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Foreign and Commonwealth Office

London SW1A 2AH

26 March 1986

A fine another letter but very hard to identify what concrete action we have in mind. Boys of "continue to impress upon..." "keep all twelve together".

Agree to ask for some more precise proposals, including forming up more rigorously to the Soviet Union & Europeans?

Yes no

UN Financial Crisis

CDD
26/3

I enclose a letter from the UN Secretary General to the Prime Minister about the financial difficulties facing the United Nations. The letter covers a copy of a more detailed letter from the Secretary General to the Foreign Ministers of all UN Member States, explaining that the UN faces a shortfall of \$80-\$100 million in the regular 1986 budget.

Part of the problem is the result of US withholdings caused by Congressional action in late 1985. The Gramm-Rudman-Hollings legislation has imposed a cut in the US contribution to the UN as in other US programmes. And the Kassebaum Amendment requires the US Administration to reduce its contribution to the UN from 25% to 20% unless the United Nations introduce by 1 October 1986 weighted voting on budgetary matters.

But US action has only accentuated an existing problem. A number of States have, over the years, withheld part of their assessed contributions to the UN's budget or have been consistently late with their payments. The Soviet Union and its East European allies are the main defaulters, largely because of their refusal in principle to contribute towards UN peacekeeping operations.

As we shall make clear, the US is therefore by no means solely responsible for the UN's financial crisis. (The Russians currently owe \$164.4m to the UN for peacekeeping operations and \$40.7m to the Regular Budget.) But the immediate impact of the United States' action (withholding around \$55m against a budget of \$735.6m) and the prospect of substantial withholdings in the future have brought the problem to a head. On the resources now available to it, the UN cannot maintain agreed programmes and administrative services at their present level.

/Against

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Against that background the Foreign Secretary believes that we need to decide now on UK objectives and policy. The present situation presents an opportunity to achieve greater financial discipline within the UN system which would not have been available without the shock induced by Congressional action. As the only permanent member of the Security Council not in arrears on its payments to the UN budget, we should be able to play a role which will enhance the UK's reputation at the UN and the justification for our permanent seat - at the same time as we promote stronger financial control.

Action in the UN

The Secretary General has taken some action to control administrative expenses. The impact will be modest, given the limitations on his mandate. He has at the same time launched an appeal for voluntary contributions and instructed his staff to submit recommendations for cuts which can be considered at a resumed session of the General Assembly, probably at the end of April. The Twelve have made clear that they do not see voluntary contributions as an appropriate solution. We should continue to impress upon the Secretary General the need to find more satisfactory budgetary procedures in the medium-term, in order to preserve the UN's effectiveness and credibility.

The present arrangements are thoroughly bad. Whilst budgetary questions require a two-thirds majority in the General Assembly this offers little real safeguard for the major contributors. The two-thirds majority could in theory be forced through by 106 of the UN's poorest members whose combined total contribution to the Regular Budget was only 1.83%.

The General Assembly agreed at its last Session to establish a group of high level experts to examine measures to promote financial and budgetary efficiency. The Group has agreed to address the question of budgetary procedures. It remains to be seen how effective it will be but we must obviously try to channel its efforts in the right direction. We should encourage it, through our own representative, to explore the various ways in which procedures might be made much tighter without incurring the risk of amendments to the UN Charter which would be damaging to our interests.

/Action with the US

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Action with the US

We have to maintain a consistent attitude towards the United States - we have been rightly critical of the Soviet Union and the Eastern Europeans for failing to fulfil their international obligations to the UN, for example in the Prime Minister's speech at the 40th Anniversary of the UN. We will continue to do so. But we must also work actively with the US to identify measures which respond to the concerns which we have expressed about UN decision-making, and which prompted Congress to act. The text of a memorandum submitted to the US Administration by the Presidency records the readiness of the Twelve to discuss such measures. We must also continue to resist any tendency to look to the other OECD countries to make good the shortfall by voluntary contributions.

Action of the Twelve

It will be important to maintain cohesion among the Twelve. We intend, therefore, to agree a collective reply by the Presidency to the letters sent by the Secretary General to the Foreign Ministers of the Twelve. When that text has been sent to the Secretary General we shall suggest that the Prime Minister send a short reply to Sr Perez de Cuellar's letter to her, referring to the substantive reply he will have received from Foreign Ministers. During our Presidency, we shall have to work hard to hold the Twelve to their agreement to seek changes in UN procedures, in consultation with the Americans. Several of our partners are more disposed to criticise the US failure to fulfil its legal obligations than to agree that reform is needed.

