

PRIME MINISTER

cc Secretary of State

Sir David Hannay

Sir John Fretwell

Mr. Lavelle

Mr. Kerr

DEBT

Recommendation: The Spanish Presidency appear to have abandoned efforts to include in the conclusions a strong passage on debt. They seem ready to settle for the language attached which was agreed by officials over lunch. You should urge the Council to accept this text.

Spanish Presidency's Ideas: The Spanish Presidency floated at ECOFIN a vague scheme whereby member states would contribute to a European Guarantee Fund. The Fund would help debtor countries reduce their stock of debt and help support their interest payments. The proposal was opposed by Germany, Netherlands, U.K. and Denmark and received little support from other countries. It now seems to have been dropped, although the Spaniards may give it one more run at your dinner for presentational purposes.

Arguments Against the Spanish Proposal:

(i) it would distract debtor countries, like Mexico and Venezuela, and the banks in their current negotiations. They are much less likely to come to firm agreements if they believe that there is a prospect of extra public money.

(ii) our strategy should be to give full support to the recent agreement in the Boards of the World Bank and IMF on debt and debt service reduction.

(iii) it would increase still further the transfer of risk for financing debtor countries from the private sectors (banks) to public sectors (taxpayers). If the transfer continues, there is a real risk that within the next decade creditor governments will have 'nationalised' the middle income debt problem - most debt owed to public sectors (including international financial institutions) rather than to private sectors as now.

Community Competence: The text below rightly talks of 'member states of the Community to support efforts ...' not 'the Community' - we resist Community competence in this area.

The second paragraph, beginning 'the European Council calls for ...' raises no difficulty.

BANGLADESH

The text attached on Bangladesh is satisfactory.

N.L.W.

N. L. WICKS

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SLH/35

Latin American countries' aims of attaining genuine democracy are threatened by a difficult economic and financial situation, of which debt is one of the main elements. The European Council commends the efforts towards genuine economic reforms and welcomes the intention of the governments concerned to continue in that direction. The European Council has agreed on the need for member states of the Community to support efforts in International Financial Institutions and among creditor governments and by public and private banks to seek urgent solutions to these problems.

The European Council calls for the continued development of political contacts and of economic, technical, commercial and financial co-operation between the Community and Latin America. It has noted with satisfaction the work already undertaken in the Community framework along the lines of the Hague Conclusions of 26-27 June 1986. Referring to the conclusions of various Councils of Ministers, it invites the Commission to pursue its efforts allowing the development of differentiated and increasingly effective policies of co-operation between Latin America and the European Community and its Member States, without prejudice to the development of close relations and co-operation with other countries and regional groupings.

BANGLADESH

The European Council recognises the urgency and the gravity of the problem of flooding in Bangladesh and wishes to give effective and co-ordinated support to the government of that country to search for viable solutions which will give it a better control over its water resources.

EMU Not in agreement

NO - don't
There will be a stage 2 &
3 to see what we
shall like down a GEC
in the future.

China
France

World Economy

Debt. Long growth cycle.
EC - limit. The dependency
Debt. That do stability.

Chimica

How a tropical forest.
Take away the forest
Paris - not get debt
problem would go

Debt
Middle class debt
Policy

My. Can go out of the
recruitment etc. IMF
BEEF