

PO/CH/NC/0698
Part A

PO/CH/NC/0698
Part A

chancellors Monthly meeting
on International Issues.

9.10.89

pmj

FROM T TARKOWSKI (IF1)

DATE 18 JULY 1989

EXT 4888

MR H P EVANS
MR R I G ALLEN (EC)
MR MOUNTFIELD (AEF)

cc PS/Chancellor) 2/2
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Wicks
Mr Scholar
Mr Odling Smee
Mr Walsh
Mr Culpin
Mr Riley
Mr Peretz
Mrs M E Brown
Ms Symes
Mr Tyrie

INTERNATIONAL ISSUES: CHANCELLOR'S MONTHLY MEETING

The next meeting will be at 3.15 pm on Monday 24 July.

2. I attach a list of meetings which should be noted under item 1 of the agenda (recent and forthcoming meetings).

3. The main items for the agenda of which I am aware will be, presumably:

- Summit follow-up
- Zambia
- Toronto terms
- look ahead to Annual Meetings (Brady, Support Groups, Toronto terms, burden-sharing, quotas, environment, East-West relations, money-laundering, Commonwealth Equity Fund)

4. I would be grateful for:

- i) any additions or corrections to the attached list of meetings; and
- ii) suggestions for other agenda items (with brief notes, as appropriate, for inclusion in the agenda);

by noon on Thursday 20 July.


Tarkowski
T TARKOWSKI

EC Monetary Cttee	29	June
EC Co-ordinating Group	3	July
EPC (EC)	4	"
ECOFIN	10	"
Paris Summit	13-14	"
G7D	17	"
Paris Club	17-21	"
Dr Waigel (German Finance Minister)	18	"
EC Monetary Cttee	20	"
<hr/>		
EC Budget Council	28	"
ECOFIN	8-10	Sept
OECD WP3	14	"
Commonwealth Finance Ministers (CFM)	20-21	"
G10/G24	23	"
IMF/IBRD Annual Meetings	24-28	"

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FROM: T TARKOWSKI (IF1)
DATE: 21 JULY 1989
EXT: 4888

PS/CHANCELLOR
PS/ECONOMIC SECRETARY
SIR P MIDDLETON
SIR T BURNS
MR WICKS
MR H P EVANS
MR ODLING SMEE
MR R I G ALLEN
MR MOUNTFIELD
MR GIEVE
MR TYRIE
MS WALLACE



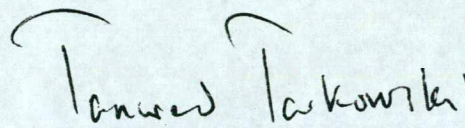
cc Mr Scholar
Mr Walsh
Mr Riley
Mr Peretz
Mr Culpin
Mr Pickering
Mr Melliss
Mrs Brown
Mr Mercer
Mr Bottrill
Mr P G F Davis
Miss Simpson
Ms Symes

Mr Cassell UKDEL

CHANCELLOR'S MONTHLY MEETING ON INTERNATIONAL ISSUES

I attach an agenda for the next meeting, which will be on Monday 24 July at 3.15 pm.

2. Requests for copies of papers should be addressed to their originators.


T TARKOWSKI

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INTERNATIONAL ISSUES: CHANCELLOR'S MONTHLY MEETING

3:15 pm on Monday 24 July in HM Treasury

AGENDA

1. Recent and forthcoming meetings

ECOFIN	10 July
Paris Summit	13-14 July
G7D	17 July
EC Monetary Cttee	20 July
<hr/>	
EC Member States meeting on Poland	26 July
EC Budget Council	28 July
EC Commission-chaired meeting on Poland	1 August
M Camdessus (MD,IMF)	5 September
EC Monetary Cttee	6 September
EPC (EC)	8 September
informal ECOFIN	8-10 September
OECD WP3	13 September
G7D	14 September
Paris Club	18-22 September
Commonwealth Finance Ministers (CFM)	20-21 September
G7	23 September
IMF/IBRD (Interim Cttee, Development Cttee and Annual Meetings)	24-28 September
EPC (EC)	27 September

2. Summit follow-up

Summit follow up includes:

(i) Structural reform: for Japan generally, see draft speech for the Prime Minister (item 4 below). For the distribution sector, we are supporting a proposal for OECD to do a comparative study which focuses in particular on Japan. Mr Wicks' 21 July submission* on the G7D meeting on 17 July is relevant to this and the next two items.

* papers for meeting

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(ii) Poland and Hungary: Ms Symes' note to PS/Chancellor of 20 July* on follow-up to the Summit decisions and Mr Mountfield's 20 July submission* on the July Paris Club.

(iii) Drugs: the Summit declaration announced the establishment of a financial task force to consider action to prevent utilization of the banking system and financial institutions for the purpose of money laundering and possible enhancement of multilateral judicial assistance in this area. Action rests with France to convene a meeting of the task force, which is due to complete its report by April 1990. Decisions will be needed soon on UK objectives and representation.

(iv) Export Credits: the Summit communique called on the competent bodies in the OECD to complete their work with a view to improving guidelines on export credit subsidies at the earliest possible date. This is in line with the negotiating objectives agreed last Autumn by UK Ministers but the Chief Executive of ECGD, which leads for the UK, has now suggested that Ministers might want to reconsider the position in view of the current balance of payments deficit and the effect of the abolition of subsidies on UK capital goods exporters. We propose to urge him firmly at official level to stick to the original agreements and to press for the reduction of subsidies internationally. We are also examining the cost of these subsidies rigorously in the PES round.

(v) Environment: the main action now falls to UNEP, OECD etc. But we will be suggesting that the Development Committee speech would provide the opportunity for a major statement on the economics of the environment and the role of markets.

* Papers for meeting

CONFIDENTIAL3 ● Debt

(i) Major debtors: Mr Bottrill's 19 July note* on the latest state of play in the Mexican negotiations, and oral update.

(ii) Support Groups: Mr Walsh's 20 July submission* on the request to the UK to chair a Support Group for Zambia recommends that we defer decision pending further assurances on Zambia's commitment to and capacity for reform, IMF study of possible financing methods, and indications of adequate donor support. UKDEL favour a slightly more forthcoming line.

(iii) Toronto terms: Mr Wicks' 7 July submission* and attachment on the possibility of extending Toronto terms for the poorest debtor countries was held over for discussion after the Summit (Mr Allan's 7 July minute*). These ideas might be developed further over the Summer for inclusion in speeches at the IMF/IBRD Annual Meetings/Development committee.

4. Prime Minister's visit to Japan 19-22 September

Draft for the Prime Minister's speech to Economic Organisations on 20 September, circulated by Mr Melliss on 21 July*.

5. Look ahead to Annual Meetings IMF/IBRD

The main issues are likely to be:

(i) Brady: the helpful Summit outcome should help us resist any calls for more official resources, but the state of negotiations on Mexico could be the key factor.

(ii) Burden-sharing: some progress in continuing Paris Club discussions, though very slow. We need to take stock after the September meeting.

* papers for meeting

CONFIDENTIAL

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- (iii) Sub-Saharan Africa: Toronto terms included under item 3(iii) above.
- (iv) Arrears/Support Groups: included under item 3(ii) above.
- (v) IMF Quotas: G7 deputies have agreed to delegate their Summit remit for a paper on quotas to G7 Executive Directors.
- (vi) East-West relations.
- (vii) Money-laundering: included under 2(iii) above. We are aiming to keep this subject away from the IMF.
- (viii) The environment: the proposals affecting the IFIs are: greater emphasis on the environment at the World Bank; the US proposal, which was subsequently dropped, for disclosure of environmental assessments in advance of Board meetings; and any proposed IFI involvement in debt for nature swaps.
- (ix) Commonwealth Equity Fund (CEF): Mr Tarkowski's 26 June submission* to the Economic Secretary reported on work by the Commonwealth Secretariat intended to lead to detailed proposals for endorsement by Commonwealth Finance Ministers in September. The CEF would be both institutionally and financially independent of governments.

Speeches: a separate meeting has been arranged to discuss these.

Bilaterals: no bilaterals have yet been agreed. You will certainly want to see Brady.

6. Any Other Business

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INTERNATIONAL ISSUES: CHANCELLOR'S MONTHLY MEETING 3.15 PM, MONDAY
24 JULY 1989 IN HM TREASURY

Present	Chancellor	Mr Gieve
	Economic Secretary	Mr Pickering
	Sir P Middleton	Mr Bottrill
	Sir T Burns	Mr Melliss
	Mr Wicks	Mrs M E Brown
	Mr H P Evans	Ms Wallace
	Mr Cassell	Mr Tarkowski
	Mr Mountfield	Mr Tyrie

The meeting followed the agenda circulated under Mr Tarkowski's minute of 21 July.

Recent and forthcoming meetings

2. The Chancellor said thought would be needed on the official support for the Paymaster General at the EC Budget Council meeting on 28 July. He noted that the Economic Secretary would be giving evidence on the Delors Report to the House of Lords Select Committee on European Legislation on 25 July.

Summit follow-up

3. The Chancellor said he would be considering Mr Melliss' draft speech for the Prime Minister's visit to Tokyo. He thought that the Japanese were unlikely to take on domestic vested interests at present. However, OECD countries should keep up the pressure.

4. Mr Mountfield reported on EC plans for following up the Summit decisions on Poland and Hungary. It was agreed that IMF and debt issues were not included in the EC's remit. It might be more difficult to exclude export credit and any EIB support, though we would try. The Treasury would not be represented at the first (member states only) meeting, but might be at the second (open to non-member states).

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●. The Chancellor noted that Summit follow-up on money laundering rested clearly with finance ministries. It was unclear as yet whether the IMF would be involved. Mr Wicks reported that the task force would be convened by the French in September. He did not favour IMF involvement: Camdessus' previous contribution on the subject had not been impressive. The Chancellor agreed. He asked for a note on UK objectives and representation. His own feeling was that the UK could take quite a forward line. We had already done a good deal, but there was probably room to do more. Although we should fight moves to revert to general exchange controls under the guise of controls on drug money, we should not set our face against any action in the area of international payments. As far as the ultimate proceeds were concerned, we needed to consider what could be done given fears that the reporting obligations on banks would simply lead to funds being parked elsewhere (eg building societies).

6. The Chancellor asked for a note on the effect that abolition of export credit subsidies would have on UK capital goods exporters.

7. The Chancellor agreed that he would include a substantial statement on the economics of the environment and the role of markets in his Development Committee speech. He would want to include several concrete examples - eg the UK tax differential in favour of unleaded petrol.

Debt

8. Mr Wicks reported that the Mexicans had now agreed a debt reduction package with the banks. Mulford had called in three banks (Swiss Bank Corporation, Citibank and Bank of America). The UK was likely to be asked to contribute to a bridging operation. The Chancellor commented that we should present the conclusion of a deal as good news.

9. The Chancellor agreed that it was too early to take a decision on chairmanship of a Support Group for Zambia. He agreed that Mr Cassell should follow the line to take recommended in Mr Walsh's 20 July submission. He could also say that we would not rule out chairmanship.

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10. The Chancellor said he did not favour the extension of Toronto terms. Nigeria had become eligible as a result of declining GDP per capita. We should take credit for Toronto terms for Nigeria at some stage, but perhaps not before November. But he did not think expectations that a new initiative should be launched at each international meeting should be encouraged. Existing policy on sub-Saharan debt was already very generous. Looking ahead, he thought that following the implementation of the Brady plan for commercial bank debt, there would be pressure for more official debt reduction. He asked officials for a table setting out the pattern of net flows between developed and developing countries which disaggregated between various country groupings, and illustrating the prospects over the next few years, taking account of the very big commitments entered into over recent months.