Conclusion

The Foreign Secretary believes that if we follow the strategy outlined above we have every hope of securing tighter financial discipline within the UN, with consequent benefits for our own standing and other UK interests there. The Gramm-Rudman-Hollings and Kassebaum legislation has given the UN a salutary shock and presents a unique opportunity to push through reform of the UN financial system. It will be important to ensure that the long term objective of reform is not lost in short-term measures to cover the gap left by the US withholding. But provided we are clear about our objectives and work constructively with the Twelve and the US, the Foreign Secretary believes that the outcome to the present situation should be satisfactory to our own interests.

/I am

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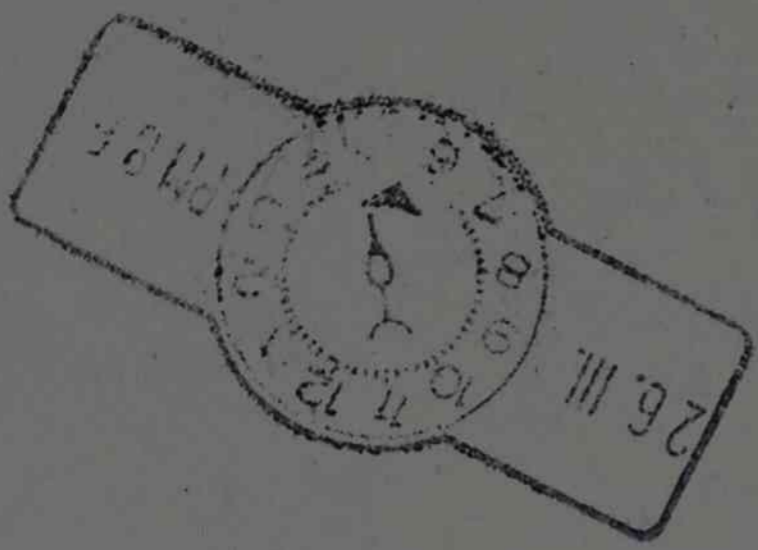
I am copying this letter to Rachel Lomax (HM Treasury),
Richard Mottram (MOD) and Michael Stark (Cabinet Office).

Yours ever,

R N Culshaw
(R N Culshaw)
Private Secretary

C D Powell Esq
PS/10 Downing Street

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THE SECRETARY-GENERAL

7 March 1986

Dear Prime Minister,

I am writing to you on a matter of the utmost concern to me, knowing of your deep personal commitment to a vigorous and effective United Nations. I am encouraged to do so, aware of the key role played by the United Kingdom in the founding of the United Nations and of your Government's continuing support for the United Nations since then, which you reaffirmed again in such a forthright manner at the Fortieth Anniversary Commemorative Session of the General Assembly.

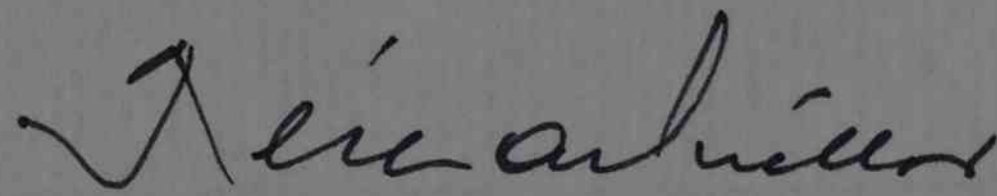
An urgent and critical problem has now arisen. It stems from the unprecedented financial difficulties facing the Organization as a result mainly of the unilateral withholding of contributions by certain Member States, contrary to obligations flowing from the Charter. The severity of the problem is such as to threaten the integrity and viability of the Organization and its capacity to serve as a constructive force in world affairs. I shall not, in this letter, repeat the details of the problem or of the solutions that I have at this stage suggested, as these are the subject of a separate communication that I have addressed to all Foreign
..... Ministers. (A copy of that communication is enclosed.)

Her Excellency
The Rt. Hon. Margaret Thatcher, M.P.
Prime Minister of the United Kingdom of
Great Britain and Northern Ireland
London

May I, however, in the knowledge of the United Kingdom's steadfast commitment to the Organization and the deep interest in its future which you have expressed to me, request you to give this problem your personal attention. I am convinced that decisions will be required at the senior-most levels of government if the Organization is to emerge from the present crisis with a renewed sense of cohesion, strength and stability. I hope that you will lend your influence in steering the Organization out of the present crisis.

