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From the Principal Private Secretary

10 October 1988

See Peter,

PREPARATIONS FOR THE 1989 SUMMIT: AFRICAN DEBT

Thank you for your letter of 7 October. This is very helpful. Tietmeyer reported that agreement had been reached on sub-Saharan debt. I said that I thought that one country still had some points outstanding. Alan Wallis quickly said that the US had a difficulty, but he did not know what. I did not go into details of the difficulty but told Wallis outside the meeting that if it was not settled quickly, Geoffrey Littler might well wish to telephone David Mulford. Tietmeyer alluded to the German point, referred to in paragraph 7 of your minute, but said it would be sorted out at the German Cabinet meeting next Wednesday.

I am sending a copy of this letter to Tom Richardson.

Nigel Wicks

(N. L. WICKS)

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MS



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7 October 1988

Dear Nigel,

PREPARATIONS FOR THE 1989 SUMMIT: AFRICAN DEBT

with NLW?

As Geoff Littler is still away, I take the liberty of sending you direct a note about a small problem on this bit of business, which we all thought had been settled at the time of Toronto.

Nicholas Bayne's letter to you of 6 October, paragraph 8, says that "arrangements...have now been worked out". As you will see from my note, they have not, quite.

I do not think this will surface at your meeting this weekend. If it does, you could express surprise that the Americans are apparently going back on an agreement which everybody thought had been reached in Berlin. You could say it is important that this should be settled as quickly as possible, and that Geoff Littler will want to talk to Mulford about it should there be any remaining difficulty.

I am sending a copy of this letter to Tom Richardson, who suggested I should warn you about the difficulty.

Yours,

Peter

P MOUNTFIELD

PS. Respectful congratulations! I look forward to working for you.

Spaw

FROM: MR P MOUNTFIELD

DATE: 5 OCTOBER 1988

MR LANKESTER

cc: Sir G Littler o/r
Mr Evans
Mr Bottrill
Mrs Thomson
Mr Richardson, FCO
Mr Miles, BOE
Mr Pentecost, ECGD

AFRICAN DEBT

We have hit a problem on the interpretation of the Berlin agreement. I do not think it is fatal; and I do not propose to warn the Chancellor about it yet. (We may need his help later.) But you ought to know about it, and Sir G Littler on his return may wish to talk to Mulford.

2. The problem concerns the Japanese additions to the text of the "Chairman's summary" and of the draft of the standard-form Paris Club agreed minutes.

3. You will remember, perhaps, that Japan eventually opted for option A: write-off of one-third of the debt. At the last minute, the Japanese insisted on adding to the summary the following words: write-off - "or refinancing through additional grants for the creditor countries who cannot presently write-off credits for legal reasons".

4. The difficulty apparently arises because the Japanese Aid Agency has no legal power at present to write-off, or even to reschedule, old debts. What it does at present, in the case of rescheduling, is to require repayment of the original loan on the due date, but immediately to make a fresh loan for the period of

rescheduling. What is proposed is that they should adopt the same procedure when a debt is written off: ie, they would require the debtor country to repay the debt in full, and immediately give them an equivalent sum. (This is apparently a temporary problem. Japan proposes new legislation next year which would empower them to accept option A in full.)

5. We accepted this form of words in the text, because we thought it made no difference of substance. (The principle of refinancing is, of course, standard Paris Club form anyway.) Similarly, we accepted a further Japanese amendment, specifying that there would be no change to the agreed criteria. You may remember that I advised the Chancellor that neither of these was a point of substance, and that we could accept them without difficulty.

6. At the September meeting, immediately before Berlin, Milam the US Delegate recorded a formal reservation on both these points. We understood that when Secretary Brady accepted the package at the G7 meeting in Berlin, that reservation was lifted. The G7 communique', as Mr Evans reminds me, says clearly '...necessary arrangements have now been worked out by the Paris Club'. Brady did not dissent. But Milam now tells me that the US thought they were accepting the July text (ie without these words) and not the September text.

7. Michael Von Korff, FRG, tells me that his authorities are also having difficulties with the same point: technically, a fresh German Cabinet decision is needed, next Wednesday, to accept the rest of the Berlin agreement, so this point has been raised again as well. He is fairly confident, however, that Germany will accept the September text without further difficulty.

8. The American objections, apart from hurt pride, are two-fold. First, they claim one cannot be sure that the Japanese grants would be genuinely additional. Secondly, they say that the grants might not be simultaneous, so that the debtor would be out of

money for a period. Von Korff tells me that there have, in fact, been timing problems of this kind in earlier refinancing agreements.

9. The first point has some substance. But at a time when Japan is promising to double its aid effort over the next few years, it does not seem to me that we can really argue on "additionality". And the US, of all countries, is not well placed to argue the point. The second point seems purely technical. If Japan signed a Paris Club agreed minute for, say, Mali, which included the standard language, and subsequently failed to make the necessary grant on time, it would be in breach of its obligations. The debtor country would be the first to scream blue murder, and the rest of the creditors would immediately charge Japan with failing to honour its promises. I think it most unlikely that the Japanese government would let itself be put in this position.

10. So I cannot see that there is any problem of substance here. The rest of the creditors (with technical reservations still outstanding from Australia and Switzerland) have accepted the September version of the package. So have we. I think the US are wriggling. The problem is to stop them wriggling so hard that they undo the package.

11. I think the French have got to take the lead in sorting this mess out. I have spoken to the Secretariat this afternoon, and urged them to do so: it is a problem they were already well aware of. I offered them our help at a later stage if necessary. I warned them that the Chancellor would be furious if he heard that the Americans were going back on their word. I suggest we leave things there for a week, until Trichet has had a chance to negotiate some words with Milam. If he has not done so by then, we shall have to report to the Chancellor, who may then want to talk to Secretary Brady.

12. Meanwhile we have a publicity problem. The Chancellor has just approved the text of a 'box' in the October EPR which says 'All the Government creditors who meet in the Paris Club have now agreed to a specific scheme based on the Chancellor's proposals'. I suggest we let this stand. If challenged, we can point to the wording of the G7 communique'.

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P MOUNTFIELD



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M.B.