Look ahead to annual meetings of IMF/IBRD

11. Mr Wicks said that a paper on IMF quotas would be coming forward which investigated the scope for lining up allies on rankings at the IMF. He was concerned that the French, in particular, would be active in bilateral discussions and the UK might be outmanoeuvred. The Chancellor said he would consider the paper. But he was inclined to go on with the existing line, namely that ranking should be discussed only after an agreement on the overall size of the quota increase.

12. The Chancellor stressed the importance of ensuring that, if a Commonwealth Equity Fund did go ahead, it should be fully at arms-length from governments.

13. Other issues likely to come up at the Annual meetings had already been discussed. A meeting to consider speeches had been arranged for 25 July .

CONFIDENTIAL

CONFIDENTIALOther business

14. The Chancellor noted that the two main issues on the international side were the handling of EMU and increasing signs of protectionism in the new US administration's thinking. Given that the administration itself, rather than Congress, was responsible for stirring the issue up, it was difficult to see how it could be countered. There could be a concerted EC response, but the EC was itself unreliable. He expected to include rather more on trade in this year's speeches to the Annual Meetings.

T TARKOWSKI (IF1)

25 July 1989

cc Those present

PS/Paymaster General

Mr Scholar

Mr Odling Smee

Mr R I G Allen

Mr Walsh

Mr Peretz

Mr Riley

Mr Mercer

Mr P G F Davis

Mr S N Wood

Miss Simpson

Ms Symes

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pmf

FROM: T TARKOWSKI (IF1)
DATE: 25 JULY 1989
EXT: 4888

MR WICKS

cc PS/Chancellor
Mr H P Evans
Mr Mountfield
Mr R I G Allen (EC)

CHANCELLOR'S MONTHLY MEETING ON INTERNATIONAL ISSUES: 24 JULY

I attach draft minutes.

2. I would be grateful for any comments as soon as possible.
3. Could you (Mr Wicks) also supply the name of the third bank in paragraph 8, please.

Taroves Tarkowski
T TARKOWSKI

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**INTERNATIONAL ISSUES: CHANCELLOR'S MONTHLY MEETING 3.15 PM, MONDAY
24 JULY 1989 IN HM TREASURY**

Present	Chancellor	Mr Gieve
	Economic Secretary	Mr Pickering
	Sir P Middleton	Mr Bottrill
	Sir T Burns	Mr Melliss
	Mr Wicks	Mrs M E Brown
	Mr H P Evans	Ms Wallace
	Mr Cassell	Mr Tarkowski
	Mr Mountfield	Mr Tyrie

The meeting followed the agenda circulated under Mr Tarkowski's minute of 21 July.

Recent and forthcoming meetings

2. The Chancellor said thought would be needed on the official support for the Paymaster General at the EC budget council meeting on 28 July. He noted that the Economic Secretary would be giving evidence on the Delors Report to the House of Lords Select Committee on European Legislation ~~the following day~~ *on 25 July.*

Summit follow-up

3. The Chancellor said he would be considering Mr Melliss' draft speech for the Prime Minister's visit to Tokyo. He thought that the Japanese were unlikely to take on domestic vested interests at present. However, OECD countries should keep up the pressure.

4. Mr Mountfield reported on EC plans for following up the Summit decisions on Poland and Hungary. It was agreed that IMF and debt issues were not included in the EC's remit. It might be more difficult to exclude export credit and any World Bank support, though we would try. The Treasury would not be represented at the first (member states only) meeting, but might be at the second (open to non-member states).

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5. The Chancellor noted that Summit follow-up on money laundering rested clearly with finance ministries. It was unclear as yet whether the IMF would be involved. Mr Wicks reported that the task force would be convened by the French in September. He did not favour IMF involvement: Camdessus' previous contribution on the subject had not been impressive. The Chancellor agreed. He asked for a note on UK objectives and representation. His own feeling was that the UK could take quite a forward line. We had already done a good deal, but there was probably room to do more. Although we should fight moves to revert to general exchange controls under the guise of controls on drug money, we should not set our face against any action in the area of international payments. As far as the ultimate proceeds were concerned, we needed to consider what could be done given fears that the reporting obligations on banks would simply lead to funds being parked elsewhere (eg building societies).

6. The Chancellor asked for a note on the effect abolishing export credit subsidies would have on UK capital goods exporters.

7. The Chancellor agreed that he would include a substantial statement on the economics of the environment and the role of markets in his Development Committee speech. He would want to include several concrete examples - eg the UK tax differential in favour of unleaded petrol.

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12. The Chancellor stressed the importance of ensuring that, if a Commonwealth Enquiry Fund did go ahead, it should be fully at arms-length from governments. ✓

13. Other issues likely to come up at the Annual meetings had already been discussed. A meeting to consider speeches had been arranged for the ~~following day.~~ 25 July. ✓

CONFIDENTIAL

CONFIDENTIALOther business

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T TARKOWSKI (IF1)

24 July 1989

cc Those present

PS/Paymaster General

Mr Scholar

Mr Odling Smee

Mr I G Allen

Mr Walsh

Mr Peretz

Mr Riley

Mr Mercer

Mr P G F Davis

Mr S N Wood

Miss Simpson

Ms Symes

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FM LUSAKA

TO IMMEDIATE PARIS

TELNO 001

OF 271300Z JULY 89

INFO PRIORITY ODA, FCO, HM TREASURY, UKDEL IMF/IBRD WASHINGTON

PS/Chanello ←
 Old but quite interesting
 re discussion w/ Camdessus
 known

ALSA
 4/9.

ZAMBIA: DONOR REPRESENTATIVE VIEWS

SUMMARY

1. WESTERN DONOR REPRESENTATIVES IN ZAMBIA:
 - (A) SUGGEST THAT THEIR GOVERNMENTS DO NOT WISH TO TAKE ON CHAIRMANSHIP OF A SUPPORT GROUP SEMICOLON
 - (B) SEE LITTLE PROSPECT OF EARLY SUBSTANTIAL DISBURSEMENT OF PROGRAMME AID.

DETAIL

2. I ATTENDED AN INFORMAL DISCUSSION WITH THE CANADIAN, FRG AND US HEADS OF MISSION, AND A NETHERLANDS REPRESENTATIVE ON THE EVENING OF 26 JULY ON ECONOMIC/DEBT ISSUES IN ZAMBIA.

3. FULL RECORD FOLLOWS BY BAG. IT MAY BE HELPFUL FOR YOU TO KNOW THE FOLLOWING AS BACKGROUND FOR THE DONORS MEETINGS. THE COMMENTS WERE GIVEN ESSENTIALLY ON A PERSONAL BASIS AND SHOULD PLEASE BE PROTECTED.

(A) THERE WAS A STRIKING ABSENCE OF ENTHUSIASM FOR THE CHAIRMANSHIP OF A ZAMBIAN SUPPORT GROUP. THE CANADIAN SAID THAT HIS GOVERNMENT WAS EMPHATICALLY OPPOSED TO TAKING IT ON. THE NETHERLANDER CLEARLY DID NOT SEE HIS GOVERNMENT AS A CONTENDER AND SAID THAT HE HAD BEEN RELIABLY INFORMED THAT THE JAPANESE HAD SET THEIR MINDS AGAINST THE POSITION. THE AMERICAN AMBASSADOR HAS TOLD ME SEPARATELY THAT THE US IS A 'NON-STARTER' FOR THE CHAIR. HE SUGGESTED INFORMALLY THAT THE SCANDINAVIANS MIGHT BE BEST SUITED FOR TAKING ON THE TASK. A COLLEAGUE MENTIONED THAT THE SWEDES WERE NOT INTERESTED. THE REASON GIVEN FOR EACH OF THE 'NO'S' WAS THAT THE TASK WAS, IN EFFECT, TOO AWFUL TO CONTEMPLATE WITH LITTLE PROSPECT OF THE CHAIRMAN EARNING ANY BOUQUETS. THE CANADIAN SAID THAT HE HAD HEARD WE WERE INTERESTED IN THE JOB. I SAID THAT WE HAD NOT COME TO ANY DECISION, BUT TO SUGGEST THAT WE WERE ACTIVELY SEEKING THE POSITION WAS TO IMPLY AN

X ENTHUSIASM WHICH I DID NOT BELIEVE WAS THERE. THE AMERICAN QUESTIONED WHETHER WE WOULD BE WELL PLACED TO ACT AS CHAIRMAN, GIVEN OUR LESS THAN EASY POLITICAL RELATIONSHIP WITH ZAMBIA.

(B) THERE IS A POSSIBILITY THAT THE NETHERLANDS MAY ANNOUNCE AT THE PARIS MEETING AN OFFER TO ZAMBIA OF SOME US DOLLARS THREE MILLION OF COMMODITY ASSISTANCE (EG MATERIAL FOR BLANKETS) IN RESPONSE TO FINANCE MINISTER CHIGAGA'S RECENT APPEAL TO DONORS FOR URGENT SUPPORT IN THE SUPPLY OF ESSENTIALS. NONE OF THE OTHER REPRESENTATIVES PRESENT HAD HAD ANY INDICATION THAT THEIR GOVERNMENTS WOULD FOLLOW SUIT. THE AMERICANS AND THE GERMANS MIGHT BE ABLE TO MAKE SMALL SUMS OF ADDITIONAL ASSISTANCE AVAILABLE TO ZAMBIA IN THE COMING MONTHS. BUT NONE OF US APPEARED IN A POSITION TO MAKE SUBSTANTIAL NEW CONTRIBUTIONS THIS FY AND, IN SOME CASES, WELL INTO THE NEXT, EVEN IF THE ZAMBIANS WERE ASSIDUOUS IN FOLLOWING A REFORM PROGRAMME. THERE WAS SOME CONCERN AT THE POTENTIAL IMPLICATIONS OF THIS 'GAP' FOR ZAMBIA'S POLITICAL AND SOCIAL STABILITY. THE FRG AMBASSADOR COMMENTED THAT AVAILABLE INFORMATION ON ZAMBIA'S USE OF ITS FOREX EARNINGS WAS SO SCANTY THAT WE HERE COULD NOT ACCURATELY JUDGE HOW CLOSE THE COUNTRY WAS TO THE BONE.

(C) THE ZAMBIANS HAVE APPARENTLY RETAINED THE HEAD OF THE SWEDISH FUNDED 1988 SURVEY OF EXCHANGE RATE POLICY IN ZAMBIA (?MR LUNDSTROM) AS AN ADVISER. HE IS EXPECTED TO BE AT THE PARIS TALKS, WITH CHIGAGA.

CARTER

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CHANCELLOR: MEETING WITH M.CAMDESSUS

DRUGS AND MONEY LAUNDERING

Line to Take

(If possible role for IMF is raised.)

- i. Study by G7 experts of international capital flows along lines proposed by M Camdessus, could be useful. However attempts by IMF to establish common international rules would be impractical and burdensome.

General

- ii. Recognise importance of effective international cooperative action to combat drugs and money laundering problems.
- iii. Welcome establishment of Financial Action Task Force following Paris Summit. UK will participate actively in its work. Already have stringent powers to trace, restrain and confiscate proceeds of drug trafficking. Ready to make these powers available to foreign governments willing to reciprocate.
- iv. Would not however wish to see new machinery put in place that is too cumbersome. Priority must be for countries to introduce effective domestic legislation, ratify UN Convention and conclude bilateral and multilateral agreements within framework of Convention.

