



Treasury Chambers, Parliament Street, SW1P 3AG
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Charles Powell Esq
PS/Prime Minister
10 Downing Street
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6 December 1989

Dear Minister
You will want to
be aware of the
possibility that
Mitterrand
may raise this.

CB

b/ri

Dear Charles

IMF QUOTAS

We understand that President Mitterrand may raise the issue of IMF quotas and rankings in the IMF with the Prime Minister in the margins of the European Council. In particular, he may make an "offer" that the French should go fourth equal in the rankings with the UK.

Line to take

We suggest that the Prime Minister should make it perfectly clear that this outcome would not be acceptable to the UK. The issue is still being discussed in the Fund Board but it is quite clear that, under any normal method of distributing the increased quota, the UK will remain well ahead of the French. The special quota increase for Japan will push the UK from second place either to third place or, more likely, to fourth place behind the Germans. But we are not prepared unilaterally to renounce quota in order to accommodate French wishes. Japan's promotion up the rankings may push the UK down two places; if it pushes the French down one place that is something they should accept.

Background

The Chancellor's minute of 7 November set out the background to the current discussion on IMF quotas. In the event, progress has not been as rapid as seemed likely: the US has only just unveiled

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their position on the size of the quota increase they are ready to accept: their opening shot is 35 per cent, but they are likely to be pushed up to something around or just over 40 per cent. The French are still arguing strongly for a much larger increase. Discussions in the Fund Board and elsewhere are likely to drag on at least until the end of the year and quite possibly into January.

There has not been any substantive discussion of rankings, but it is becoming increasingly clear that the others in the G7 (and some outside) are looking to us to "solve" the problem of the special quota increase for Japan by giving up quota share and moving down the rankings to fourth equal with France - as opposed to our preferred solution of the Japanese increase being accommodated by scaling down the quota share of all other members.

We do not think it would be possible - or sensible - for us to stand firm and try to insist on third place, above the Germans. We continue, however, to feel that our sticking point should be fourth in our own right, ahead of the French. Even on the "calculated quotas" (based on relative size of each country's economy etc) which are one element in quota distribution, the UK's ranking comes out at fourth, ahead of the French, on the 1985 data being used for this quota review (though we are just behind the French on 1986 data).

The French "offer" of fourth equal comes with an assurance that these positions would be maintained for the next quota review and perhaps beyond, so that we would not slip to fifth even if that was the ranking shown by "calculated quotas" then. We do not believe that that assurance is bankable: once we were level with the French, the movement in calculated quotas would tend to push us below them in the next quota review, and to offset this would require an - implausible - special quota increase for the UK. And in any case, if we remain above the French after this review, the process of moving from present to "calculated" quotas is a slow one and there is no reason to suppose we should not be able to retain fourth place for a long time.

We have devised a proposal for quota distribution which meets our objectives, and which the Chancellor has authorised our Executive Director to put to the Fund Board - the precise timing will depend on the progress of Board discussions. This proposal is for the UK to offer to "pay" for the developing countries' share of Japan's special quota increase, with the remainder being shared among industrial countries. The effect would be to move us to fourth place, just behind the Germans but well ahead of the French. It should also win considerable support from developing countries, who are concerned about their potential loss of share.

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We do not suggest the Prime Minister should discuss this proposal with President Mitterrand. The line for a discussion with him should simply be that the UK is not prepared to accept the French "offer".

I am copying this letter to Stephen Wall (FCO) and to Paul Tucker (Bank of England).

Yours

JSL

JOHN GIEVE

