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Foreign and Commonwealth Office

London SW1A 2AH
4 September 1990

Dear Clive,

US Burden Sharing Initiative: Call by Brady, Mulford and Eagleburger

The Prime Minister has agreed to see Messrs Brady, Mulford, Eagleburger and Wolfowitz at 11.30 am on 5 September. They will already have seen Mr Waldegrave and the Chief Secretary to the Treasury earlier that morning.

Mr Brady's visit follows President Bush's announcement on 30 August of a plan to share more widely the costs of the Gulf operation, and of compensating those most affected by sanctions. He will already have been to Paris, and will be going to Seoul and Tokyo. Mr Baker is due to undertake a similar mission later this week to Bonn, Brussels, Rome, Taiwan and Riyadh.

The details of the US plan are still unclear. On the costs of the Gulf operation, a Pentagon spokesman said on 28 August that estimates were being revised upwards to reflect the impact of calling up reservists, plus increased fuel prices, and that by 30 September the bill would amount to \$2.5 billion. The final cost will of course be much greater.

On the costs of supporting the front line states (Egypt, Jordan and Turkey), we understand that the Americans believe sums in the region of \$2.5-3.5 billion will be needed for the rest of 1990, and \$6-7.5 Billion for 1991. They appear to envisage immediate contributions (for 1990) being provided bilaterally but have suggested to our Embassy in Washington that a common fund might be established in slower time, administered by the BIS, IMF or an ad hoc group of G10 plus Saudi Arabia, to channel aid in 1991. The US are strongly opposed to a Commission-dominated G24 Group. Other countries which are facing losses of remittance income or are adversely affected by increased oil prices are also beginning to ask for help.

Officials are working to produce by the end of this week an analysis of (i) the costs to participants in the military operation; (ii) the sums needed to support the most

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severely affected countries; (iii) the extent of any windfall benefits to Arab countries from increased oil revenues and expenditure by visiting military forces; (iv) the fair level of contributions from all parties. Ministers have yet to consider how much we should offer in support of the front-line states, or how it should be financed. The Chief Secretary to the Treasury and the Foreign Secretary set out their views in their minutes of 16 August and 20 August about Jordan.

The Prime Minister may wish to probe Brady further on US plans, and to make the following points:

- We strongly support the US initiative to share out more fairly the costs of the Gulf crisis.
- The UK is already contributing very substantially to the military effort. Over 4,000 personnel, 2 destroyers, 2 frigates, 3 MCMVs, 4 Royal Fleet Auxiliaries and a survey ship; 24 Tornados (12 air defence and 12 strike), 12 Jaguars, 3 Nimrods and 4 VC10 tankers plus Rapier air defence missiles; and support personnel (including engineers and signallers). At US request we have agreed to charter 2 roll-on roll-off ferries. MOD estimate that the cost so far of deploying assets to the Gulf, including purchasing additional equipment, modifying equipment, and charter costs, is of the order of £75 million. In addition, the daily costs are about £1 million per day. These are no more than very broad estimates.
- On support for states most affected, we have already pledged £500,000 to the ICRC for refugees in Jordan, and £100,000 worth of medicines and blankets flew out on 4 September on the Virgin Atlantic plane. We shall also respond when the need for help for refugees in Turkey is clearer. Meanwhile, our normal country programmes are running at about £7.5 million for Egypt, £4 million for Jordan and £0.25 million for Turkey. We also contribute via the EC (Financial Protocols for Egypt and Jordan are being disbursed; the fourth Financial Protocol for Turkey now held up by Greek opposition).
- We will make an additional contribution to the costs of supporting states most affected. But clear that the main contributors must be Japan, the FRG, and the rich Arab states on whose behalf the costs are incurred. But we should not leave it at that. We shall also need to see whether other Europeans should do more.

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- The most pressing issue is aid for countries most severely affected by sanctions. The other issue - sharing costs of the military operation - is equally serious, but needs to be handled discreetly. We need to work together to seek agreement within the Alliance on how this should be done.
- We believe the ground rules for providing assistance should be:
 - full implementation of sanctions as an absolute precondition for receiving assistance;
 - assistance should be limited to countries most directly affected (and whose cooperation is most vital); We must not allow a queue of all developing and other countries affected by oil price rises. Preferably limit to Jordan, Egypt and Turkey - although FRG will press the case for some Eastern Europeans who received oil from Iraq in lieu of debt repayments.
 - this means keeping arrangements for assistance as informal as possible; need to avoid attempts by UN, EC etc to set up a "system", from which everyone could claim to benefit. Article 50 provides for countries to seek compensation for hardship, but does not specify how this should be financed. In neither US or UK interests to take this route. Better to concentrate on bilateral approaches.
 - we should keep this exercise separate from financing the consequences of Egyptian and Jordanian long-term economic mismanagement - although Mubarak and Hussein have a strong interest in confusing the two.
 - underlying economic problems, and long-run adjustment to changed oil prices should be tackled through the IMF in the normal way. Should press Mubarak and Hussein to agree adjustment programmes with IMF as soon as the situation is clearer. Would be wrong to undermine prospects of necessary reform by pressing IMF to agree a weak programme which would not solve Egypt's and Jordan's long-term problems.
 - we should therefore by next year be looking to aid mechanisms which involve a linkage with structural adjustment. The IMF should have a key role to play. We note your suggestion for a common fund: we will need to consider carefully whether this will make it easier for some donors to contribute. We will also need to

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consider how far further debt relief for Egypt and Jordan can help. (The US is considering writing off some or all of Egypt's \$7 billion military debt).

- in the meantime, we should concentrate on immediate needs in the rest of 1990 for those most directly concerned. This will require some coordination. We are ready to help lobbying other donors.
- EC should contribute - by speeding up disbursement under the existing Financial Protocols for Jordan and Egypt (\$75 million and £333 million over 5 years), and unblocking the fourth Financial Protocol for Turkey (£450 million). We must also look urgently at the scope for concessions on textiles as requested by Turkey. But we will argue for the bulk of the European effort to be made by way of national contributions, rather than through EC budget. UK and France pay fixed shares of EC expenditure; the bilateral route allows those who are not contributing militarily to do more.

I am copying this letter to John Gieve (Treasury), Simon Webb (MOD) and to Sonia Phippard (Cabinet Office).

Yours ever,

A handwritten signature in dark ink, appearing to read 'Richard Gozney', with a long, sweeping tail.

(R H T Gozney)
Private Secretary

C D Powell Esq
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