

JK
cc NW10 DOWNING STREET
LONDON SW1A 2AA*From the Private Secretary*

8 June 1988

FRENCH INITIATIVE ON DEBT

I enclose a copy of a letter to the Prime Minister from President Mitterrand putting forward a French initiative on debt which he hopes will be discussed at the Economic Summit in Toronto. I should be grateful if the Foreign Office, to whom I am also copying this letter and the message, could arrange for an urgent translation.

The subject will also come up at the Prime Minister's meeting in Paris with President Mitterrand on Friday and you will want to cover it in the briefing.

It would be helpful to have advice in due course on whether the Prime Minister needs to reply in writing to the message ahead of the Summit.

I am copying this letter and enclosure to Lyn Parker (Foreign and Commonwealth Office) and Myles Wickstead (Overseas Development Administration).

(C. D. POWELL)

Alex Allan, Esq.,
HM Treasury.

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MESSAGE FROM MONSIEUR FRANCOIS MITTERAND
PRESIDENT OF THE REPUBLIC

TO

THE RT. HON. MARGARET THATCHER, M.P.
PRIME MINISTER

SUBJECT CC MASTER
OPS

Paris, 7 June 1988

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T87C/88

Dear Prime Minister,

It has never been so urgent and necessary to act to assist third world countries, as the gap between rich and poor countries continues to widen.

While their resources are diminishing, particularly as a result of the fall in prices of raw materials, while they have to cope with famines, epidemics and natural calamities and while extreme poverty is on the increase in Africa, Latin America and many parts of Asia, the poorest developing countries are not, and will not be, in a position to repay their debt to the developed countries in full on the conditions at present imposed on them.

We can no longer accept a situation where financial transfers from South to North exceed transfers in the opposite direction by almost 30 thousand million dollars and the burden of repayment outweighs new credits.

At the Venice Summit, we recognised the need for a special programme for the poorest countries which have made efforts to "adjust". We decided to seek agreement on extending repayment periods and that was done. On the other hand, we have made no progress in applying lower interest rates when rescheduling debts.

To escape from the present stalemate, I propose therefore that the repayment conditions for the poorest countries, defined according to criteria we drew up at the Venice Summit, be relaxed, leaving it open to creditor countries to propose one of the following three options :

- one third of the debt to be written off immediately within the framework of agreements for rescheduling over a period of the order of 10 years ;

- the debt to be rescheduled at market rates but with a maximum duration of 25 years (instead of the present maximum of 20 years);
- the debt to be rescheduled at a preferential rate, reduced by at least half over a repayment period of the order of 15 years.

I hope that this proposal may meet with your approval and that of all the other Heads of State and Government participating in the forthcoming Toronto Summit.

I can tell you now that France, for its part, intends in any case to offer to write off one third of the debt of all debtor countries who so wish; that option, which has the advantage of entailing an immediate reduction in the outstanding debt, seems to me the one best adapted to the situation of the poorest countries.

Of course, increasing action for the benefit of the most destitute countries does not however mean that we should relax our efforts for the so-called "medium-income" countries which are often heavily in debt.

We must show imagination and realism, for example by widening the scope for rescheduling official debts, extending it if necessary to include due dates for payment of interest. Mobilisation of new resources and recourse to new financial instruments based on market techniques must be encouraged in the case of bank debts. Finally, it is essential that recent multilateral decisions on official development assistance be implemented more quickly, I am thinking for example of the increase in World Bank capital.

I look forward, Prime Minister, to discussing all these questions with you in Toronto.

[complimentary close]

[signed] François Mitterand