This has since broadly formed the basis for the UK position on these matters. The report gave the green light to commodity agreements which involved modest measures like information sharing and some support for research and development designed to improve longer-term market prospects. But it was very much more cautious about the desirability of commodity agreements involving buffer stocks and/or export controls. The conclusion was that each case needed to be looked at very carefully to see where the advantage lay between the costs (which in the case of buffer stocks would involve a direct addition to public expenditure) and any resulting benefit.

3. We in the Treasury have been particularly conscious of the costs of commodity agreements. Some other Departments, such as the FCO, tend to think more of their benefits, which, as Mr St Clair says, they see as being mainly political. In general, in international discussions on these matters, we are often not too far from people like the Germans, who tend to take the line that interference with market operations in the commodity field is almost always a bad thing.

Zs
F R BARRATT
18 May 1981

27/12/81
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- 1. MR BARRATT
- 2. PRINCIPAL PRIVATE SECRETARY

- cc Sir Kenneth Couzens
- Mrs Hedley-Miller
- Mr Mountfield
- Sir Peter Preston (ODA)
- Mr Slater

DEVELOPMENT COMMITTEE - SPEECH

I have prepared a redraft of the speech to take account of the points in your minute of 15 May.

2. Most of them fit neatly into the existing text. However there is some difficulty with the suggestion about commodity agreements. These do not fit easily with the theme that trade and investment flows are best determined by the market, and the UK has largely gone along with commodity agreements for political reasons. If nevertheless you think a sentence should be inserted, the following could be included at the end of paragraph 11:

"The UK has also contributed to commodity price stabilisation, which is of benefit to developing country producers, through its participation in successive tin, cocoa, sugar, coffee, and other agreements"

- 3. The revised speech includes a number of small changes suggested by the ODA.
- 4. Also attached are some background notes on the new points.

W.L.C.

W L ST CLAIR
18 May 1981

SPEECH BY THE CHANCELLOR AT THE DEVELOPMENT COMMITTEE

I am glad to have this opportunity of addressing the Development Committee.

2. I should like first to welcome Mr Ibarra as our new Chairman. I had the opportunity of meeting him recently in London and talking to him about some of the items on our agenda today.

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12. We are asked under this agenda item to look at the World Bank lending programme for the next five years. However much our sympathies may be engaged, we cannot ignore the economic constraints to which I have already referred. Many developed countries are committed to a fight against inflation. In the long run this can only be for the good of the world as a whole, both developed and developing countries. But it does mean that for some while to come, concessional funds are likely to be an increasingly scarce resource and we should ensure that they are used to the best advantage in those countries which have most need of them. This is why I particularly welcome imaginative suggestions for increasing co-financing and involving more private sector funds in one way or another. I welcome them not only because I believe the element of market involvement is helpful, but because in the circumstances in which we now are, it is only realistic to believe that the most promising (some would say the only) way of increasing the flow of funds through the World Bank in the short term is by greater involvement of the private sector.

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CHANCELLOR

INTERIM COMMITTEE CHAIRMANSHIP

You will wish to see the attached message from Mr Ammerman.

2. Mr Schulmann told me yesterday that he spoke directly to de Larosiere and urged him to persuade Mr McEachan to withdraw in your favour.

3. I think it is possible that the question will still not be settled at the time of the G10 meeting at 6pm on Wednesday in Libreville. If not, it ought to be settled at that meeting (or in any informal sequel to it). From this point of view, I don't think it greatly matters if you are unable to get to the meeting: indeed, it could in some ways be an advantage.

KEC
K E COUZENS
19 May 1981

KEC:

Mr Ammerman 'phoned and dictated the following which he has received from Washington:

Chairmanship of the IMF Interim Committee

"Please tell Sir Kenneth Couzens that the US is standing squarely in favour of Chancellor Howe for the chairmanship of the Interim Committee. US Treasury officials, including Secretary Regan personally, have tried - without success so far - to reach de Larosiere to convey this. We shall continue to try to contact de Larosiere, but since Managing Director is in transit it may be difficult to talk to him before his arrival in Libreville.

Treasury Dep. Secretary McNamar is leaving for Libreville to substitute for Secretary Regan who has returned to Washington. Immediately upon reaching Libreville Tuesday evening McNamar intends to seek out de Larosiere about the Interim Committee chairmanship issue. He plans in the strongest terms to advance Howe for chairmanship and suggest that de Larosiere be in touch with McEachan to obtain McEachan's withdrawal. If de Larosiere is unwilling to approach Mc Eachan, McNamar will be prepared to do so himself.

We agree with UK that its best to settle chairmanship issue at G10 Ministerial or other occasion prior to meeting of Interim Committee.

US is most appreciative of Chancellor Howe's willingness to take on this chairmanship."

Mr Ammerman said he will be with Peter Mountfield at 3.45 today if you want to contact him, or you can leave a message with his secretary as although he plans to be out most of the day he will be ringing his office from time to time.

M
19.5.81.

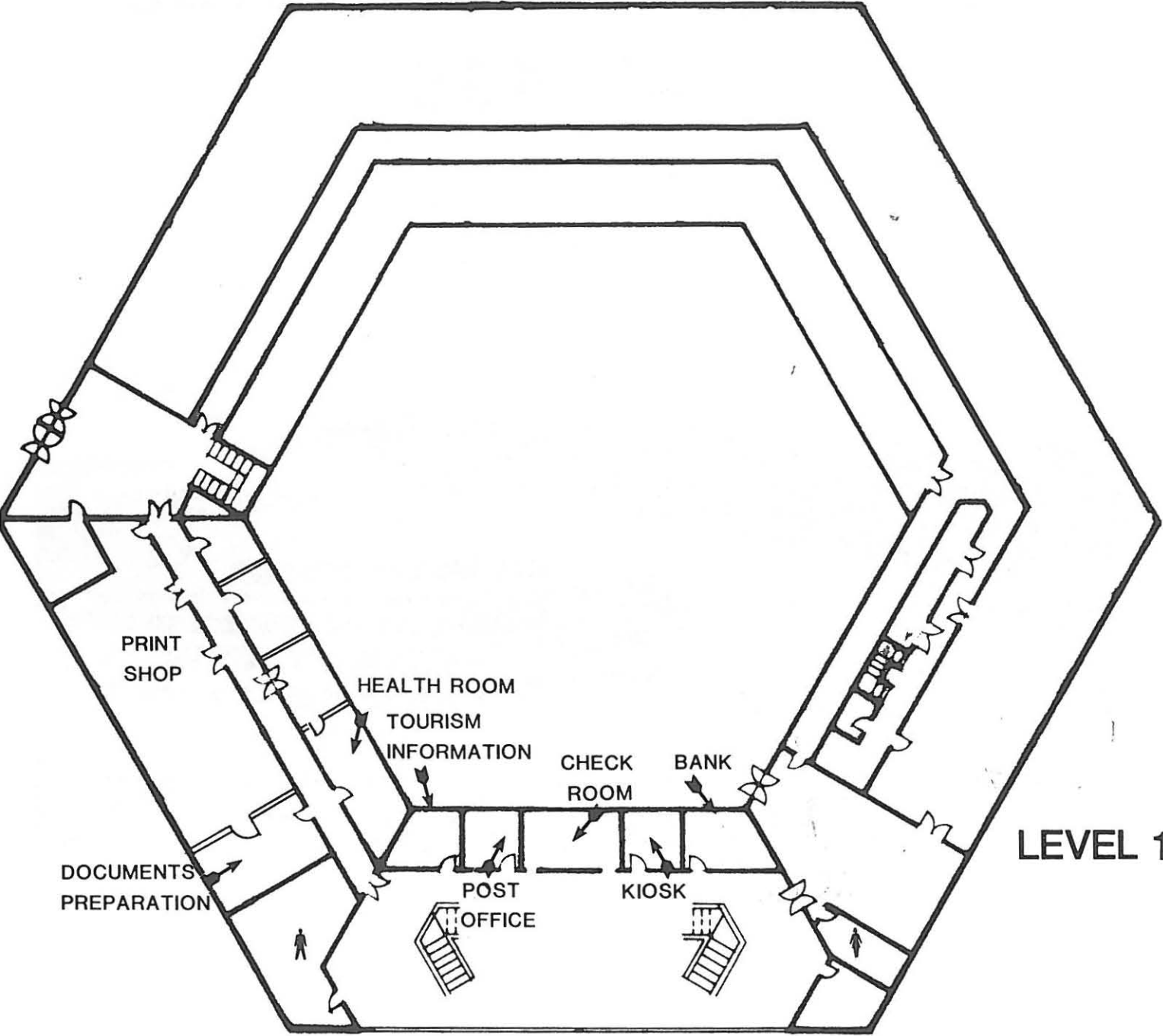
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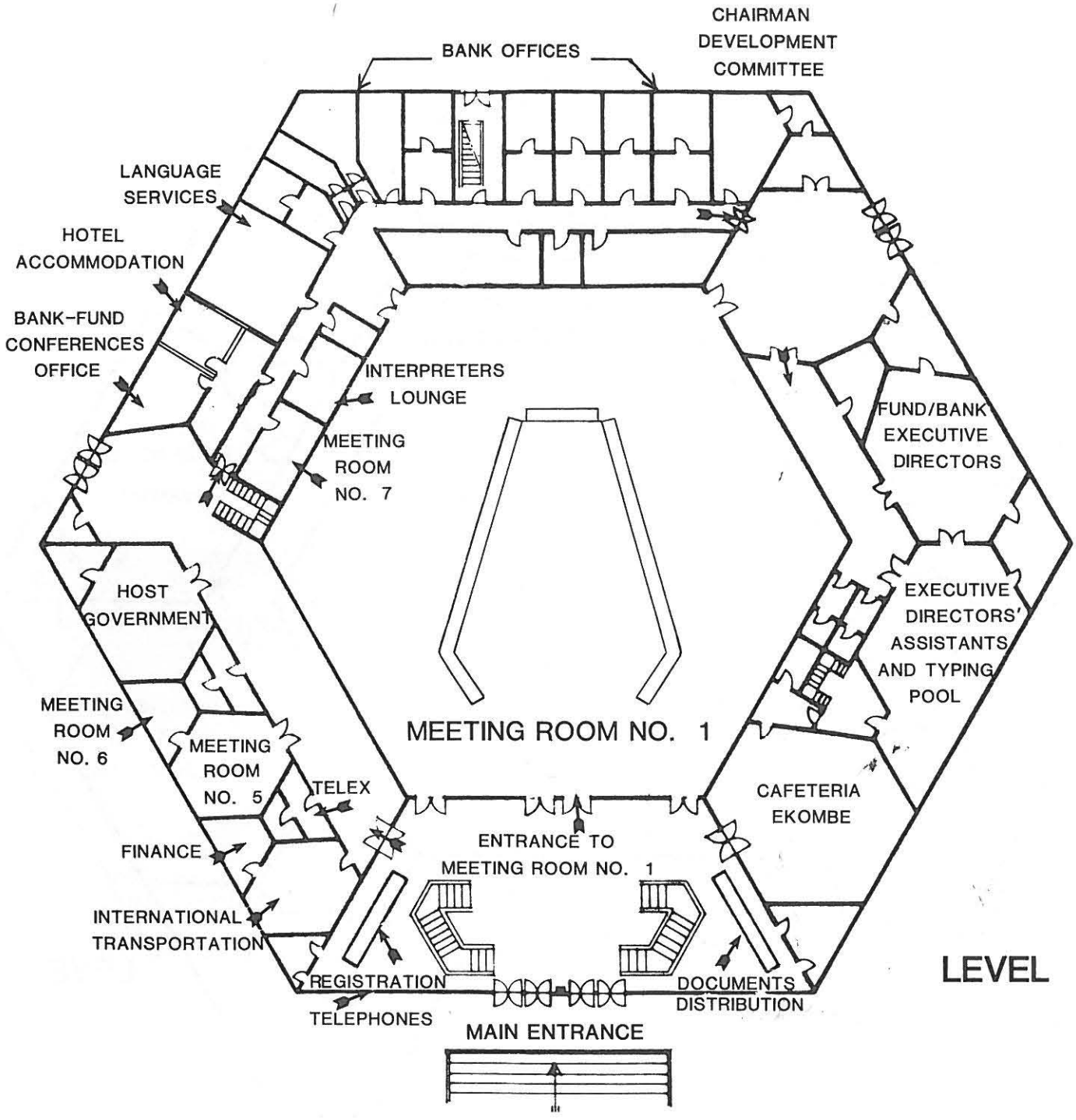
INTERIM AND DEVELOPMENT COMMITTEE MEETINGS MAY 1981

