

CONFIDENTIAL



Treasury Chambers, Parliament Street SW1P 3AG

Richard Gozney Esq
Private Secretary
Foreign & Commonwealth Office
King Charles Street
London
SW1

5th September 1990

Dear Richard,

BURDEN SHARING IN THE GULF

US Treasury Secretary Brady, accompanied by Mr Eagleburger, Dr Mulford, Mr Wolfowitz and the US Ambassador, called on the Chief Secretary this morning before meeting the Prime Minister.

2. Explaining the background to his visit, Mr Brady said that both the international diplomatic effort and the military strategy were proceeding well. The one remaining element was the need to put in place a credible economic assistance programme. This would help to convince Saddam Hussein that the international community was in for the long haul.

3. The US military costs were estimated at roughly \$1 billion per month on top of "normal" budgetary outlays. In other capitals, he would be citing these costs and asking for a contribution. However this did not apply to the UK. Britain's military and other support had been outstanding and he and the President were most grateful for this.

4. Turning to the economic assistance programme Mr Brady said that he was focusing on the three so-called front-line states - Jordan, Turkey and Egypt. These were the countries most severely affected; and to ensure that they implemented sanctions fully they would require some financial support. The US were proposing a two-pronged strategy. First, for the period up to the end of 1990, they were suggesting a short-term assistance package of \$3½ billion. This would be "unconditional", in the form of Food and Fuel Aid. The international financial institutions could play a supportive role but the main effort would need to come from bilateral contributions. The US were hoping that disbursements could be made by the end of this month. They had pencilled in a UK contribution of \$100 million.

CONFIDENTIAL

CONFIDENTIAL

5. Second, for 1991, medium-term assistance of \$7 million would be required, to be committed by end-October for disbursement at the end of the year (if circumstances made this appropriate). This medium-term assistance could either be in the form of straight bilateral contributions, or it could be paid into a Mutual Support Fund. As far as possible, the assistance would be given on conditional terms, probably in line with conventional or shadow IMF programmes.
6. In addition to (or as part of) this economic assistance programme, the US were hoping for a co-ordinated approach to Paris Club rescheduling. The President had just announced that he would be asking the Congress to forgive \$7 billion of FMS debt owing from Egypt. He hoped the US would not be alone in this. The French for example had \$2 billion in outstanding loans.
7. The envisaged short and medium-term assistance might be broken down as follows - Jordan would get \$600 million in 1990 and \$1500 million in 1991; Turkey, \$1400 million in 1990 and \$2700 million in 1991; and Egypt, \$900 million in 1990 and \$2100 million in 1991. Mr Brady hoped that Jordan's IMF programme could be brought back on track. It might also be possible for the IMF to provide help under the Emergency Assistance Facility. As far as Turkey was concerned, IMF "consultations" could pave the way for lending by the IBRD. In addition the Turks would need some help from the EC. The US hoped that the Greeks would drop their opposition to the EC's Financial Protocol, which could provide \$700 million for Turkey. Trade concessions should also be contemplated. Mr Brady said that he had discussed Egypt's position with IMF/IBRD management. The Egyptians had made encouraging progress towards agreeing a programme with the IMF. But if agreement could not be reached some form of shadow programme might be appropriate. Egypt should also be given a generous Paris Club rescheduling.
8. Mr Brady said that over the longer-term other countries, particularly in East Europe and perhaps also Morocco, The Philippines and Pakistan, might also need additional help. The IMF might have to review its current access limit policy and use could perhaps be made of the Compensatory Financing Facility.
9. In conclusion, Mr Brady emphasised that the US would of course be looking for disproportionate contributions from Germany, Japan and from the Gulf States (subsequently he implied that the German contribution might be perhaps five times that of ourselves).
10. The Chief Secretary thanked Mr Brady for outlining US thinking and offered the Chancellor's apologies. The Chief Secretary said that he was particularly grateful for Mr Brady's words on the UK contribution. As Mr Brady was fully aware, the UK strongly supported the US initiative.
11. Continuing, the Chief Secretary said that we were of course fully prepared to make a contribution to the economic assistance programme. He noted that the UK had already pledged support for the refugees in Jordan, on top of our on-going country programmes in Egypt, Turkey and Jordan. As the Prime Minister had made

CONFIDENTIAL

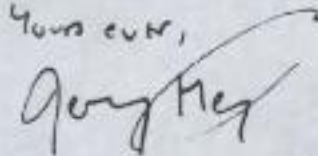
CONFIDENTIAL

clear, it was important that other countries too should make a contribution in cash or kind to the Gulf operation in its entirety. The UK's main contribution was on the military side. Mr Brady said that the French, who were also making a big military contribution, had not sought any financial support towards their costs.

12. The Chief Secretary noted that it would be important to make sure that any additional money given to the front-line states did not go towards meeting the costs of economic mismanagement. It would also be important to focus special help on the three countries which Mr Brady had singled out.

13. The Chief Secretary asked that the US side provide his officials with as much information as possible on the assumptions underlying their costings and on the figures themselves. He also stressed that the co-ordination and administration of the economic programme should be kept as informal as possible. It would be unhelpful, for example, if the UN became too closely involved. Concluding, the Chief Secretary said that he would reflect on what Mr Brady had said.

14. I am copying this note to Charles Powell (No. 10) and Simon Webb (MOD) and to Sonia Phippard (Cabinet Office).

Yours ever,


JEREMY HEYWOOD
Private Secretary

CONFIDENTIAL