BACKGROUND

1. A paper circulated by Mr Camdessus shortly before the Paris Economic Summit of 14-16 July addressed "problems accompanying the growth of international financial transactions". The paper suggests, with little supporting evidence, that illegal financial transactions such as money laundering have become a threat to the international financial system. It proposes the establishment of a global system of minimum standards to ensure the transparency and proper supervision of international financial transactions. Camdessus suggests that the IMF could have a role to play in such an exercise.

2. Following the Paris Summit a "Financial Action Task Force" has been established. Its remit is to assess the results of existing co-operation against money laundering and to consider additional measures which could be taken. It is not yet clear how this exercise will proceed or who will participate, but discussion seems likely to cover the full range of money laundering issues, including the Camdessus proposals, and may consider some propositions which we would find hard, if not impossible, to accept, such as giving banking supervisors a policing role over bank accounts. We are concerned to avoid any initiatives which would cut across existing UK practice by establishing cumbersome and inappropriate procedures. We understand that the French intend that the first meeting of the Task Force should be on 8 September.

UK practice

3. The UK have taken the view that international co-operative action against money laundering should be concentrated within the framework of the UN Convention against Illicit Traffic in Narcotic Drugs. The Convention was unanimously adopted in December 1988. Our priority now is for it to be speedily ratified (twenty ratifications are needed for it to come into force) and to negotiate bilateral or multilateral agreements to give it practical effect. The Convention requires states to introduce legislation to establish criminal offences relating to illicit trafficking (including money laundering) and to enable

the tracing, freezing and confiscation of drug traffickers' assets. It also establishes a framework for international cooperation against drug traffickers, including extradition and mutual legal assistance.

4. The UK's Drug Trafficking Offences Act 1986 contains stringent and comprehensive powers to trace, restrain and confiscate the proceeds of drug trafficking and includes a specific offence of money laundering. These powers are available to foreign governments who are willing to reciprocate. So far six bilateral agreements to this end have been signed and negotiations are under way with a number of other countries. The Act functions on the basis of selective reporting by financial institutions where they suspect that a person has committed an offence under the Act. These arrangements, which have the advantage of flexibility over mandatory reporting requirements, are working well.

CHANCELLOR'S MEETING WITH M.CAMDESSUS 5 SEPTEMBER 3PM

PRESENTATION AND PUBLICITY

Line to take

1. i) Commend Camdessus' own efforts to improve Fund's PR; but below the MD, Fund's realisation of its own PR inadequacies are weak - Fund staff need to be made more aware of the problem.

ii) Fund should consider employing ex-journalists; clearly there is a need to employ more effective sub-editors in the Fund's External Relations Department (EXR).

iii) More attention should be focused on precisely what material EXR produces, and where it should be targeted.

iv) Welcome the forthcoming Board review of EXR's activities.

v) Stress again the need to protect against leaks (the latest draft WEO found its way to journalists, FT 31 August)

Background

2. We recognise that the Fund faces difficulties in presenting a popular image. It advocates strong adjustment, which is unpopular. Its work is often only accessible to a specialised readership. But these are reasons why more thought and effort needs to be given to presentation. Improvements have been made to the Annual report but the texts of many Fund public documents remain dull, defensive, unimaginative and full of jargon (recent Fund pamphlets are a slight improvement but are still very poor).

3. Fund publicity has a limited distribution. A review could address among other things whether it should be circulated more widely or targeted to NGOs, pressure groups etc.

4. We are not suggesting more resources should be devoted to EXR, but rather stressing that the quality and focus should be much improved.

C. Mr. Lazar
as requested

CALVET, JACQUES

President, Directeur-General of the Automobiles Peugeot group.

Born 1931 at Boulogne-sur-Seine. Graduate of the Ecole Nationale d'Administration and member of the Cour des Comptes. Member of the cabinet of Giscard, then junior minister at the Finance Ministry, 1959-62. Deputy Head, then Director, of the Giscard cabinet when the latter was Minister for Finance 1970-74. Director-General, then President of the Banque Nationale de Paris 1976-82. Member of the board of several other banks and industrial organizations, including Elf-Aquitaine. Appointed Financial Director of PSA Group in 1982 and President of Automobiles Peugeot in 1983. Took over full control of the group late 1984.

Generally considered to have been brought into the PSA Group by the Peugeot family as a hatchet man capable of restoring order to the Group's troubled finances, he took full responsibility for the controversial decision to announce 7,400 job losses in the Talbot and Peugeot factories in 1983. He has since succeeded in bringing PSA back to profit after several years of losses, overtaking Renault in the domestic French market and restoring morale to a company in danger of falling apart. He was tipped by some for a ministerial job in the Chirac government, but is said to have made clear his desire to stay in the car industry. Astute and charming.

Married. Three children. Speaks passable English.

CAMDESSUS, MICHEL

Managing Director of the IMF.

Born 1933 at Bayonne. Studied law, politics and economics before entering the public service. Graduate of ENA. First appointed to the Education Ministry in Algeria 1960-61. Finance Ministry, 1961-66. Financial Attaché to the European Community 1966-68. Industrial Finance Division of the Finance Ministry, 1968-71. Under-Secretary responsible for Investment Policy 1971-72. Head of Savings Policy Division 1972-74. Assistant Director of the Trésor with responsibility for international economic questions 1974-82. Director of the Trésor 1982-84. Appointed First Deputy Governor of the Bank of France in August 1984 and Governor in November 1984. In this position he maintained the traditionally discreet posture of most of his predecessors, but used his position to present publicly proposals for development of the EMS. Managing Director of the IMF 1987.

An able administrator who moved rapidly through the ranks of the French Finance Ministry despite not being a member of the élite Inspection Générale des Finances. Amiable and approachable. Possesses a quick brain and a well developed sense of humour. He is well known and respected in both domestic and international financial circles where his negotiating ability and diplomacy are much appreciated. Speaks good English.

Married. Six children.

DRUGS +
LAUNDERING
MONEY

fim1.dr/bridges/14.25.8

UNCLASSIFIED

FROM: A BRIDGES (FIM1)
DATE: 29 August 1989
EXT: 4485

1. MR ~~WALSH~~
2. MR LAZAR

H.W.
29/8

cc PS/Chancellor ✓
Mr Evans
Mr Allan
Miss Noble
Mr Kroll o/r
Mr Barr
Mr Roberts

BF for 5/9
meeting -

CHANCELLOR'S MEETING WITH M CAMDESSUS, 5 SEPTEMBER: DRUGS AND MONEY LAUNDERING

Your minute of 11 August to Mr Pickering commissioned briefing for the Chancellor's meeting with M Camdessus. Mr Barr subsequently agreed with us that FIM should provide the briefing on drugs and money laundering, which I attach. This has been cleared with the FCO and the Bank.

A. Bridges

ALASTAIR BRIDGES

UNCLASSIFIED

CHANCELLOR'S MEETING WITH M CAMDESSUS

DRUGS AND MONEY LAUNDERING

Objectives

- i. To make clear UK support for international cooperation to combat drugs and money laundering problems.
- ii. To stress need for early ratification of UN Convention against Illicit Traffic in Narcotic Drugs, as best framework for international cooperation.
- iii. To resist any proposal for establishment of cumbersome new machinery and, in particular, to resist an active role for IMF, to which it would be ill-suited.

Line to Take

- i. Recognise importance of effective international cooperative action to combat drugs and money laundering problems.
- ii. Welcome establishment of Financial Action Task Force following Paris Summit. UK will participate actively in its work. Already have stringent powers to trace, restrain and confiscate proceeds of drug trafficking. Ready to make these powers available to foreign governments willing to reciprocate.
- iii. Would not however wish to see new machinery put in place that is too cumbersome. Priority must be for countries to introduce effective domestic legislation, ratify UN Convention and conclude bilateral and multilateral agreements within framework of Convention.

If possible role for IMF is raised.

- iv. Study by G7 experts of international capital flows along lines proposed by M Camdessus, could be useful. However attempts by IMF to establish common international rules would be impractical and burdensome.

BACKGROUND

1. A paper circulated by Mr Camdessus shortly before the Paris Economic Summit of 14-16 July addressed "problems accompanying the growth of international financial transactions". The paper suggests, with little supporting evidence, that illegal financial transactions such as money laundering have become a threat to the international financial system. It proposes the establishment of a global system of minimum standards to ensure the transparency and proper supervision of international financial transactions. Camdessus suggests that the IMF could have a role to play in such an exercise.

2. Following the Paris Summit a "Financial Action Task Force" has been established. Its remit is to assess the results of existing co-operation against money laundering and to consider additional measures which could be taken. It is not yet clear how this exercise will proceed or who will participate, but discussion seems likely to cover the full range of money laundering issues, including the Camdessus proposals, and may consider some propositions which we would find hard, if not impossible, to accept, such as giving banking supervisors a policing role over bank accounts. We are concerned to avoid any initiatives which would cut across existing UK practice by establishing cumbersome and inappropriate procedures. We understand that the French intend that the first meeting of the Task Force should be on 8 September.

UK practice

3. The UK have taken the view that international co-operative action against money laundering should be concentrated within the framework of the UN Convention against Illicit Traffic in Narcotic Drugs. The Convention was unanimously adopted in December 1988. Our priority now is for it to be speedily ratified (twenty ratifications are needed for it to come into force) and to negotiate bilateral or multilateral agreements to give it practical effect. The Convention requires states to introduce legislation to establish criminal offences relating to illicit trafficking (including money laundering) and to enable

the tracing, freezing and confiscation of drug traffickers' assets. It also establishes a framework for international cooperation against drug traffickers, including extradition and mutual legal assistance.

4. The UK's Drug Trafficking Offences Act 1986 contains stringent and comprehensive powers to trace, restrain and confiscate the proceeds of drug trafficking and includes a specific offence of money laundering. These powers are available to foreign governments who are willing to reciprocate. So far six bilateral agreements to this end have been signed and negotiations are under way with a number of other countries. The Act functions on the basis of selective reporting by financial institutions where they suspect that a person has committed an offence under the Act. These arrangements, which have the advantage of flexibility over mandatory reporting requirements, are working well.

CONFIDENTIAL
FM UKDEL IMF/IBRD WASHINGTON
TO DESKBY 010800Z FCO
TELNO 262
OF 312300Z AUGUST 89

IMF: MANAGING DIRECTOR'S VISIT TO LONDON

1. I SAW CAMDESSUS THIS MORNING AND DISCUSSED WITH HIM THE TOPICS HE WISHED TO COVER IN HIS VISIT TO LONDON. IN ADDITION TO THE CHANCELLOR, HE WILL BE SEEING THE GOVERNOR, SIR JEREMY MORSE AND, WITH LUCK, NIGEL WICKS. HE WILL BE ACCOMPANIED BY ANDREW BEITH, DIRECTOR OF THE FUND'S EUROPEAN OFFICE, AND MYSELF.

Not possible because NL is in Brussels.