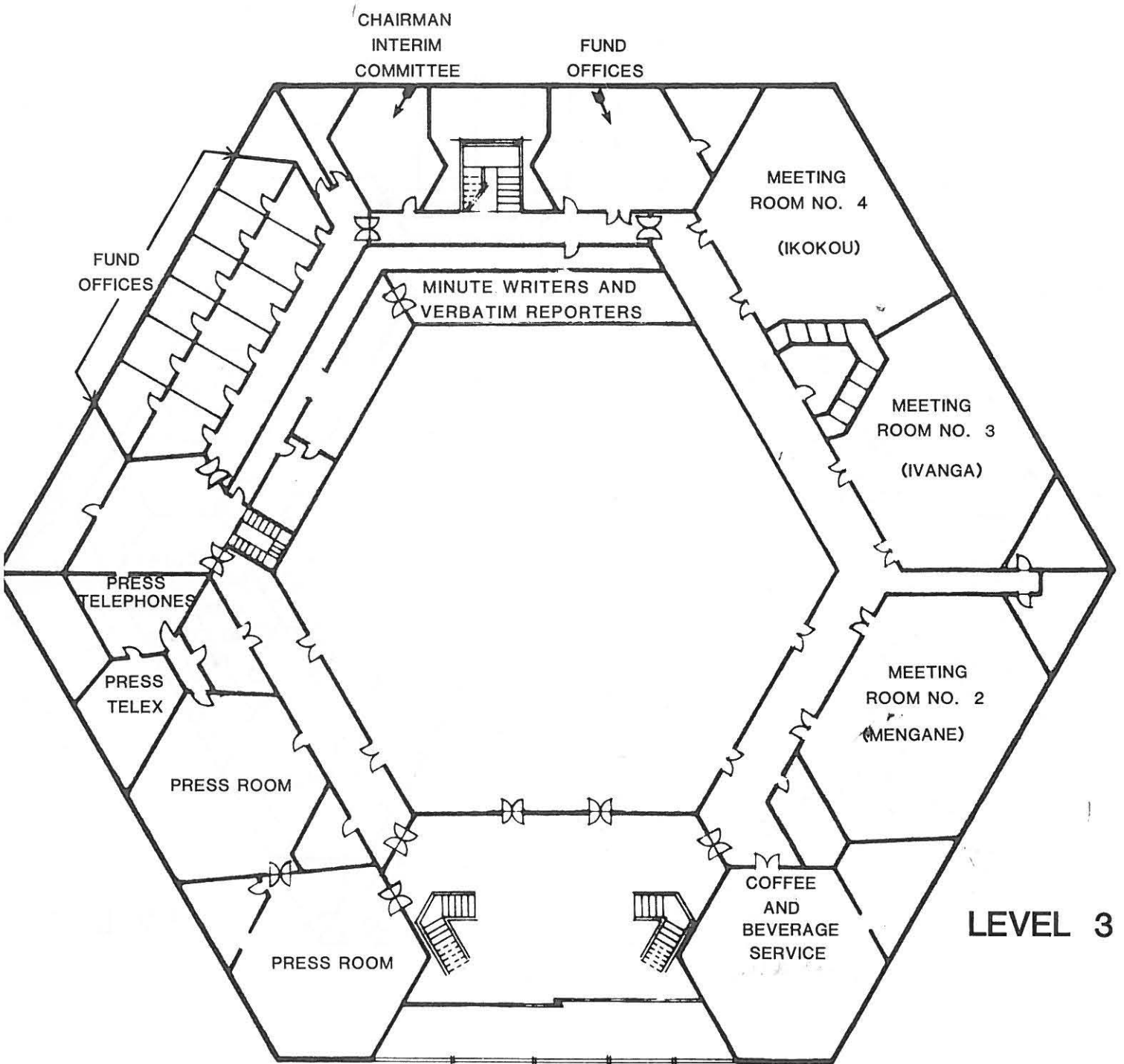


GUIDE TO
PALAIS DES CONFERENCES DU GABON



LEVEL 1





PRINCIPAL PRIVATE SECRETARY

cc FST
Sir K Couzens
Mr Barratt
Mr Hancock
Mr Mountfield
Mrs Gilmore
Mr Wiggins (own copy) ✓
Mr Bottrill
Mr Anson (Via Mr Gilchrist)
Mr Price (UKTSD)
PS/Governor
Mr Leohnis
Mr Gilchrist

INTERIM COMMITTEE : FURTHER BRIEFING

I attach:

(a) background brief on the PLO and Observer Status. This is not of course on the agenda, but may arise in the margins.

(b) Two of the five Fund papers on the Interim Committee agenda. These two are to be covered under Items 4(b) and 4(c). The remaining three papers (Item 3 - World Economic Outlook; Item 4(a) Enlarged Access/Fund Financing; Item 4(d) SFF interest subsidies) have not reached us yet but will be available in Libreville.

(c) Further background material on Gabon and personality notes on the Gabonese Head of Government and the Finance Minister.

M H Atkinson

M H ATKINSON
19 May 1981

IMF INTERIM COMMITTEE AND IMF/IBRD DEVELOPMENT COMMITTEE: LIBREVILLE
OBSERVER STATUS FOR THE PALESTINE LIBERATION ORGANISATION

Introduction

1. This is not on the agenda for either meeting but will be raised in the corridors by the Americans and perhaps others. Secretary Regan has just completed talks in Saudi Arabia and other Gulf States. Much will depend on any progress made there. We want to keep a low profile and to encourage the Americans and Arabs to settle this matter between them. The most recent US procedural proposals do not sound promising. Our position will need to be coordinated with EC partners, so we should not commit ourselves to any course of action at this stage.

Line to Take (with United States and mutatis mutandis with others)

2. a) We do not think the PLO are suitable for observer status with the IMF/IBRD, which should be limited to organisations which are (a) economic and financial in character and (b) supranational in composition.

b) We recognise the difficulties which the United States will have with the new Congress if the PLO are admitted. Failure of Congress to vote the necessary funds for the IDA Replenishment and the World Bank GCI would be critical for the future of the institutions.

c) The Arabs are strongly committed in support of the PLO. The Kuwaitis being particularly hard line; and the Gulf States (especially Saudi Arabia) make an important contribution to the Fund and the Bank - and we want them to do more. We do not want them to be able to claim (as they did last year) that the rules have been manipulated against them. This would damage the integrity of the Fund and its credibility as "non-political": it could alienate many ldc's.

d) We hope the Americans and the Arab side will do all they can to find an arrangement in which all can acquiesce and will avoid a row at the Annual Meeting. Any such arrangement would get our full support.

e) Important that Uruguayan Chairman of 1981 Annual Meeting should consult Executive Board fully before taking any action on observers.

Background

3. Mr Jamal, the Tanzanian Chairman of the 1980 Annual Meeting, invited the PLO as observers on his own initiative. This was frustrated by an American move to have the Governors to adopt a resolution freezing the list of observers pending the outcome of a review by 1 March 1981 of the whole question of how observers should be invited. The necessary quorum for this postal resolution was only just obtained and was subsequently hotly disputed by the Arabs. They were only mollified by setting up a special Committee under Mr Muldoon to look at voting procedures. Meanwhile Mr Jamal withdrew invitations to the 1980 Annual Meetings from all other observers.

4. The special committee has since reported. While in general it supports the actions taken by the Executive Board last summer, it still provides some grounds for the Arabs to continue their arguments. The deadline for the review of the procedure on observers has been postponed to 15 June.

5. We and our European partners supported the Americans last year. We are aware of the serious effect that this problem would have on US support for the Bank and Fund, which is indispensable. But we do not want the dispute over the PLO in these bodies to poison our own political relations with the Arabs or to turn the OPEC members against the Fund and Bank. We would therefore much prefer the Americans and the Arabs to settle the matter among themselves.

6. While we do not regard PLO as truly an appropriate body to have observer status, their presence (at the Annual Meetings only) need not necessarily disrupt proceedings here. In any event the current row is probably doing more to politicize the IMF/IBRD than if their presence was quietly accepted and we see no point in fighting to the last ditch to keep the PLO out, particularly since the will of the majority is likely to prevail in the long run. We would hesitate to join the US in seeking to overturn a legitimate invitation to the PLO. We would wish throughout to coordinate our line with EC partners.

