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Foreign and Commonwealth Office

London SW1A 2AH

25 May 1988

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CHANCELLOR'S DEBT INITIATIVE

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| MFP 091/3 | |
| RECEIVED IN REGISTRY 25 MAY 1988 | |
| DESK OFFICER | RECEIVED |
| INDEX | FILED |
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1. When we spoke yesterday, I said I would be writing to report on developments at the OECD Ministerial last week. So far as I know, the third Sherpas' meeting which followed immediately upon the Ministerial did not discuss African debt, unless Geoffrey Littler had some private conversations with his colleagues.
2. We secured Development Committee language in the OECD communiqué, but not without difficulty. At lunch on the first day, Baker again said that the US could not agree to interest rate reductions; and that he could go no further than the (more cautious) language of the Interim Committee. The Chancellor argued for Development rather than Interim Committee wording, and more generally that Ministers had a choice. They could either commit themselves generally to doing something for the sub-Saharan LIDDs, without specifying what; or the communiqué could set out his own proposal, and say that Ministers undertook to consider it carefully.
3. Bangemann then muddied the waters. He said that Summit participants had agreed at Venice that something should be done. But what? There were other possibilities, such as writing off debt. The communiqué might instance "the complete relief of debts" as one possibility that deserved examination. The French agreed and wanted a reference to debt cancellation. The Chancellor said that there seemed to be some confusion. If the French and Germans meant RTA for aid debts well and good. But no member of the Paris Club had suggested writing off commercial debts completely. The OECD must not raise false expectations. Baker then muddied the waters further by talking about IDA, ESAF and bilateral aid.
4. When Beregovoy spoke in Plenary he said: "Le desendettement de ces pays reste une priorité à l'égard des pays les plus pauvres. L'allègement voire l'annulation au moins partielle des dettes sont à examiner avec la plus grande attention."



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5. On my return from Paris, I took part briefly last Friday in Anglo-French discussions at Foreign Ministry official level chaired by Patrick Fairweather. I asked the French what Beregovoy had in mind. They said they did not know the details, but did not exclude "a big (French) surprise" in the near future. African debt burdens had to be lightened somehow.

6. Bringing these various strands together, it looks to me as if Mitterrand may well decide to announce RTA on French aid loans to African countries at or before the Toronto Summit. You will remember that the Canadians did the same at CHOGM and the franophone conference last year. The question is whether the French will also support interest rate relief on officially guaranteed debt; or will stand pat and say that they had done their bit through RTA. I hope that Geoffrey Littler will be able to smoke out French intentions at the fourth Sherpas' meeting on 3-5 June but, as we agreed, I am also asking Michael Jay to make some enquiries this week.

7. I am pursuing separately with you Nigel Wicks' request for possible Toronto communiqué language on African debt.

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cc. Mr Hudson, ODA
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