2. CAMDESSUS IS KEENLY AWARE OF THE TIME CONSTRAINT AT THE END OF THE DAY (SINCE WE HAVE TO CATCH THE CONCORDE TO NEW YORK) AND THEREFORE SAID THAT HE WOULD WISH TO CONCENTRATE THE DISCUSSION WITH THE CHANCELLOR ON FOUR TOPICS:

- (I) BRITAIN'S ECONOMY
- (II) QUOTAS
- (III) NIGERIA
- (IV) ZAMBIAN SUPPORT GROUP

BRITAIN'S ECONOMY

3. CAMDESSUS SAID THAT HE FOUND BRITAIN'S PRESENT ECONOMIC CONDITION THE MOST DIFFICULT TO DIAGNOSE AMONG THE G7. IT SEEMED CLEAR THAT MONETARY AND FISCAL POLICY WERE TIGHT BY ANY CONVENTIONAL STANDARDS BUT INFLATIONARY PRESSURES STILL SEEMED TO BE STRONG, AND WERE NOW MANIFESTING THEMSELVES IN EARNINGS GROWTH. HE HAD NO DOUBT THAT DEMAND WAS NOW FALLING IN THE UK, BUT WONDERED WHETHER THE LEVEL FROM WHICH IT WAS FALLING WAS HIGHER THAN HAD BEEN REALISED AT THE TIME. HE WOULD VERY MUCH LIKE TO GO OVER THESE TOPICS WITH THE CHANCELLOR IN ORDER TO CLEAR HIS MIND ON WHAT HE MIGHT SAY AT THE G7 MEETING.

QUOTAS

4. CAMDESSUS HAS NO NEW ARGUMENTS TO PUT FORWARD BUT WILL WISH TO IMPRESS UPON THE CHANCELLOR HIS OWN BELIEF THAT A LARGE INCREASE IN QUOTAS IS NEEDED. TO THAT END HE WILL POINT TO THE INCREASING DEMANDS BEING MADE UPON THE FUND AND THOSE

A POSITION TO GIVE A DEFINITE VIEW ON THIS. THE EXPERIENCE WITH GUYANA, WHERE MUCH SMALLER SUMS WERE INVOLVED, HAD SHOWN THE DIFFICULTY OF MOUNTING SUCH AN EXERCISE. WE WOULD NEED TO HAVE A MUCH CLEARER VIEW OF THE STRENGTH OF ZAMBIA'S ADJUSTMENT EFFORT, OF POSSIBLE ALTERNATIVE FINANCING SCENARIOS, AND OF THE WILLINGNESS OF OTHER LIKELY MEMBERS--PARTICULARLY THE UNITED STATES--TO MAKE A FIRM COMMITMENT OF RESOURCES. I ALSO REMINDED HIM THAT THE WORLD BANK HAD DOUBTS ABOUT MR. KAUNDA'S WILLINGNESS TO PERSEVERE WITH ADJUSTMENT. CAMDESSUS SAID THAT HE HIMSELF SHARED THESE DOUBTS AND THAT IT WAS THEREFORE IMPORTANT THAT ANY PROGRAM CONTAINED CONDITIONS THAT WOULD KEEP THE AUTHORITIES FIRMLY BOUND TO THEIR COMMITMENTS.

8. I ASKED IF HE WOULD LIKE TO TOUCH ON POLAND. HE SAID THAT HE WAS WILLING TO DISCUSS THIS IF THE CHANCELLOR WISHED TO RAISE IT BUT HE HIMSELF THOUGHT THERE WAS LITTLE HE COULD SAY AT THIS TIME. UNTIL POLAND HAD A GOVERNMENT THE FUND COULD NOT GET INTO MEANINGFUL NEGOTIATIONS. HE WOULD LIKE TO HAVE A WORD WITH THE CHANCELLOR ABOUT THIS EITHER IN THE MARGINS OF THE ANNUAL MEETINGS OR ON ANOTHER SPECIAL VISIT TO EUROPEAN CAPITALS LATER IN THE YEAR.

9. FCO PLEASE ADVANCE TO PS/CHANCELLOR, WICKS, EVANS AND LAZAR (TREASURY), PS/GOVERNOR, CROCKETT AND WARE (BANK OF ENGLAND).

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MR CROCKETT, BANK OF ENGLAND
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POTENTIALLY LYING AHEAD--POLAND, ARGENTINA, INDIA ETC. HE IS OBVIOUSLY ANNOYED BY THE INABILITY OF THE AMERICANS TO DECIDE THEIR POSITION. HE KNOWS THAT THE TREASURY (AND BAKER AT STATE) FAVOUR ONLY MODEST (IF ANY) INCREASES, BUT BELIEVES THAT THERE ARE OTHER MEMBERS OF THE ADMINISTRATION AND OF CONGRESS THAT ARE PERSUADED OR PERSUADABLE THAT A LARGE INCREASE IS REQUIRED. THE LATEST US INDICATIONS THAT THEY WILL REQUIRE SUBSTANTIAL PROGRESS ON ARREARS BEFORE AGREEING TO MOVE AHEAD ON QUOTAS IS--NOT SURPRISINGLY--UPSETTING HIM. HE BELIEVES THAT IN SOME CASES (E.G. GUYANA, HONDURAS, AND VIETNAM) IT IS THE AMERICANS THEMSELVES THAT ARE PREVENTING PROGRESS IN CLEARING ARREARS. THIS IS OBVIOUSLY GOING TO BE AN EMOTIVE SUBJECT IN COMING WEEKS.

5. HE KNOWS THE CHANCELLOR'S VIEWS ON QUOTAS VERY WELL. HE ALSO RECOGNISES THAT MULFORD'S RECENT JOURNEY AROUND LATIN AMERICA, URGING COUNTRIES TO GO FOR BRADY-PLAN DEBT REDUCTION PACKAGES, WILL NOT EASE THE CHANCELLOR'S WORRIES.

NIGERIA

6. CAMDESSUS EXPRESSED HIMSELF REASONABLY SATISFIED WITH THE PROGRESS OF THE PROGRAM AND WITH BABANGIDA'S COMMITMENT TO IT. THERE IS ONE PARTICULAR POINT THAT HE WISHES TO RAISE WITH THE CHANCELLOR. THIS IS WHETHER THE UK NOW THINKS THAT NIGERIA SHOULD BE MADE ELIGIBLE FOR ESAF. CAMDESSUS SAID THAT FOR SOME TIME HE HAD BEEN UNWILLING TO CONSIDER THIS, BOTH BECAUSE OF POSSIBLE CONTAGION AND BECAUSE OF THE ALREADY HEAVY DEMANDS ON ESAF RESOURCES. HOWEVER, HE WAS COMING TO THE CONCLUSION THAT PAKISTAN'S PROBLEMS (WITH THE SIKHS AND THE PUNJAB) MADE IT AN UNLIKELY CANDIDATE FOR AN ESAF LOAN IN THE NEAR FUTURE, AND ANOTHER CANDIDATE--SRI LANKA--WAS HAVING TO BE TAKEN OFF THE LIST. HE THEREFORE THOUGHT THAT SOME ESAF MONEY MIGHT BE AVAILABLE FOR NIGERIA IF THAT COUNTRY WAS CONSIDERED ELIGIBLE. I SAID THAT WE HAD BEEN DISCUSSING THIS QUESTION, TOGETHER WITH THE PARALLEL ONE OF TORONTO TERMS, BUT TO MY KNOWLEDGE HAD NOT YET FORMED A CLEAR VIEW.

ZAMBIA

7. THE MAIN QUESTION HE WANTS TO PUT TO THE CHANCELLOR IS WHETHER WE WILL VOLUNTEER TO LEAD A SUPPORT GROUP. I EXPLAINED TO HIM THAT IT WAS UNLIKELY THAT THE CHANCELLOR WOULD YET BE IN

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AND TO DESKBY 040830Z HM TREASURY
INFO PRIORITY UKDEL IMF/IBRD WASHINGTON
INFO PRIORITY BDDSA LILONGWE

ZAMBIA: IMF/IBRD DEBRIEFING SESSION WITH HEADS OF MISSION.

SUMMARY

IFIS WELCOME ECONOMIC REFORM MEASURES TAKEN BY ZAMBIANS BUT EXPRESS CONCERN OVER HASTY IMPLEMENTATION. PFP, ENDORSED BY CENTRAL COMMITTEE, TO BE PUT TO IFI BOARDS IN SEPTEMBER.

DETAIL

1. DILLON (IMF) AND KHAN (IBRD RES REP) ADDRESSED A MEETING OF BILATERAL DONORS ON THE AFTERNOON OF 1 SEPTEMBER. DILLON EXPLAINED THAT THE PRESENT FUND MISSION WAS RELATED TO THE PREPARATION OF THE 1990 ZAMBIAN BUDGET AND KHAN THAT THE IBRD WAS ASSISTING WITH A PUBLIC EXPENDITURE REVIEW.
2. DILLON COMMENTED ON THE WELCOME MEASURES ADOPTED BY GRZ OVER RECENT MONTHS WITH THE EXCEPTION OF THE CHANGE OF CURRENCY AND THE DISMANTLING OF NAMBOARD, ALL MEASURES HAD THE PRIOR APPROVAL OF THE FUND. BUT SHE EXPRESSED SURPRISE AT THE SPEED OF IMPLEMENTATION - FOR EXAMPLE, THE IMF WOULD HAVE BEEN CONTENT FOR PRICES TO BE DECONTROLLED OVER 18 MONTHS AND REDUCTION OF SUBSIDIES WAS ALREADY AT THE END-1990 TARGET STAGE. SHE EXPRESSED CONCERN THAT THE ZAMBIANS MIGHT BE MOVING TOO QUICKLY. SHE SAID THAT THERE WAS A NEED FOR THE PUBLIC TO BE EDUCATED.
3. AS FOR THE PFP, IT HAD BEEN ENDORSED BY THE CENTRAL COMMITTEE, AND COULD NOW BE PUT TO THE IBRD BOARD ON 12 SEPTEMBER AND THE IMF BOARD ON 15 SEPTEMBER. A SUPPORT GROUP WOULD THEN BE SET UP: IT WOULD BE FOR THEM TO WORK OUT THE REPAYMENT OF IFI ARREARS. ANOTHER CG MEETING COULD BE SCHEDULED FOR DECEMBER.
4. DILLON/KHAN MADE THE FOLLOWING POINTS IN ANSWER TO QUESTIONS:

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DILLON COULD NOT COMMENT ON THE MEASURES TO MEET ZAMBIA'S ENORMOUS DEBT. SHE COULD NOT PREJUDGE THE OUTCOME OF THE CG, THE POLITICAL DECISIONS WHICH NEEDED TO BE TAKEN IN CAPITALS, NOR PREEMPT THE ROLE OF THE SUPPORT GROUP.

THE NEXT ZAMBIAN BUDGET, WHICH WOULD BE INCORPORATED INTO THE 1990 PROGRAMME, WAS NOT COMPLETE. FURTHER TECHNICAL WORK WAS REQUIRED. THERE WAS A SHORTFALL IN RELIABLE DATA.

TECHNICAL ASSISTANCE WOULD BE PROVIDED BY THE IMF TO ASSIST WITH MONITORING THE 1990 PROGRAMME. THIS WOULD BE IN THE FORM OF ASSISTANCE WITH THE GATHERING AND ANALYSIS OF STATISTICS. AN IMF RESIDENT REP, MR OSUNSADI (NIGERIAN) WOULD BE INSTALLED.

THE 1989 BUDGET DEFICIT WAS EXPECTED TO BE LOW BY ZAMBIAN STANDARDS, BUT DILLON EXPRESSED CONCERN AT THE BLUNT INSTRUMENTS USED TO ACHIEVE THIS. THE PARTIAL REMOVAL OF THE MAIZE SUBSIDY WOULD SAVE THE EQUIVALENT OF 4-5 PER CENT OF GDP IN 1989.