7. After some low-level exchanges, the Americans have recently concluded that a consensus cannot be reached. They are therefore suggesting that discussion in the Executive Board be postponed sine die. They believe that this can be carried in the Executive Board if they have full Western support and would frustrate any further moves to give the PLO observer status. But this seems likely to provoke further Arab complaints that the Americans and their allies have manipulated the rules with renewed risk of a row at the Annual Meeting. It might be better to have a discussion in the Board before the summer break, even if this were heated, in order to avoid an open clash at the highly public Annual Meeting.

8. Secretary Regan is visiting Saudi Arabia, Kuwait and the UAE before he arrives in Gabon. This is very welcome and may provide some openings. Soundings by HM Ambassador Jedda suggest that some Saudi opinion, at least, want to avoid damage to the IMF. But it is a 'political hot potato' in Saudi Arabia.

9. In 1982 the Annual Meeting will have Middle East Chairman (probably Kuwait). It therefore seems inevitable that the PLO will finally get in next year. But it may be easier for the new US Administration and the new Congress to digest this by then.

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INFORMATION FOR PARTICIPANTS

INTERIM AND DEVELOPMENT COMMITTEE MEETINGS

LIBREVILLE, GABON, MAY 1981

BADGES

The identification badges issued at the Registration Desk should be worn at all times. They will be required for admission to the Conference Center, to the meetings, and for boarding shuttle buses.

CAFETERIA

Refreshments and coffee service are available during the day in the Cafeterias on the second and third floor levels of the Conference Center. Sandwiches and other snacks may be purchased at the Cafeteria on the second level.

CAR RENTAL

Car rentals may be arranged through car rental agencies located at the Tourism Desk on the lower level of the Conference Center.

DOCUMENTS AND TRANSLATION

Working documents will be made available in English, French and Spanish at the Documents Desk, located opposite the Registration Desk at the Conference Center. Statements made by participants during the meetings will not appear as documents, but will be reflected in the minutes of the meetings. Policy memoranda submitted by participants for circulation, but which they do not intend to read into the record, will be issued as documents.

EXCHANGE OF MONEY

Foreign currency can be converted at the Exchange Office situated on the lower level of the Conference Center.

Opening hours: Friday, May 15 through Friday, May 22:
9:00 a.m. - 6:30 p.m.

Saturday, May 23: 9:00 a.m. - 1:00 p.m.

HEALTH ROOM

First aid and medical service is located in the Health Room on the lower level of the Conference Center.

HOTEL ACCOUNTS

Participants are expected to make settlement directly with their hotel for all accounts.

KIOSK

Postcards, newspapers, tobacco and sundries may be obtained from the Kiosk on the lower level of the Conference Center.

LUNCHEONS

Luncheon will be served for meeting participants in the Dining Hall situated in the Banquet building next to the Conference Center, beginning Monday, May 18, 1981.

MEETING ROOMS

A limited number of meeting rooms are available at the Conference Center. Reservations may be made through the Registration Desk.

POST OFFICE

A Post Office is located on the lower level of the Conference Center.

Opening hours: Saturday, May 16: 3:00 p.m. - 6:30 p.m.

 Sunday, May 17 through Friday, May 22:

 9:00 a.m. - 6:30 p.m.

RESTAURANTS

Besides restaurants located right in the hotels, Libreville offers a number of possibilities. to cite a few:

- l'Antre de Bacchus (seafood)
- le Corsaire
- la Brasserie de l'Océan
- le Pescadou (seafood)
- le Restaurant Louis
- le Sporting Club (Gabonese specialities)
- Chez René

The most renowned dishes of the Gabonese cuisine are:

- crabe farçi (stuffed crab)
- poulet au nyembwe (chicken with palm nuts)
- poisson en paquet (fish wrapped in banana leaves and charcoal broiled)

SHOPPING

Shops and offices are usually open:

Monday through Friday	8:00 a.m. - 12:00 noon 3:00 p.m. - 6:00 p.m.
Saturday	8:00 a.m. - 1:00 p.m.

SHUTTLE SERVICE

A shuttle bus service is provided between the hotels and the Conference Center. (Schedule is available at the Registration Desk)

Transportation will also be provided from the hotels to the airport on departure.

SIMULTANEOUS INTERPRETATION

At the meetings of the G-24, simultaneous interpretation will be provided from and into English, French and Spanish.

During the meetings of the Interim and Development Committees, simultaneous interpretation will be provided from and into Arabic, English, French and Spanish. It will facilitate the conduct of the meetings if participants who have prepared statements will make the text available to the Secretary of the relevant committee in advance.

SOCIAL EVENTS

TUESDAY, MAY 19, 1981, 7:00 p.m.

Cocktails for participants in the Meetings of the Group of 24 hosted by the Honorable Jean Paul Leyimangoye, Alternate Governor of the International Monetary Fund and National Director, Banque des Etats de l'Afrique Centrale (BEAC), at the Dialogue Hotel. (By invitation only)

Buses will depart from the other hotels and from the Conference Center between 6:45 p.m. and 7:30 p.m. and return to the hotels after the reception.

WEDNESDAY, MAY 20, 1981, 7:30 p.m.

Cocktails for all participants in the Meetings, hosted by His Excellency Jean Pierre Lemboumba, Minister of Economy and Finance, at the International Banquet Palace, next to the Conference Center.

Buses will depart from the hotels between 7:00 p.m. and 7:30 p.m. and return to the hotels after the reception.

THURSDAY, MAY 21, 1981, 8:00 p.m.

Dinner, sit-down buffet style, hosted by the President of the Republic, at the Presidential Palace. (By invitation only)

Buses will depart from the hotels between 7:30 p.m. and 7:45 p.m. and return to the hotels after the dinner.

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SPOUSES' PROGRAM (open to all participants subject to space limitations)

- Excursion to Pointe Denis - Thursday, May 21, 1981

Bus departure from the hotels: 10:00 a.m.
Return: 4:00 p.m.
Possibilities for bathing on the beach.
Luncheon will be served.
Beach or light casual wear recommended.

- Excursion by the Gabonese Railway through the Equatorial Forest and crossing the Equator - Friday, May 22, 1981

Three-hour trip by air conditioned coach. Buses will depart from the hotels to the Railway station at 7:30 a.m. Return to the Railway Station is planned for 6:00 p.m., to the hotels 6:30 p.m.

Sightseeing and lunch in Ndjole.

Light casual wear recommended.

Participants must indicate their intention to take part in the excursions at the Registration Desk, as soon as possible.

TAXIS

Taxis are available at the Conference Center and at the hotels. Only taxis carrying a special meetings pass will be admitted to the Conference Center area.

The fare for a taxi within Libreville is 1,000 FCFA per journey until 9:00 p.m. and 2,000 FCFA after 9:00 p.m.

TELEPHONE AND TELEX

1. PARTICIPANTS

The number of telephone lines from Gabon to other countries is limited.

Telephone and telex services are available at the Registration Desk outside Meeting Room No. 1.

The official telex, cable and telephone numbers at the meeting site are:

Telex: : IDC 5590 GO A

Cable : INTDEV

Telephone : 76.31.44, 76.32.27, 76.33.31, 76.34.22 and 76.35.05

2. PRESS

Special telephone and telex services are available for the Press next to the Press Room on the third level.

TRAVEL RESERVATIONS

All return reservations should be reconfirmed as soon as possible and not later than 72 hours before departure. Reconfirmation as well as changes to existing reservations may be made at the International Transportation Office on the second level of the Conference Center.

Opening hours: Sunday, May 17: 3:00 p.m. - 6:00 p.m.

Monday, May 18 through Saturday, May 23:

8:30 a.m. - 6:00 p.m.

Check-in time at the airport is not later than one hour before departure. Due to the very heavy number of departures on Friday, May 22 and Saturday, May 23, it is recommended to check in as early as possible at the desk in the Presidential building of the airport. There is no airport tax when departing from Gabon.

Please fill in your embarkation card before arrival at the airport. Embarkation cards may be obtained from the International Transportation Office.

TOURISM

Excursions in Libreville and other areas in Gabon may be arranged at the Tourism Desk situated on the lower level of the Conference Center.

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GENERAL INFORMATION ON GABON

I GEOGRAPHY & CLIMATE

Gabon straddles the Equator on the west coast of Central Africa and borders on Equatorial Guinea and the Federal Republic of Cameroon on the north and the People's Republic of the Congo (Brazzaville) on the east and south. Gabon covers about 102,300 square miles (= 267,667 km²).

Heavy equatorial rain forests cover nearly 85% of Gabon, with savanna areas in the southeast and southwest of the country covering an additional 10%. The Ogooue River and its tributaries drain most of Gabon. Winding in a broad arc from southeastern Gabon to the Atlantic coast, the Ogooue cuts through three major geographical regions: the costal lowlands, the plateau region, and the mountains with Mt. IBOUNDJI (1,850 m = 5,000 feet) its highest elevation.

The climate of Gabon is typically equatorial - hot and humid during most of the year. The medium temperature is 80°F (25°C). Four distinguishable seasons are evident:

- the long, dry season from mid-May until mid-September
- the short, rainy season from mid-September until mid-December
- the short, dry season from mid-December through January
- the long, rainy season from February until mid-May

II POPULATION

With an estimated 1,230,000 inhabitants, concentrated mainly in the capital Libreville, (170,000 inhabitants) and Port-Gentil (60,000 inhab.) situated on the delta of the Ogooue River, which is the country's busiest port. Franceville in the country's southeastern corner is the third largest urban area, followed by Lambarene, Mouila, Moanda, Tchibanga, Koula-Moutou, Makokou & Oyem.

Over 40 tribal groups have separate languages or dialects. The largest tribe is the Fang, which comprises about one-third of the population. Other major groups are the Bakota, Bandjabi, Bapounou, Bateke, M'Bete & Myene.

III ECONOMY

Gabons's principal natural resources are:

- Wood (mainly Okoume which is used in the plywood industry)
- Oil (10 million metric tons annually; Gabon is a member of OPEC)
- Manganese (in the MOANDA region)
- Uranium (in the MOUNANA region)
- Iron (in the BELINGA region)

The construction of the Transgabonese Railway, which will link Libreville to Franceville in the southeast, planned for completion by the end of 1985, will make it possible to exploit its rich iron ore mines.

Libreville, 21 May 1981

THE CHANCELLOR OF THE EXCHEQUER'S MEETING WITH
PRESIDENT BONGO - 17.00 HRS FRIDAY 22 MAY 1981

General

The Chancellor will presumably wish to refer in general terms to the meetings and to the way in which the Gabonese have handled the administration (provided it flatters) and perhaps to Libreville e.t.c. Perhaps he could also add that he brings the Prime Minister's personal good wishes and that Mrs Thatcher remembers with pleasure her meeting in May last year.