With warm personal regards,

Yours sincerely,



Javier Pérez de Cuéllar



THE SECRETARY-GENERAL

86/131 AD

21 February 1986

Excellency,

I am writing to you at this time because the financial problems with which the United Nations is now confronted are of such magnitude as to require the urgent attention of the Governments of all Member States.

In addressing the General Assembly last December, I expressed my conviction that these problems threaten not only the financial soundness of the Organization but also its capacity to execute the programmes mandated by Member States and, ultimately, its cohesion as a constructive and necessary force in world affairs. Developments since then have further increased my concern.

In the short term, the Organization must deal immediately with a major financial shortfall due largely to the withholding of assessed contributions to the regular budget. All reserves have been depleted to cover past withholdings by a total of 18 Member States, which amount now to some \$100 million and late payments of some \$70 million. To this must be added a further anticipated withholding by the largest contributor of \$80 million or more from its 1985 and 1986 assessments. All in all, the shortfall in 1986 alone must realistically be projected as 10 to 12 per cent of the regular budget. With a shortfall of this magnitude, the United Nations cannot implement its mandated programmes unless emergency measures are taken.

As I have repeatedly pointed out, the unilateral withholding of assessed contributions by Member States is contrary to obligations flowing from the United Nations Charter, and is in all cases destructive to the orderly implementation of the Organization's mandated programmes. I have appealed to the 18 Governments concerned, as well as to those which are late in meeting their assessments, to make early payment. It is my earnest hope that there will be full compliance with the provisions of the Charter on which the financial soundness and, in a very real sense, the overall effectiveness of the Organization depend. The present situation is such, however, that immediate steps must be agreed upon to sustain the Organization until a firm basis for long-term financial stability is restored.

The Minister for Foreign Affairs of ...

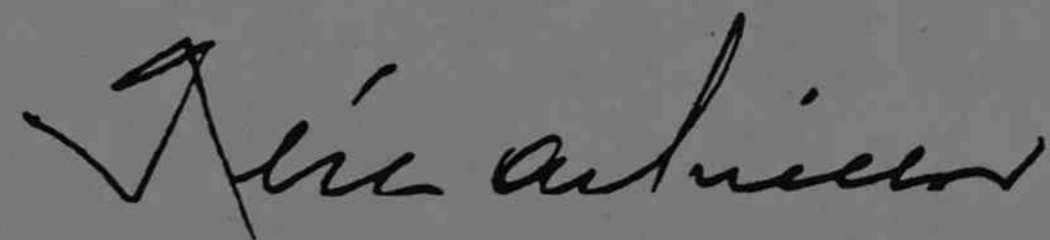
The course ahead contains no easy choices. For my part, I have sought to contain the costs of the United Nations with least possible prejudice to mandated programmes. I will continue to seek further practical means, within my competence, to reduce operating costs. It is fully evident, however, that the problems we now face cannot be met by administrative economies alone but require the immediate attention of Member States.

Unless additional funds are forthcoming sufficient to cover a shortfall on the order of \$80 to \$100 million in the regular 1986 budget, a deferral of programme activities is inevitable. In these circumstances, I am compelled to request that the General Assembly reconvene at an early date. I believe that the most helpful step that could be taken now to tide the United Nations over the present emergency would be the provision, through voluntary contributions, of funds in sufficient amount to meet the expected shortfall. Such contributions could be paid into a Special Account, which already exists; I am sending a separate letter to your Permanent Representative on this matter. Should such contributions, however, prove to be inadequate, it would be necessary for the General Assembly to adopt criteria to be followed in deferring programmes, and to authorize me to act, as required by financial exigencies, in accordance with those criteria. The deferral of programmes would inevitably have serious personnel implications.

Turning now to the long-term aspects of the problem, if the United Nations is to retain a sound financial basis of operation, there needs to be a renewed measure of agreement on key financial issues, including the size of the budget, the scale of assessments and, indeed, the purposes for which resources available to the United Nations should be utilized. It is to be hoped that the Group of High-level Intergovernmental Experts, established by the General Assembly to make a thorough review of administrative and financial matters, will be able to suggest measures to the forty-first session of the General Assembly, which will provide the basis for renewed agreement on these fundamental budgetary questions. Their work will be of critical importance to the long-term viability of the Organization.

It is of the utmost importance that Member States unite now in constructive measures that will restore and preserve the financial viability of the Organization, with a view to enhancing its capacity to serve the purposes and principles of the Charter. This must involve decisions - and commitments - at the most senior levels of Government. It is for this reason that I have addressed this letter to you and to the Foreign Ministers of all other Member States.

Accept, Excellency, the assurances of my highest consideration.



Javier Pérez de Cuéllar