AGAINST A BACKGROUND OF TIGHT LIQUIDITY, THE 1989 MAIZE HARVEST COULD BE FINANCED BY CAREFUL MANAGEMENT OF RESOURCES. GRZ HAD FINANCED FERTILISER IMPORTS (FORMERLY SUPPORTED BY DONORS).

DILLON SAID THAT ZAMBIA HAD AMPLE RESERVES OF FOREIGN EXCHANGE. SHE REFUSED TO BE DRAWN ON THE AMOUNT. SHE SAID THAT RESERVES AT THE START OF THE YEAR WERE EQUAL TO TWO AND A HALF MONTHS' IMPORTS (WHICH WE ESTIMATE TO BE APPROXIMATELY US DOLLARS 80 MILLION). SHE SAID THE ZAMBIANS HAD BEEN HUSBANDING THE MONEY: BUILDING RESERVES, MEANWHILE GIVING A PUBLIC IMPRESSION THAT THINGS WERE TIGHT. THIS WAS A WELCOME DEVELOPMENT.

KHAN AGREED THAT THE VIABILITY OF PARASTATALS SHOULD BE IMPROVED. IBRD HAD PROVIDED ASSISTANCE IN THE PAST AND HAD HAD SOME SUCCESS IN GETTING GRZ TO ADOPT RECOMMENDATIONS FOR CHANGE. THEY WOULD BE PREPARED TO PROVIDE FURTHER ASSISTANCE. DILLON ADDED THAT PARASTATAL REFORM SHOULD BE TACKLED IN THE SECOND PHASE OF THE RECOVERY PROGRAMME.

KHAN AGREED THAT THERE WAS A NEED TO ADDRESS THE SOCIAL PROBLEMS OF ADJUSTMENT AND THAT THIS HAD BEEN EMPHASISED IN DISCUSSIONS WITH GRZ.

COMMENT

5. DILLON WAS BULLISH, BUT IT WAS APPARENT THAT THERE IS AN UNDERLYING CONCERN ABOUT THE POLITICAL RISKS THE ZAMBIANS HAVE TAKEN BY THE SERIES OF SHARP SHOCKS, ABOUT THE FORCING DOWN OF THE BUDGET DEFICIT, THE SOCIAL COST OF ADJUSTMENT AND THE PAUCITY OF RELIABLE DATA.

6. THE REASONS FOR THE ZAMBIANS' HASTE IN IMPLEMENTING CHANGES WAS NOT DISCUSSED BUT THEY MAY HAVE CHOSEN (WITHOUT ANY SOUND ANALYSIS OF THE CONSEQUENCES) TO MOVE QUICKLY AGAINST A BACKGROUND OF WINDFALL RESERVES FROM HIGH COPPER PRICES AND GOOD MAIZE HARVESTS IN 1988 AND 1989.

WILLSON

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FROM T TARKOWSKI (IF1)
DATE 5 SEPTEMBER 1989
EXT 4888

MR H P EVANS
MR R I G ALLEN (EC)
MR MOUNTFIELD (AEF)
MR A C S ALLAN (IF)

cc PS/Chancellor
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Wicks
Mr Scholar
Mr Odling Smee
Mr Walsh
Mr Culpin
Mr Riley
Mr Peretz
Mrs M E Brown
Mr Tyrie

Paul

La Bill need recent paper or X
for the folder J

INTERNATIONAL ISSUES: CHANCELLOR'S MONTHLY MEETING

The next meeting will be at 3.00 pm on Monday 11 September.

2. I attach a list of meetings which should be noted under item 1 of the agenda (recent and forthcoming meetings).

3. Potential items for the agenda of which I am aware are:

- preparations for the Annual Meetings
- IMF quotas (Mr Lazar's submission)
- "intermediate" debtors (my forthcoming submission)
- Zambia, Nigeria, Poland
- Money-laundering, Colombia

4. I would be grateful for:

i) any additions or corrections to the attached list of meetings (please check carefully - my sources may not be full or up to date); and

ii) brief notes (in a form suitable for inclusion in the agenda) on issues which you think should be on the agenda.

by close on Wednesday 6 September.

Tarkowski

T TARKOWSKI

Camdessus (MD IMF)	5	Sept
High-Level Group on EMU	5	"
EC Monetary Cttee	6	"
informal ECOFIN	8-10	"
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Mr Caygill (NZ Finance Minister)	12	"
OECD WP3	13	"
G7D/G10D	14	"
Commonwealth Finance Ministers (CFM)	20-21	"
G10/G24	23	"
IMF/IBRD Annual Meetings	24-28	"
ECOFIN	9	Oct
EC Monetary Cttee	20	"



PLP

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

EST
MR WICKS
MR EVANS
MR WALSH
MR ALLAN
MR MOUNTFIELD
MR PICKERING
MR BOTTRILL
MR LAZAR
MR TARKOWSKI
MR POWELL
MR BARR
MRS LESTER
MR TYRRE
MR CASSELL
(UKDEL)

6 September 1989

Paul Tucker Esq
PS/Governor
Bank of England
Threadneedle Street
LONDON
EC2R 8AH

Dec. P. 1

CHANCELLOR'S MEETING WITH M CAMDESSUS

The Chancellor held a meeting yesterday with M Camdessus, the Managing Director of the IMF, accompanied by Mr Andrew Beith. Mr H P Evans, Mr Cassell, and Mr A C S Allen were also present.

British Economy

M Camdessus said he would welcome the Chancellor's latest assessment of the position. The IMF had no new suggestions. They saw no alternative to the current stance of monetary and fiscal policy. It would be necessary to persevere with these tight policies for some time until inflation came down and the current account deficit became a little less acute. He asked whether the Chancellor thought that the deficit and continuing high wage increases would give rise to market problems.

The Chancellor agreed that there was no satisfactory alternative to the current policies. It was a matter of patience and perseverance. The process was bound to take a long time. The economy had developed a powerful head of steam - partly due to structural changes notably financial deregulation. There were clear signs that the policy was having its effect already not only in the housing market but in retail sales and elsewhere. There was bound to be a clamour for premature relaxation but it would have to be resisted. As for the financial markets, in many ways the greatest risk had been when the current account deficit had first appeared; the market seemed reasonably calm at present. Increases in wages would not be accommodated by looser monetary policy and would show up in lost jobs and activity rather than inflation.



World Economy

The Chancellor said that the correction of trade imbalances was bound to take time. A more interesting issue was whether we were in a period of inadequate world savings. M Camdessus said that he thought that was the case. The IMF had set in hand studies of these issue but had not produced any clear prescription to deal with the problem.

Eastern Europe

M Camdessus said that the focus of debate and discussion at the annual meetings would be less on the debt strategy because of the decisions taken in the Spring. The most difficult immediate issues were on Eastern Europe and, in particular, Poland. The IMF would need the support of its members in the difficult work of agreeing a programme for Poland and detailed thought needed to be given also to the best way of providing financial assistance. He was sure that other Eastern European countries would follow Yugoslavia, Poland and Hungary. Czechoslovakia was considering applying to the IMF and Bulgaria was likely to apply within the next five years. It was also worth considering the position of the Soviet Union itself whose indebtedness was extremely high. The Chancellor agreed that the focus of attention was shifting from Latin America to Eastern Europe.

Nigeria

M Camdessus said that the Nigerians were respecting the agreed programme and had met the performance criteria to end March. Inflation continued very high and it was probably necessary to tighten a little bit more. There was also a problem of external finance. He would welcome the Chancellor's views on whether Nigeria should become eligible for Toronto terms and for ESAF. In both cases eligibility would have a major cost and would also set a precedent for other important countries. While there was a good case for eligibility in his view it should be conceded only if Nigeria accepted the further tightening of policy which was required. That would set a high standard for other potential beneficiaries.

The Chancellor said he had not taken a final view but he agreed that Nigeria was moving towards eligibility both for Toronto terms and for ESAF. On the other hand there had been a long history of Nigeria failing to hold to programmes and it was very important, therefore, to keep up the pressure for sound policies. The 1990 programme, in particular, needed to be good and to be fully implemented. He was inclined to agree, therefore, that eligibility should be conceded only on the basis of tough conditions. A further consideration was that the Toronto terms had been designed for countries with little commercial debt. Nigeria had large commercial borrowings and it would be necessary to ensure that the commercial banks played their part in any refinancing.



M Camdessus said he would take forward the issue with officials.

Zambia

M Camdessus recalled the past difficulties in relations with Zambia but said that the Zambian Government had now recognised the need to diversify out of copper and to attract international support. They were about to finalise a satisfactory shadow programme with the IMF. Although there had to be doubts about the degree of commitment of the Government, the signs were that they now accepted the need to hold to sensible policies. The next step would be to set up a support group. It would need a leader both financial expertise and imagination and, given their historical links with Zambia, the UK would be best placed to make it a success. He recognised the great difficulties it would face both with some donors and with technical problems. He would welcome, therefore, the Chancellor's views on the possibility of the UK leading a support group.

The Chancellor said that he was very wary of taking on this role. Experience with the support group for Guyana - which had been a much easier case - showed the difficulty of achieving a successful outcome. In the Zambian case, it was not clear how committed Kaunda was to the programme. Just as important, were the attitudes of the donors; in particular, a support group would not succeed without a substantial contribution from the US and there was no sign that this would be forthcoming. There was no point in setting up a group if it was likely to fail. In sum, it was much too early to judge whether a support group could succeed.

M Camdessus noted that the Chancellor had not refused to take on the Chairmanship but would need fuller assurances on the commitment both of Zambia and of other creditors. He agreed not to mention to the Zambians the possibility of UK leadership at this stage and to keep the Chancellor fully in touch with events.

Quotas

M Camdessus said that a decision on the review of quotas was needed by the end of the year. The US now accepted that some increase was necessary, not least to finance the new debt strategy. He was very keen that the UK, which had always played a leading role in the Fund, should agree to a substantial increase. The UK had always been most forceful in arguing that the Fund should be at the centre of international affairs including the debt strategy. If it was to continue to play that role, its resources needed to keep pace with the growth of the world economy. Merely to get back to its position relative to the world economy in 1983 would require a 60 per cent increase. If at the same time it was required to reduce its borrowing - as had been advocated at Berlin - an increase of 120 per cent would be necessary. He did not think it right to base the increase in quotas on the basis of foreseeable demands but merely to give the same level of access as had been afforded to Mexico to all other countries who would be eligible for Brady terms would require an



80 per cent increase. In addition to that, there would be calls on the Fund's resources from Eastern Europe and if the Uruguay round was to be successful assistance would be needed for developing countries which agreed to dismantle protectionist barriers. He was unwilling to reduce the Fund's liquidity. That was not the right way forward for an international financial institution. Increasing borrowing had been discouraged in Berlin. Any further borrowing would come from Japan which would risk giving the US and Japan too much influence. He noted that 15 out of 22 members of the Interim Committee supported an increase of 100 per cent and 19 out of 22 members supported an increase of 67 per cent.

The Chancellor recalled that they had discussed the matter twice before. The UK's position on quotas did not reflect any lack of support for the Fund. It was based purely on an objective of assessment of resources and likely claims. The UK analysis showed no need for an increase of the scale that the Fund was proposing and he understood a US analysis had come to a similar conclusion. There was a risk that an excessive increase in quotas would lead to relaxation of conditions on lending.