Technical Assistance

The President may possibly express regret at the absence of a bilateral Technical Assistance agreement between Gabon and the U K. It has been explained to him that the U K in the face of her economic difficulties has had to reduce her aid world-wide ; but that in any case Gabon's comparatively high per capita G D P puts her outside the bracket of the most deserving from our point of view. We nonetheless contribute heavily to U N and E C development funds both of whom are active in Gabon.

He may also speak about his wish to encourage the teaching of English. We share his wish. Unfortunately for the same reasons of economic stringency, the British Council is unable to spare money for this purpose. However, from limited funds at his personal disposal, the Ambassador has recently been able to supply a language laboratory to the University; and we will continue to encourage the teaching of English in other minor respects which do not call for substantial financial outlay.

Bilateral Trade

The confidence engendered by the way in which Gabon has brought her economy back into balance stimulated by the President's two visits to the U K in 1980 and his repeated assertion that Gabon is no longer the exclusive preserve of the French have aroused much interest among British businessmen. This led to a visit by the Minister of Trade, Mr Cecil Parkinson, in November, accompanied by leading British businessmen.

Transgabonese Railway

Two major British firms, Wimpey and Taylor Woodrow, appear to be close to securing 22% of the consortium EUROTRAG. This with associated works could amount to as much as £125m U K content. The U K has already offered - and the Gabonese have accepted - a £25 m line of credit and orders under this head

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been received for a large breakdown crane, rail clips, and consultancy.

Sheraton Hotel

Balfour Beatty have had several meetings in Libreville concerned with the completion of the Sheraton Hotel; one was with President Bongo himself. They are now engaged on the preparation of a study which they are hopeful will lead to the signature of a contract probably in the region of \$25m.

Aerial Survey

Huntings have been nursing a project for an aerial survey of Gabon for about 18 months. The Minister of Mines gave us to understand during Mr Parkinson's visit that Huntings will figure prominently in eventual contracts. But the business is dragging on and Huntings fear that their original estimates are certain to be revised upwards.

Defence Sales

International Military Services (IMS) have paid several visits to Gabon and have presented proposals amounting to about £25m. The last visit ended in stalemate when it transpired that there was no provision in the 1981 budget. But despite disappointment in certain Gabonese quarters with the financial terms, IMS remain hopeful that the 1982 budget will give them their opportunity.

Libreville Airport

Plessey, who have already gained contracts worth £13m in Gabon, have hopes of securing the contract for the new Libreville International Airport in association with Sir Alexander Gibb and Partners. They have Department of Trade support for a free preliminary study which they have recently presented to the Gabonese. But the competition - particularly French - will be strong.

Agricultural Projects

The Gabonese are devoting large sums in the Interim Budget 1981-83 to agricultural development. We have taken preliminary steps to interest British companies with experience in this field and some have expressed interest. We are currently examining with the Department of Trade and the C B I the possibility of a seminar in London later in the year to focus interest more sharply.

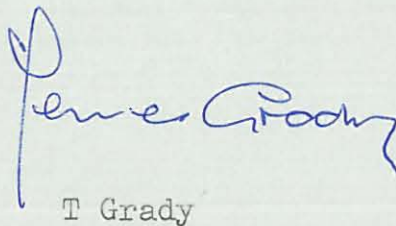
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I do not think the Chancellor need do more than express pleasure at the development of Anglo/Gabonese commercial relations perhaps touching lightly on:-

- i) the promising prospects vis-à-vis the Transgabonese railway
- ii) the need, which the IMF conference has pointed up, for more hotel accommodation in Libreville, and Balfour Beatty's readiness to press on quickly
- iii) disappointment at the delays in the negotiations for sale of military equipment.
It would also be helpful if he could reinforce the point made by the Minister of Trade Mr Parkinson that unless we are soon able to produce a juicy contract won by a British company, we may be in danger of losing the interest which he, the President, and we have worked so hard to stimulate.



T Grady

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Mr Wiggins 150

ARRANGEMENTS FOR THE UK DELEGATION TO THE IMF INTERIM COMMITTEE AND
IMF/IBRD JOINT DEVELOPMENT COMMITTEE MEETINGS LIBREVILLE 21-22 MAY
1981

DATE AND PLACE OF MEETINGS

The Interim Committee meeting will take place in Libreville on Thursday, Thursday, 21 May at 9.30am. It will be followed by the Development Committee on Friday 22 May at 9.30am. Both meetings will be held at the Palais des Conferences du Gabon.

2. Composition of the Delegation

This is shown at Appendix 1, together with expected dates of stay in Libreville.

3. Travel

Details, as known, are shown at Appendix 2.

4. Travel Documents

All members of the party are required to have valid passports. Visas are also required. A special immigration service will be available at the airport on arrival of the participants in Libreville.

5. Health Requirements

There are no health requirements but inoculation against yellow fever and cholera and vaccination against smallpox are recommended.

6. Baggage

Baggage entitlement on all airlines is 30 Kilos (66 lbs) for 1st class passengers and 20 Kilos (44 lbs) for those travelling economy class.

7. Insurance

Loss of baggage or personal effects sustained while in transit or in receipt of subsistence allowance will be covered by HMG up to a total

of £200 (no one item more than £50) provided there is no other cover already in force.

8. Accommodation

All members of the delegation are staying at Le Dialogue, about 10-15 minutes from the Conference Centre. It is the closest to the British Embassy.

9. Office accommodation

An EDS' lounge will be available at the Conference Centre but individual delegations will not be provided with offices in the Conference Centre. There will be space for EDS' secretaries in a communal area. A room at the Centre could be made available for a couple of hours if, say, it were decided to hold a press conference, or it might be possible to reserve a room if a UK delegation meeting was wanted. The Embassy will be able to provide only one small room. Four typewriters, not in A1 condition, are available. Some of the work may have to be done from the hotel.

10. Communications

(a) Embassy

There is only a two man post in Libreville - The Ambassador, Mr T Grady MBE and Second Secretary, Mr J T Vass. Libreville's classified telegram facilities are primitive and time consuming. For unclassified communications there is a telex but the terminal manned by a locally engaged receptionist is not manned at all times. There is a monthly confidential bag and a weekly non confidential bag.

Address British Embassy
 Batiment Sogame
 B P 476 Libreville

Telephone 72.29.85

Telex 5538 (a/b 5538 PRODROM GO)

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(b) Conference Centre

Telephone, telex, cable, postal, money exchange, travel, tourism and health room services will be available at the Conference Centre. The official telex, cable and telephone numbers at the meeting site are:

Telex: IDC 5590A GO

Cable: INTDEV

Telephone: 76-31-44, 76-32-27, 76-33-31, 76-34-22, and 76-35-05.

11. Security

Security arrangements will require that identification badges be worn at all times in the Conference Centre and at time of departure from Libreville International Airport. No special arrangements for security of the UK delegation have been made. The British Embassy, however, is liaising closely with the French Embassy which is likely to have prompted the host government on any desirable additional precautionary arrangements. All classified papers will be taken at the end of each day for safe-keeping in the Embassy over night; and will be returned early the following day. No classified papers should be left unattended.

12. Transport

The Embassy will arrange for members of the UK Delegation to be met from and taken to the Airport. The Comite d' Organization is supposed to have arranged sufficient official vehicles. However, because of possible difficulties with officially provided transport the Embassy has hired at least three additional chauffeur driven cars. One of these will be earmarked for the Chancellor and Mr Wiggins.

13. Medical

Members of the Delegation are reminded that only in cases of urgent medical or dental treatment will HMG meet claims for refund of expenses. In accordance with the usual National Health procedures, the normal charges will be deducted from claims.

14. Entertainment

Approval has been given for an entertainment fund of £200 for meeting the cost of ad hoc entertainment by members of the Delegation.

Sir Kenneth Couzens will authorise disbursements from this fund.

15. Finance

Treasury and FCO/ODA members of the Delegation will be wholly subsisted by the Embassy on Conference terms and their hotel bills paid. These departments will reimburse in the normal way. Members of the delegation from UKTSD and Bank of England are subsisting themselves.

16. Climate and Time

The climate is tropical. The end of May is the beginning of the dry season. The temperature is approximately 80 degrees Fahrenheit. The local time is GMT plus 1 hour. Due to extreme air conditioning, delegation members, especially females, are advised to bring a sweater or other such garment to wear inside the Conference Centre to avoid possibility of respiratory problems.

17. Social Events

His Excellency The President of the Republic is offering a dinner in honor of the Governors on Thursday, May 21.

His excellency Jean Pierre Lembumba, Minister of Economy and Finance, offers cocktails to all participants on Wednesday, May 20.

18. Note

Members of the delegation are asked to inform the Embassy of their hotel room numbers as soon as they have booked in, and also to keep the Embassy informed of their whereabouts at all times during the meetings.

UK DELEGATION TO IMF/IBRD MEETINGS LIBREVILLE

NAME

<u>TREASURY</u>	<u>POSITION</u>	<u>NIGHTSINCL</u>
1. Rt Hon Sir Geoffrey Howe QC MP	Chancellor of the Exchequer	20-21
2. Mr A J Wiggins	Principal Private Secretary	20-21
3. Sir Kenneth Couzens KCB	Second Permanent Secretary	20-21
4. Mrs M Hedley-Miller	Under Secretary	20-21
5. Mrs R Gilmore	Head of Treasury Information Division	20-21
6. Mrs D A Scott	Secretary	20-21
<u>BANK OF ENGLAND</u>		
7. Rt Hon Gordon Richardson MBE	Governor of the Bank of England	20-21
8. Mr A D Loehnis	Associate Director	20-21
9. Mr R H Gilchrist	Adviser	20-22
<u>UKTSD</u>		
10. Mr J Anson	UK Executive Director IMF/IBRD	19-22
11. Mr L D D Price	IMF Alternate Director	19-22
12. Mr D F Smith	IBRD Alternate Director	18-23
13. Miss D M Ryan	Secretary	18-23
<u>FCO/ODA</u>		
14. Sir Peter Preston KCB	Permanent Secretary of the Overseas Development Administration	19-21

