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27 May 1986

From the Private Secretary

PRIME MINISTER'S VISIT TO ISRAEL: TALKS WITH MR. PERES

During his talks with the Prime Minister, Mr. Peres handed over, in confidence, two documents which I enclose:

- (i) A draft proposal for a Middle East economic development programme. This is dated 25 May so I assume that it is a revision and expansion of earlier Israeli proposals;
- (ii) a note headed "Reactions to the American Document" (dated 30 March) which appears to deal with steps which the Israeli Government would be prepared to take on the West Bank.

I think you should regard both documents as for information only for the time being. No doubt we shall receive the revised proposal for a Middle East economic development programme through separate channels in due course.

CHARLES POWELL

Robert Culshaw, Esq.,
Foreign and Commonwealth Office.

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25/5/86

MIDDLE EAST ECONOMIC DEVELOPMENT PROGRAM
A Draft Proposal

1. GENERAL

- a. The Industrialized Countries will establish a system for Middle East economic development.
- b. Participation in the system will be open to the entire region, including the West Bank and Gaza Strip.
- c. The system will be established on the basis of consultations between the Industrialized Countries and regional participants.
- d. The system will be based on a ten-year program (1987-1997).

2. OBJECTIVES

- a. Economic growth, welfare and prosperity of regional participants and the region as a whole.
- b. Stabilization of the economy in areas in distress.
- c. Easing the debt burden and enhancing foreign currency earning capacity of the regional participants.

3. SPHERES OF ECONOMIC DEVELOPMENT

The system will support individual as well as joint projects of local as well as regional nature, as proposed by members in the following areas:

- a. Industry: Advanced infrastructure and projects.
- b. Agriculture: Advanced infrastructure and projects.

- c. Marketing: Advanced service and distribution systems.
- d. Water projects.
- e. Energy plants.
- f. Transportation systems.
- g. Tourism.
- h. Free trade zones.

4. ORGANIZATIONAL STRUCTURE AND FUNCTIONS

a. Economic Commission

- (1) The Commission will include one representative of each member at the rank of an Economic Minister, Bank Chairman or equivalent.
- (2) The Commission will elect a chairman from among the Industrialized Countries and four deputy chairmen. The chairman and deputies will rotate on an annual basis.
- (3) The Commission will establish the rules for electing the Director General, deputies and principal officers of the Board of Directors of the MEDF and will set their policy guidelines.

b. Middle East Development Fund (MEDF)

The Development Fund will be headed by a Board of Directors composed of a representative and an alternate from each member. The Director General and the principal officers will be appointed with the approval of the members of the Board for a period of several years. The Board will have at its disposal a mechanism for implementing project viability assessments, distribution of funds and project-performance follow-up. Its functions will include:

- (1) Operating the Development Fund.
- (2) Mobilizing financial resources.

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- (3) Determining the Fund's participation in projects proposed by the regional members.
 - (4) Allocating resources.
 - (5) Maintaining a framework of insurance against political risks for private investors in the region.
 - (6) Promoting international transfer of technology required for economic development.
 - (7) Encouraging international investment firms to invest privately in the region, inter alia, by making the Fund's facilities available to them.
- c. Projects submitted by a regional member and approved by the Board for MEDF support will be eligible to all benefits due to approved investments under the laws of the same member.

5. FUNDS AND SOURCES

The MEDF will be based on a commitment of \$US 25-30 billion over a 10-year period (\$US 2.5-3 billion per annum). This sum can be mobilized as follows:

- a. Approximately 50% of the total amount will be contributed by the Industrial Countries in the form of a special reserve for risk insurance and provision for bad debts, debt recycling, and grants and loans at a moderate rate.
- b. The remaining 50% will be mobilized primarily from private financial resources in the following manner:
 - (1) Bond issues by the Fund to be sold on the international money markets, guaranteed by the Industrialized Countries in the initial stages.
 - (2) Syndicated loans from commercial banks.
 - (3) Co-financing with other international or regional organizations.

6. IMPLEMENTATION: PHASE I - Preparations

- a. It is suggested that the Industrialized Countries will:
- (1) Approve the concept of a Middle East Economic Development Program.
 - (2) Establish a senior-level Experts Working Group (EWG) representing the Industrialized Countries to undertake the following:
 - (a) Consultations with potential regional members.
 - (b) Development of a detailed proposal.
 - (3) Schedule interim meetings for consultations between the Experts Working Group on the one hand, and the "Sherpa" group on the other.
 - (4) Set the next summit of the Industrialized Countries as a target-date for approval of the final proposal and for launching of Implementation Phase II.
- b. It is suggested that these resolutions be implemented on the basis of the following timetable:
- (1) Formation of senior-level Experts Working Group: Spring 1986.
 - (2) Consultations of EWG with potential regional members: Summer 1986.
 - (3) Preparation of detailed proposal by the EWG: Winter 1986.
 - (4) Approval of the detailed proposal and launching of Implementation Phase II: next summit meeting of the ICS.

שחי תוספות שלא נמסרו לארצות-הברית

13. נכונות לביקורי קיץ גם של מי שאינם קרובי משפחה של תושבי השטחים.

14. נכונות להארכת שעות פתיחת הגשרים

REACTIONS TO THE AMERICAN DOCUMENT - DETAILED

1. Israel will in 1986 increase by 100% the number of permits for family reunification over the number issued in 1985.
2. Members of the Jordanian Parliament living in the West Bank will be permitted to open parliamentary bureaus.
3. The civil administration will allow and encourage the establishment of credit institutions.
4. The civil administration has approved the establishment of an "industrial committee" for the development and advancement of industry in the West Bank.
5. The civil administration will lift the conveyance fee at the Jordan bridge crossings for trucks transporting certain agricultural products at peak season in order to reduce prices for export.
6. The civil administration will permit the resumption of trucking for export via the Jordan bridges.
7. We are in the midst of a multi-year plan for the development of communications in the territories.
8. There are no restrictions on the development and establishment of health institutions. We are in the midst of the implementation of a plan for the development of government hospitals and communal health services. At the same time, we place no restrictions on private initiatives for the development of health institutions.
9. The defense authorities permit cultivation and grazing throughout a third of the year, even in those zones held by the army.

10. The civil administration is now studying requests by several municipalities to enlarge their area of jurisdiction.
11. Moderate mayors and leaders are permitted to take any security measures they deem fit and necessary to ensure their personal security, including the bearing of weapons, by themselves and their bodyguards.
12. The Israeli police are training Palestinian policement as officers for positions of command in the police force in the territories.

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REACTIONS TO THE AMERICAN DOCUMENT - GENERAL

1. Israel will continue to foster an environment of dialogue with the Palestinian public in the territories.
2. Israel will continue its policy of the "Arabization" of administration in the territories.
3. Our policy to transfer the mayoralty in the three cities today administered by Israelis to Palestinian hands -- remains unchanged.
4. We will permit financial aid from external sources to the municipalities and will encourage anyone prepared to extend such aid.
5. We will encourage every international or regional initiative for capital investment in the territories, for their economic development.

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