M Camdessus returned to the charge. The Fund needed to be ready to handle anything that might occur. In 1979 no one had foreseen the emerging debt crisis. It should be accepted practice for central banks to hold a proportion of their reserves in the IMF. He did not accept that an increase in resources would lead to any weakening of the Fund's criteria for lending. In many ways a large increase could make the Fund more independent. There were signs that the US wished to use the "rationing" of resources as a way of controlling IMF policy.

The Chancellor said that he did not think they were going to agree on this matter. He would support an adequate increase in resources but not excessive one which could only encourage pressure for unwise lending. In view of the Managing Director's eloquence he would look at the figures again but thought it unlikely that he would change his mind. M Camdessus said he would write a two page note setting out his case; much had changed in recent months.

Yours sincerely

J. Gieve

JOHN GIEVE

COVERING CONFIDENTIAL

FROM: T TARKOWSKI (IF1)
DATE: 8 SEPTEMBER 1989
EXT: 4888

PS/CHANCELLOR
PS/ECONOMIC SECRETARY
SIR P MIDDLETON
SIR T BURNS
MR WICKS
MR H P EVANS
MR ODLING SMEE
MR A C S ALLAN
MR R I G ALLEN
MR MOUNTFIELD
MR O'DONNELL
MR TYRIE
MS WALLACE

cc Mr Scholar
Mr Walsh
Mr Riley
Mr Peretz
Mr Culpin
Mr Pickering
Mr Melliss
Mrs Brown
Mr Mercer
Mr Bottrill
Mr P G F Davis
Miss Simpson

Mr Cassell UKDEL

CHANCELLOR'S MONTHLY MEETING ON INTERNATIONAL ISSUES

I attach an agenda for the next meeting, which will be on Monday 11 September at 3.00 pm.

2. Requests for copies of papers should be addressed to their originators.

Tenared Tarkowski

T TARKOWSKI

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INTERNATIONAL ISSUES: CHANCELLOR'S MONTHLY MEETING

3.00 pm on Monday 11 September in HM Treasury

AGENDA

1. Recent and forthcoming meetings

M Camdessus (MD IMF)	5	September
High-Level Group on EMU	5	"
EC Monetary Cttee	6	"
EPC (EC)	7	"
Informal ECOFIN	8-10	"
<hr/>		
Mr Caygill (NZ Finance Minister)	12	"
OECD WP3	13	"
G7D/G10D	14	"
Paris Club (Poland informal contact)	18	"
Prime Minister's visit to Japan	19-22	"
Commonwealth Finance Ministers (CFM)	20-21	"
IDA9 Deputies (Washington)	21-22	"
G7 etc	23	"
G10/Interim Cttee	24	"
Development Cttee	25	"
IMF/IBRD Annual Meetings	26-28	"
Commission-chaired meeting on Poland and Hungary	26	"
EPC (EC)	?27-28	"
ECOFIN	9	October
EC Monetary Cttee	20	"

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2. World Economy

Activity in most industrial countries remains strong. In the second quarter in the US GDP is now estimated to have increased by 2 $\frac{3}{4}$ per cent - compared with the first estimate of 1 $\frac{3}{4}$ per cent - and in Germany GNP rose by a faster than expected 4.9 per cent. This underlying strength suggests that an early reduction in interest rates is unlikely and that there may be some upward pressure, in Germany especially. (also Japan)

3. Informal ECOFIN 8-10 September

Report back and follow-up to Antibes meeting.

4. Money-laundering: Financial Action Task Force *see page 7*

There will be a meeting of the Financial Action Task Force, set up at the Paris Summit, on 18 September. The proposed UK line is set out in Mr Walsh's submissions of 1* and 8* September.

5. Export subsidies

The French Presidency of the EC seems prepared to try to make progress on these in Brussels ahead of November's meeting of OECD Consensus Participants in Paris. It would be helpful if G7 Ministers/Deputies could take the opportunity of the Washington meetings to push this forward. The Italians are cool. (Mr Bottrill's note of 1 August*).

6. Debt

a) Individual debtors

The position in Zambia remains as set out in Mr Lazar's 1 September brief* for your meeting with M Camdessus.

* Papers for meeting

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On Nigeria: the IMF programme is broadly on track but further action on interest rates and unification of the exchange rate will be needed. The IMF still forecasts substantial financing gaps in the medium term. The issues are:

- ESAF eligibility and Nigeria's readiness to draw on IMF resources;
- whether the next Paris Club rescheduling should be on Toronto terms;
- whether Nigeria qualifies for IFI support to reduce its bank debts.
- whether donors will be ready to provide help as last time. The Japanese have doubts. We shall report to you the results of an interdepartmental meeting Mr Evans is chairing on 8 September. (See also Mr Gieve's note of your meeting with Camdessus* on 5 September).

On Poland: the Prime Minister has written to Bush, Kohl, Mitterand and Delors proposing a firm IMF programme as a prelude to medium-term Paris Club rescheduling (but no debt write-off) and in due course IFI support for reduction in Poland's bank debt. There could be additional public expenditure calls for further EC food aid and extensions to the UK's 'Know-how Fund'. (See Charles Powell's letter of 2 September* and Mr Bottrill's note of 6 September*). Next events are the Paris Club informal meeting with the Poles on 20 September and the Brussels EC-chaired meeting on 26 September. Pressures may mount for further action after that.

* Papers for meeting

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b) The Debt Strategy. Now that the Brady plan is in process of implementation the focus is likely to shift elsewhere. Mr Tarkowski's 8 September submission* on "intermediate" debtors advises against responding calls for any initiative for those countries covered by neither the Brady plan nor Toronto terms. Another area of increasing interest in eastern bloc debtors.

7. IMF Quotas: rankings *Wicks*

Mr Lazar's 31 August submission* and Mr Pickering's of 8 September* set out the background and issues. This may also be raised during the Prime Minister's visit to Japan.

8. Annual Meetings preparations

Apart from the world economy, debt and IMF Quotas, the main issues are likely to be the arrears strategy, IDA9, the environment and possibly East/West relations. We will submit the usual briefing next week.

Speeches you discussed the content of these with Mr Evans and others on 26 July. IF will submit drafts for the two Interim Committee speeches and the Economic Secretary's CFM speech. Sir T Burns is working on the Annual Meetings speech. ODA (Mr Lankester) are co-ordinating work on the Development Committee speech, apart from a section on the economics of the environment which is being drafted here.

bilaterals - Mr Allan's 6 September minute* made proposals.

press briefings - Mr O'Donnell's 6 ^{September} and 7 September minutes**

9. 1990 CFM

Mrs Chalker's 23 August letter* proposes that the UK should host the 1990 Commonwealth Finance Ministers' meeting.

10. Any Other Business

* Papers for meeting

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INTERNATIONAL ISSUES: CHANCELLOR'S MONTHLY MEETING, 3.00PM,
MONDAY 11 SEPTEMBER 1989 IN HM TREASURY

Present:	Chancellor	Mr A C S Allan
	Sir P Middleton	Mr O'Donnell
	Sir T Burns	Mr Bottrill
	Mr Wicks	Mr Pickering
	Mr H P Evans	Mrs M E Brown
	Mr Odling-Smee	Ms Wallace
	Mr Mountfield	Mr Tarkowski

The meeting followed the agenda circulated under Mr Tarkowski's minute of 8 September.

World Economy

2. The Chancellor noted that the Germans might well decide to raise their interest rates in advance of the G7 meeting. The delegation to the IMF/IBRD meetings would need to be kept closely in touch with events.

Informal ECOFIN

3. The Chancellor reported that there was growing concern among a number of Community Finance Ministers about both the pace (among the Dutch, Germans and Danes) and destination (among the Dutch, Germans, Danes, Spanish and Portuguese) of work on Economic and Monetary Union and a feeling that the French Presidency were trying to go too fast. There was also a determination to ensure that Finance Ministers should play a key role in further work on EMU. Only Ruding and Carli had commented on the UK proposal for competing currencies. Since Phase I already committed Member States to removing most impediments to the use of other Members' currencies the onus of proof was in a sense on those who opposed the proposal. But the UK had promised a paper for the discussion at the November ECOFIN. This should cover both the UK's proposal and the problems associated with the Delors model for EMU.

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4. Mr Wicks added that, on economic union, others were beginning to question the need for budgetary co-ordination. On monetary union, the key question was whether there should be one monetary policy or 12 co-ordinated monetary policies. He noted that there had been a consensus, apart from the UK, in favour of independent central banks. It appeared that the French might have plans on this score. The Chancellor reported that, at the lunch for Ministers, Beregovoy had said that Balladur had backtracked on an earlier plan to make the Banque de France more independent. He thought that the Portuguese had reservations about independent central banks. More generally, there had been wide agreement that monetary policy was the most important tool of macroeconomic policy, and that under Delors it would be handed over to an institution with still greater independence than existing national central banks had. Although Delors had tried to steer discussion back from "institutions" to "substance", there was concern about ensuring adequate political accountability, and some "economic" or governmental counterweight to a central monetary institution. The Chancellor commented that an acceptable balance could only be struck by establishing a European Government responsible to a European Parliament, which was not on the agenda.

5. On the institutional implications of the choice between "locked currencies" and a single currency, the Chancellor commented that as many central banks were needed as there were currencies. It was agreed that it was in the UK's interest to keep the "locked currencies" option on the table, whatever the doubts about its practicability, to help counter arguments for institutional change, and thus the need for an IGC.

6. Turning to the UK paper for the November ECOFIN, the Chancellor thought this should comprise: first elaboration of the point that Phase I would, in itself, be an enormous change; second a reasoned exposition of the problems associated with Delors' Phases II and III; and third explanation of the UK proposal for competing currencies, arguing that this would constitute the logical completion of the removal of currency restrictions entailed in Phase I. He did not think that, at this stage, we

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should canvass other alternatives or go into the deeper issues involved. Sir P Middleton suggested that the paper should also make the point that the UK proposal was a multi-currency solution since competitive currencies, not a monopoly, was the natural outcome, as this point would underpin our position on the institutional issues.

7. It was agreed that officials should also do more work for internal purposes. This should include work on which currency restrictions we wished to see removed. The Chancellor thought that the Commission could usefully be asked to work on this. The Treasury work programme should also cover public handling. The press briefing before the Washington meetings and the Mansion House speech could provide opportunities for some brief comment, but the main focus should be when the UK paper was launched, when he would probably give a press briefing.

8. Mr Wicks would minute on further developments on tax at the informal ECOFIN.

Money-laundering: Financial Action Task Force

9. Mr Walsh's 8 September submission was agreed subject to clarification of a point on international disclosure of information.

Export subsidies

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Debt

11. The Chancellor commented that there would undoubtedly be pressure for further assistance for eastern Europe. It would be important to be clear on the need for deeds as well as words on

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12. The Chancellor agreed the line to take in Mr Tarkowski's 8 September submission on "intermediate" debtors. He asked officials to consider the possibility of writing off interest on old aid loans to intermediate debtors following IMF programmes. He agreed, however, that he would not wish to float this idea more widely in advance of the PES round.

IMF Quotas

13. The Chancellor commented that while the US remained opposed to a quota increase there was no need to move from our position that rankings could only be considered once the overall increase was settled. Mr Wicks agreed. But the danger was that other G7 would combine against the UK. It was agreed that he would sound out positions on the rankings issue at G7D. It was also agreed that the Prime Minister should be advised against linking the issue of rankings with seats on the Tokyo Stock Exchange if the matter was raised during her Tokyo visit. Mr Allan would provide a draft letter to No 10.