FLIGHT PLANS

1) TO LIBREVILLE

<u>Date</u>	<u>Name</u>	<u>(To Paris)</u>	<u>Flight No.</u>	<u>Local Times</u>	
				<u>Depart</u> <u>Paris</u>	<u>Arrive</u> <u>Libreville</u>
20 May	CHANCELLOR) MR WIGGINS) MRS GILMORE) SIR K COUZENS) MRS HEDLEY-MILLER) MRS SCOTT) MR G RICHARDSON) MR A LOEHNIS)	London-Paris AF 807 7.30 am	UT-731	11.30	17.50
19 May	MR R GILCHRIST	Train London-Paris (18 May)	GN-601	09.00	19.25
19 May	SIR P PRESTON		GN-113	(Douala) 19.10	20.05
19 May	MR J ANSON) MR L PRICE)		GN-129		16.30
18 May	MR D SMITH) MS D RYAN)	From Washington	GN-402	10.10	15.50

2) TO PARIS

<u>Date</u>	<u>Name</u>	<u>Flight No</u>	<u>Local Times</u>	
			<u>Depart</u> <u>Libreville</u>	<u>Arrive</u> <u>Paris</u>
22 May	CHANCELLOR) MR WIGGINS) MRS GILMORE) SIR K COUZENS) MRS HEDLEY-MILLER) MRS SCOTT) SIR P PRESTON)	GN-604	22.30	06.20
22 May	MR RICHARDSON) MR LEONIS)	SR 275	08.50	(Geneva) 17.35
23 May	MR GILCHRIST) MR ANSON) MR PRICE)	GN-407	09.00	16.50
24 May	MR SMITH	UT-734	10.00	19.20
24 May	MS RYAN	GN-124	11.00	

GABON

Introduction

Gabon is a central African country of only about 1 mn people spread over an area the size of the UK. The country has considerable oil, forestry and mineral resources (iron ore, manganese, uranium and to a lesser extent copper, gold and diamonds). The exploitation of oil has resulted in rapid economic growth since independence from France in 1960. The population enjoys the highest per capita GNP in black Africa. The labour force consists mainly of immigrants from neighbouring African countries, and European technicians. Politically stable and pro-western, Gabon maintains close links with France, who provide numerous administrative and military 'advisers' and obtain most of their uranium requirements from Gabon.

The Economy

Gabon, which has been a member of OPEC since 1975, currently produces 170,000 b/d, accounting for less than one per cent of total OPEC production. Production peaked in 1976 and has since been declining at an annual rate of about 6 per cent.

After the quadrupling of oil prices in 1973-74 the Government embarked on an ambitious development programme. Uncontrolled expenditure resulted in a sharp growth of budgetary and balance of payments deficits and the accumulation of \$1.35 bn of foreign debt. Against this background the Government, under the auspices of the IMF and a triad of merchant bank advisers (Lazard Freres, Warburgs and Kuhn Loeb) introduced a Stabilisation Programme which aimed at reducing public spending, pruning non-essential investment and rescheduling commercial debt.

Successful adherence to this Programme (greatly helped by the 1979 and 1980 oil price increases) and the consequential reduction in the levels of inflation, external indebtedness and financial imbalance have done much to restore Gabon's international creditworthiness.

Last year the Government introduced a three-year Interim Development Plan. In seeking to diversify the economy's base the Plan is concentrating on developing the infrastructure necessary to exploit the hinterland's mineral wealth (notably the Trans-Gabon Railway) and channelling investment into the agricultural, mining and forestry sectors of the economy.

Although Gabon's debt servicing remains one of the country's most pressing economic problems - it currently consumes 20 per cent of export earnings - it is a problem that has been controlled and, in the medium term, is forecast to recede sharply. Anticipated levels of oil production and the expected maintenance of the real price of oil should enable Gabon to carry out the Interim Plan without recourse to substantial external borrowing.

Last year the Fund provided an Extended Facility of SDR 34 mn to give "fall-back" balance of payments assistance should the investment programme over-stretch the economy in the short-term; no drawings have so far been needed.

Banking

Gabon is a member of the French franc area. Together with Cameroun, Central African Republic, Chad and Congo Republic it shares a common currency, the CFA franc, issued by a common central bank, the Banque des Etats de l'Afrique Central (BEAC). Monetary policy for the area as a whole is determined by the board of directors of the BEAC, assisted at the national level by a Monetary Committee in each member country.

Apart from the BEAC, the banking system comprises two development banks and nine commercial banks. The latter have all been established on a joint venture basis.

There are no Gabonese banks in London.

Links with UK

Historically trading links between the UK and Gabon have been weak. In 1980 the UK enjoyed a 4 per cent share of the Gabonese market with exports of £9 mn.

Political relations between the UK and Gabon have become markedly more cordial recently; President Bongo's successful visit to London last year was returned by the visit of the Minister of Trade to Libreville last December, the first ever visit by a British Minister to Gabon. Britain has only been represented in Libreville (by a staff of two) since 1978.

The Gabonese Government have recently been making it clear that they would welcome more British participation in the development of Gabon. A UK consortium, led by Taylor Woodrow International and Wimpey, are currently tendering for, and have hopes of being awarded, the \$500 mn contract to build the second stage of the Trans-Gabon Railway.

PERSONALITIES

Government

President of the Republic,
Head of the Government,
Minister of Defence, Information,
Posts and Telecommunications, Social
Security, Civil and Commercial
Aviation

El Hadj Omar Bongo

Prime Minister, Minister of Inter-
Ministry Co-ordination, Reform of
State Enterprises, President of the
National Council

M. Léon Mébiame

Minister of Finance and the Economy
(also IMF Governor)

M. Jean-Pierre Lemboumba-
Lepandou

Minister of Planning

M. Pascal Nzé

Minister of Commerce and
Industrial Development

M. Etienne Moussirou

Minister of Agriculture

M. Michel Anchouey

Banque des Etats de l'Afrique Centrale

Governor) based in Yaoundé,
Vice-Governor) Cameroun

(Casimir Oye Mba
(Jean-Edouard Sathoud

Gabonese National Director (based in
Libreville)
(also IMF Alternate Director)

Jean-Paul Leyimangoye

29

Chancellor

158

ARRANGEMENTS FOR THE UK DELEGATION TO THE IMF INTERIM COMMITTEE AND
IMF/IBRD JOINT DEVELOPMENT COMMITTEE MEETINGS LIBREVILLE 21-22 MAY
1981

DATE AND PLACE OF MEETINGS

The Interim Committee meeting will take place in Libreville on Thursday, Thursday, 21 May at 9.30am. It will be followed by the Development Committee on Friday 22 May at 9.30am. Both meetings will be held at the Palais des Conferences du Gabon.

2. Composition of the Delegation

This is shown at Appendix 1, together with expected dates of stay in Libreville.

3. Travel

Details, as known, are shown at Appendix 2.

4. Travel Documents

All members of the party are required to have valid passports. Visas are also required. A special immigration service will be available at the airport on arrival of the participants in Libreville.

5. Health Requirements

There are no health requirements but inoculation against yellow fever and cholera and vaccination against smallpox are recommended.

6. Baggage

Baggage entitlement on all airlines is 30 Kilos (66 lbs) for 1st class passengers and 20 Kilos (44 lbs) for those travelling economy class.

7. Insurance

Loss of baggage or personal effects sustained while in transit or in receipt of subsistence allowance will be covered by HMG up to a total

of £200 (no one item more than £50) provided there is no other cover already in force.

8. Accommodation

All members of the delegation are staying at Le Dialogue, about 10-15 minutes from the Conference Centre. It is the closest to the British Embassy.

9. Office accommodation

An EDS' lounge will be available at the Conference Centre but individual delegations will not be provided with offices in the Conference Centre. There will be space for EDS' secretaries in a communal area. A room at the Centre could be made available for a couple of hours if, say, it were decided to hold a press conference, or it might be possible to reserve a room if a UK delegation meeting was wanted. The Embassy will be able to provide only one small room. Four typewriters, not in A1 condition, are available. Some of the work may have to be done from the hotel.

10. Communications

(a) Embassy

There is only a two man post in Libreville - The Ambassador, Mr T Grady MBE and Second Secretary, Mr J T Vass. Libreville's classified telegram facilities are primitive and time consuming. For unclassified communications there is a telex but the terminal manned by a locally engaged receptionist is not manned at all times. There is a monthly confidential bag and a weekly non confidential bag.

Address	British Embassy Batiment Sogame B P 476 Libreville
Telephone	72.29.85
Telex	5538 (a/b 5538 PRODRON GO)

(b) Conference Centre

Telephone, telex, cable, postal, money exchange, travel, tourism and health room services will be available at the Conference Centre. The official telex, cable and telephone numbers at the meeting site are:

- Telex: IDC 5590A GO
- Cable: INTDEV
- Telephone: 76-31-44, 76-32-27, 76-33-31, 76-34-22, and 76-35-05.

11. Security

Security arrangements will require that identification badges be worn at all times in the Conference Centre and at time of departure from Libreville International Airport. No special arrangements for security of the UK delegation have been made. The British Embassy, however, is liaising closely with the French Embassy which is likely to have prompted the host government on any desirable additional precautionary arrangements. All classified papers will be taken at the end of each day for safe-keeping in the Embassy over night; and will be returned early the following day. No classified papers should be left unattended.

12. Transport

The Embassy will arrange for members of the UK Delegation to be met from and taken to the Airport. The Comite d' Organization is supposed to have arranged sufficient official vehicles. However, because of possible difficulties with officially provided transport the Embassy has hired at least three additional chauffeur driven cars. One of these will be earmarked for the Chancellor and Mr Wiggins.

13. Medical

Members of the Delegation are reminded that only in cases of urgent medical or dental treatment will HMG meet claims for refund of expenses. In accordance with the usual National Health procedures, the normal charges will be deducted from claims.

14. Entertainment

Approval has been given for an entertainment fund of £200 for meeting the cost of ad hoc entertainment by members of the Delegation.

Sir Kenneth Couzens will authorise disbursements from this fund.

15. Finance

Treasury and FCO/ODA members of the Delegation will be wholly subsisted by the Embassy on Conference terms and their hotel bills paid. These departments will reimburse in the normal way. Members of the delegation from UKTSD and Bank of England are subsisting themselves.

16. Climate and Time

The climate is tropical. The end of May is the beginning of the dry season. The temperature is approximately 80 degrees Fahrenheit. The local time is GMT plus 1 hour. Due to extreme air conditioning, delegation members, especially females, are advised to bring a sweater or other such garment to wear inside the Conference Centre to avoid possibility of respiratory problems.

17. Social Events

His Excellency The President of the Republic is offering a dinner in honor of the Governors on Thursday, May 21.

His excellency Jean Pierre Lembumba, Minister of Economy and Finance, offers cocktails to all participants on Wednesday, May 20.

18. Note

Members of the delegation are asked to inform the Embassy of their hotel room numbers as soon as they have booked in, and also to keep the Embassy informed of their whereabouts at all times during the meetings.

UK DELEGATION TO IMF/IBRD MEETINGS LIBREVILLE

NAME

<u>TREASURY</u>	<u>POSITION</u>	<u>NIGHTSINCL</u>
1. Rt Hon Sir Geoffrey Howe QC MP	Chancellor of the Exchequer	20-21
2. Mr A J Wiggins	Principal Private Secretary	20-21
3. Sir Kenneth Couzens KCB	Second Permanent Secretary	20-21
4. Mrs M Hedley-Miller	Under Secretary	20-21
5. Mrs R Gilmore	Head of Treasury Information Division	20-21
6. Mrs D A Scott	Secretary	20-21
<u>BANK OF ENGLAND</u>		
7. Rt Hon Gordon Richardson MBE	Governor of the Bank of England	20-21
8. Mr A D Loehnis	Associate Director	20-21
9. Mr R H Gilchrist	Adviser	20-22
<u>UKTSD</u>		
10. Mr J Anson	UK Executive Director IMF/IBRD	19-22
11. Mr L D D Price	IMF Alternate Director	19-22
12. Mr D F Smith	IBRD Alternate Director	18-23
13. Miss D M Ryan	Secretary	18-23
<u>FCO/ODA</u>		
14. Sir Peter Preston KCB	Permanent Secretary of the Overseas Development Administration	19-21

FLIGHT PLANS

1) TO LIBREVILLE

<u>Date</u>	<u>Name</u>	<u>(To Paris)</u>	<u>Flight No.</u>	<u>Local Times</u>	
				<u>Depart Paris</u>	<u>Arrive Libreville</u>
20 May	CHANCELLOR) MR WIGGINS) MRS GILMORE) SIR K COUZENS) MRS HEDLEY-MILLER) MRS SCOTT) MR G RICHARDSON) MR A LOEHNIS)	London-Paris AF 807 7.30 am	UT-731	11.30	17.50
19 May	MR R GILCHRIST	Train London-Paris (18 May)	GN-601	09.00	19.25
19 May	SIR P PRESTON		GN-113	(Douala) 19.10	20.05
19 May	MR J ANSON) MR L PRICE)		GN-129		16.30
18 May	MR D SMITH) MS D RYAN)	From Washington	GN-402	10.10	15.50

2) TO PARIS

<u>Date</u>	<u>Name</u>	<u>Flight No</u>	<u>Local Times</u>	
			<u>Depart</u> <u>Libreville</u>	<u>Arrive</u> <u>Paris</u>
22 May	CHANCELLOR) MR WIGGINS) MRS GILMORE) SIR K COUZENS) MRS HEDLEY-MILLER) MRS SCOTT) SIR P PRESTON)	GN-604	22.30	06.20
22 May	MR RICHARDSON) MR LEONIS)	SR 275	08.50	(Geneva) 17.35
23 May	MR GILCHRIST) MR ANSON) MR PRICE)	GN-407	09.00	16.50
24 May	MR SMITH	UT-734	10.00	19.20
24 May	MS RYAN	GN-124	11.00	

GABON

Introduction

Gabon is a central African country of only about 1 mn people spread over an area the size of the UK. The country has considerable oil, forestry and mineral resources (iron ore, manganese, uranium and to a lesser extent copper, gold and diamonds). The exploitation of oil has resulted in rapid economic growth since independence from France in 1960. The population enjoys the highest per capita GNP in black Africa. The labour force consists mainly of immigrants from neighbouring African countries, and European technicians. Politically stable and pro-western, Gabon maintains close links with France, who provide numerous administrative and military 'advisers' and obtain most of their uranium requirements from Gabon.

The Economy

Gabon, which has been a member of OPEC since 1975, currently produces 170,000 b/d, accounting for less than one per cent of total OPEC production. Production peaked in 1976 and has since been declining at an annual rate of about 6 per cent.

After the quadrupling of oil prices in 1973-74 the Government embarked on an ambitious development programme. Uncontrolled expenditure resulted in a sharp growth of budgetary and balance of payments deficits and the accumulation of \$1.35 bn of foreign debt. Against this background the Government, under the auspices of the IMF and a triad of merchant bank advisers (Lazard Freres, Warburgs and Kuhn Loeb) introduced a Stabilisation Programme which aimed at reducing public spending, pruning non-essential investment and rescheduling commercial debt.

Successful adherence to this Programme (greatly helped by the 1979 and 1980 oil price increases) and the consequential reduction in the levels of inflation, external indebtedness and financial imbalance have done much to restore Gabon's international creditworthiness.

Last year the Government introduced a three-year Interim Development Plan. In seeking to diversify the economy's base the Plan is concentrating on developing the infrastructure necessary to exploit the hinterland's mineral wealth (notably the Trans-Gabon Railway) and channelling investment into the agricultural, mining and forestry sectors of the economy.

Although Gabon's debt servicing remains one of the country's most pressing economic problems - it currently consumes 20 per cent of export earnings - it is a problem that has been controlled and, in the medium term, is forecast to recede sharply. Anticipated levels of oil production and the expected maintenance of the real price of oil should enable Gabon to carry out the Interim Plan without recourse to substantial external borrowing.

Last year the Fund provided an Extended Facility of SDR 34 mn to give "fall-back" balance of payments assistance should the investment programme over-stretch the economy in the short-term; no drawings have so far been needed.

Banking

Gabon is a member of the French franc area. Together with Cameroun, Central African Republic, Chad and Congo Republic it shares a common currency, the CFA franc, issued by a common central bank, the Banque des Etats de l'Afrique Central (BEAC). Monetary policy for the area as a whole is determined by the board of directors of the BEAC, assisted at the national level by a Monetary Committee in each member country.

Apart from the BEAC, the banking system comprises two development banks and nine commercial banks. The latter have all been established on a joint venture basis.

There are no Gabonese banks in London.

Links with UK

Historically trading links between the UK and Gabon have been weak. In 1980 the UK enjoyed a 4 per cent share of the Gabonese market with exports of £9 mn.

Political relations between the UK and Gabon have become markedly more cordial recently; President Bongo's successful visit to London last year was returned by the visit of the Minister of Trade to Libreville last December, the first ever visit by a British Minister to Gabon. Britain has only been represented in Libreville (by a staff of two) since 1978.

The Gabonese Government have recently been making it clear that they would welcome more British participation in the development of Gabon. A UK consortium, led by Taylor Woodrow International and Wimpey, are currently tendering for, and have hopes of being awarded, the \$500 mn contract to build the second stage of the Trans-Gabon Railway.

PERSONALITIES

Government

President of the Republic,
Head of the Government,
Minister of Defence, Information,
Posts and Telecommunications, Social
Security, Civil and Commercial
Aviation

El Hadj Omar Bongo

Prime Minister, Minister of Inter-
Ministry Co-ordination, Reform of
State Enterprises, President of the
National Council

M. Léon Mébiame

Minister of Finance and the Economy
(also IMF Governor)

M. Jean-Pierre Lemboumba-
Lepandou

Minister of Planning

M. Pascal Nzé

Minister of Commerce and
Industrial Development

M. Etienne Moussirou

Minister of Agriculture

M. Michel Anchouey

Banque des Etats de l'Afrique Centrale

Governor) based in Yaoundé,
Vice-Governor) Cameroun

(Casimir Oye Mba
(Jean-Edouard Sathoud

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Libreville)
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Jean-Paul Leyimangoye

Libreville, 21 May 1981

THE CHANCELLOR OF THE EXCHEQUER'S MEETING WITH
PRESIDENT BONGO - 17.00 HRS FRIDAY 22 MAY 1981

General

The Chancellor will presumably wish to refer in general terms to the meetings and to the way in which the Gabonese have handled the administration (provided it flatters) and perhaps to Libreville e.t.c. Perhaps he could also add that he brings the Prime Minister's personal good wishes and that Mrs Thatcher remembers with pleasure her meeting in May last year.

Technical Assistance

The President may possibly express regret at the absence of a bilateral Technical Assistance agreement between Gabon and the U K. It has been explained to him that the U K in the face of her economic difficulties has had to reduce her aid world-wide ; but that in any case Gabon's comparatively high per capita G D P puts her outside the bracket of the most deserving from our point of view. We nonetheless contribute heavily to U N and E C development funds both of whom are active in Gabon.

He may also speak about his wish to encourage the teaching of English. We share his wish. Unfortunately for the same reasons of economic stringency, the British Council is unable to spare money for this purpose. However, from limited funds at his personal disposal, the Ambassador has recently been able to supply a language laboratory to the University; and we will continue to encourage the teaching of English in other minor respects which do not call for substantial financial outlay.

Bilateral Trade

The confidence engendered by the way in which Gabon has brought her economy back into balance stimulated by the President's two visits to the U K in 1980 and his repeated assertion that Gabon is no longer the exclusive preserve of the French have aroused much interest among British businessmen. This led to a visit by the Minister of Trade, Mr Cecil Parkinson, in November, accompanied by leading British businessmen.

Transgabonese Railway

Two major British firms, Wimpey and Taylor Woodrow, appear to be close to securing 22% of the consortium EUROTRAG. This with associated works could amount to as much as £125m U K content. The U K has already offered - and the Gabonese have accepted - a £25 m line of credit and orders under this head

- 2 -

been received for a large breakdown crane, rail clips, and consultancy.

Sheraton Hotel

Balfour Beatty have had several meetings in Libreville concerned with the completion of the Sheraton Hotel; one was with President Bongo himself. They are now engaged on the preparation of a study which they are hopeful will lead to the signature of a contract probably in the region of \$25m.

Aerial Survey

Huntings have been nursing a project for an aerial survey of Gabon for about 18 months. The Minister of Mines gave us to understand during Mr Parkinson's visit that Huntings will figure prominently in eventual contracts. But the business is dragging on and Huntings fear that their original estimates are certain to be revised upwards.

Defence Sales

International Military Services (IMS) have paid several visits to Gabon and have presented proposals amounting to about £25m. The last visit ended in stalemate when it transpired that there was no provision in the 1981 budget. But despite disappointment in certain Gabonese quarters with the financial terms, IMS remain hopeful that the 1982 budget will give them their opportunity.

Libreville Airport

Plessey, who have already gained contracts worth £13m in Gabon, have hopes of securing the contract for the new Libreville International Airport in association with Sir Alexander Gibb and Partners. They have Department of Trade support for a free preliminary study which they have recently presented to the Gabonese. But the competition - particularly French - will be strong.