Preparation for the IMF/IBRD Annual Meetings

14. It was agreed that Mr Wicks should sound out G7 Deputies on the possibility of avoiding a G7 communique.

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CONFIDENTIAL1990 Commonwealth Finance Ministers Meeting (CFM)

15. The Chancellor agreed that we should avoid hosting the 1990 CFM if possible. Mr Allan would provide a draft reply to Mrs Chalker's minute.

T TARKOWSKI (IF1)
15 September 1989

cc Those present

PS/Economic Secretary
PS/Paymaster General
Mr Scholar
Mr R I G Allen
Mr Walsh
Mr Peretz
Mr Riley
Mr Melliss
Mr P G F Davis
Mr Mercer
Miss Simpson
Mr Tyrie
Mr Cassell - UKDEL IMF/IBRD

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**INTERNATIONAL ISSUES: CHANCELLOR'S MONTHLY MEETING, 3.00PM,
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T TARKOWSKI (IF1)
15 September 1989

cc Those present

PS/Economic Secretary
PS/Paymaster General
Mr Scholar
Mr R I G Allen
Mr Walsh
Mr Peretz
Mr Riley
Mr Melliss
Mr P G F Davis
Mr Mercer
Miss Simpson
Mr Tyrie
Mr Cassell - UKDEL IMF/IBRD

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[Handwritten initials]

FROM: T TARKOWSKI

DATE: 15 SEPTEMBER 1989

EXT: 4888

MR H P EVANS

cc PS Chancellor
Mr Wicks (or)
Mr A C S Allan
Mr Mountfield
Mrs M E Brown

INTERNATIONAL ISSUES MEETING

I attach draft minutes for approval.

2. I would be grateful for any comments as soon as possible.

Tomasz Tarkowski
T TARKOWSKI

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**INTERNATIONAL ISSUES: CHANCELLOR'S MONTHLY MEETING, 3.00PM,
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Mr Walsh
Mr Peretz
Mr Riley
Mr Melliss
Mr P G F Davis
Mr Mercer
Miss Simpson
Mr Tyrie
Mr Cassell - UKDEL IMF/IBRD

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COVERING CONFIDENTIAL

pmf

FROM: M A R KEUNEMAN
DATE: 20 SEPTEMBER 1989
EXT: 4498

PS/Chancellor
Sir P Middleton
Sir T Burns
Mr Wicks
Mr H P Evans
Mr Odling-Smee
Mr Mountfield
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Mr O'Donnell
Mr Bottrill
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Mr Mercer
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Mr Cassell UKDEL IMF/IBRD

INTERNATIONAL ISSUES: CHANCELLOR'S MONTHLY MEETING, MONDAY 11
SEPTEMBER 1989 IN HM TREASURY

Following Mr Tarkowski's minutes of the meeting 15 September, I
attach an amended paragraph 11.

Please insert page to replace existing one.

M A R Keuneman
M A R KEUNEMAN

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PS/Chancellor
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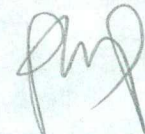
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UNCLASSIFIED



FROM T TARKOWSKI (IF1)
DATE 9 OCTOBER 1989
EXT 4888

MR H P EVANS
MR A C S ALLAN (IF)
MR MOUNTFIELD (AEF)
MR R I G ALLEN (EC)

cc PS/Chancellor
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Wicks
Mr Scholar
Mr Odling Smees
Mr Walsh
Mr Culpin
Mr Riley
Mr Peretz
Mr Pickering
Mrs M E Brown
Mr Tyrie

INTERNATIONAL ISSUES: CHANCELLOR'S MONTHLY MEETING

The next meeting will be at 3.00 pm on Monday 16 October.

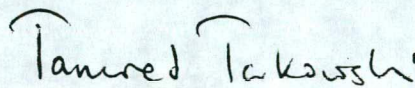
2. I attach a list of meetings which should be noted under item 1 of the agenda (recent and forthcoming meetings).

3. I would be grateful for:

i) brief notes (in a form suitable for inclusion in the agenda) on issues which you think should be on the agenda;

ii) any additions or corrections to the attached list of meetings (please check carefully - my sources may not be full or up to date).

by mid-day on Wednesday 11 October.



T TARKOWSKI

UNCLASSIFIED

Prime Minister's visit to Japan	19-22	Sept
Commonwealth Finance Ministers (CFM)	20-21	"
G7 etc	23	"
IMF/IBRD Annual Meetings etc	24-28	"
Commission-chaired meeting on Poland and Hungary	26	"
EC Monetary Cttee	5	Oct
ECOFIN	9	"
Task Force on Drugs	9-10	"
High level group on EMU	10	"
<hr/>		
High level group on EMU	16 or 17	"
PM at Commonwealth Heads of Government	18-24	"
EC Monetary Cttee	20	"
Paris Club	23-25	"
High level group on EMU	26	"
EPC (EC)	26-27	"
Task Force on Drugs	6-7	Nov
ECOFIN	13	"
Anglo Japanese bilateral	16	"
Paris Club	?20-24	"
Monetary Cttee	23	"

DEBT STRATEGY**LINE TO TAKE**

1. Welcome progress made so far, including progress in negotiations on Mexico and Philippines.
2. Too early to assess results, and certainly too early to consider changing guidelines for IF1 support. Note that banks outside Advisory Committees have yet to sign up to Mexico and Philippines packages.
3. Firmly share view of G7 Summit that available IF1 resources are adequate to encourage debt and debt service reduction.

BACKGROUND

4. IMF and World Bank laid down guidelines for support for debt reduction in May. Since then four programmes involving IF1 support for debt reduction have been agreed; Mexico, Philippines, Cost Rica and Venezuela. In two cases, Mexico and Philippines, countries have reached agreements in principle with commercial bank Advisory Committees on packages including debt reduction options. However, it is not clear to what extent these options will be taken up, other commercial banks have not yet indicated whether they will support the agreements, and neither the IMF nor World Bank Boards have had a chance to assess the agreements to see if they meet the guidelines for use of IF1 resources. Much remains to be done before final agreement is achieved.

5. Other countries (notably Ecuador and Morocco) also intend to seek IF1 support for debt reduction operations. On a recent trip to Latin America, Mulford encouraged other debtor countries to do so. A request from Argentina, which is now at an advanced stage of negotiations on an IMF SBA programme, is likely. Brazil has shown less interest, and is in any case further from agreement on a comprehensive adjustment programme.

CHANCELLOR: MEETING WITH M CAMDESSUS

BURDEN-SHARING

Objectives

1. To stress the importance the UK attaches to limiting the transfer of risk from private to official lenders.
2. To secure commitment from Camdessus that this principle will be respected in the design of Fund programs.

Line to Take

3i) Emphasise our concern to limit the transfer of risk from private to official creditors.

ii) Stress that Fund programs should provide for adequate burden sharing. Commercial banks' contributions must be commensurate with their share of debt stocks. The Paris Club and the IFIs should not bear an excessive burden.

(On the Definition of the official sector, if pressed)

iii) In our view public money is at risk through the exposure of both the Paris Club and the IFIs. (Growing arrears to the IMF underline this point). So we prefer a broader definition of official creditors in assessing burden sharing.

Background

4. There has already been a considerable transfer of risk from private to official creditors. (See Chart and Table 1 attached). Increase in official exposure has involved both the IFIs and Paris Club creditors. Official net lending (Table 2 attached) in recent years has considerably exceeded that by banks despite their higher proportionate exposure.

5. The Interim Committee on 3 April concluded:-

"The Committee also stressed that official creditors should not substitute for private lenders and the Fund financial participation in debt alleviation operations should be accompanied by strong financial support, including new money, from commercial banks".

6. We have attempted to press our ideas on limiting this transfer by preparing a paper on burden-sharing, circulated in the first instance at the Paris Club. Our idea is that expected contributions to closing debtor financing gaps should be in proportion to debt stocks. Full credit would be given to banks for debt or debt service reduction (eg by excluding net principal reduction from the base). On the definition of the official sector, we proposed that the IFIs be included along with Paris Club creditors in consideration of burden sharing. This prompted some discussion but we have not yet succeeded in finding much active support. Further reactions to our paper are expected from Paris Club participants in September.

CHART 3: **Public & Private Sector Exposure
To Baker 15 Countries: 1982 & 1988**

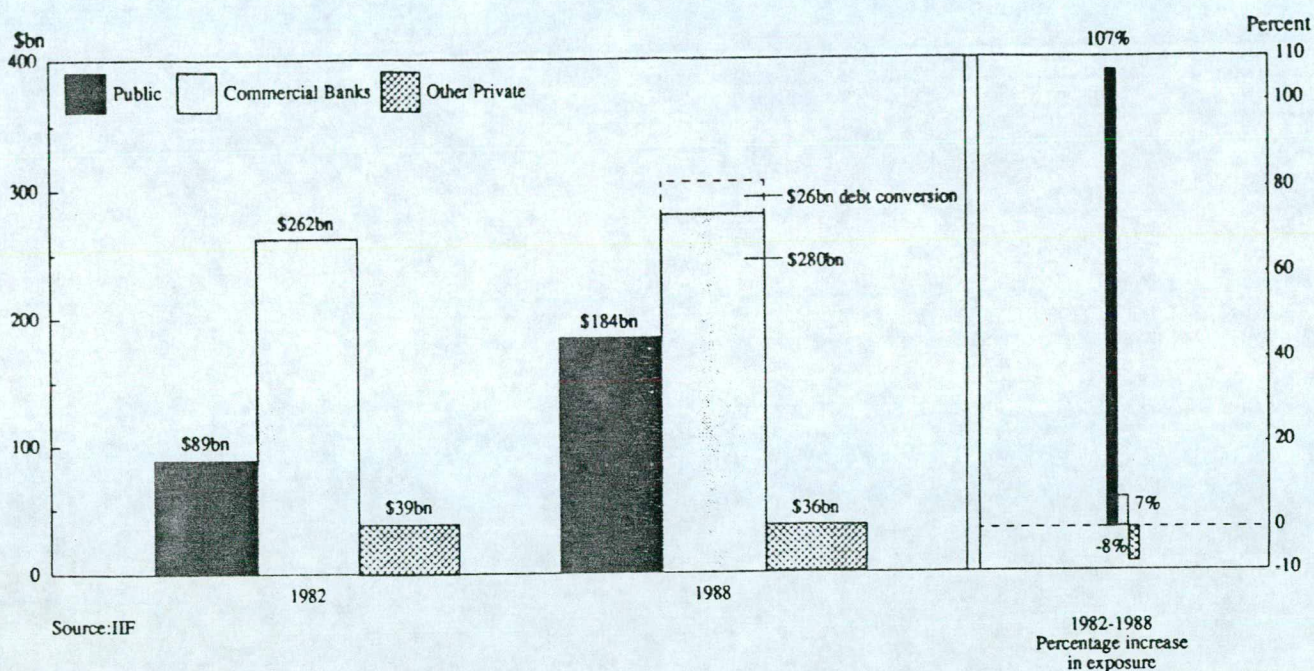


Table 1

Proportion of Exposure to
the Baker 15 Countries

	1982	1988
Official Sector:	22	37
IMF	1	4
MDBs	6	12
Official bilateral creditors	15	21
Commercial Banks:	67	56

Source: IIF

Table 2

Net Lending to 17 Highly Indebted Countries
(Baker 15 plus Jamaica, Costa Rica)

	1986-88 (annual average)
	\$bn
Official Lending (Bilateral, Multilateral, IMF)	3.9
Commercial Banks	0.2
Memo: Baker Plan targets for banks	6.7

Source: World Bank

CHANCELLOR: MEETING WITH M CAMDESSUS

QUOTA REVIEW

Objectives

1. To ensure a moderate rather than a substantial increase in IMF quotas as a result of the ninth review.
2. To make it clear that decisions on the distribution of the quota increase and members' quota rankings cannot be taken until the size of the overall increase is known.