Agricultural Projects

The Gabonese are devoting large sums in the Interim Budget 1981-83 to agricultural development. We have taken preliminary steps to interest British companies with experience in this field and some have expressed interest. We are currently examining with the Department of Trade and the C B I the possibility of a seminar in London later in the year to focus interest more sharply.

...../I do not

- 3 -

I do not think the Chancellor need do more than express pleasure at the development of Anglo/Gabonese commercial relations perhaps touching lightly on:-

- i) the promising prospects vis-à-vis the Transgabonese railway
- ii) the need, which the IMF conference has pointed up, for more hotel accommodation in Libreville, and Balfour Beatty's readiness to press on quickly
- iii) disappointment at the delays in the negotiations for sale of military equipment.
It would also be helpful if he could reinforce the point made by the Minister of Trade Mr Parkinson that unless we are soon able to produce a juicy contract won by a British company, we may be in danger of losing the interest which he, the President, and we have worked so hard to stimulate.


T Grady

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169

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Peter Grady

27

A 1. Treasury hired car to take Mr Richardson to airport.

Leaving hotel at 0730 for flight at 0850 take off.

2. Car to return to hotel to await instructions from Mr Gilchrist.

B 1. 1530. Cortina with HMA to pick up Chancellor and Sir K Couzens at Palais des Congres and call on President at 1600.

2. Car to wait and return party to Dialogue and residence.

C 1. Landrover plus 3 hired cars to be at Dialogue at 1815 to take guests to residence to meet British business community.

2. Landrover and hired cars to remain at residence pending instructions.

3. Landrover and hired cars to return guests to Dialogue at 2000 to pick up luggage, pay bills etc. Guests to re-board hired cars and landrover and proceed to airport.

4. HMA in cortina to report to Dialogue at 2030 to take Chancellor to airport.

5. Cars to await instructions.

McWiggins

72

IMMEDIATE

VZCZCLD0058
OO RUEHLD
E RUEHC #9329 1390017
LNY CCCCC ZZH
O 190012Z MAY 81
FM SECSTATE WASHDC
TO AMEMBASSY LONDON IMMEDIATE 7721
BT
C O N F I D E N T I A L STATE 129329

19 MAY 81
TOR: 0722
CN: 24597
CHRG: STA

ACTION: TREATS IS RC

E.O. 12065: GDS 5/14/87 (HAIG, ALEXANDER M.)

TAGS: EFIN, UK

ACTION COPY

SUBJECT: LETTER FROM SECRETARY HAIG TO FOREIGN MINISTER CARRINGTON ON PLO OBSERVER QUESTION

ERD (delivered by US Ambassador 09:00)

1. FOLLOWING IS A LETTER FROM SECRETARY HAIG TO FOREIGN MINISTER CARRINGTON TO BE DELIVERED PER INSTRUCTIONS SEPTTEL (BEING SENT OUT SIMULTANEOUSLY). BEGIN TEXT:

DEAR PETER:

AT LAST WEEK'S QUADRIPARTITE MEETING, LARRY EAGLEBURGER DISCUSSED IN GREAT DETAIL WITH JULIAN BULLARD OUR CONTINUING CONCERN OVER POSSIBLE PLO OBSERVER STATUS AT IMF/IBRD ANNUAL MEETINGS. THIS IS A MOST SERIOUS MATTER TO THE UNITED STATES.

✓ PS
PB/LPS
PB/PUB
Sir Ibrahim
NENAD

US Embassy (Attache) also has for a reaction today - [Signature]

WE BELIEVE ISSUES RELATING TO THE PLO CAN PROPERLY BE ADDRESSED ONLY IN THE CONTEXT OF NEGOTIATIONS FOR A MIDDLE EAST PEACE. NO USEFUL PURPOSE IS SERVED BY FORCING THIS ISSUE UPON THE BRETTON WOODS INSTITUTIONS. THIS IS A POSITION ON WHICH WE FEEL THERE CAN BE NO COMPROMISE.

AT THIS CRITICAL JUNCTURE IN THE WORLD ECONOMY, THE INTERNATIONAL FINANCIAL INSTITUTIONS ARE MORE IMPORTANT THAN EVER. THE UNITED STATES HAS DEMONSTRATED ITS SUPPORT OF THESE INSTITUTIONS BY PROCEEDING, AT A TIME OF SEVERE SCALING BACK OF DOMESTIC SOCIAL PROGRAMS, WITH ITS IDA-VI AND GCI COMMITMENTS.

WERE THE PLO TO ACHIEVE OBSERVER STATUS, IT WOULD POLITICIZE THE INSTITUTIONS AND RAISE FIERCE POLITICAL REPERCUSSIONS IN THE UNITED STATES WHICH COULD AFFECT THEIR ABILITY TO PROVIDE STRONG LEADERSHIP IN THE INTERNATIONAL FINANCIAL SYSTEM AT A TIME WHEN BOTH OUR GOVERNMENTS AGREE STRONG LEADERSHIP IS NECESSARY. PRESIDENT REAGAN SHARES THESE CONCERNS.

IT DOES NOT APPEAR THAT AN OUTCOME SATISFACTORY TO ALL PARTIES IS POSSIBLE. WE PROPOSE, THEREFORE, THAT THE ISSUE OF OBSERVERS SHOULD REMAIN UNDER REVIEW IN THE EXECUTIVE BOARDS UNTIL A REPORT COMMANDING BROAD SUPPORT CAN BE MADE TO THE GOVERNORS. UNTIL THAT TIME, LAST YEAR'S LIMITATIONS ON EXPANSION OF THE OBSERVERS LIST SHOULD CONTINUE TO HOLD. OUR DELEGATION WILL BE PREPARED TO DISCUSS THIS STRATEGY

SECRET

CONFIDENTIAL

STATE 129329

AT THE UPCOMING MEETINGS IN GABON.

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AS THIS ISSUE ARISES IN THE IMF/IBRD, I URGE YOUR
GOVERNMENT TO SUPPORT ACTIVELY THE U.S. POSITION OF
EXCLUSION OF THE PLO.

SINCERELY,

AL

END TEXT. HAIG

CONFIDENTIAL

STATE 129329

174

VZCZCLD0059
 OO RUEHLD
 DT RUEHC #9311 1390020
 ZN SSSSS 2ZH
 O P 182356Z MAY 81
 FM SECSTATE WASHDC
 TO RUEHOT/AMEMBASSY OTTAWA IMMEDIATE 2015
 RUEHBAC/AMEMBASSY CANBERRA IMMEDIATE 1547
 RUEHLD/AMEMBASSY LONDON IMMEDIATE 7722
 RUFHOL/AMEMBASSY BONN IMMEDIATE 6179
 RUFHFR/AMEMBASSY PARIS IMMEDIATE 3181
 RUEHKO/AMEMBASSY TOKYO IMMEDIATE 5873
 INFO RUDKGPQ/AMEMBASSY THE HAGUE PRIORITY 5591
 BT
 S E C R E T STATE 129311

IMMEDIATE

19 MAY 81
 TOR: 0724
 CN: 24598
 CHRG: STA
 ACTION: TREAS IS AC



FOR AMBASSADORS OR CHARGES FROM THE SECRETARY

E.O. 12065: GDS 5/12/87 (HAIG, ALEXANDER M)

TAGS: EFIN

SUBJECT: PLO OBSERVER STATUS AT IMF/IBRD MEETINGS

REFS: (A) STATE 109515; (B) TOKYO 8056

1. S - ENTIRE TEXT.
2. YOU WILL BE RECEIVING SEPTEL LETTERS FROM ME TO THE FOREIGN MINISTERS. PLEASE DELIVER THE LETTERS IMMEDIATELY.
3. IN DELIVERING THE LETTER, YOU SHOULD EMPHASIZE CRALLY THAT WE FEEL STRONGLY THAT OUR FRIENDS MUST JOIN TOGETHER WITH US IN PRESENTING A STRONG COMMON FRONT ON THIS MATTER WHICH POSES A DEFINITE THREAT TO THE INTEGRITY OF THE INSTITUTIONS AND TO U.S. ABILITY TO CONTINUE STRONG SUPPORT FOR THE INSTITUTIONS. THE BANK AND FUND ARE BY DEFINITION DESIGNED TO SUPPORT THE SMOOTH RUNNING OF THE INTERNATIONAL FINANCIAL SYSTEM. THIS IS A POSITION ON WHICH WE FEEL THE CHARTERS OF THE TWO INSTITUTIONS ARE CLEAR AND IS A PRINCIPLE ON WHICH THIS ADMINISTRATION CANNOT COMPROMISE.
4. WHILE THE ISSUE OF PLO OBSERVER STATUS IS CLEARLY POLITICAL, AND THUS AN INAPPROPRIATE INTRUSION INTO THE IMF/IBRD, WE PROPOSE TO ADDRESS THE ISSUE ESSENTIALLY ON PROCEDURAL GROUNDS. ON ISSUES OF IMPORTANCE TO THE INSTITUTIONS, THE EXECUTIVE BOARDS GENERALLY SEEK TO DEVELOP RECOMMENDATIONS WHICH HAVE THE BROAD SUPPORT OF THE MEMBERSHIP. WE SEE NO BASIS FOR SUCH AN OUTCOME AT THIS TIME, NOR DO WE FEEL IT APPROPRIATE ON THIS ISSUE TO SET ANOTHER SPECIFIC DATE BY WHICH VIEWS MUST BE RECONCILED. YOU SHOULD CONVEY OUR HOPE THAT AT THE MAY 21 INTERIM COMMITTEE MEETING WE WILL BE ABLE TO FINALIZE AGREEMENT WITH REPRESENTATIVES OF THE U.K., FRG, FRANCE, THE NETHERLANDS, CANADA, AUSTPALIA AND JAPAN ON TACTICS AND INSTRUCTIONS TO THEIR EXECUTIVE BOARD REPRESENTATIVES, AS THE BOARDS ADDRESS THIS ISSUE IN

THE NEXT FEW WEEKS. (THERE IS A JUNE 15 DEADLINE FOR THE
FORWARDS TO REPORT TO GOVERNORS ON THE ISSUE.)

5. FOR PARIS: WE ARE REPEATING TO YOU THE LETTER EMBASSY
BONN WILL GIVE FOREIGN MINISTER GENSCHER. YOU SHOULD
CONVEY THE SUBSTANCE OF THAT LETTER TO THE HIGHEST APPRO-
PRIATE LEVEL IN THE FOREIGN MINISTRY IMMEDIATELY, AND YOU
MAY WANT TO TAKE PARALLEL ACTION WITH THE FINANCE MINISTRY.
SINCE JUNE 15 IS THE KEY DATE (WHEN THE PRESENT EXTENSION
EXPIRES) I MAY WANT TO ADDRESS THIS ISSUE
WITH THE NEW FOREIGN MINISTER, WHEN THE NEW GOVERNMENT IS
INSTALLED.

6. FOR OTTAWA: YOU SHOULD STRESS THAT ALTHOUGH OUR
CROWDED AGENDA IN ROME LEFT NO TIME TO PURSUE THIS
QUESTION, IT IS A MATTER TO WHICH WE ATTACH HIGH
IMPORTANCE.

7. FOR THE HAGUE: I SPOKE TO KLAUW IN ROME AND HE
INDICATED HIS CONTINUED WILLINGNESS TO BE HELPFUL.
AS APPROPRIATE, YOU MAY WANT TO BRIEF THE DUTCH ON OUR
CURRENT THINKING AND GET THEIR LATEST THINKING ON SITUATION.

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PRESS COMMUNIQUE OF THE MINISTERIAL MEETING OF THE
GROUP OF TEN ON MAY 20, 1981 IN LIBREVILLE

1. The Ministers and the Central Bank Governors of the ten countries participating in the General Arrangements to Borrow met in Libreville on May 20, 1981, under the chairmanship of Mr. Allan J. MacEachen, Deputy Prime Minister and Minister of Finance of Canada. The Managing Director of the International Monetary Fund, Mr. Jacques de Larosière, took part in the meeting, which was also attended by Mr. P. Languetin, Vice Chairman of the Governing Board of the Swiss National Bank, Mr. E. Van Lennep, the Secretary-General of the Organization for Economic Cooperation and Development, Dr. G. Schleiminger, the General Manager of the Bank for International Settlements and Mr. François-Xavier Ortolí, the Vice-President of the Commission of the European Communities.

2. The Ministers and Governors welcomed Dr. Lamberto Dini, Director General of the Bank of Italy, the new Chairman of the Deputies, and expressed their thanks to Mr. Manfred Lahnstein, the previous Chairman of the Deputies, for his contribution to their work during the past year.

3. Reviewing the world economic situation, the Ministers and Governors noted with concern that the outlook remained clouded by high rates of inflation, the slow growth of output, rising unemployment, and large payments imbalances. At the same time, however, progress had been made in a number of industrial countries in lessening their dependence on oil and in maintaining a satisfactory level of fixed investment as a result of wage moderation. Moreover, some further headway was recorded in the fight against inflation. These encouraging signs were regarded as an indication that the pursuit of anti-inflationary policies was beginning to bear fruit and that, these policies should be continued. The Ministers and Governors reemphasized the need to maintain an open trade and payments system and to resist mounting protectionist pressures.

4. The Ministers and Governors expressed particular concern about the deterioration in the current-account balance of a large number of developing countries. In this context, they welcomed the recent actions taken by the IMF to supplement its resources in line with its new policy of

enlarged access. They agreed that the Fund should rely primarily on resources contributed through quotas and noted that the Executive Board had begun the preparatory work for the 8th review of quotas. They stressed that increased Fund's assistance should not alter the monetary role of the Fund and the main characteristics of its lending policies, especially with respect to the promotion of adjustment on terms of appropriate conditionality. This also implies the necessity of maintaining the liquidity position of the Fund.

5. The Ministers and Governors welcomed the efficiency with which the international financial markets have contributed to the financing of payments deficits and expressed confidence that they will continue to play a major role in the future. They noted, however, the importance of ensuring that the growth of international bank lending should remain consistent with the maintenance of sound banking standards. In the context of discussing recent developments in the field of international liquidity the Ministers and Governors felt that the question of an SDR allocation in the fourth basic period needed to be examined further before a decision could be taken.

6. The Ministers and Governors congratulated the Managing Director of the Fund for his excellent work and the professionalism with which he arranged recent borrowing operations by the Fund.

7. The Ministers and Governors expressed their gratitude to the Gabonese authorities for their warm hospitality and for the excellent arrangements provided for the meeting.

SIR K COUZENS

cc Principal Private Secretary
Mr Hancock
Mr Bottrill
Mr Atkinson
Mrs Gilmore
Mr Gilchrist (Bank of
England)

MEETING OF G10, LIBREVILLE

20 May 1981

I attach a brief, based on the G10 Deputies Meeting
on 14 May.

2. I am afraid that it goes over again what is becoming
very familiar ground.

3. I shall be asking Mr Gilchrist if he will kindly
take copies of the brief - as endorsed - to Libreville
on Tuesday, for Mr Anson, who will be holding the fort
until we arrive.

M.E.H.M.
MRS M E HEDLEY-MILLER

15 May 1981

BRIEF FOR MEETING OF G10 MINISTERS AND GOVERNORS,
LIBREVILLE, GABON, 20 MAY 1980

Mr McEachan (Canada) will be in the Chair. This is not by election; the Chairmanship rotates, by name of country in alphabetical order in French, at the time of the Annual Meetings. There will have been no luncheon for Finance Ministers to discuss Mr McEachan's wide-ranging ideas about the world and the system; this proved too difficult to arrange.

2. The Finance Ministers of France, Germany and Holland will not be present.

3. Mr Anson will represent the UK until the Chancellor and Governor arrive.

4. The meeting is in preparation for the Interim Committee meeting on the following day. On past form it seems unlikely that Ministers and Governors will want to be very vocal, though Mr McEachan may have ambitions to keep a discussion going, perhaps seeking to influence it in the Canadian (softish) direction. And Secretary Regan may wish to take the opportunity to outline the new US Administration's approach to international monetary affairs. This would be a useful antidote. As the Chancellor knows, his general line is rather

hard for the tastes of some, but chimes very well with the Treasury's view that the Fund has rightly made immense efforts recently to help to finance balance of payment deficits, but is in danger of going a bit overboard, and not paying enough attention to conditionality and the necessary adjustment of policies.

5. One reason why Ministers and Govenors may not feel that they have much to say is that the ground has been prepared by a meeting in Paris (on Thursday 13 May) of the G10 Deputies. Herr Lahnstein, now of the Federal Chancellors' Office in Bonn took the Chair for the last time. He will not be in Gabon. S.Dini, of the Banca d'Italia, until recently Italian Executive Director in the Fund, has taken his place, and will make the report in Libreville. This report may well be available in writing beforehand. (S. Dini's english is excellent).

World Economic Outlook

6. On the world economic outlook the report is likely to say that there is broad acceptance of the picture painted in the IMF document SM/81/1 (not to all). The outlook is disturbing, with the prospect of stagflation, of continued current account imbalances and of problems in the financial markets arising from the complex of interest rate and exchange rate relationships. Some LDC's will be very hard hit - though it is always a mistake to aggregate them. The position varies among individual countries and groups of countries.

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7. But the G10 Deputies were unanimous in making a point the Chancellor has had much in mind and which we had already tried to reflect in the first draft of his Libreville speech. They wish to recommend to Ministers and Govenors that - without being complacent or misrepresenting facts - it would be a great mistake for the impression to be left after the Interim Committee meetings that all is gloom. This is not merely in order to fend off LDC demands, and to prevent undesirable signals from being given for summits and other international gatherings later in the year. It is bad psychology generally. It could help to make a bad situation worse.

8. The good, or at least promising, points identified by
the G10 Deputies were:

- a) Recycling has gone smoothly.
- b) Adjustment has been better managed this time.
- c) Investment is holding up rather better, partly because wages have reacted more moderately.
- d) There has been real achievement in reducing oil use - not merely a reduction reflecting the recession. The OECD Secretariat calculate that oil use per unit of GNP has come down by 18% over the last three years.
- e) There will be good effects, perhaps later on this year, as the depreciation of the European currencies against the dollar begins to show the benefits on the up-side of the J curve.

9. They may be some reference to the importance to the rest of us of US policies, but avoiding anything too detailed either on the techniques of the monetary control, or on appropriate policy mixes.

10. There will be a strong reference to the importance of maintaining the general anti-inflationary stance to the industrialised countries. There should be no let-up, in spite of short-term costs to production and employment etc.

11. There will be a reference to the danger of increased protectionism, and a reference to the need to help the LDCs- but with emphasis also on the ineluctable necessity of their adjusting their policies; perpetual financing is no remedy for a healthy economy.

Comment by the UK

12. For the UK there would be no need to do more than offer support for this broad appraisal. If it were desired to elaborate, the material for the Chancellor's intervention at the Interim Committee could be drawn upon.

Other Interim Committee Topics

13. On enlarged access to the IMF and borrowing to make this possible, the points made in the G10 Deputies' meeting were:-

- i) That there had been considerable achievements since the last Interim Committee.

ii) That market borrowing, though not to be ruled out was not attractive (changing the character of the Fund etc), but most recognised the strength of the argument that it would be as well to be ready to borrow so as to ensure that the Fund did not become too dependent on the Arabs.

iii) That the Managing Director might be over-estimating his need for funds. If, as seemed possible, the Fund was over-liquid, there was a danger that it might go touting for business. There should be less emphasis on the so called "needs" of the developing countries, and more on the problem of achieving more sustainable balance of payment positions, calling on financing only to lubricate the process of adjustment. The Fund must be careful not to tarnish its image.

14. The UK could broadly accept this, and could endorse in particular the concern that the IMF must maintain adequate conditionality in order to promote the adjustment which, however painful, it is in the best interest of countries to pursue.

15. The 8th Quota Review is not on the Interim Committee Agenda, but is likely to be mentioned in the report to Ministers and Govenors. Some among the G10 countries want to ~~ex~~ accelerate the review process. It would however not be productive for Ministers and Govenors to debate the matter impromptu; there are no Executive Board documents ready. But the report may mention the necessity of "respecting" the present timetable.

It may incidentally not be true that a procedure to bring about an equi-proportional increase would take noticeably less time than the procedure to bring about selective increases, which most IMF Members favour. Member countries would have to get legislative authority for any increase, and it is this which takes a lot of time.

16. The UK could endorse the proposition of moving with all reasonable speed so as to stick to the present timetable.

17. On SDR allocations only Canada, Belgium and France show any disposition to say that there should be an allocation in the fourth basic period. Other G10 countries are hostile or very hostile. (It is not know yet how the report will convey this message).

18. The UK line could be "to share the doubts of those who believe that the state of world liquidity does not justify an SDR allocation, and that something which would - in however small a degree - be inflationary would give a wrong signal, given the great efforts which are still being made nationally to quell inflation".

19. The report will note the position reached on the Subsidy Account for the Supplementary Financing Facility (the UK is not contributing); and on the Cereals Facility.

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