Line to take

1. On Quota Size: the UK remains convinced that, with Fund liquidity currently very high, no more than a moderate increase is required [positive: even taking into account demand associated with debt reduction. Fund staff estimates of potential demand are very high and imply an unacceptable pattern of burden sharing. Their assessment of the existing stock of usable resources is highly prudential and greatly understates the Fund's current lending capacity.]
2. Ranking, Japan, Enlarged Access: these are dependent on quota size, and cannot be decided yet.
3. Ranking [defensive] very reluctant to abandon the practice of gradual adjustment through uniform methods to which the fund has hitherto adhered.

Japan [defensive] agree that Japan's position is an anomaly which deserves consideration. An ad hoc increase should be met by all members. The UK is very low on the list of members whose actual quota shares exceed calculated, and does not deserve to be singled out.

Enlarged Access [positive] once the ninth review has been completed, UK will look to a reduction in absolute access if possible, and will be firmly opposed to any increase.

Background

1. Size of Quota Increase. The arguments will be familiar. UK studies (backed up now by a US study for G7D) show that Fund staff assessments overstate the need for additional resources, and that an adequate stock of resources can be provided by a moderate increase. M. Camdessus is strongly of the view that a doubling of quotas is needed, and may attempt to pressurise the Chancellor on the UK's position. M. Camdessus will suspect that the US is likely to be on the side of a moderate increase. Since 85 per cent of the voting power is required to ensure any particular outcome, the US (with its voting share of 19.9 percent) can prevent any increase of which it disapproves.

2. G7 Representatives Meeting, 29 August. (Please protect: M Camdessus does not formally know this meeting took place.) Called by the US Treasury, this meeting discussed a US paper which seemed to hint at the same conclusions as the UK studies, that a moderate increase would be sufficient. The new point which emerged was the US view that completion of the review could not come before some 'fundamental thinking' on the arrears problem, the implication being that they are prepared to let the end-1989 deadline for the completion of the review slip.

3. Ranking and Japan's Ad hoc Increase. The background paper of 31 August refers. At the informal G7 meeting other members of the G7 expressed the hope, and, to some extent, the expectation that the UK would be prepared to accommodate Japan's desire to move to second place in the Fund, by accepting an ad hoc decrease in quota.

4. Enlarged Access. The enlarged access policy (EAP) was introduced in 1981 to deal with the debt crisis. Quotas were increased in 1983 and will be increased again shortly. Under EAP,

therefore, members' potential access has increased greatly, and so there is no need for a further increase. Since access is expressed as percentage of quota, to ensure potential access does not rise the percentages of access must be reduced at least to levels which maintain current absolute access, and preferably to levels which will reduce absolute access.

5. SDR Allocations. Camdessus accepted at a Board meeting on 28 August that there was insufficient support for an SDR allocation. The issue has been shelved for the moment: Camdessus will consult with Directors in the spring to see if it warrants reopening. He continues to believe that an allocation is warranted, if only to prevent the share of SDRs in international reserves from falling further.

Further background attached

ZAMBIA SUPPORT GROUP

Line to take

1. Still too early to take a decision on leading a Support Group. Before we do so we will need:

(i) greater assurances that the Zambian reform program (eg as embodied in the 1990 Fund monitored programme) is adequate and that there is sufficient political commitment to carry it through. We and other possible donors have doubts about both.

(ii) much fuller financing figures than those currently available. Have the Fund considered financing options other than the parallel clearance of Zambia's arrears, eg sequential clearance?

(iii) assurance that there is sufficient donor support to give the Support Group a chance to succeed without having to make a disproportionate share of the contributions. Crucial to ensure that the US is firmly committed to making a significant contribution.

*see
Telegram below
for donor views*

2. Suggest that Fund chairs informal group to take matters forward.

Background

(for further detail see Mr Walsh's submission to the Chancellor of 20 July).

1. Zambians have now agreed a medium-term Policy Framework Paper (PFP) to be considered by the World Bank Committee of the Whole on 12 September and the IMF Board on 15 September. PFP is a precondition for setting up a Support Group, which for the present would be charged with the identification of sources of finance to

clear Zambia's arrears. A Consultative Group is expected to be run in tandem to fill the non-arrears balance of payments gap over the programme period.

2. We have already passed a note on our concerns about the PFP to the IMF mission chief, Ms Dillon, who undertook to pursue these during the mission which is currently in Lusaka to begin preparatory work on the Fund-monitored programme for 1990. Our key concerns are:

the ability of the Zambians to maintain effective fiscal and monetary controls during the adjustment programme;

the 3 year time scale to achieve a market-clearing exchange rate is too slow to stimulate non-traditional exports;

the need to establish positive real interest rates to encourage savings and improve confidence (tight monetary policy is also a prerequisite of any devaluation).

The World Bank shares some of our concerns. And, at the Bank's insistence, the Zambians have agreed a late insertion to the PFP which speaks of the document being only the first phase of the adjustment process. Ms Dillon is passing through London on 4 September and will report on developments then.

3. We cannot take the issue of whether we lead a Support Group any further until after the Board discussions on the PFP and until we know the views of other donors, especially the US.

See
Telegram 214

FROM: M LAZAR
DATE: 1 SEPTEMBER 1989
x5564

- 1. MR EVANS
- 2. CHANCELLOR

seen by him in draft and approved M.L.

cc EST
 Mr Wicks
 Mr Walsh FIM
 Mr Allan o/r
 Mr Mountfield o/r
 Mr Pickering o/r
 Mr Bottrill AEF2
 Mr Tarkowski
 Mr Powell AEF2
 Mr Barr
 Mrs Lester
 Mr Tyrie
 Mr Cassell UKDel IMF/
 IBRD
 Washington

M.L. P.D.

put on Tuesday's meeting folder.

LAZAR
TO
CX
1 SEPT

MEETING WITH THE MANAGING DIRECTOR OF THE IMF,
M CAMDESSUS, 4.00 PM, TUESDAY 5 SEPTEMBER

I attach briefing for your meeting with M Camdessus, which covers the following topics:

- (1) Debt reduction
- (2) Quotas
- (3) Arrears - Zambia and support groups
- burden sharing
- (4) Nigeria - possible eligibility for ESAF
- (5) Other issues - money laundering
- presentation and publicity.

TELE 262

2. Mr Cassell saw M Camdessus yesterday (31 August). I attach his telegram. M Camdessus told Mr Cassell that among other subjects he would like to discuss with you the UK economy, with particular reference to inflation. M Camdessus would also be mentioning the possibility of Nigeria receiving an ESAF - a brief is provided. He also mentioned Poland, but Mr Cassell (who will be coming over for the meeting) thinks that he is unlikely to raise it with you.

3. One additional point. In the executive board discussion on the holding and administration of escrow accounts for set aside money to be used for debt reduction, there was strong disagreement over the advisability of Fund involvement. M Camdessus is keen that the Fund should be allowed to hold and administer accounts. It might be as well to mention to Mr Camdessus that the UK considers it is desirable that the Fund keeps escrow accounts at arms length.

4. I also attach a personality note on M. Camdessus.

M. Lazar
M LAZAR
IF1

BRIEFING FOR CHANCELLOR'S MEETING WITH M CAMDESSUS

NIGERIA

Objectives

1. To impress on Camdessus that although Nigeria has managed to keep its reform programme broadly on track, sustained strong adjustment will be needed over a number of years with appropriate support by creditors.

2. To respond to Camdessus' enquiries about UK views on question of Nigeria's eligibility for the IMF's ESAF and for Toronto terms.

Line to Take

3. UK is looking for further firm Fund programme for 1990. Priorities are action to achieve positive real interest rates and a unified market-determined exchange rate. Budgetary restraint needs to be maintained.

4. Note that IMF staff already forecast a large financing gap in 1990 and beyond, but there are further uncertainties because of oil prices, domestic demand and unreconciled Paris Club debt. Generous support by IFIs and bilateral creditors/donors still likely to be needed. Important to clarify size of gap so that appropriate support can be enlisted.

5. UK has not decided on whether Nigeria should receive Toronto terms. This would be expensive for major creditors and could be unnecessary if oil prices rise. Nevertheless, Nigeria would seem at present to meet criteria of GDP per head, indebtedness and efforts to adjust.

6. Nigeria appears to qualify for ESAF. One consideration in deciding is eligibility for World Bank IDA funds, which applies in Nigeria's case. Eligibility for ESAF would presumably make Nigeria more likely to draw on IMF resources. Would the funds be available to allow full ESAF entitlement for Nigeria?

7. Paris Club creditors and major donors concerned that their efforts should not simply go to bail out commercial banks. Important that banks should make a contribution to financing in 1990 and beyond. IMF staff should examine this. We shall need to look at whether Nigeria is eligible for Brady-style debt reduction and debt service reduction.

Background

8. A Fund SBA was approved in February, and after some slippage in its early stage is now back on track and due to be reviewed by the Executive Board of the IMF on 11 September. The authorities have faced considerable domestic dissatisfaction with the programme's austerity measures but remain committed to implementing the programme. They have not as yet drawn from the SBA partly because of political unpopularity of borrowing from the IMF, and partly because they wish to avoid taking on further non-concessional borrowing.

9. The authorities' maintenance of negative real interest rates, inflation, and the differential between official and parallel market exchange rates remain of concern. Action was taken in April and June to tighten liquidity in the banking sector, but inflation remains over 50 per cent, and is not helped by failure to move on interest rates. The official exchange rate is set artificially high, and although the differential between it and the parallel rate has recently narrowed, the two remain far apart. The Budget, however, has remained on track - helped by higher oil revenues.

10. Nigeria is currently receiving some IDA funds (\$100 million this year), having recently become eligible because of the decline in its GNP per head - estimated by the World Bank to have been \$370 a head at end 1987. As one of the poorest, it appears to be eligible for ESAF as well (although ESAF does not set any specific income ceiling). However ESAF is designed for smaller countries. Nigerian access could prove a substantial drain on ESAF resources. Nigeria did not qualify for Toronto terms at this year's Paris Club rescheduling since it is a blend country, receiving concessional (IDA) and non-concessional (IBRD) World Bank loans.

11. There appears to be \$6 billion in unreconciled Paris Club debt for Nigeria. The recent UK bilateral was signed without reconciling the debt outstanding. The latest IMF Article IV review uses the Nigerian's debt numbers (\$13 billion), rather than those of the Paris Club (\$19 billion). As a result it is likely to be underestimating the financing gap for 1990 and beyond. This will be increased if oil prices fall and/or domestic demand continues to grow.

12. There will be an informal donors' meeting chaired by the World Bank in London on 15 September to discuss likely sources of finance, in advance of a planned Consultative Group meeting in November. Some donors, eg Japan, are already questioning the need for finance on the scale of this year's operation - but the latest IMF figures show a substantial financing gap.

13. The banks' rescheduling agreement became effective in June, and it is possible that Nigeria may be a candidate for Brady-type debt reduction.